

Consolidated Financial Statements and OMB Circular A-133
Supplementary Information Together with
Reports of Independent Certified Public Accountants

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES

For the year ended June 30, 2012

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Gay Men’s Health Crisis, Inc. and Affiliates:

We have audited the accompanying consolidated statement of financial position of Gay Men’s Health Crisis, Inc. (“GMHC”) and Affiliates (collectively, referred to as the “Organization”) as of June 30, 2012, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Gay Men’s Health Crisis, Inc. and Affiliates as of June 30, 2012, 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 January 18, 2013 on our consideration of the Organization’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 the effectiveness of the Organization’s 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.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2012 required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary 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. These additional procedures included comparing and reconciling the 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 established by the American Institute of Certified Public Accountants. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

A handwritten signature in cursive script that reads "Grant Thornton LLP". The signature is written in black ink and is positioned above the printed text of the firm's name and location.

New York, New York
January 18, 2013

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Consolidated Statement of Financial Position
As of June 30, 2012

ASSETS

Cash and cash equivalents	\$ 5,724,567
Government grants receivable	3,129,623
Pledges receivable, net	1,809,866
Other receivables	1,221,884
Prepaid expenses and other assets	855,508
Leasehold improvements, furniture and equipment, net	5,090,768
Restricted cash	<u>3,790,226</u>
 Total assets	 <u>\$ 21,622,442</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ 1,134,315
Deferred rent and rent incentives	3,063,738
Government contract advances	191,077
Accrued compensated absences	<u>443,336</u>
 Total liabilities	 <u>4,832,466</u>

NET ASSETS

Unrestricted:	
Available for operations	11,203,089
Designated	885,229
Plant funds	<u>3,845,843</u>
 Total unrestricted	 15,934,161
 Temporarily restricted	 <u>855,815</u>
 Total net assets	 <u>16,789,976</u>
 Total liabilities and net assets	 <u>\$ 21,622,442</u>

The accompanying notes are an integral part of this consolidated statement.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Consolidated Statement of Activities
For the year ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Support:			
Contributions	\$ 3,361,428	\$ 862,498	\$ 4,223,926
Capital Campaign	-	112,500	112,500
Contributed services and in-kind support	1,711,369	-	1,711,369
Special events, net of direct costs	4,174,879	-	4,174,879
Government contracts	<u>13,185,616</u>	<u>-</u>	<u>13,185,616</u>
Total support	<u>22,433,292</u>	<u>974,998</u>	<u>23,408,290</u>
Revenue:			
Interest income	19,683	-	19,683
Rental income	53,897	-	53,897
Third-party reimbursement	1,381,712	-	1,381,712
Other	<u>12,219</u>	<u>-</u>	<u>12,219</u>
Total revenue	<u>1,467,511</u>	<u>-</u>	<u>1,467,511</u>
Net assets released from restrictions	<u>877,309</u>	<u>(877,309)</u>	<u>-</u>
Total support and revenue	<u>24,778,112</u>	<u>97,689</u>	<u>24,875,801</u>
EXPENSES			
Program services:			
Care and support	13,641,451	-	13,641,451
Prevention and education	6,327,208	-	6,327,208
Public policy, information and advocacy	<u>2,210,237</u>	<u>-</u>	<u>2,210,237</u>
Total program services	<u>22,178,896</u>	<u>-</u>	<u>22,178,896</u>
Supporting services:			
Management and general	795,938	-	795,938
Fundraising	<u>2,299,453</u>	<u>-</u>	<u>2,299,453</u>
Total supporting services	<u>3,095,391</u>	<u>-</u>	<u>3,095,391</u>
Total expenses	<u>25,274,287</u>	<u>-</u>	<u>25,274,287</u>
Change in net assets	(496,175)	97,689	(398,486)
Net assets, beginning of year	<u>16,430,336</u>	<u>758,126</u>	<u>17,188,462</u>
Net assets, end of year	<u>\$ 15,934,161</u>	<u>\$ 855,815</u>	<u>\$ 16,789,976</u>

The accompanying notes are an integral part of this consolidated statement.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Consolidated Statement of Functional Expenses
For the year ended June 30, 2012

	Program Services				Supporting Services			
	Care and Support	Prevention and Education	Public Policy, Information, and Advocacy	Total	Management and General	Fundraising	Total	Total
Personnel and volunteer services:								
Staff compensation	\$ 3,915,042	\$ 2,636,020	\$ 728,920	\$ 7,279,982	\$ 274,842	\$ 950,610	\$ 1,225,452	\$ 8,505,434
Employee benefits and payroll taxes	893,479	611,542	136,024	1,641,045	34,541	182,857	217,398	1,858,443
Contributed services	1,542,266	90,158	24,005	1,656,429	39,244	15,697	54,941	1,711,370
Total	<u>6,350,787</u>	<u>3,337,720</u>	<u>888,949</u>	<u>10,577,456</u>	<u>348,627</u>	<u>1,149,164</u>	<u>1,497,791</u>	<u>12,075,247</u>
Other than personnel costs:								
Professional fees and contract service	249,760	205,659	210,446	665,865	30,234	275,403	305,637	971,502
Postage and shipping	29,453	16,978	10,227	56,658	6,439	26,891	33,330	89,988
Telephone	37,610	34,539	10,898	83,047	7,079	6,484	13,563	96,610
Occupancy	2,581,359	1,789,894	353,848	4,725,101	163,431	449,984	613,415	5,338,516
Supplies	63,348	43,590	6,813	113,751	13,202	15,721	28,923	142,674
Printing	2,843	44,491	75,373	122,707	242	21,021	21,263	143,970
Equipment rental and maintenance	2,346	4,027	506	6,879	1,039	1,722	2,761	9,640
Memberships and subscriptions	33,284	2,662	51,636	87,582	1,115	2,471	3,586	91,168
Staff and volunteer training and support	26,759	15,667	3,157	45,583	6,332	5,875	12,207	57,790
Meetings	4,049	3,563	3,008	10,620	1,756	853	2,609	13,229
Travel and related costs	20,431	44,562	34,014	99,007	3,079	56,255	59,334	158,341
Marketing and promotion	854	23,948	18,094	42,896	41	183,301	183,342	226,238
Staff and volunteer recruitment	4,923	4,424	748	10,095	2,181	13,472	15,653	25,748
Food and related costs	412,430	14,839	-	427,269	-	-	-	427,269
Grants to other AIDS service organizations	-	-	440,542	440,542	-	1,454	1,454	441,996
Insurance	75,415	50,884	9,136	135,435	19,705	11,219	30,924	166,359
Real estate and other taxes	14,959	10,604	2,030	27,593	1,171	2,645	3,816	31,409
Client rentals	3,211,295	-	-	3,211,295	-	-	-	3,211,295
Programmatic supplies	89,597	277,673	18,913	386,183	-	-	-	386,183
Events	-	8,572	1,590	10,162	-	-	-	10,162
Miscellaneous	9,330	14,887	6,417	30,634	4,133	978	5,111	35,745
Total	<u>6,870,045</u>	<u>2,611,463</u>	<u>1,257,396</u>	<u>10,738,904</u>	<u>261,179</u>	<u>1,075,749</u>	<u>1,336,928</u>	<u>12,075,832</u>
Total expenses before depreciation and amortization	13,220,832	5,949,183	2,146,345	21,316,360	609,806	2,224,913	2,834,719	24,151,079
Depreciation and amortization	<u>420,619</u>	<u>378,025</u>	<u>63,892</u>	<u>862,536</u>	<u>186,132</u>	<u>74,540</u>	<u>260,672</u>	<u>1,123,208</u>
Total expenses	<u>\$ 13,641,451</u>	<u>\$ 6,327,208</u>	<u>\$ 2,210,237</u>	<u>\$ 22,178,896</u>	<u>\$ 795,938</u>	<u>\$ 2,299,453</u>	<u>\$ 3,095,391</u>	<u>\$ 25,274,287</u>

The accompanying notes are an integral part of this consolidated statement.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Consolidated Statement of Cash Flows
For the year ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (398,486)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	1,123,208
Present value discount and provision for doubtful pledges receivable	(2,484)
Change in assets and liabilities:	
Decrease in government grants receivable	471,570
Decrease in pledges receivable	142,456
Increase in other receivables	(193,669)
Increase in prepaid expenses and other assets	(617,964)
Decrease in accounts payable and accrued expenses	(1,052,651)
Increase in deferred rent and rent incentives	70,411
Decrease in government contract advances	(61,409)
Decrease in accrued compensated absences	<u>(68,349)</u>
Net cash used in operating activities	<u>(587,367)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of leasehold improvements, furniture and equipment	<u>(93,842)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Restricted cash	<u>(13,275)</u>
Net decrease in cash and cash equivalents	(694,484)
Cash and cash equivalents at beginning of year	<u>6,419,051</u>
Cash and cash equivalents at end of year	<u>\$ 5,724,567</u>

The accompanying notes are an integral part of this consolidated statement.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012

1. MISSION AND ORGANIZATIONAL STRUCTURE

Organizational Structure

The accompanying consolidated financial statements of Gay Men's Health Crisis, Inc. and Affiliates (collectively, referred to as the "Organization") include the financial statements of three affiliated organizations and their missions:

Gay Men's Health Crisis, Inc. ("GMHC")	Acquired Immune Deficiency Syndrome ("AIDS") Service, Education, and Advocacy
Gay Men's Health Crisis Action, Inc. ("GMHC Action")	Lobbying and Public Policy Influence
Gay Men's Health Services, Inc. ("GMHC Health Services")	Human Immunodeficiency Virus ("HIV") Testing and Medical Service

GMHC and GMHC Health Services are not-for-profit organizations exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") and have been designated as organizations that are not private foundations. Additionally, GMHC has elected to operate under Section 501(h) of the Code to participate in limited lobbying activities regarding AIDS-related issues without jeopardizing its exemption from income taxes under Section 501(c)(3).

GMHC Action is a Delaware corporation exempt from Federal income taxes under Section 501(c)(4) of the Code.

Gay Men's Health Crisis, Inc.

GMHC is a volunteer-supported, community-based organization committed to national leadership in the fight against AIDS. Originally founded by volunteers in 1981 when the first cases of AIDS were reported in New York, GMHC was later incorporated under New York State law on June 25, 1982.

GMHC fights to end the AIDS epidemic and uplift the lives of all affected. Over 10,500 clients are served by GMHC's programs annually. GMHC provides a broad array of programs through the efforts of clinicians, trained volunteers, and professional staff who identify undiagnosed cases of HIV, ensure access and entry to coordinated primary medical care, and maintain clients in care through integrated "wraparound" services that target major contributors of HIV disease, such as unmet substance abuse, mental health issues, legal, and employment needs. GMHC also provides counseling and other risk reduction services to persons at high risk for HIV and other Sexually Transmitted Infections ("STIs"), conducts community level interventions to targeted subpopulations at high risk in order to influence health-seeking social norms, and facilitates leadership development and community building for those affected by the epidemic. They also work on structural interventions to curtail the rate of new infections, improve the quality of life for those infected, or affected and enhance services.

Gay Men's Health Crisis Action, Inc.

GMHC Action was incorporated under Delaware law on February 3, 1993. Its mission is to influence public policy on HIV and AIDS-related issues through a range of public education, advocacy, and electoral activities. GMHC Action monitors activities at all levels of government (Federal, state, and local) to gauge the efforts of elected officials in responding to the HIV/AIDS epidemic and to encourage them to strengthen

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

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those efforts. GMHC Action, through its New York volunteer force, utilizes direct contact with legislators and communications to members of the general public who are concerned about the government's level of response to AIDS.

Some specific activities that GMHC Action undertakes are: conducting candidates' forums and visits to legislators, legislative lobbying and advocacy, soliciting the positions of political candidates and elected officials on AIDS-related issues, communicating with supporters and the general public about the positions of political candidates and elected officials, and conducting voter registration drives.

GMHC Health Services, Inc.

GMHC Health Services was incorporated as a not-for-profit corporation in New York State on February 21, 1997. It was formed for the purpose of enhancing GMHC's capacity to render a range of services in connection with HIV testing.

GMHC's program services include:

Care and Support

The Intake Department provides the initial portal of entry to services for new clients of GMHC.

The Michael Palm Center for AIDS Care and Support ensures effective linkage to and coordination of care, both internally at GMHC and externally, in collaboration with our community partners. The Palm Center is divided into units that collaborate to meet its clients' needs. The Counseling and Support Unit comprises assessments, mental health services, substance abuse counseling, and sexual health education and risk reduction. Comprehensive Risk Counseling Services ("CRCS") is a harm reduction-based program for both HIV-positive and Very High Risk HIV-negative Men who have Sex with Men ("MSM"). Support is provided through individual level counseling, group level interventions, partner care referral services, peer counseling, and treatment education. The program offers individual and group counseling to address substance use and sexual risk-taking for gay and bisexual men and MSM.

Women's Prevention and Care Supportive Services ("WPCSS") addresses the substance use issues of women of color through outreach, individual counseling, group interventions, and connection to HIV testing. Both CRCS and WPCSS employ a client-centered, harm reduction approach to behavioral change and maintenance, assisting clients to achieve a higher level of stability and decrease their risk of contracting or transmitting HIV and other STIs.

Many Men, Many Voices, the Barbershop, and Outstanding Beautiful Brothers targets African American and Latino MSM who are HIV-positive or negative, with the goals of understanding one's HIV status and increasing one's knowledge and self-awareness to prevent further HIV transmissions. Group Services consists of a variety of long- and short-term groups addressing the needs of those infected or affected by HIV.

Team 119 provides mental health services for people living with HIV/AIDS through individual and group modalities, including Art Therapy.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

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The Volunteer, Work and Wellness Department (“VWW”) provides services across a range of disciplines.

The Volunteer Center recruits, trains, and supports thousands of volunteers and interns in the fight against AIDS. Volunteers provide critical program and administrative support to GMHC in achieving its mission.

Moving Ahead Toward Career Horizons (“MATCH”) provides transition to work services through vocational counseling, on the job training, skills-based training, placement, retention, and career advancement services to consumers living with and at high risk for HIV/AIDS.

The Meal, Nutrition and Wellness Program provides hot nutritious meals to impoverished clients living with HIV. Lunch is served Monday through Thursday, and dinner on Friday, with over 90,000 meals served each year.

Nutrition and Wellness Services operates a Food Pantry as well as individualized nutrition counseling-nutrition groups, workshops, and cooking classes-as well as therapeutic art classes, exercise programs, and complementary therapies such as, yoga, chiropractic care, and massage therapy.

The Coordinated Care Unit assists clients with entry and maintenance into primary medical care, accessing governmental benefits, housing, and financial management services. The Community Health Advocacy program builds health literacy through assistance with health care coverage and the navigation of managed care plans. The HIV/AIDS Services Administration (“HASA”) program at GMHC provides application assistance for Social Security benefits and other entitlement programs, as well as financial management and institutional representative payee services. Two case management programs provide needs assessment and field assistance, one for clients with Medicaid and the other for clients with private insurance or no insurance.

The Legal Services and Client Advocacy Department provides legal assistance critical to obtaining and maintaining access to food, housing, medical care, and employment. The department focuses on discrimination, employment, bankruptcy, homelessness prevention, family law, child custody, permanency planning, immigration, and access to benefits and entitlements. Legal Services provides outreach to immigrant communities.

The Sustainable Living Fund (“SLF”) at GMHC funded through Housing Opportunity for Persons with AIDS (HOPWA) provides rental assistance to clients who do not qualify for other housing services.

The Informatics Unit oversees program evaluation, outcome measurement, continuous quality improvement projects, and data management and reporting. Grants Management services are also provided by this unit and it ensures programmatic accountability, effectiveness, and integration.

Prevention and Education

The David Geffen Center for HIV Prevention and Health Education combines a highly successful HIV and STI testing and counseling center with follow-up and immediate connection to care. Its programs empower clients with the knowledge to maximize their well-being through easily accessible counseling, testing, and referral services related to sexual health and HIV prevention.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

June 30, 2012

Referral Services include the GMHC HIV/AIDS Hotline, which is the longest standing and first response helpline to the AIDS epidemic. The Hotline responds to approximately 5,000 phone calls yearly with information, emotional support, and an expansive referral service. The Hotline number is 212-807-6655. The national toll-free number is 1-800-AIDS-NYC.

Community Health and Research ("CHR") is committed to prevention, education, and the promotion of wellness to communities that are at high risk for HIV disease. The unit is comprised of the following two institutes:

The Institute for Gay Men's Health ("IGMH") is committed to HIV prevention in the context of wellness among gay men, MSM, and their affiliated communities. Addressing a multiplicity of health issues and social contexts, the Institute embraces a broader health agenda through HIV and STI prevention services, social marketing, leadership development, community building, education, and community-based research. Additionally, the Institute supports targeted, population-specific programs, such as the House of Latex Project, an initiative serving black and Latino lesbian, gay, bisexual, and transgendered youth and young adults involved in New York City's House and Ball Community.

The Women's Institute provides culturally competent and linguistically appropriate outreach, education, early intervention, and support for women, parents, and families at risk for or living with HIV/AIDS; ensures the continuum of care for women within GMHC programs; and builds partnerships with other women's service programs and institutions to ensure an external continuum of care for our clients as well as to advocate for improved services for women in New York City. The Lesbian AIDS Project ("LAP") targets lesbian, bisexual, and other women who partner with women and are at-risk for or living with HIV/AIDS.

Public Policy, Information and Advocacy

The Public Policy department furthers our HIV prevention work by advocating for fair, effective, and evidence-based HIV prevention policies at the Federal, State and City levels.

The Policy Department advocates for comprehensive sex education, syringe exchange and other proven prevention technologies. The Policy Department also aims to advance an HIV prevention agenda that promotes individual behavioral changes while acknowledging structural factors such as gender and racial inequality, poverty, anti-gay stigma, undocumented immigration status, and lack of access to health care. Finally, the Policy Department continues to defend the rights of individuals living with HIV. Clients and members of the community are the true driving force behind our Policy Department's work. Additionally, GMHC invites volunteers, clients and members of the community to participate in its Action Center. This program serves as a center for community organizing and advocacy activities while building participants' leadership skills. This high level of participation and organizational influence by our clients and the community helps to ensure that GMHC is constantly working to serve our target populations as effectively and creatively as possible.

The Communications Department provides resources and assistance on areas ranging from the GMHC web sites, social media campaigns, and marketing initiatives.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements include the accounts of Gay Men's Health Crisis, Inc., Gay Men's Health Services Action, Inc., and Gay Men's Health Services, Inc. All significant intercompany account balances and transactions have been eliminated in consolidation.

The classification of the Organization's net assets, support and revenue is based on the existence or absence of donor-imposed restrictions. Amounts for each of the three classes of net assets (unrestricted, temporarily restricted and permanently restricted) are displayed in the accompanying consolidated statement of financial position and changes in each of those classes of net assets are displayed in the accompanying consolidated statement of activities.

These net asset classes are defined as follows:

Unrestricted net assets

Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization are considered unrestricted.

Temporarily restricted net assets

Net assets which include resources that have been limited by donor-imposed stipulations that either expire with the passage of time and/or can be fulfilled and removed by the actions of the Organization pursuant to those stipulations are considered temporarily restricted. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Permanently restricted net assets

Net assets which include funds whereby the donors have stipulated that the principal contributed be invested and maintained in perpetuity. Income earned from these investments is available for expenditures according to restrictions, if any, imposed by donors. At June 30, 2012, the Organization did not possess any permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2012

Concentration of Credit Risk

The Organization maintains its cash and cash equivalents in bank accounts. These accounts from time to time exceed the amount insured by the Federal Deposit Insurance Corporation and subject the Organization to concentration of credit risk. However, the Organization's management monitors this risk regularly to mitigate any exposure. As of June 30, 2012, funds held in excess of insured amounts totaled \$4,949,166.

Grants and Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization recognizes promises to give as contributions when such promises are received and terms are confirmed by the Organization. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Those expected to be collected in future years are recorded at the present value of their estimated future cash flows. Discounts to present value are calculated as of the financial statement date using interest rates paid on U.S. Treasury obligations with maturities equivalent to the years in which the payments are expected to be received, adjusted for appropriate credit risk.

Third-Party Reimbursements

Third-party reimbursements for clinical services, including estimated retroactive adjustments under reimbursement agreements with third-party payors, are reported at their estimated net realizable amounts. Differences between estimated and final settlement amounts are reflected in the consolidated financial statements when they are determined.

Leasehold Improvements, Furniture and Equipment

The Organization capitalizes all expenditures for leasehold improvement, furniture and equipment in excess of \$3,500. These assets are recorded at cost or, in the case of donations, at fair value at the date of the donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the respective assets. Equipment held under capital leases and leasehold improvements are amortized on the straight-line method over the estimated useful lives of the assets or the term of the respective lease, whichever is shorter. The estimated useful lives of leasehold improvements, furniture and equipment for purposes of determining depreciation are as follows:

	Years
Leasehold improvement	8
Furniture and equipment	3 - 6

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2012

Contributed Services and In-kind Support

Numerous volunteers contribute many hours to the Organization to provide services to persons with HIV/AIDS, conduct fundraising, and provide administrative support. The Organization records, at fair value, as support and expenses, certain program-related contributed services that meet the criteria set forth by U.S. GAAP.

Donated material, equipment and services are reflected as in-kind contributions (revenues and expenses) at their estimated fair value at the date of receipt.

Government Contracts

Revenue from cost reimbursement-based government contracts is recognized when reimbursable costs are incurred under the terms of the contracts. Revenue from performance-based government contracts is recognized when performance objectives pursuant to the contract have been accomplished. Contract payments in excess of qualified cost or performance are accounted for as contract advances.

Allocation of Functional Expenses

The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the accompanying consolidated statement of activities, which includes all expenses incurred for the year. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management allocates the direct costs of its operations to its programs and services based upon the percentage of direct labor costs charged to each program and supporting services by the Organization's staff.

Accounting Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the consolidated financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

3. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2012 were as follows:

Less than one year	\$ 1,265,215
1-5 years	<u>553,093</u>
Total	1,818,308
Less:	
Unamortized discount	(2,673)
Allowance for doubtful pledges	<u>(5,769)</u>
Total pledges receivable, net	<u>\$ 1,809,866</u>

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2012

Pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount on those amounts are computed using a risk-adjusted interest rate of 1.43% for the year ended June 30, 2012.

4. LEASEHOLD IMPROVEMENTS, FURNITURE AND EQUIPMENT

Leasehold improvements, furniture and equipment consisted of the following at June 30, 2012:

Leasehold improvements	\$ 3,644,949
Furniture and equipment	<u>4,088,486</u>
	7,733,435
Less: Accumulated depreciation and amortization	<u>(2,642,667)</u>
	<u>\$ 5,090,768</u>

Depreciation and amortization expense, for the year ended June 30, 2012, amounted to \$1,123,208.

Furniture and equipment include certain equipment funded by a capital equipment grant from the City of New York in the amount of \$1,106,000. The City of New York has a lien against this equipment which expires in May 2013, at which time the Organization retains full possession of the equipment.

5. RESTRICTED CASH

The Organization has a line of credit of \$4 million with a bank. In addition, there are two letters of credit with the same bank to secure deposits on leases at 446 West 33rd Street and 224 West 29th Street. As part of these agreements with the bank, the Organization is required to maintain a restricted cash account. The balance in this restricted cash account was \$3,790,226 at June 30, 2012. There was no outstanding balance on the line of credit and the two letters of credit at June 30, 2012.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following time and/or program purposes at June 30, 2012:

Care and Support	\$ 425,984
Prevention and Education	110,119
Public Policy, Information, and Advocacy	<u>319,712</u>
Total	<u>\$ 855,815</u>

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2012

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes and/or by the passage of time as follows for the year ended June 30, 2012:

Care and Support	\$ 148,132
Capital Campaign	112,500
Prevention and Education	239,185
Public Policy, Information, and Advocacy	377,492
Total	<u>\$ 877,309</u>

7. COMMITMENT AND CONTINGENCIES

Leases

GMHC has two separate leases for office space at its two locations in New York City. The Organization is obligated under an operating lease for its office facility at 446 West 33rd Street, which was signed on June 23, 2010 and expires on November 18, 2018. The other operating lease for office space at 224 West 29th Street was signed in January 2011 and expires on June 30, 2018.

Future minimum annual rental payments under the two leases are as follows:

<u>Year ending June 30</u>	<u>29th Street</u>	<u>33rd Street</u>
2013	\$ 322,875	\$ 4,341,195
2014	330,947	4,341,195
2015	339,221	4,609,170
2016	347,701	4,662,765
2017	356,394	4,662,765
2018 and thereafter	739,739	6,605,584
	<u>\$ 2,436,877</u>	<u>\$ 29,222,674</u>

As part of the new lease agreement for its office space at West 33rd Street, the Organization was given a lease incentive of \$1,600,617 for reimbursement of leasehold improvements made prior to the move-in date. Rent expense is recorded on the straight-line basis over the term of the lease, inclusive of rent abatements and lease incentives. Rent expense for the year ended June 30, 2012 was \$4,426,413. Deferred rent and rent incentives pertaining to the lease obligations at the West 33rd and West 29th Street locations as of June 30, 2012 was \$3,063,738.

The Organization may be involved in various legal actions from time to time arising in the normal course of business. In the opinion of management, there are no matters outstanding that would have a material adverse effect on the consolidated financial statements of the Organization as of and for the year ended June 30, 2012.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2012

Cost reimbursable grants applicable to various programs conducted for and on behalf of governmental agencies are subject to adjustments, if any, based on the results of audits by these agencies. The management of the Organization is of the opinion that the results of any such audits would not have a material effect on the accompanying consolidated financial statements.

8. CAPITAL CAMPAIGN

GMHC launched the *Building Hope, Investing in Life* Campaign in 2010 to secure support for the move to our new headquarters and testing center, in an effort to continue to expand life-saving services for people infected and affected by HIV and AIDS. Once these moves were completed, GMHC is now changing the focus of the campaigns to include operational goals specific around developing State licensed mental health and substance abuse prevention clinics. Both mental health disabilities and substance abuse are both recognized as considerably increasing the risk of HIV infection, as well as affecting a high percentage of people living with HIV. These licenses will allow GMHC to expand our work in both arenas, and leverage critical Medicare, Medicaid, and third-party insurance for services rendered. After the initial start-up period, these clinics will become self-sustaining programs and will be independent from fluctuations in governmental and private funding commitments and will provide a more stable base for service provision.

9. SPECIAL EVENTS

Special events include fundraising events that are reported net of direct costs. For the year ended June 30, 2012, net support from special events was as follows:

	<u>Support</u>	<u>Direct Cost</u>	<u>Net</u>
AIDS Walk	\$ 5,666,844	\$ 1,955,314	\$ 3,711,530
30th Anniversary Dinner	655,213	300,191	355,022
Fashion Forward	468,510	360,183	108,327
Total	<u>\$ 6,790,567</u>	<u>\$ 2,615,688</u>	<u>\$ 4,174,879</u>

10. CONTRIBUTED SERVICES AND IN-KIND SUPPORT

Contributed services and in-kind support, which are reflected in the accompanying financial statements at fair value at the date of the donation, include the following for the year ended June 30, 2012:

Professional services	\$ 1,243,114
Legal services	468,255
Total	<u>\$ 1,711,369</u>

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2012

11. TAX-EXEMPT STATUS

Management has analyzed the tax positions taken by the Organization and has concluded that, as of June 30, 2012, there were no uncertain tax positions taken or expected to be taken. Accordingly, no interest or penalties related to uncertain tax positions have been accrued in the accompanying consolidated financial statements.

The Organization is subject to audits by taxing jurisdictions; however, no audits for any tax periods are currently in progress. Management believes that the Organization is no longer subject to such audits for years ended on or prior to June 30, 2008 under Federal and New York State tax jurisdictions.

12. SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 18, 2013, which is the date the consolidated financial statements were available to be issued. There were no subsequent events to recognize in these consolidated financial statements or the accompanying notes to the consolidated financial statements.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2012

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Grant Number	Grant Period	Grant Amount	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>					
Office of Health Resources and Services Administration:					
Pass through from Public Health Solutions/HIV Care Services:					
HIV Emergency Relief Project Grants:					
Legal Services	93.914	06-ADV-520	03/01/11 - 02/29/12	\$ 518,956	\$ 381,860
Legal Services	93.914	06-ADV-520	03/01/12 - 02/28/13	518,956	154,020
Food and Nutrition Services	93.914	11-FNS-520	03/01/11 - 02/29/12	646,946	426,986
Food and Nutrition Services	93.914	11-FNS-520	03/01/12 - 02/28/13	646,946	215,564
Transitional Care Coordination	93.914	11-TCC-520	03/01/11 - 02/29/12	240,687	202,129
Transitional Care Coordination	93.914	11-TCC-520	03/01/12 - 02/28/13	240,682	76,331
Mental Health Services for Adults	93.914	07-MSV-520	03/01/11 - 02/29/12	515,484	357,809
Mental Health Services for Adults	93.914	07-MSV-520	03/01/12 - 02/28/13	515,484	201,235
Family Centered Harm Reduction	93.914	07-HRR-520	03/01/11 - 02/29/12	417,696	267,197
Family Centered Harm Reduction	93.914	07-HRR-520	03/01/12 - 02/28/13	417,696	126,799
Communities of Color Access to Maintenance & Care	93.914	08-AMC-520	07/01/11 - 06/30/12	45,000	45,000
Priority Population Testing in Non-Clinical Settings	93.914	11-EIP-520	03/01/12 - 02/28/13	80,159	22,929
					<u>2,477,859</u>
HIV Prevention Programs:					
MSM HIV Prevention Services	93.940	07-EBI-520	01/01/11 - 12/31/11	275,600	79,680
MSM HIV Prevention Services	93.940	07-EBI-520	01/01/12 - 12/31/12	275,600	130,300
Prevention Education/Social Networking	93.940	07-RTN-520	10/01/10 - 09/30/11	104,400	22,370
Prevention Education/Social Networking	93.940	07-RTNW-520	04/01/11 - 09/30/11	48,691	17,360
Prevention Education/Social Networking	93.940	11-SNS-520	10/01/11 - 12/31/11	21,396	21,396
Prevention Education/Social Networking	93.940	11-SNS-520	01/01/12 - 12/31/12	85,585	36,114
CDC HIV Prevention General	93.940	002289-07	05/01/11 - 04/30/12	115,000	110,790
CDC HIV Prevention General	93.940	002289-08	05/01/12 - 04/30/13	95,000	17,694
					<u>435,704</u>
Pass through from Health Research, Inc.:					
HIV Care Formula Grants:					
Ryan White Title II Support Services (LGBT)	93.917	3030-06	04/01/11 - 11/30/11	33,333	23,027
					<u>23,027</u>
Office of Substance Abuse and Mental Health Services Administrator:					
Substance Abuse and Mental Health Services - Projects of □					
Regional and National Significance:					
Substance Abuse & Mental Health Services	93.243	5U79SM057719-05	9/30/10 - 09/29/11	525,000	181,407
Substance Abuse Prevention/Healthy Connections	93.243	1U79SP014977-03	9/30/10 - 09/29/11	335,333	94,752
Substance Abuse Prevention/Healthy Connections	93.243	1U79SP014977-04	9/30/11 - 09/29/12	335,333	248,160
					<u>524,319</u>

The accompanying notes to schedule of expenditures of federal awards should be read in conjunction with this schedule.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Schedule of Expenditures of Federal Awards (continued)
For the year ended June 30, 2012

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Grant Period</u>	<u>Grant Amount</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Health and Human Services</u>					
Office of Centers for Disease Control and Prevention:					
HIV Prevention Activities - Non-Governmental Organization Based:					
CDC HIV Prevention Dept.	93.939	5 U65PS002437-02	07/01/11 - 06/30/12	\$ 335,748	\$ 329,791
CDC HIV Prevention Dept.	93.939	5 U22 PS000515-05	09/30/10 - 09/29/11	279,490	<u>83,008</u>
					<u>412,799</u>
Office of the National Institutes of Health:					
Pass through from Memorial Sloan-Kettering Institute of Cancer Research:					
Cancer Centers Support Grants:					
Research Initiative	93.397	3U54CA137788-04S	09/01/11 - 08/31/12	56,109	<u>32,975</u>
					<u>32,975</u>
Total U.S. Department of Health and Human Services					<u>3,906,683</u>
<u>U.S. Department of Justice</u>					
Office of Juvenile Justice and Delinquency Prevention:					
Part E - Developing, Testing and Demonstrating Promising New Programs:					
Youth Community Empowerment Program	16.541	2010-JL-FX-0078	08/01/10 - 07/31/12	1,500,000	<u>499,661</u>
<u>U.S. Department of Housing and Urban Development</u>					
Office of Community Planning and Development:					
Pass through from NYC Department of Health & Mental Hygiene:					
Housing Opportunities for Persons with AIDS	14.241	07-SLF-011	07/01/11 - 06/30/12	3,764,472	<u>3,750,774</u>
<u>U.S. Department of Labor</u>					
Office of the Employment Training Administration:					
Pass through from SEEDCO:					
WIA - Cluster:					
ARRA - Non-Profit Assistance Corporation	17.258	Advance at Work	07/01/11 - 06/30/12	396,133	<u>391,696</u>
Total expenditure of federal awards					<u>\$ 8,548,814</u>

The accompanying notes to schedule of expenditures of federal awards should be read in conjunction with this schedule.

GAY MEN’S HEALTH CRISIS, INC. AND AFFILIATES
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2012

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards presents the activity of federal financial assistance programs administered by Gay Men’s Health Crisis, Inc. (“GMHC”) and Affiliates (collectively, referred to as the “Organization”) on an accrual basis and has been prepared in the format as required under U.S. Office of Management and Budget (“OMB”) Circular A-133, *Audits of States, Local Governments and Not-for-Profit Organizations*. The Organization’s federal oversight agency is the U.S. Department of Health and Human Services.

The purpose of the Schedule of Expenditures of Federal Awards is to present a summary of those expenditures of the Organization for the year ended June 30, 2012 which have been supported by the federal government. For purposes of this Schedule of Expenditures of Federal Awards, federal awards include any assistance provided by a federal agency, directly or indirectly in the form of grants, contracts, cooperative subsidies, loans, loan guarantees, property, interest subsidies, insurance, direct appropriations, and other noncash assistance.

The Organization did not provide federal funding to subrecipients during fiscal 2012.

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS**

To the Board of Directors of
Gay Men’s Health Crisis, Inc. and Affiliates:

We have audited the consolidated financial statements of Gay Men’s Health Crisis, Inc. (“GMHC”) and Affiliates (collectively, referred to as the “Organization”) as of and for the year ended June 30, 2012, and have issued our report thereon dated January 18, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants 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 Organization’s internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control over financial reporting. Accordingly, we express no such opinion.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the Organization’s internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Our audit was also not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 2012-01, that we consider to be a significant deficiency in the Organization's internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated 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 consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We did not audit the Organization's written response to the matter described in the accompanying Schedule of Findings and Questioned Costs and accordingly, we express no opinion on it.

We noted certain matters that we have reported to management of the Organization in a separate letter dated January 18, 2013.

This report is intended solely for the information and use of the Organization's Board of Directors, audit committee, management, and federal awarding and oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Grant Thornton LLP".

New York, New York
January 18, 2013

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON
COMPLIANCE RELATED TO MAJOR PROGRAMS (OMB CIRCULAR A-133)
AND ON INTERNAL CONTROL OVER COMPLIANCE**

To the Board of Directors of
Gay Men’s Health Crisis, Inc. and Affiliates:

Compliance

We have audited the compliance of Gay Men’s Health Crisis, Inc. (“GMHC”) and Affiliates (collectively, referred to as the “Organization”) with the types of compliance requirements described in the *U.S. Office of Management and Budget (“OMB”) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The Organization’s major federal programs are identified in the summary of auditors’ 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 its major federal programs is the responsibility of the Organization’s management. Our responsibility is to express an opinion on the Organization’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants, 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 Organization’s 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 Organization’s compliance with those requirements.

In our opinion, Gay Men’s Health Crisis, Inc. and Affiliates complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Organization 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 Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program as a basis for designing audit procedures for the purpose of expressing an opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of the Organization's internal control over compliance. Accordingly, we express no such opinion.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the Organization's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

This report is intended solely for the information and use of the Organization's Board of Directors, audit committee, management, and federal awarding and oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

New York, New York
March 28, 2013

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Schedule of Findings and Questioned Costs
For the year ended June 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued: Unqualified

Internal control over financial reporting:
 Material weakness(es) identified? yes no

Significant deficiencies 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 the major programs:
 Material weakness(es) identified? yes no

Significant deficiencies identified that are not considered
 to be material weakness(es)? yes none reported

Type of auditors' report issued on compliance for the 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:

<u>Federal Program/Program Title/Cluster</u>	<u>Federal CFDA Number</u>
U.S. Department of Health and Human Services:	
HIV Emergency Relief Project Grants	93.914
HIV Prevention Programs	93.940
U.S. Department of Labor:	
ARRA – WIA Cluster	17.258
U.S. Department of Housing and Urban Development	
Housing Opportunities for Persons with AIDS	14.241
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Schedule of Findings and Questioned Costs
For the year ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding No. 2012-01 – Internal Controls Over Financial Reporting (Significant Deficiency)

Criteria:

Government Auditing Standards require an auditee to design and implement an internal control environment to achieve effective and efficient operations; reliability of financial reporting; and compliance with applicable laws and regulations. The control environment sets the tone of an organization, which influences the control consciousness of its people. The key factors impacting the control environment include, among other things, management's philosophy and operating style, organizational structure, assignment of authority and responsibility and policies and practices with respect to human resources.

Condition, Context, Effect and Recommendation:

During our audit, we noted a significant deficiency in the internal control over financial reporting with regard to the following:

During our audit, we noted a significant deficiency in the internal control over financial reporting as it relates to the following:

Accounting for Leases

The Organization did not properly straight-line the rent and lease incentives associated with its building leases which resulted in a proposed prior period audit adjustment of approximately \$83,000 to increase beginning of year unrestricted net assets and to reduce the deferred rent liability. This entry was passed by management. With regards to fiscal 2012, we proposed and management recorded an audit adjustment for approximately \$162,000 to increase rent expense and the deferred rent liability at June 30, 2012.

Subsidiary Ledgers and Unreconciled Balances

We noted that the Organization did not update subsidiary ledgers for various accounts, which created discrepancies when we compared the subsidiary ledger to the general ledger. In addition, we noted that there was an approximately \$40,000 reconciling item that had been carried forward for over a year within a cash account that could not be reconciled, which resulted in a proposed and recorded audit adjustment. We also noted that the Organization incorrectly recorded a contribution twice, therefore, we proposed and management recorded an audit adjustment for approximately \$46,000 to correct this error.

Accounting for Contributions

We noted that the Organization did not properly classify contributions received during the year to the appropriate net asset class. Therefore, we proposed and management recorded a reclassification audit adjustment for approximately \$207,000 to reduce unrestricted contributions and increase temporarily restricted contributions due to the fact that these gifts were either time and/or purpose restricted. In addition, we proposed and management recorded an additional reclassification adjustment for approximately \$500,000 reducing temporarily restricted contributions and increasing unrestricted contributions due to the fact that there was no restriction on the gift received. Finally, we also proposed and management recorded an audit adjustment for \$11,500 to reduce deferred income and increase temporarily restricted contributions to properly account for a temporarily restricted contribution that was incorrectly recorded as deferred revenue.

GAY MEN'S HEALTH CRISIS, INC. AND AFFILIATES
Schedule of Findings and Questioned Costs
For the year ended June 30, 2012

Accounting for Prepaid Expenses

We noted that, in the prior year fiscal year, the Organization expensed \$295,000 relating to items that should have been prepaid for future AIDS Walk contracts; therefore, we proposed and management passed on recording a prior period audit adjustment to increase beginning of the year unrestricted net assets by that amount. In addition, we also noted that for certain prepaid expenses recorded in the current year, the Organization incorrectly reduced accounts payable and accrued expenses instead of recording an asset relating to those items; therefore, we proposed and management recorded an audit adjustment for approximately \$395,000 to properly state both the prepaid and accounts payable balances of the Organization at June 30, 2012.

To further enhance policies, processes and controls within the Organization's accounting/finance function, we recommend that the Organization consider undergoing a comprehensive operational review.

Questioned Costs:

None noted.

Views of Responsible Officials and Planned Corrective Action:

Management has worked hard to properly and accurately record financial transactions related to the move from our former location at West 24th Street to our current homes at West 33rd Street and West 29th Street. The findings related to the Accounting for Leases and Accounting for Contributions are directly related to the move. In addition, we were advised by our previous auditors to classify contributions related to the Capital Campaign in the manner in which we did. Nevertheless, GMHC accepts these two findings and will implement the recommendations. Regarding the Subsidiary Ledgers and Unreconciled Balances finding, Management used a credit card square reader connected to an iPad at the FY12 Fashion Forward event. This was the first time that we used this technology. As a result, one staff member recorded this revenue to our TD Bank account and another recorded this revenue to our credit card account at Atlantic Bank. We believe that this was an error related to new technology and have taken steps to avoid this in the future. Finally, the finding regarding Accounting for Prepaid Expenses is related to MZA payments for AIDS WALK 2012 that were made several years ago. This is done to secure the best possible contractual rate. When we signed the contract for AIDS Walk 2012, we were contractually required to pay certain deposits at that time. Accounting staff incorrectly expensed these instead of booking them to a prepaid account. MZA payments for AIDS Walk 2013, 2014, and 2015 are all properly booked to a prepaid account.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - CURRENT YEAR

No matters reported.

SECTION IV - STATUS OF PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters reported in the prior year.