

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.**

**AUDITED FINANCIAL STATEMENTS  
IN ACCORDANCE WITH OMB  
CIRCULAR A-133**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2012**



**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.**

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# **FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
East Harlem Council for Human Services, Inc.

We have audited the accompanying statement of financial position of East Harlem Council for Human Services, Inc. (the "Council") as of June 30, 2012, and the related statement of activities and changes in net assets, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the Council as of June 30, 2011 were audited by other auditors whose report dated March 19, 2012 expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2012, on our consideration of the Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Padilla and Company, LLP*

*Jamaica, New York  
December 31, 2012*

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2012**

**ASSETS**

**Current Assets**

Cash (Note 3)	\$ 1,842,516
Patient accounts receivable, net (Note 4)	756,288
Federal grants receivable (Note 5)	425,605
Contracts receivable (Note 6)	425,546
State and other grants receivable (Note 7)	465,468
Other current assets	175,031
Total Current Assets	<u>4,090,454</u>

**Noncurrent Assets**

Property and equipment, net (Note 8)	4,334,969
Other assets	160,282
Total Noncurrent Assets	<u>4,495,251</u>
Total Assets	<u>\$ 8,585,705</u>

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts payable and accrued expenses (Note 9)	\$ 1,603,677
Refundable advances (Note 10)	360,524
Total Current Liabilities	<u>1,964,201</u>

**Long-Term Obligation (Note 11)**

Total Liabilities	<u>500,000</u>
	<u>2,464,201</u>

**Net Assets**

Unrestricted	5,909,919
Temporarily restricted	211,585
Total Net Assets	<u>6,121,504</u>
Total Liabilities and Net Assets	<u>\$ 8,585,705</u>

**The accompanying notes are an integral part of the financial statements.**

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Operating Revenue</b>			
Contract service revenue (Note 13)	\$ 5,750,988	\$ -	\$ 5,750,988
Patient service revenue, net (Note 12)	5,501,995	-	5,501,995
Federal grants	2,062,726	-	2,062,726
Donated facilities and medical supplies	1,510,045	-	1,510,045
Subtotal	<u>14,825,754</u>	<u>-</u>	<u>14,825,754</u>
Interest Income	3,061	-	3,061
Miscellaneous	363,837	-	363,837
Subtotal	<u>366,898</u>	<u>-</u>	<u>366,898</u>
Total Operating Revenue	<u>15,192,652</u>	<u>-</u>	<u>15,192,652</u>
<b>Operating Expenses</b>			
Program Expenses			
Headstart and Family Daycare	5,983,380	-	5,983,380
Clinic Services	5,598,046	-	5,598,046
Senior Nutrition	519,340	-	519,340
Women, Infant and Children	287,793	-	287,793
Total Program Expenses	<u>12,388,559</u>	<u>-</u>	<u>12,388,559</u>
Management and General	2,650,868	-	2,650,868
Total Operating Expenses	<u>15,039,427</u>	<u>-</u>	<u>15,039,427</u>
<b>Income from Operations</b>	<u>153,225</u>	<u>-</u>	<u>153,225</u>
<b>Non-operating Revenue (Expenses)</b>			
Federal grants - capital advance	2,172,323	70,702	2,243,025
State and other grants - capital advance	645,369	-	645,369
Interest income	368	-	368
Subtotal	<u>2,818,060</u>	<u>70,702</u>	<u>2,888,762</u>
Non-operating Expenses	<u>(274,929)</u>	<u>-</u>	<u>(274,929)</u>
<b>Net Assets Released from Restrictions</b>			
Program restrictions satisfied:	<u>26,403</u>	<u>(26,403)</u>	<u>-</u>
<b>Income from Non-operations</b>	<u>2,569,534</u>	<u>44,299</u>	<u>2,613,833</u>
<b>Change in Net Assets</b>	2,722,759	44,299	2,767,058
<b>Net Asset, Beginning of Year</b>	<u>3,187,160</u>	<u>167,286</u>	<u>3,354,446</u>
<b>Net Asset, End of Year</b>	<u>\$ 5,909,919</u>	<u>\$ 211,585</u>	<u>\$ 6,121,504</u>

**The accompanying notes are an integral part of the financial statements.**

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	Program Services							Total
	Clinic Services	Headstart and Family Daycare	Senior Nutrition	Women, Infant and Children	Subtotal	Management and General	Development (Capital) Fund	
<b>Personnel Services</b>								
Salaries and wages	\$ 3,744,030	\$ 2,212,848	\$ 255,458	\$ 200,971	\$ 6,413,307	\$ 1,551,906	\$ -	\$ 7,965,213
Fringe benefits	867,343	214,272	24,221	54,233	1,160,069	359,257	-	1,519,326
Subtotal	4,611,373	2,427,120	279,679	255,204	7,573,376	1,911,163	-	9,484,539
<b>Other than Personnel Services</b>								
Occupancy	305,686	1,414,183	65,918	18,638	1,804,425	49,221	-	1,853,646
Consultants and contractors	2,399	1,234,384	3,456	2,525	1,242,764	137,555	-	1,380,319
Equipment rental, maintenance and repairs	20,272	156,549	27,038	-	203,859	144,006	233,063	580,928
Food	322	476,219	89,476	-	566,017	2,175	-	568,192
Consumable supplies	41,434	172,295	-	9,351	223,080	97,473	-	320,553
Medical supplies	270,954	-	-	-	270,954	-	-	270,954
Professional fees	-	14,500	-	-	14,500	97,750	-	112,250
Laboratory fees and diagnostics	157,079	-	-	-	157,079	-	-	157,079
Telephone	10,559	25,138	6,026	2,075	43,798	73,178	-	116,976
Insurance	44,288	-	5,454	-	49,742	34,318	-	84,060
Travel, conferences and meetings	21,284	23,431	905	-	45,620	34,706	-	80,326
Provision for doubtful accounts	73,101	-	-	-	73,101	-	-	73,101
Depreciation	-	-	-	-	-	12,758	41,274	54,032
Dues and subscriptions	26,637	4,014	839	-	31,490	-	-	31,490
Patient transportation	10,196	15,980	4,150	-	30,326	-	-	30,326
Printing, publications and postage	11,544	2,465	6,537	-	20,546	-	-	20,546
Public Information	1,185	-	-	-	1,185	-	-	1,185
Estimated third-party payor settlements (Note 15)	(30,873)	-	-	-	(30,873)	-	-	(30,873)
Other	20,606	17,102	29,862	-	67,570	56,565	592	124,727
Subtotal	986,673	3,556,260	239,661	32,589	4,815,183	739,705	274,929	5,829,817
<b>Total Functional Expenses</b>	<b>\$ 5,598,046</b>	<b>\$ 5,983,380</b>	<b>\$ 519,340</b>	<b>\$ 287,793</b>	<b>\$ 12,388,559</b>	<b>\$ 2,650,868</b>	<b>\$ 274,929</b>	<b>\$ 15,314,356</b>

**The accompanying notes are an integral part of the financial statements.**

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 2,767,058
Decrease (increase) in:	
Patient accounts receivable	(208,189)
Federal grants receivable	(226,258)
State and other grants receivable	125,795
Contracts receivable	253,078
Other current assets	(83,000)
Increase (decrease) in:	
Accounts payable and accrued expenses	288,124
Estimated liability due to Medicaid	(137,292)
Refundable advances	(209,369)
<b>Net cash provided by operating activities</b>	<b>2,569,947</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Decrease in other assets	16,254
Acquisition of property and equipment	(2,577,888)
<b>Net cash used in investing activities</b>	<b>(2,561,634)</b>

**CASH FLOWS FROM A FINANCING ACTIVITY**

Payment of long-term obligation	(40,049)
<b>Net cash used in a financing activity</b>	<b>(40,049)</b>

**NET DECREASE IN CASH** (31,736)

**CASH, BEGINNING OF YEAR** 1,874,252

**CASH, END OF YEAR** **\$ 1,842,516**

**The accompanying notes are an integral part of the financial statements.**

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**1. ORGANIZATION AND OPERATIONS**

East Harlem Council for Human Services, Inc. (the “Council”) operates a free-standing diagnostic and treatment center, licensed under Article 28 of the New York State Health Law, located in New York, New York. The Council provides a broad range of health and human services to a largely medically underserved population in the East Harlem Community.

The Council also provides complementary education and social services to the same population through its other programs. The U.S. Department of Health and Human Services (DHHS) provides substantial support to the Council. The Council is obligated under the terms of its DHHS grants to comply with specified conditions and program requirements.

The Council qualifies as a charitable organization as defined by Internal Revenue Code Section 501 (c) (3) and, accordingly, is exempt from Federal income taxes. The Council is also exempt from New York State and New York City income taxes.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

a) Basis of Accounting

The financial statements of the Council have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

b) Basis of Presentation

The financial statement presentation is in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) for not-for-profit organizations (Accounting Standards Codification 958), which require the Council to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets - represents all activities without donor imposed restrictions as well as activities with donor imposed restrictions which expire within the same period.

Temporarily restricted net assets - represents all activities based on specific donor imposed restrictions that are expected to be satisfied by passage of time or performance of activities.

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

As of June 30, 2012, temporarily restricted net assets are available for the costs of constructing a new facility and related capital campaign.

Permanently Restricted Net Assets - net assets subject to donor-imposed stipulations that they be maintained permanently. The Council has no permanent net assets at June 30, 2012.

c) Cash and Cash Equivalents

For purposes of the statement of cash flows, the Council considers all liquid investments with initial maturity of three months or less to be cash equivalents. Cash is maintained in Federal Deposit Insurance Corporation (FDIC) insured accounts at credit qualified financial institutions. At times, bank balances may exceed FDIC insurance limits.

d) Restricted Cash

Restricted cash is also deposited in FDIC insured accounts at credit qualified financial institutions. At times, the amount may exceed FDIC insurance limits. Restricted cash is limited in use to payment of cost of construction of a new facility and the related capital campaign. Restricted cash held in the amount of \$150,792 is included in "Other Assets".

e) Property and Equipment

Property and equipment is recorded at cost. Donated property and equipment is recorded at the estimated fair value at the time of the donation. Depreciation is recorded on a straight-line basis over the estimated useful lives the assets, which range from 5 to 10 years. The Council capitalizes property and equipment purchases greater than \$5,000. Expenditures for maintenance and repairs are charged to operations in the period incurred. Items of property and equipment where title is held by the granting agency are expensed when purchased. The Council has purchased a building, which has not yet been placed into services. The Council will begin depreciation when the building is placed into service and it will be depreciated over 40 years.

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

f) Revenue Recognition

Revenue from government grants and contracts designated for use in specific activities are recognized in the period when expenditures have been incurred in compliance with the grant or contract restrictions. Grants and contracts awarded for the acquisition of long-lived assets are reported as unrestricted non-operating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets were acquired. Cash received in excess of revenue recognized is recorded as refundable advances. These grants and contracts require the Council to provide certain healthcare services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

Patient services revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Self-pay revenue is recorded at published charges with charitable allowances deducted to arrive at net self-pay revenue. Medicaid revenue is reported at the estimated net realizable amounts for services rendered. Retroactive adjustments for Medicaid managed care are estimated and accrued for in the period when it is able to be estimated.

Reimbursement rates under Medicaid are subject to revisions and settlements under the provisions of cost reimbursement regulations. Such adjustments are recognized when received. All other patient services revenue is recorded at published charges with contractual allowances deducted to arrive at net patient services revenue.

The Council provides care to patients who meet certain criteria under its charity care policy at no charge or at amounts less than its established rates. Because the Council does not expect to collect amounts determined to qualify as charity care, a full write-off is taken against revenue. The Council estimates the level of charity care for the year ended June 30, 2012 to be \$1,790,000.

g) Contributions

Contributions, including unconditional promises to give, are recorded when received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to years in which the promises are expected to be received.

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

h) Compensated Absences

The Council's policy is to accrue all vested vacation benefits as earned by employees, up to established maximums.

i) Allowance for Doubtful Accounts

The Council uses the reserve for bad debt method of valuing doubtful patient accounts receivable which is based on historical experience, coupled with a review of the current status of existing receivable. The Council established a reserve for uncollectible receivables based on an evaluation of the status of past due patient accounts and the Council's collection history. Receivables are written-off against the reserve only when all efforts to collect the balance have been exhausted.

j) Donated Facilities and Medical Supplies

The Council has the use of two facilities of its programs for an amount that is below the fair market rental value of the facilities. For the year ended June 30, 2012, the donated portion of the facilities was \$1,177,653.

Contributions of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

The Council receives a substantial amount of services donated by volunteers in carrying out one of its program activities. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition. The total value of donated services, which due qualify for recognition was \$332,392 for the year ended June 30, 2012.

k) Asset Impairment

The Council evaluates its long-lived assets for impairment whenever events or changes in circumstances would indicate that the carrying value of assets may not be recoverable. Long-lived assets would be deemed to be impaired if the forecast of undiscounted future net cash flows is less than the carrying value of the assets. There was no impairment losses recognized in 2012.

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

l) Accounting Estimates

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

m) Allocation of Functional Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting activities benefited. Such allocations are determined by management according to grant provisions and/or other equitable basis.

**3. CASH**

This account consists of the following:

Petty cash	\$ 1,350
Cash in bank - checking account	<u>1,841,166</u>
	<u><u>\$ 1,842,516</u></u>

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**4. PATIENT ACCOUNTS RECEIVABLE, NET**

The Council grants credit without collateral to its patients, mostly are residents of the City of New York and the greater metropolitan area and are insured under third-party payor agreements.

This account consists of:

Medicaid	\$	667,472
Medicare		97,183
Third Party - Commercial Insurance		70,963
Other		148,750
		984,368
Less: Allowance for doubtful accounts		(228,080)
		\$ 756,288

As of the report date, \$398,712 was subsequently collected.

**5. FEDERAL GRANTS RECEIVABLE**

This account consists of:

U.S. Department of Health and Human Services		
Affordable Care Act - Capital Development Grants	\$	284,073
Community Health Center		113,934
Ryan White		27,598
		\$ 425,605

As of the report date, the full amount of receivables was subsequently collected.

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**6. CONTRACTS RECEIVABLE**

This account consists of the following:

New York State of Department of Health:	
School Health Program	\$ 144,984
Women, Infants and Children	67,210
HIV Women Education Program	25,855
Family Day Care	33,406
Head Start	24,213
New York City Administration for Children's Services:	
Head Start	18,442
New York City Department of Aging:	
Senior Nutrition Program	79,035
Other	32,401
	\$ 425,546
	\$ 425,546

As of the report date, \$402,221 was subsequently collected.

**7. STATE AND OTHER GRANTS RECEIVABLE**

This account consists of the following:

Dormitory Authority of the State of New York	\$ 324,490
Primary Care Development Corp.	140,978
	\$ 465,468
	\$ 465,468

As of the report date, the full amount of receivables was subsequently collected.

**8. PROPERTY AND EQUIPMENT, NET**

This account consists of the following:

Building and improvements - not yet placed in service	\$ 4,092,085
Furniture and equipment	1,528,085
	5,620,170
Less: Accumulated depreciation	(1,285,201)
	\$ 4,334,969

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

In the event that the U.S. Department of Health and Human Services (DHHS) grants are terminated, DHHS reserves the right to transfer all property and equipment purchased with grant funds and/or grant-related income to third parties.

The Council is in the process of renovating and equipping a building to be used as a health center. The projected cost of the renovation and equipment is approximately \$24 million, of which \$3,434,297 has been spent through June 30, 2012. As of the report date, the building renovation is sixty percent (60%) complete.

Depreciation expense for the year ended June 30, 2012 is \$54,032.

**9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

This account consists of the following:

Accounts payable	\$ 844,774
Accrued compensation	700,143
Accrued expenses	58,760
	<u>\$ 1,603,677</u>

As of the report date, \$1,511,476 of the accounts payable and accrued expenses was subsequently paid.

**10. REFUNDABLE ADVANCES**

This account represents net advance balance from government funding source that will be applied against future expenses or claims.

**11. LONG-TERM OBLIGATION**

The Council entered into a subvention agreement on April 2000 with Mount Sinai NYU Health System in the amount of \$500,000. This agreement requires the Council to repay the amount borrowed in periodic payments plus interest at a base rate equal to the lesser of (i) the greater of six percent (6%) or the prime rate as published by Citibank, N.A. plus one percent (1%) or (ii) two-thirds of the maximum interest rate authorized pursuant to Section 5-501 of the New York Obligation Laws. The payments are not required if such will jeopardize the financial well-being of the Council and as long as it continues to operate according to its mission. No payments are currently required to be made.

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**12. PATIENT SERVICE REVENUE**

Patient service fees are reported at net realizable amounts for services rendered. Net patient service fees consist of the following:

Managed Care	\$ 1,684,526
Medicaid - Wrap Around	1,401,757
Medicaid	1,160,410
Public Goods Pool	936,048
Commercial Insurance	138,381
Self-pay	137,879
Medicare	42,994
	<u>\$ 5,501,995</u>

**13. CONTRACT SERVICE REVENUE**

This account consists of:

New York City Administration for Children's Services:	
Head Start	\$ 2,740,374
Family Day Care Program	1,560,497
New York State Department of Health:	
School Health Program	435,209
Women, Infants and Children	286,450
HIV Women Education Program	196,487
New York City Department of Aging:	
Senior Nutrition Program	424,205
Other	107,766
	<u>\$ 5,750,988</u>

**14. RETIREMENT PLAN**

Union Plans

The Council participates in union-sponsored pension plan with 1199SEIU Healthcare Workers East and DC1707. These plans are administered by the unions and contributions to them are set pursuant to contracts. Pension expense for these plans for the year ended June 30, 2012 totaled \$137,082.

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

Defined Contribution Plan

The Council implemented a defined contribution 401(K) plan covering eligible employees. Contributions to the 401(K) plan for the year ended June 30, 2012 amounted to \$30,191, representing 2% of eligible employees' compensation.

**15. ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS**

This account pertains to the reversal of tax liability due to the New York State Department of Taxation and Finance (the "Department") for the assessment of withholding taxes for the period 1987 through 1989. As of June 30, 2012, the tax liability was considered fully paid by the Department and the remaining liability of \$30,873 was reversed.

**16. CONCENTRATIONS OF CREDIT RISK**

Financial instruments that potentially subject the Council to concentrations of credit risk consist principally of demand deposit accounts in financial institutions which, from time to time, exceed the Federal Depository Insurance coverage limit of \$250,000. As of the report date, the Council has not experienced any losses.

**17. FUTURE PROGRAM AUDITS**

The Council receives revenues from Medicaid, Medicare, and grants from various Federal, State and Local government agencies, all of which are subject to audit by these programs and agencies. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by these agencies. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion, based on the results of previous audits that no material liability would result from such audits.

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**18. COMMITMENTS**

Leases

The Council leases the third floor of the building located at 2253 3<sup>rd</sup> Avenue, New York, NY at a monthly rate of \$25,000. The original term of the lease was three (3) years, covering the period from April 1, 2008 to March 31, 2011, with the option to renew for an additional of two (2) years. The extended lease term ends on March 31, 2013. Future minimum lease payment pertaining to this lease is \$225,000.

Rent expense under all operating leases, including the estimated value of donated facilities was \$1,768,370 for the year ended June 30, 2012.

**19. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 31, 2012, the date which the financial statements were available for issue. Nothing came to our attention warranting adjustment or disclosure.

**20. RELATED PARTY TRANSACTIONS**

During fiscal year 2012, the Council incurred approximately \$50,000 for consulting services in the areas of public, media and intergovernmental, and community relations rendered by a relative of a member of management.

**COMPLIANCE AND INTERNAL  
CONTROL SECTION**



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

To the Board of Directors  
East Harlem Council for Human Services, Inc.

We have audited the financial statements of East Harlem Council for Human Services, Inc. (the "Council") as of and for the year ended June 30, 2012, and have issued our report thereon dated December 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

The management of the Council is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

*A deficiency in internal control* 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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Padilla and Company, LLP*

*Jamaica, New York  
December 31, 2012*



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH THE PROGRAM-SPECIFIC AUDIT OPTION UNDER OMB  
CIRCULAR A-133**

To the Board of Directors  
East Harlem Council for Human Services, Inc.

**Compliance**

We have audited East Harlem Council for Human Services' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2012. The major federal programs of the Council are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Council's management. Our responsibility is to express an opinion on the Council'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; 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 Council'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 Council's compliance with those requirements.

In our opinion, the Council complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2012.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON THE FEDERAL  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH THE PROGRAM-SPECIFIC AUDIT OPTION UNDER OMB  
CIRCULAR A-133**

**Internal Control Over Compliance**

The management of the Council 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 Council's internal control over compliance with the requirements that could have a direct and material effect on its major federal programs to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over compliance.

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

These reports is intended solely for the information and use of the Board of Directors and management of the Council, the federal awarding agency, and the pass-through entity and is not intended to be and should not be used by anyone other than these specified parties.

*Padilla and Company, LLP*

*Jamaica, New York  
December 31, 2012*

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Funding Department	Program	Federal CFDA No.	Total Expenditures
<b>U.S. Department of Health and Human Services</b>	Community Health Centers	93.224	\$ 1,615,489
	Grants to provide outpatient early intervention services with respect to HIV Disease (Ryan White)	93.918	441,758
	Health Care and Other Facilities (HCOF)	93.887	11,357
	ARRA - Capital Improvement Grant (CIP)	93.703	519,359
	Affordable Care Act - Capital Development Grants	93.526	1,688,069
	Affordable Care Act - Grants for School-Based Health Centers Capital Program	93.501	5,479
Pass-through program from:			
	<u>Head Start Cluster</u>		
New York City Administration for Children Services	Head Start Cluster	93.600	2,060,286
New York City Administration for Children Services	Family Day Care Program	93.575	717,397
	<u>Aging Cluster</u>		
New York City Department for the Aging	Title III-C1 of the OAA-Nutrition Services in a Congregate Setting	93.045	40,347
	Nutrition Service Incentive Program	93.053	19,425
New York City Department for the Aging	Title XX Social Services Block Grant	93.667	99,115
	Title IIID of the OAA - In Home Services for Frail Older Individuals	93.043	7,170
New York State Department of Health	School Health Clinics CO17780	93.994	47,939
New York State Department of Health	HIV Prevention Activities Health Department Based	93.940	184,854
<b>U.S. Department of Agriculture</b>			
Pass-through program for:			
New York State Department of Health	Child and Adult Care Food Program	10.558	627,778
New York State Department of Health	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	287,793
			<u>\$ 8,373,615</u>

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of East Harlem Council for Human Services Inc. is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**NOTE 2. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal reports.

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**Part I - Summary of Auditor's Results**

**Financial Statement Section**

Type of auditor's report issued	Unqualified
Internal Control over Financial Reporting	
Material weakness(es) identified?	_____ Yes <u>  X  </u> No
Significant deficiency(ies) identified that are considered to be material weakness(es)?	_____ Yes <u>  X  </u> No
Noncompliance material to financial statements noted	_____ Yes <u>  X  </u> No

**Federal Awards Section**

Dollar threshold used to determine Type A Programs	\$300,000
Auditee qualified as a low-risk auditee?	_____ Yes <u>  X  </u> No
Type of auditor's report on noncompliance of major programs/ nonmajor programs	Unqualified
Internal Control over Compliance	
Material weakness(es) identified?	_____ Yes <u>  X  </u> No
Significant deficiency(ies) identified that are considered to be material weakness(es)?	_____ Yes <u>  X  </u> No
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510 (a)?	_____ Yes <u>  X  </u> No
Any audit findings disclosed that are required to be reported in accordance with Circular A-133?	_____ Yes <u>  X  </u> No
Any questioned cost identified?	_____ Yes <u>  X  </u> No

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**Identification of Major Programs**

Name of Federal Program	CFDA No.
U.S. Department of Health and Human Services	
Ryan White	93.918
ARRA - Capital Improvement Grant (CIP)	93.703
Affordable Care Act - Capital Development Grants	93.526
Head Start	93.600
Family Day Care Program	93.575
U.S. Department of Agriculture	
Child and Adult Care Food Program	10.558

**Part II – Current Year Financial Statements Findings**

None

**Part III – Current Year Federal Award Findings and Questioned Costs**

None

**Part IV – Follow-Up of Prior Year’s Findings**

Finding 1:

The Council recorded grants receivable, revenue, and expenses totaling \$519,359 on the June 30, 2011 financial statements and on the June 30, 2011 Federal Financial Report as Federal Share of Expenditures based on processed purchase orders and/or purchase agreements, and pro-forma invoices as of June 30, 2011 for equipment received, invoiced and paid subsequent to June 30, 2011.

Recommendation:

We recommend the Council review and revised their policy of recording grants receivable, revenue and expenditures and establish procedures to ensure that grants receivable, revenue and expenditures are not recorded until incurred in accordance with GAAP.

**EAST HARLEM COUNCIL FOR HUMAN SERVICES, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

Follow-up Comment:

The condition no longer exists.

Finding 2:

The Council recorded grants receivable, revenue and equipment expenses totaling \$47,184 on the June 30, 2011 financial statements for a Head Start renovation project before incurring the grant expenditures and was advanced of \$22,684 from the Administration for Children's Services - Head Start for a portion of the grant expenses.

Recommendation:

We recommend the Council review and revise their policy of recording grants receivable, revenue and capital expenses under grants and establish procedures to ensure that grants receivable, revenue and capital expenses under grants are not recorded until earned or incurred in accordance with GAAP.

Follow-up Comment:

The condition no longer exists.

