

RSM! ROC & Company

Certified Public Accountants & Consultants

COAÍ, Inc.

A Puerto Rico Non-Profit Organization

Basic Financial Statements

June 30, 2010 with Summarized Financial Information for June 30, 2009



Basic Financial Statements

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To: The Board of Directors of
Coaí, Inc.

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying balance sheet of Coaí, Inc., (a Puerto Rico non-profit organization) (the Organization) as of June 30, 2010 and the related statements of activities, cash flows, and functional expenses 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 audits. The prior year summarized comparative information has been derived from the Organization's 2009 financial statements and, in our report dated January 11, 2010, 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. Those standards require that we plan and perform the audits 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Coaí, Inc. as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

San Juan, Puerto Rico
December 1, 2010.

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Stamp No. 2569540 was affixed to
the original of this report.

COAI, INC.**BALANCE SHEETS**

June 30, 2010 and 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash	\$ 16,864	\$ 50,043
Accounts receivable -		
Federal grants	17,805	38,297
Due from Puerto Rico Department of Health	52,186	42,793
Prepaid expenses	<u>6,895</u>	<u>3,727</u>
	93,750	134,860
PROPERTY AND EQUIPMENT, net	<u>27,496</u>	<u>47,822</u>
	<u>\$ 121,246</u>	<u>\$ 182,682</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 60,050	\$ 99,724
Deferred revenues	<u>39,600</u>	<u>35,994</u>
	<u>99,650</u>	<u>135,718</u>
NET ASSETS:		
Unrestricted	21,596	51,164
Temporarily restricted	<u>-</u>	<u>(4,200)</u>
	<u>21,596</u>	<u>46,964</u>
	<u>\$ 121,246</u>	<u>\$ 182,682</u>

The accompanying notes are an integral part of these balance sheets.

STATEMENT OF ACTIVITIES

For the year ended June 30, 2010 with summarized financial information for 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2010</u>	<u>2009</u>
REVENUES AND OTHER SUPPORT:				
Federal grants	\$ -	\$ 752,843	\$ 752,843	\$ 645,855
Puerto Rico Department of Health	-	190,536	190,536	135,259
Contributed services	-	-	-	46,800
Other	3,537	-	3,537	8,870
Net assets released from restrictions	<u>939,179</u>	<u>(939,179)</u>	<u>-</u>	<u>-</u>
	<u>942,716</u>	<u>4,200</u>	<u>946,916</u>	<u>836,784</u>
OPERATING EXPENSES:				
Program services:				
“Aché”	278,146	-	278,146	255,158
“Tanamá”	265,129	-	265,129	212,202
“Aché del Oeste”	205,368	-	205,368	143,226
“Salud, Esperanza y Vida” (S.E.V.)	93,720	-	93,720	103,153
“ECO 5” (Estudio de la Conducta)	96,816	-	96,816	3,606
“Guailí”	-	-	-	46,800
Supporting services:				
Management and administrative	33,105	-	33,105	36,894
Fund-raising expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,511</u>
	<u>972,284</u>	<u>-</u>	<u>972,284</u>	<u>806,550</u>
INCREASE (DECREASE) IN NET ASSETS	(29,568)	4,200	(25,368)	30,234
NET ASSETS, beginning of year	<u>51,164</u>	<u>(4,200)</u>	<u>46,964</u>	<u>16,730</u>
NET ASSETS, end of year	<u>\$ 21,596</u>	<u>\$ -</u>	<u>\$ 21,596</u>	<u>\$ 46,964</u>

The accompanying notes are an integral part of this statement.

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (25,368)	\$ 30,234
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	20,326	14,011
Changes in assets and liabilities -		
(Increase) decrease in assets:		
Accounts receivable	11,099	(33,378)
Prepaid expenses	(3,168)	4,668
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(39,674)	5,294
Deferred revenues	3,606	35,994
Net cash provided by (used in) operating activities	<u>(33,179)</u>	<u>56,823</u>
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>-</u>	<u>(39,469)</u>
NET INCREASE (DECREASE) IN CASH	(33,179)	17,354
CASH, beginning of year	<u>50,043</u>	<u>32,689</u>
CASH, end of year	<u><u>\$ 16,864</u></u>	<u><u>\$ 50,043</u></u>

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2010 with summarized financial information for 2009

	Program Services					Supporting Services		
	"Ach�e"	"Tanam�a"	"Ach�e del Oeste"	S.E.V.	"ECO 5"	Management and Administrative	2010	2009
EXPENSES:								
Personnel	\$ 127,318	\$ 82,162	\$ 85,630	\$ 64,719	\$ 21,657	\$ -	\$ 381,486	\$ 368,619
Fringe benefits	29,029	17,695	15,681	10,332	-	1,581	74,318	59,806
Tests	13,140	4,976	9,984	4,638	46,402	-	79,140	7,744
Preventive and Educational	5,936	6,411	1,276	-	2,782	25	16,430	15,976
Promotional material	7,551	5,423	820	-	-	-	13,794	13,502
Incentives	7,166	4,424	1,647	1,449	22,520	-	37,206	23,498
Printing and production	1,207	1,886	648	763	-	-	4,504	6,832
Office supplies	772	2,622	1,915	481	362	45	6,197	7,364
Travel expenses	7,912	20,447	11,702	2,596	1,577	251	44,485	44,638
Depreciation expense	-	-	-	-	-	20,326	20,326	14,011
Insurance	-	-	-	-	-	1,800	1,800	8,137
Accounting services	18,000	9,400	13,000	6,300	900	1,900	49,500	58,828
Rent expenses	26,400	24,300	24,821	-	600	1,200	77,321	70,632
Fund-raising event	-	-	-	-	-	-	-	5,511
Other operating	33,715	85,383	38,244	2,442	16	5,977	165,777	101,452
Total program and supporting services	\$ 278,146	\$ 265,129	\$ 205,368	\$ 93,720	\$ 96,816	\$ 33,105	\$ 972,284	\$ 806,550

The accompanying notes are an integral part of this statement.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2010 and 2009

1) Organization and summary of significant accounting policies:

A) Organization – Coaí, Inc. (the Organization) is a Puerto Rico non-profit organization created to serve the community. The Organization was incorporated on February 2, 1992 under the laws of the Commonwealth of Puerto Rico. The Organization is a community-based organization (CBO) and its basic objectives are to provide educational services to the general public of Puerto Rico, aimed at the prevention of physical, mental, and emotional disease, with emphasis on Human Immunodeficiency Virus and Acquired Immunodeficiency Syndrome (HIV/AIDS) infections, and all factors directly or indirectly related to the same. Some of the services provided are as follows:

- Workshops on the prevention of HIV directed to individuals as well as to groups
- Workshops on safe sex
- Workshops on the prevention of HIV directed to children of pre-school as well as school ages
- Workshops to health professionals, school personnel, private professionals, community organizations and other interested groups
- Confidential counseling before and after HIV test
- Counseling and referral services

To accomplish these services, the following programs have been established:

“Aché” (PA 04064 - HIV Prevention Projects of CBO) – This program is addressed principally to offer services of primary and secondary prevention and education of HIV/AIDS to the community of men who have sex with men (MSM) between the ages of 25 to 49 years old. The program provides outreach, preventive and educational services, Counseling, Testing & Referrals Services (CTRS) focusing on MSM, males and transsexuals sex workers who live in any of the thirty (30) towns comprising the San Juan Statistical Metropolitan Area.

“Aché del Oeste” (PA 08803 – HIV/AIDS Prevention Projects for the Commonwealth of Puerto Rico and US Virgin Islands) – This program provides outreach, preventive and educational services, and CTRS, focusing on MSM between the ages 18 to 49 years old, to individuals who live in any of the fifteen (15) towns comprising the Aguadilla and Mayaguez Health Regions.

“Tanamá” (PA 06618 – HIV/AIDS Prevention Projects for Young MSM and Transgender Person of Color) – This program is directed to young transgender / transsexuals between the ages of 18 to 24 years old who live in any of the thirty (30) towns comprising the San Juan Statistical Metropolitan Area and provides outreach, preventive and educational services, and CTRS.

“Salud, Esperanza y Vida” (S.E.V.) – This program offers HIV/AIDS workshops directed to the prevention and education of this virus and offer CTRS to school drop-outs between the ages of 13 to 21 years old in any of the fifteen (15) towns comprising the Ponce Health Region.

“ECO 4 and ECO 5” (“Estudio de la Conducta”) – This program studies the practices, knowledge, and attitude towards the VIH/AIDS and other related areas by performing interviews to various populations at different hours per week using an iPAQ pocket pc (iPAQ). ECO 4 (“Usuarios de Drogas Intravenosas - UDI”) and ECO 5 (“Heterosexuales a Alto Riesgo – HET”) monitor and disclose the statistics of HIV/AIDS.

COAÍ, INC.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2010 and 2009

"Guaili" – This program provides services focusing on children through theater techniques and educational workshops according to the age of the participants about health, use of substance, and VIH/AIDS. The workshops are directed to children between the ages of 9 to 12 years old.

- B) Summary of significant accounting policies – The Organization prepares its financial statements in accordance with generally accepted accounting principles (GAAP) promulgated in the United States of America for not-for-profit organizations. The significant accounting policies used by the Organization are as follows:

Recently adopted accounting pronouncement – In June 2009, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Codification (ASC) to serve as the single source of authoritative GAAP. The Organization adopted the ASC during the year ended June 30, 2010. Adoption of the FASB ASC did not have an impact on the financial statements.

Basis of presentation – All not-for-profit organizations are required to present a balance sheet, a statement of activities, and a statement of cash flows. In addition, net assets are classified in one or more of the following categories: unrestricted, temporarily restricted and permanently restricted.

- Unrestricted net assets – Unrestricted net assets are resources available to support operations. These resources are unrestricted as to their use and expendable at the discretion of the Board of Directors.
- Temporarily restricted net assets – Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period.
- Permanently restricted net assets – Permanently restricted net assets are resources whose use is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time.

As of June 30, 2010 and 2009, the Organization's net assets are classified as unrestricted and temporarily restricted.

Accounting estimates – The preparation of financial statements in conformity with the accounting principles generally accepted in the United States of America requires management of the Organization to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Prior-year summarized financial information – The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2009, from which the summarized financial information was derived.

Property and equipment – Property and equipment are stated at cost or, if donated, at fair value at date of receipt. Depreciation expense is determined using the straight line method over the estimated useful lives of the related assets:

Description	Useful Lives
Leasehold improvements	5 years
Office equipment	3 years

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2010 and 2009

At the time property and equipment is sold, or otherwise disposed of, the asset cost and related accumulated depreciation are removed from the books and the resulting gain or loss, if any, is credited or charged to operations. Property and equipment is capitalized if it has a cost of \$750 or more.

Contributed support – The Organization recognizes all contributed support received as income in the period received. All contributions are considered to be available for unrestricted use, unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases the net assets of those net asset classes. 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 statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

Contributed services – Contributions of services are only recognized if services received (a) create or enhance non-financial assets or would typically need to be purchased if not provided by donation and (b) require specialized skills and are provided by individuals possessing these skills. The contribution revenue for services received is recognized at the fair value of these services.

Operational expenditures – Operational expenditures related to programs or functions of the Organization are included in the respective caption in the accompanying statements of activities and functional expenses for those programs or functions. Certain expenses are allocated to programs or functions proportionately to the time spent by employees in supporting such activities. Those expenses that are not related to such programs or functions are accounted for as management and administrative.

Income taxes – As a non-profit organization, the Organization is exempt from local income taxes under the provision of Section 1101(4) of the Commonwealth of Puerto Rico Internal Revenue Code of 1994, as amended, and from federal income taxes under the provision of Section 501(c)(3), of the United States Internal Revenue Code of 1986, as amended.

All tax returns through fiscal year June 30, 2009, have been appropriately filed by the Organization. The Organization's open audit periods are fiscal years ended June 30, 2005 to 2009. Management evaluated the Organization's tax positions and concluded that the Organization had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

Functional allocation of expenses – The costs of providing the various programs or functions, management and administrative, and project support have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly certain costs have been allocated proportionately to the time spent by employees in supporting these activities.

Advertising costs – The Organization follows the policy of charging advertising costs to expense as incurred.

2) Concentrations of risk:

The financial instrument that potentially subjects the Organization to concentration of credit risk is cash. As of June 30, 2010 and 2009, the Organization had cash aggregating approximately \$48,000 and \$101,000, respectively, with one financial institution. As of June 30, 2010 and 2009, the balances at the institution are totally insured by the Federal Deposit Insurance Corporation (FDIC).

COAÍ, INC.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2010 and 2009

Current vulnerability due to certain concentrations with several grantors consists of contributions from the Federal Government under one Federal grant. During the years ended June 30, 2010 and 2009, these contributions represented 90% and 77%, respectively, of the Organization's combined revenues.

3) Accounts receivable – Federal grants:

As of June 30, 2010 and 2009, accounts receivable from Federal grants consist of the following:

Description	2010	2009
"Ach� del Oeste"	\$ 463	\$ 27,395
"Ach�"	17,121	7,509
"Tanam�"	221	3,393
	<u>\$ 17,805</u>	<u>\$ 38,297</u>

4) Due from Puerto Rico Department of Health:

As of June 30, 2010 and 2009, the amount due from Puerto Rico Department of Health consist of the following:

Description	2010	2009
"Salud, Esperanza y Vida" (S.E.V.)	\$ 12,586	\$ 34,243
"ECO 5"	39,600	-
"Guaili"	-	8,550
	<u>\$ 52,186</u>	<u>\$ 42,793</u>

On July 1, 2002, the Organization signed a contract with the Puerto Rico Department of Health related to "Programa Salud, Esperanza y Vida" (S.E.V.). This contract has been renewed on various occasions. On July 1, 2010 and 2009, this contract was renewed for the amounts of \$107,683 and \$125,002, respectively.

On January 1, 2010 and 2009, the Organization signed a contract with the Puerto Rico Department of Health related to ECO 4 and ECO 5 "Estudio de la Conducta" program for the amount of \$120,000.

On August 28, 1992, the Organization signed a contract with the Puerto Rico Department of Health related to the "Guaili" program. On July 1, 2008, the contract was renewed for the amount of \$28,500. This contract was not renewed on July 1, 2009.

5) Property and equipment:

As of June 30, 2010 and 2009, property and equipment consist of the following:

Description	2010	2009
Leasehold improvements	\$ 3,325	\$ 3,325
Office equipment	179,059	179,059
	<u>182,384</u>	<u>182,384</u>
Less: Accumulated depreciation and amortization	<u>(154,888)</u>	<u>(134,562)</u>
	<u>\$ 27,496</u>	<u>\$ 47,822</u>

COAÍ, INC.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2010 and 2009

6) Deferred revenues:

As of June 30, 2010, deferred revenues consist of the following:

Description	Balance as of July 1, 2009	Allocation for 2010	Expenses for 2010	Balance as of June 30, 2010
Puerto Rico Department of Health – ECO 5 “ <i>Estudio de la Conducta</i> ”	<u>\$ 35,994</u>	<u>\$ 100,423</u>	<u>\$ 96,817</u>	<u>\$ 39,600</u>

As of June 30, 2009, deferred revenues consist of the following:

Description	Balance as of July 1, 2008	Allocation for 2009	Expenses for 2009	Balance as of June 30, 2009
Puerto Rico Department of Health – ECO 4 “ <i>Estudio de la Conducta</i> ”	<u>\$ -</u>	<u>\$ 39,600</u>	<u>\$ 3,606</u>	<u>\$ 35,994</u>

7) Federal grants:

On July 1, 2004, the Department of Health and Human Services, Center for Disease Control and Prevention (CDC) awarded a grant to the Organization under the Aché Program HIV Prevention Projects of CBO, for a period of five years until June 30, 2009. This program was extended for one year until June 30, 2010. During the years ended June 30, 2010 and 2009, the Organization assigned funds to the temporarily restricted fund of approximately \$278,000 and \$255,000, respectively.

On September 30, 2009, CDC awarded a grant to the Organization under Tanamá (HIV Prevention projects for Young MSM and Transgender Person of Color) for a period of five years until September 29, 2011. During the years ended June 30, 2010 and 2009, the Organization assigned funds to the temporarily restricted fund of approximately \$269,000 and \$212,000, respectively.

On July 1, 2008, the CDC awarded a grant to the Organization under Aché del Oeste (HIV Prevention Projects for the Commonwealth of Puerto Rico and U.S. Virgin Islands for a period of five years until June 30, 2013. During the years ended June 30, 2010 and 2009, the Organization assigned funds to the temporarily restricted fund of approximately \$205,000 and \$183,000, respectively, of which \$39,469 was used for the acquisition of equipment during the year ended June 30, 2009.

Federal grant revenues are being recognized as the qualifying expenses as the grant expenses are incurred. These grants are routinely subject to financial and compliance audits in accordance with the provisions of the U.S. Office of Management and Budget Circular A-133.

8) Contributed services:

For the year ended June 30, 2010, there were no contributed services. During the year ended June 30, 2009, contributed services were recorded as revenue and expenses for the amount of \$46,800 for the “Guaili” program.

COAÍ, INC.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2010 and 2009

9) Operating lease agreements:

The Organization operates in various leased premises under three short-term and one long-term non-cancelable operating lease agreements. These agreements call for monthly rental payments of between approximately \$100 and \$3,474 through June 30, 2010. Short-term lease agreements are expected to be renewed on a year-to-year basis. The long-term non-cancelable operating lease agreement was effective until May 31, 2010. This agreement is in the process of being renewed.

Total rent expense for the years ended June 30, 2010 and 2009, under the above and other lease agreements, amounted to approximately \$77,000 and \$70,000, respectively.

10) Supplemental disclosures to the statements of cash flows:

- A) Non-cash investing and financial transactions – During the years ended June 30, 2010 and 2009, there were no non-cash investing and financial transactions
- B) Other cash flow transactions – During the years ended June 30, 2010 and 2009, there were no interest payments.

11) Subsequent events:

The Ache Program HIV Prevention Project of CBO was not renewed by the federal awarding agency for the period ending on June 30, 2011; therefore, the Organization will not receive the federal grant related to this program with funds of approximately \$313,000. In order to continue providing services to the target population established by the Aché Program HIV Prevention Project of CBO, the following efforts are being performed by the Organization:

- Submission of proposal for \$50,000 to the MAC AIDS Funds
- Submission of proposal for \$30,000 to the National AIDS Funds
- Future submission for HRSA/Minority AIDS Initiative

In addition, the Organization is assessing and will submit other identified request for proposals or funding opportunities from other federal agencies.

Simultaneously, the Board of Directors, with the support of the Executive and Programmatic sections, is currently developing fund raising strategies and activities. They are also including developing a sustainability plan for the Organization under the strategic planning, currently under development.

Management has evaluated subsequent events through December 1, 2010, the date the financial statements were available to be issued.