

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

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007

HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

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June 30, 2007

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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, 2007, 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' 2006 consolidated financial statements and, in our report dated September 7, 2006, 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, 2007, 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 December 11, 2007, 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

December 11, 2007

HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30,	2007	2006
ASSETS (Note 7)		
Current Assets:		
Cash	\$ 762,251	\$ 2,710,358
Grants and contracts receivable (Note 3)	2,657,466	1,753,315
Medicaid receivable	1,401,012	1,135,373
Investment (Note 4)	526,000	226,000
Subvention note receivable (Note 5)	190,000	200,000
Accounts receivable - rent	356,494	388,307
Prepaid expenses and other assets	864,403	188,839
Total current assets	6,757,626	6,602,192
Restricted Cash - debt service reserve (Note 8)	685,801	850,678
Property and Equipment, net (Note 6)	9,449,156	8,562,857
Security Deposits	870,923	737,152
Total Assets	\$17,763,506	\$16,752,879
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 885,496	\$ 779,927
Accrued compensation	482,469	458,095
Line of credit (Note 7)	450,000	
Current maturities of long-term debt (Note 8)	488,989	479,972
Refundable advances	169,126	73,464
Total current liabilities	2,476,080	1,791,458
Long-term Debt, less current maturities (Note 8)	10,083,791	9,923,858
Total liabilities	12,559,871	11,715,316
Commitments and Contingencies (Notes 7, 11 and 13)		
Unrestricted Net Assets:		
From operations	5,488,273	5,350,703
Deficiency from start-up costs funded by bond proceeds (Note 12)	(836,888)	(846,890)
Total unrestricted net assets	4,651,385	4,503,813
Temporarily Restricted (Note 9)	552,250	533,750
Total net assets	5,203,635	5,037,563
Total Liabilities and Net Assets	\$17,763,506	\$16,752,879

See Notes to Consolidated Financial Statements

HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30,	2007			2006
	Unrestricted	Temporarily Restricted	Total	Total Summarized
Revenue:				
Government grants and contract services (Note 10)	\$ 9,923,353		\$ 9,923,353	\$ 8,917,982
Medicaid	7,551,086		7,551,086	5,436,864
Donations and contributions	525,293	\$ 678,000	1,203,293	1,559,563
Rental income	1,165,686		1,165,686	1,130,392
Other	367,053		367,053	115,139
Net assets released from restrictions	659,500	(659,500)		
Total revenue	20,191,971	18,500	20,210,471	17,159,940
Expenses:				
Program services	17,812,325		17,812,325	14,800,110
Management and general	2,165,785		2,165,785	2,056,603
Fund-raising	145,410		145,410	136,742
Total expenses	20,123,520		20,123,520	16,993,455
Operating income	68,451	18,500	86,951	166,485
Nonoperating revenue - contract services (Note 10)	79,121		79,121	393,463
Increase in net assets	147,572	18,500	166,072	559,948
Net assets at beginning of year	4,503,813	533,750	5,037,563	4,477,615
Net assets at end of year	\$ 4,651,385	\$ 552,250	\$ 5,203,635	\$ 5,037,563

See Notes to Consolidated Financial Statements

HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30,	2007						2006	
	Program Services							
	Housing	Healthcare	Prevention	Total Programs	Management and General	Fund-raising	Total Expenses	Total Summarized
Salaries and wages	\$1,577,736	\$4,380,037	\$1,192,527	\$ 7,150,300	\$ 599,420	\$ 40,400	\$ 7,790,120	\$ 7,021,129
Fringe benefits	304,226	847,862	229,601	1,381,689	111,632	8,080	1,501,401	1,359,533
Professional fees and contractual services	122,962	278,714	194,676	596,352	112,985	92,342	801,679	649,608
Financial management expense					840,981		840,981	842,299
Client stipends/reimbursements	5,971	31,083	114,959	152,013	(1,406)		150,607	121,050
Supplies	107,265	569,730	233,874	910,869	24,342		935,211	704,509
Space costs	247,478	719,160	155,955	1,122,593	5,937		1,128,530	878,426
Residential expenses	3,187,385			3,187,385			3,187,385	2,772,374
Special event	40,703	20,518	8,583	69,804	7,390		77,194	81,598
Travel, conferences and meetings	83,698	284,241	69,562	437,501	40,806		478,307	387,549
Equipment	185,080	52,014	7,438	244,532	17,610		262,142	167,893
Repairs and maintenance	115,845	209,779	13,752	339,376	1,823		341,199	250,197
Moving and carting	46,584	16,044	100	62,728	520		63,248	61,273
Insurance	52,924	87,912	25,483	166,319	19,822		186,141	135,964
Telephone	84,526	139,140	19,444	243,110	20,463		263,573	223,562
Printing, postage and publications	4,759	8,855	5,220	18,834	13,630		32,464	29,642
Staff training and recruitment	1,246	7,020	3,355	11,621	18,546		30,167	26,908
Dues and subscriptions	6,090	24,813		30,903	23,790		54,693	47,084
Other	100,323	162,677		263,000	81,293	4,588	348,881	154,690
Provision for bad debts	84,094	395,978		480,072			480,072	273,814
Interest	2,123	506,183		508,306	14,759		523,065	290,667
Depreciation and amortization	3,000	432,018		435,018	211,442		646,460	513,686
Total functional expenses	\$6,364,018	\$9,173,778	\$2,274,529	\$17,812,325	\$2,165,785	\$145,410	\$20,123,520	\$16,993,455

See Notes to Consolidated Financial Statements

HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30,	2007	2006
Cash flows from operating activities:		
Cash received from rental income	\$ 1,197,499	\$ 1,154,472
Cash received from grants and contract services	9,193,985	9,537,318
Cash received from Medicaid	6,805,375	5,183,924
Cash received from donations and contributions	1,203,293	1,559,563
Cash received from other revenue	367,053	115,139
Cash paid for operations	(19,153,315)	(16,084,744)
Cash paid for interest	(523,065)	(290,667)
Net cash provided by (used in) operating activities	(909,175)	1,175,005
Cash flows from investing activities:		
Decrease in notes receivable - subvention	10,000	
Purchases of property and equipment	(1,532,759)	(3,671,406)
Purchase of investments	(300,000)	
Net cash used in investing activities	(1,822,759)	(3,671,406)
Cash flows from financing activities:		
Decrease in cash reserve	164,877	
Principal payment of loans payable	(403,950)	(602,866)
Proceeds from loans payable	572,900	5,952,859
Repayments for line of credit		(405,000)
Proceeds from line of credit	450,000	
Net cash provided by financing activities	783,827	4,944,993
Net increase (decrease) in cash	(1,948,107)	2,448,592
Cash at beginning of year	2,710,358	261,766
Cash at end of year	\$ 762,251	\$ 2,710,358
Reconciliation of increase in net assets to net cash provided by (used in) operating activities:		
Increase in net assets	\$ 166,072	\$ 559,948
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Provision for bad debts	480,072	273,814
Depreciation and amortization	646,460	513,686
Changes in operating assets and liabilities:		
(Increase) decrease in grants and contracts receivable	(904,151)	245,439
Increase in Medicaid receivable	(745,711)	(252,940)
Decrease in accounts receivable - rent	31,813	24,080
(Increase) decrease in prepaid expenses and other assets	(675,564)	37,896
Increase in security deposits	(133,771)	(386,865)
Increase in accounts payable and accrued expenses	105,569	143,718
Increase in accrued compensation	24,374	35,795
Increase (decrease) in refundable advances	95,662	(19,566)
Total adjustments	(1,075,247)	615,057
Net cash provided by (used in) operating activities	\$ (909,175)	\$ 1,175,005

See Notes to Consolidated Financial Statements

HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

- 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.

H.U. 124th Street Supportive Housing, Inc. ("HUSH, Inc.") is the general partner in the Congregate Housing Project on West 124th Street. The Corporation is the sole shareholder of HUSH, Inc., a for-profit corporation, which in turn owns .01% of the limited partner, but is still a controlling partner.

HUSH, LLP (a for-profit corporation) 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.

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.

HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

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

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, 2007, the Companies have received conditional contracts from governmental entities in the aggregate amount of \$2,403,342 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 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 Company was 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 statement of activities and functional expenses includes 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 Companies consolidated financial statements for the year ended June 30, 2006, 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, 2007

3. GRANTS AND CONTRACTS RECEIVABLE:

Grants and contracts receivable consist of the following:

June 30,	2007	2006
U.S. Department of Health and Human Services:		
Family Focused - HIV/AIDS Prevention	\$ 93,343	\$ 94,206
Community Based HIV Prevention Project for African Americans	47,338	47,338
Gay Men of Color for HIV Infection		
AIDS Education and Training Centers		36,394
Community Based Dental Partnership Program		107,823
Substance Abuse and Mental Health Services	6,702	6,702
Passed through New York State Office of Mental Health - Technical Assistance and Capacity Development	96,916	57,411
U.S Department of Housing and Urban Development:		
Housing and Urban Development	284,337	270,882
Medical and Health Research Association of NYC:		
Multi-Module HIV Prevention Services Program	18,579	23,538
Injection Drug User (ESAP)	58,500	
Food and Nutrition Services	31,825	
Transitional Housing	23,317	
Various programs	85,141	
New York City Human Resource Administration:		
Scattersite Housing Project	622,993	414,253
New York City Department of Health:		
Preventive Case Management Initiative	33,380	48,420
New York State Department of Health AIDS Institute:		
Multiservice Agency Initiative	34,795	139,523
BEDS	31,748	
Food and Nutrition Services	58,844	
Lesbian, Gay, Bisexual Transgender	26,557	
Immigrant Peer Training Program	46,896	
Health Research, Inc.:		
Where the Boys Are	72,610	63,467
AIDS Drugs Assistance Program	36,936	42,285
HIV Treatment Education - Immigrant Women Program	53,623	49,988
Postgraduate Center for Mental Health Services:		
Supportive Housing DASIS Eligible Women with Children	341,431	119,308
Center for Disease Control and Prevention:		
HIV Prevention Program	140,766	190,385
Columbia University Grant	102,093	
Harlem Director Group Media Campaign	252,858	
Other	55,938	41,392
	<u>\$2,657,466</u>	<u>\$1,753,315</u>

HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

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.

5. SUBVENTION NOTE RECEIVABLE: Effective November 1, 2002, the Companies loaned VidaCare \$190,000 as a noninterest-bearing subvention note receivable.

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

June 30,	2007	2006
Land	\$ 608,900	\$ 608,900
Building	4,104,004	3,084,387
Furniture and equipment	1,774,763	1,607,877
Leasehold improvements	3,738,945	3,502,000
Construction-in-progress	2,050,255	1,940,945
	12,276,867	10,744,109
Less accumulated depreciation and amortization	2,827,711	2,181,252
	\$ 9,449,156	\$ 8,562,857

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 (8.25% at June 30, 2007) plus half a percentage point. The line of credit is secured by all of the Companies' assets and expires July 31, 2008. As of June 30, 2007, \$450,000 was outstanding.

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

Year ended June 30,	2007	2006
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.	\$ 3,955,000	\$ 3,975,000

(continued)

HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

Year ended June 30,	2007	2006
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.	\$ 4,269	\$ 24,269
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, 2007. The mortgage is secured by the building and its improvements.	150,000	150,000
The Companies obtained a noninterest-bearing promissory note pursuant to a construction loan agreement with the New York State Homeless Housing Assistance Program (the "HHAP"). 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. The note for the construction costs with a limit of \$3,725,000 is secured by the building. If the Companies comply with all of the regulations stated in the agreement, the note will not have to be repaid. The revenue from the award will be amortized over the original 30-year term of the agreement when the construction is completed. However, if the Companies default on the agreement, the balance of the unpaid notes may become immediately due and payable.	1,414,161	1,041,261
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.	3,369,352	3,600,000
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.	1,479,998	1,613,300

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HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2007

Year ended June 30,	2007	2006
<p>The Companies obtained a noninterest-bearing promissory note pursuant to a construction loan agreement from the 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 with a limit of \$200,000 is secured by the building. If the Companies comply with all of the regulations stated in the agreement, the note will not have to be repaid. The revenue from the award will be amortized over the original 15-year term of the agreement when the construction is completed. However, if the Companies default on the agreement, the balance of the unpaid notes may become immediately due and payable.</p>	\$ 200,000	
	10,572,780	\$10,403,830
Less current maturities	488,989	479,972
Long-term portion	\$10,083,791	\$ 9,923,858

The aggregate amount of principal payments of loans payable during the years following June 30, 2007 is:

Year ending June 30,	
2008	\$ 488,989
2009	620,097
2010	747,712
2011	742,726
2012	790,316
Thereafter	7,182,940
	\$10,572,780

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.

HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

**9. TEMPORARILY
RESTRICTED
NET ASSETS:**

Temporarily restricted net assets are available for the following purposes and periods:

June 30,	2007	2006
Adult Day Care Center	\$458,333	\$412,500
Food and Nutrition	22,917	
Various other programs	71,000	121,250
	<u>\$552,250</u>	<u>\$533,750</u>

Net assets released from restrictions by satisfying restricted purposes are as follows:

Adult Day Care Center	\$412,500
Various other programs	247,000
	<u>\$659,500</u>

**10. GRANTS AND
CONTRACT
SERVICES
REVENUE:**

Grants and contract services consists of the following :

June 30,	2007	2006
U.S. Department of Health and Human Services:		
Family Focused - HIV/AIDS Prevention	\$ 451,354	\$ 599,709
Prevention Case Management for Positive Programs		126,746
AIDS Education and Training Centers	120,355	143,792
Community Based Dental Partnership Program	19,121*	93,463*
Technical Assistance and Capacity Development Program	322,059	130,899
Ryan White III HIV Capacity Development	121,468	26,572
U.S. Department of Housing and Urban Development:		
Housing and Urban Development	489,318	336,909
Supportive Housing	60,000*	300,000*
Medical and Health Research Association of NYC:		
HIV Program Service	331,894	444,664
Ryan White Enhancement - Pastoral Care	55,241	136,039
Harm Reduction, Recovery Readiness, and Relapse	183,148	245,083
Transitional Housing for Special Populations	1,375,532	1,130,430
Family Empowerment	197,448	241,814
HIV Prevention Project	58,500	
Early Intervention	44,552	
New York City Human Resource Administration:		
Scattersite Housing Project	2,440,596	2,428,487

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HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2007

June 30,	2007	2006
New York City Department of Health: Preventive Case Management Initiative	\$ 126,492	\$ 125,702
New York State Department of Health AIDS Institute:		
Multiservice Agency Initiative	154,028	272,740
Immigrant Peer Training	102,977	
Lesbian, Gay, Bisexual Transgender	132,942	
Food and Nutrition Services	93,308	
Beds	31,748	
Health Research, Inc.:		
Job Development Program	169,539	76,172
Where the Boys Are	124,876	149,782
AIDS Drugs Assistance Program	129,125	161,914
HIV Treatment Education - Immigrant Women Program	118,778	150,303
Health Resources and Services Administration: Practice Management	62,910	
Postgraduate Center for Mental Health Services: Supportive Housing DASIS Eligible Women with Children	1,197,153	1,238,725
Center for Disease Control and Prevention: HIV Prevention Program	748,727	738,668
New York City Department of Health and Mental Hygiene:		
Harlem Director Group Media Campaign	138,251	
Harlem Director Group Popular Opinion Leader	167,129	
NYU Men's Evaluation	104,431	
Other	129,474	12,832
	<u>\$10,002,474</u>	<u>\$9,311,445</u>

* 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.

11. 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 \$156,720 and \$139,080 for the years ended June 30, 2007 and 2006, respectively.

12. 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.

HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2007

13. 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.

The Companies occupy two offices under noncancelable leases with terms from three to five years. Rent expense for the years ended June 30, 2007 and 2006 amounted to \$817,054 and \$653,443, respectively. These space leases require future minimum payments as follows:

Year ending June 30,	
2008	\$ 450,973
2009	375,108
2010	385,440
2011	396,036
2012	406,932
Thereafter	3,685,212
	<hr/>
	\$5,699,701

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, 2007 and 2006 amounted to \$3,115,293 and \$2,697,157, respectively. Sublease rental income received amounted to \$1,165,686 and \$1,130,392 for the years ended June 30, 2007 and 2006, respectively.

14. SUBSEQUENT EVENTS:

Effective July 1, 2007, FROST'D and the Company, both not-for-profit corporations, forged a strategic alliance, whereas the Company is the sole member of FROST'D. The Company will preserve FROST'D's corporate and public identity with the official name "FROST'D at Harlem United" at least until June 30, 2009.



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, 2007, 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

December 11, 2007

HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

SUPPLEMENTARY INFORMATION

CONSOLIDATED STATEMENT OF ACTIVITIES BY PROGRAM

Year ended June 30, 2007

	General Program	Upper Room AIDS Ministry and Health Services, Inc.	Harlem United Supportive Housing Development Corp.	Total
Revenue:				
Government grants and contract services	\$ 9,923,353			\$ 9,923,353
Medicaid	1,348,197	\$6,202,889		7,551,086
Donations and contributions	1,203,293			1,203,293
Rental income	1,145,886	19,800		1,165,686
Other	364,742		\$ 2,311	367,053
Total revenue	13,985,471	6,222,689	2,311	20,210,471
Expenses:				
Program services	11,825,231	5,987,094		17,812,325
Management and general	1,356,194	776,841	32,750	2,165,785
Fund-raising	145,410			145,410
Total expenses	13,326,835	6,763,935	32,750	20,123,520
Operating income (loss)	658,636	(541,246)	(30,439)	86,951
Nonoperating revenue - contract services		19,121	60,000	79,121
Increase (decrease) in net assets	\$ 658,636	\$ (522,125)	\$ 29,561	\$ 166,072

See Notes to Consolidated Financial Statements

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

**INTERNAL CONTROLS AND
COMPLIANCE SECTION**

JUNE 30, 2007



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, 2007, and have issued our report thereon dated December 11, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Companies' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Companies' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters - As part of obtaining reasonable assurance about whether the Companies' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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*.

This report is intended solely for the information and use of management, board of directors, 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

December 11, 2007



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, 2007. 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 its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance - The management of the Companies is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Companies' internal control over compliance.



A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

December 11, 2007

HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2007

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
- Significant deficiency(ies) 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
- Significant deficiency(ies) 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 Numbers

Name of Federal Program or Cluster

	U.S. Department of Health and Human Services:
93.230	Consolidated Knowledge Development and Application - (KDA) Program
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Development Program
14.241	U.S. Department of Housing and Urban Development:
14.235	Housing Opportunities for Persons with AIDS Supportive Housing Program

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, 2007

There were no prior-year's findings.



GOLDSTEIN GOLUB KESSLER LLP

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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, 2007, and have issued our report thereon dated December 11, 2007. 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

December 11, 2007

HARLEM UNITED COMMUNITY AIDS CENTER, INC. AND AFFILIATES

SUPPLEMENTARY INFORMATION

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2007

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Grantor's Number	Federal Expenditures ⁽¹⁾
U.S. Department of Health and Human Services:			
Direct programs:			
Consolidated Knowledge Development and Application Program	93.230	N/A	\$ 451,355
HIV Prevention Activities/Non-Governmental Organizations Based	93.939	N/A	585,331
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	N/A	322,059
Grants to Provide Outpatient Medicaid Early Intervention Services with Respect to HIV Disease	93.918	N/A	121,468
Evaluation Grant	93.941	N/A	267,827
Passed through New York City Human Resource Administration:			
HIV Emergency Relief Project Grants	93.914	Various	2,440,596
Passed through Medical and Health Research Association of New York City, Inc.:			
HIV Emergency Relief Project Grants	93.914	Various	1,945,815
HIV Prevention Activities - Health Department Based	93.940	02-MMS-516	359,117
Passed through Health Research, Inc.:			
HIV Prevention Activities - Health Department Based	93.940	001173-06/001555-07	197,448
Passed through New York State Department of Health:			
HIV Care Formula Grants	93.917	Various	308,864
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	80,744
Total U.S. Department of Health and Human Services			7,080,624
U.S. Department of Housing and Urban Development:			
Direct:			
Supportive Housing Program	14.235	NY01B400-027	549,319
Passed through Postgraduate Center for Mental Health Services:			
Housing Opportunities for Persons with AIDS	14.241	2005-WMI-001 2005-WC-001	1,197,153
Total U.S. Department of Housing and Urban Development			1,746,472
Total federal awards			\$8,827,096

(continued)

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

Year ended June 30, 2007

Note 1. *Basis of presentation*

The accompanying consolidated 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 Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

Note 2. *Subrecipients*

Of the federal expenditures presented in this schedule, the Company provided no federal awards to subrecipients as of June 30, 2007.