

RSM! ROC & Company

Certified Public Accountants & Consultants

COAÍ, Inc.

A Puerto Rico Non-Profit Organization

Financial Statements

June 30, 2011 with Summarized Financial Information for June 30, 2010



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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, 2011 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 2010 financial statements and, in our report dated December 1, 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, 2011, 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
November 21, 2011.

RSM ROC & Company

Stamp No. E13347 was affixed to
the original of this report.

COAÍ, INC.**BALANCE SHEETS**
June 30, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash	\$ 22,992	\$ 16,864
Accounts receivable - Federal grants	11,424	17,805
Due from Puerto Rico Department of Health	55,500	52,186
Prepaid expenses	<u>6,508</u>	<u>6,895</u>
	96,424	93,750
PROPERTY AND EQUIPMENT, net	<u>11,893</u>	<u>27,496</u>
	<u>\$ 108,317</u>	<u>\$ 121,246</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 48,186	\$ 60,050
Deferred revenues	<u>37,381</u>	<u>39,600</u>
	<u>85,567</u>	<u>99,650</u>
NET ASSETS:		
Unrestricted	4,866	21,596
Temporarily restricted	<u>17,884</u>	<u>-</u>
	<u>22,750</u>	<u>21,596</u>
	<u>\$ 108,317</u>	<u>\$ 121,246</u>

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

STATEMENT OF ACTIVITIES

For the year ended June 30, 2011

With summarized financial information for the year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2011</u>	<u>2010</u>
REVENUES AND OTHER SUPPORT:				
Federal grants	\$ -	\$ 455,919	\$ 455,919	\$ 752,843
Local government grants	-	116,519	116,519	190,536
Contributions	-	32,500	32,500	-
Other	2,493	-	2,493	3,537
Net assets released from restrictions	<u>587,054</u>	<u>(587,054)</u>	<u>-</u>	<u>-</u>
	<u>589,547</u>	<u>17,884</u>	<u>607,431</u>	<u>946,916</u>
OPERATING EXPENSES:				
Program services:				
"Aché"	18,827	-	18,827	278,146
"Tanamá"	244,710	-	244,710	265,129
"Aché del Oeste"	209,020	-	209,020	205,368
"Salud, Esperanza y Vida" (S.E.V.)	69,004	-	69,004	93,720
"ECO 5" (Estudio de la Conducta)	45,492	-	45,492	96,816
Supporting services:				
Management and administrative	<u>19,224</u>	<u>-</u>	<u>19,224</u>	<u>33,105</u>
	<u>606,277</u>	<u>-</u>	<u>606,277</u>	<u>972,284</u>
INCREASE (DECREASE) IN NET ASSETS	(16,730)	17,884	1,154	(25,368)
NET ASSETS, beginning of year	<u>21,596</u>	<u>-</u>	<u>21,596</u>	<u>46,964</u>
NET ASSETS, end of year	<u>\$ 4,866</u>	<u>\$ 17,884</u>	<u>\$ 22,750</u>	<u>\$ 21,596</u>

The accompanying notes are an integral part of this statement.

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 1,154	\$ (25,368)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	15,603	20,326
Changes in assets and liabilities -		
(Increase) decrease in assets:		
Accounts receivable	3,067	11,099
Prepaid expenses	387	(3,168)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(11,864)	(39,674)
Deferred revenues	(2,219)	3,606
	<u>6,128</u>	<u>(33,179)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES AND NET INCREASE (DECREASE) IN CASH		
CASH, beginning of year	<u>16,864</u>	<u>50,043</u>
CASH, end of year	<u>\$ 22,992</u>	<u>\$ 16,864</u>

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2011

With summarized financial information for the year ended June 30, 2010

	Program Services				Supporting Services			
	"Ach�"	"Tanam�"	"Ach� del Oeste"	Vigilancial ECO 5	S.E.V.	Management and Administrative	2011	2010
EXPENSES:								
Personnel	\$ 6,870	\$ 93,725	\$ 89,200	\$ 30,137	\$ 28,161	\$ -	\$ 248,093	\$ 381,486
Fringe benefits	1,744	20,872	18,580	-	6,720	118	48,034	74,318
Tests	1,227	2,616	2,584	9,971	1,454	-	17,852	79,140
Preventive and Educational	-	3,764	2,040	1,236	556	-	7,596	16,430
Promotional material	-	6,854	1,076	-	-	-	7,930	13,794
Incentives	150	4,750	2,289	25,060	574	-	32,823	37,206
Printing and production	114	2,317	478	-	423	-	3,332	4,504
Office supplies	1	4,267	1,097	133	273	-	5,771	6,197
Travel expenses	612	15,957	11,308	-	2,705	503	31,085	44,485
Depreciation expense	-	-	-	-	-	15,603	15,603	20,326
Insurance	-	-	-	-	-	1,800	1,800	1,800
Accounting services	2,500	12,800	13,000	1,500	2,891	-	32,691	49,500
Rent expense	-	27,500	28,440	-	-	1,200	57,140	77,321
Other operating	5,609	49,288	38,928	967	1,735	-	96,527	165,777
Total program and supporting services	\$ 18,827	\$ 244,710	\$ 209,020	\$ 69,004	\$ 45,492	\$ 19,224	\$ 606,277	\$ 972,284

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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:

"Ach " (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.

"Ach  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 of 18 to 49 years old, to individuals who live in any of the fifteen (15) towns comprising the Aguadilla and Mayaguez Health Regions.

"Tanam " (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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

- B) Summary of significant accounting policies – The accounting policies used by the Organization conforms to predominant industry practices and follow accounting principles generally accepted in the United States of America. The following summarizes the most significant account policies:

Basis of presentation – 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 net assets – 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 – Resources that are restricted by a donor for use for a particular purpose or in a particular future period.
- Permanently restricted net assets – 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, 2011 and 2010, 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, 2010, 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

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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, as amended.

Accounting principles generally accepted in the United States of America require the Organization management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination of taxing authorities. Management evaluated the tax positions taken by the Organization and concluded that the Organization as of June 30, 2011, 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 accompanying financial statements.

All tax returns through fiscal year June 30, 2010, have been appropriately filed by the Organization. The Organization's open audit periods are fiscal years ended June 30, 2006 to June 30, 2010.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

2) Concentrations of risk:

Financial instruments, which potentially subject the Organization to concentration of credit risk is cash. As of June 30, 2011 and 2010, the Organization had approximately \$21,900 and \$48,000, respectively.

As of June 30, 2011 and 2010, the balances at the financial institution are totally insured by the Federal Deposit Insurance Corporation (FDIC).

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, 2011 and 2010, these contributions represented 75% and 80%, respectively, of the Organization's combined revenues.

3) Accounts receivable – Federal grants:

As of June 30, 2011 and 2010, accounts receivable from Federal grants consist of the following:

Description	2011	2010
"Ach� del Oeste"	\$ 6,673	\$ 463
"Ach�"	-	17,121
"Tanam�"	4,751	221
	<u>\$ 11,424</u>	<u>\$ 17,805</u>

4) Due from Puerto Rico Department of Health:

As of June 30, 2011 and 2010, the amount due from Puerto Rico Department of Health consist of the following:

Description	2011	2010
"Salud, Esperanza y Vida" (S.E.V.)	\$ 15,900	\$ 12,586
"ECO 5" and "ECO 6" "Estudio de la Conducta"	39,600	39,600
	<u>\$ 55,500</u>	<u>\$ 52,186</u>

5) Property and equipment:

As of June 30, 2011 and 2010, property and equipment consist of the following:

Description	2011	2010
Leasehold improvements	\$ 3,325	\$ 3,325
Office equipment	179,059	179,059
	182,384	182,384
Less: Accumulated depreciation and amortization	<u>(170,491)</u>	<u>(154,888)</u>
	<u>\$ 11,893</u>	<u>\$ 27,496</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

6) Deferred revenues:

As of June 30, 2011, deferred revenues consist of the following:

Description	Balance as of July 1, 2010	Allocation for 2011	Expenses for 2011	Balance as of June 30, 2011
Puerto Rico Department of Health – "ECO 5" "Estudio de la Conducta"	\$ 39,600	\$ 3,673	\$ 43,273	\$ -
Puerto Rico Department of Health – "ECO 6" "Estudio de la Conducta"	-	39,600	2,219	37,381
	<u>\$ 39,600</u>	<u>\$ 43,273</u>	<u>\$ 45,492</u>	<u>\$ 37,381</u>

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" "Estudio de la Conducta"	\$ 35,994	\$ 100,423	\$ (96,817)	\$ 39,600

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, 2011 and 2010, the Organization assigned funds to the temporarily restricted fund of approximately \$18,000 and \$278,000, 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) until September 29, 2011. During the years ended June 30, 2011 and 2010, the Organization assigned funds to the temporarily restricted fund of approximately \$245,000 and \$265,000, 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, 2011 and 2010, the Organization assigned funds to the temporarily restricted fund of approximately \$209,000 and \$205,000.

Federal grant revenues are being recognized as the qualifying 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

8) Local government grants:

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, 2011 and 2010, this contract was renewed for approximately \$89,700 and \$107,700, respectively.

On January 1, 2011 and 2010, the Organization signed a contract with the Puerto Rico Department of Health related to ECO 5 and ECO 6 "Estudio de la Conducta" program for the amount of \$120,000.

9) Contributions:

During the year ended June 30, 2011, the Organization received contributions from private foundations for the amount of \$32,500 to be used as support for the "Ach " program.

10) Contributed services:

For the years ended June 30, 2011 and 2010, there were no contributed services.

11) 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 between approximately \$100 and \$2,370 through June 30, 2011. Lease agreements are expected to be renewed on a year-to-year basis.

Total rent expense for the years ended June 30, 2011 and 2010, under the above and other lease agreements, amounted to approximately \$57,000 and \$77,000, respectively.

12) Supplemental disclosures to the statements of cash flows:

A) Non-cash investing and financial transactions – During the years ended June 30, 2011 and 2010, there were no non-cash investing and financial transactions

B) Other cash flow transactions – During the years ended June 30, 2011 and 2010, there were no interest payments.

13) Subsequent events:

The Organization is assessing and will submit other identified request for proposals or funding opportunities from other sources such as the Center for Diseases Control and Prevention (CDC), the Human Resources and Services Administration (HRSA), the Substance Abuse & Mental Health Services Administration (SAMHSA), the National Institute of Health (NIH) and the Lesbian, Gay, Bisexual and Transgender Foundation (LGBTF), in order to continue providing services to the target population established by the Ach  Program HIV Prevention Project of CBO. Some of these submissions are:

- Proposal for \$50,000 to MAC AIDS Funds covering the year 2012
- Proposal for \$50,000 for HRSA/Ryan White Care Act (RWCA) Part A covering the year 2012

NOTES TO FINANCIAL STATEMENTSJune 30, 2011 and 2010

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.

Some initiatives currently been implemented and in progress are:

- "Amigos y Amigas de Coaí, Inc." - an initiative based on developing a bank of compromised individual sponsors
- "Guaili" program – and education program for children providing puppets shows to be sponsored by private institutions as part of the strategy to strengthen the Organization's non-restrictive fund
- "Monólogo" – performed on October 15, 2011
- "Sal de Rojo 2011" – scheduled for December 3, 2011
- "Transfashion 2012" – scheduled for March – April 2012

Management has evaluated subsequent events through November 21 2011, the date the financial statements were available to be issued.