

BAILEY HOUSE, INC.
CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITOR'S REPORT
JUNE 30, 2008 AND 2007

BAILEY HOUSE, INC.

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Independent Auditor's Report

**Board of Directors
Bailey House, Inc.**

We have audited the accompanying consolidated balance sheet of Bailey House, Inc. as of June 30, 2008 and 2007, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Bailey House, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 Bailey House, Inc.'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 audits provide 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 Bailey House, Inc. as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Loeb & Troper LLP

December 8, 2008

BAILEY HOUSE, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
YEARS ENDED JUNE 30, 2008 AND 2007

	2008		Total
	Unrestricted	Temporarily Restricted	
Operating revenues			
Government contract revenues	\$ 6,530,519		\$ 6,530,519
Resident fees	238,030		238,030
Total operating revenues	<u>6,768,549</u>		<u>6,768,549</u>
Operating expenses			
Supportive housing	4,848,786		4,848,786
Nonresidential client services	1,240,446		1,240,446
Technical assistance	53,579		53,579
Management and general	1,327,788		1,327,788
Total operating expenses	<u>7,470,599</u>		<u>7,470,599</u>
Change in net assets from operations	<u>(702,050)</u>		<u>(702,050)</u>
Nonoperating revenues and expenses and other support			
Contributions	680,175	\$ 100,000	780,175
Special events	830,419		830,419
Interest income	10,433		10,433
Net assets released from restrictions (Note 8)	184,559	(184,559)	
Depreciation	(293,193)		(293,193)
Fund-raising expense	(395,884)		(395,884)
Cost of special events	(284,306)		(284,306)
Total nonoperating revenues and expenses and other support	<u>732,203</u>	<u>(84,559)</u>	<u>647,644</u>
Change in net assets (Exhibit C)	30,153	(84,559)	(54,406)
Net assets - beginning of year	<u>1,855,956</u>	<u>196,864</u>	<u>2,052,820</u>
Net assets - end of year (Exhibit B)	<u>\$ 1,886,109</u>	<u>\$ 112,305</u>	<u>\$ 1,998,414</u>

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BAILEY HOUSE, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2008 AND 2007

	2007		
	Unrestricted	Temporarily Restricted	Total
Operating revenues			
Government contract revenues	\$ 6,428,365		\$ 6,428,365
Resident fees	221,423		221,423
Total operating revenues	<u>6,649,788</u>		<u>6,649,788</u>
Operating expenses			
Supportive housing	4,302,187		4,302,187
Nonresidential client services	1,090,511		1,090,511
Technical assistance	485,914		485,914
Management and general	1,117,223		1,117,223
Total operating expenses	<u>6,995,835</u>		<u>6,995,835</u>
Change in net assets from operations	<u>(346,047)</u>		<u>(346,047)</u>
Nonoperating revenues and expenses and other support			
Contributions	424,444	\$ 186,864	611,308
Special events	772,749		772,749
Interest income	2,897		2,897
Net assets released from restrictions (Note 8)	282,416	(282,416)	
Depreciation	(313,796)		(313,796)
Fund-raising expense	(516,061)		(516,061)
Cost of special events	(136,850)		(136,850)
Total nonoperating revenues and expenses and other support	<u>515,799</u>	<u>(95,552)</u>	<u>420,247</u>
Change in net assets (Exhibit C)	169,752	(95,552)	74,200
Net assets - beginning of year	<u>1,686,204</u>	<u>292,416</u>	<u>1,978,620</u>
Net assets - end of year (Exhibit B)	<u>\$ 1,855,956</u>	<u>\$ 196,864</u>	<u>\$ 2,052,820</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BAILEY HOUSE, INC.

CONSOLIDATED BALANCE SHEET

JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash	\$ 419,841	\$ 109,984
Accounts receivable (Note 4)	606,472	959,743
Contribution receivable (Note 10)	120,675	45,000
Deposits and other assets	149,184	156,929
Deferred charge (Note 2)	1,450,945	1,278,797
Fixed assets - net (Note 5)	<u>4,798,635</u>	<u>4,884,815</u>
Total assets	<u>\$ 7,545,752</u>	<u>\$ 7,435,268</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 597,492	\$ 332,602
Loan payable (Note 6)		100,000
Capital advance (Note 7)	<u>4,949,846</u>	<u>4,949,846</u>
Total liabilities	<u>5,547,338</u>	<u>5,382,448</u>
Net assets (Exhibit A)		
Unrestricted	1,886,109	1,855,956
Temporarily restricted (Note 8)	<u>112,305</u>	<u>196,864</u>
Total net assets	<u>1,998,414</u>	<u>2,052,820</u>
Total liabilities and net assets	<u>\$ 7,545,752</u>	<u>\$ 7,435,268</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BAILEY HOUSE, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities		
Change in net assets (Exhibit A)	\$ (54,406)	\$ 74,200
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	293,193	313,796
Decrease (increase) in assets		
Accounts receivable	353,271	98,556
Contribution receivable	(75,675)	494,716
Deposits and other assets	7,745	(22,804)
Deferred charge	(172,148)	(172,148)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	<u>264,890</u>	<u>(62,195)</u>
Net cash provided by operating activities	<u>616,870</u>	<u>724,121</u>
Cash flows from investing activities		
Capital additions	<u>(207,013)</u>	<u>(83,743)</u>
Cash flows from financing activities		
Payments on loan	(100,000)	(765,000)
Proceeds from loan	<u>100,000</u>	<u>100,000</u>
Net cash used by financing activities	<u>(100,000)</u>	<u>(665,000)</u>
Net change in cash	309,857	(24,622)
Cash - beginning of year	<u>109,984</u>	<u>134,606</u>
Cash - end of year	<u>\$ 419,841</u>	<u>\$ 109,984</u>
Supplemental disclosure		
Cash paid for interest	<u>\$ 262</u>	<u>\$ 16,057</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BAILEY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 1 - NATURE OF ORGANIZATION

Bailey House, Inc. (Bailey House), which was incorporated under New York State law in August 1983 as the AIDS Resource Center (the name was changed in 1996), provides housing and a full range of supportive services to individuals in New York City affected by HIV/AIDS. Bailey House receives the majority of its funding from government agencies.

Bailey House, Inc. is the sole member of Bailey-Holt House Housing Development Fund Corporation (HDFC), which was established in order to acquire Bailey-Holt House from the City of New York. HDFC receives the majority of its funding from government agencies.

Bailey House, Inc. and HDFC are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and have been granted nonprivate foundation status under Section 509(a). Contributions to Bailey House, Inc. qualify donors for the charitable contribution deduction.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation - These financial statements reflect the consolidation of Bailey House, Inc. and HDFC. All intercompany transactions and balances have been eliminated.

Basis of accounting - The financial statements are prepared on the accrual basis.

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

Revenues - Revenues from government contracts are subject to audit and negotiations between Bailey House and the government agencies. Management is of the opinion that final settlement of current-year contracts will not have a material effect on the financial statements.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted contributions and government contract revenues received and expended in the same fiscal year are reflected as unrestricted revenues.

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BAILEY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors.

Restricted net assets - Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose.

Deferred charges - Deferred charges arise based on the difference between revenue recognized and the expenses reimbursed from the City of New York for the HDFC. The difference is reflected as a deferred charge on the balance sheet. The deferred charge is a timing difference, which will accumulate in earlier years and be reversed during later periods.

Functional expenses - The costs of providing Bailey House's various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Fixed assets - Fixed assets are recorded at cost. Depreciation of fixed assets is provided over the estimated useful lives of the assets using the straight-line method.

NOTE 3 - FUNCTIONAL EXPENSES

Total expenses for the years ended June 30, 2008 and 2007 were for the following purposes:

	<u>2008</u>	<u>2007</u>
Programs	\$ 6,414,272	\$ 6,167,599
Management and general	1,341,622	1,141,766
Fund raising	403,782	516,327
Cost of direct benefits of special events	<u>284,306</u>	<u>136,850</u>
	<u>\$ 8,443,982</u>	<u>\$ 7,962,542</u>

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BAILEY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 3 - FUNCTIONAL EXPENSES (continued)

Bailey House's fund-raising expenses include the costs of developing proposals for the renewal and/or new solicitation of government and nongovernment grants and soliciting contributions from individual donors.

NOTE 4 - ACCOUNTS RECEIVABLE

	<u>2008</u>	<u>2007</u>
Federal Government	\$ 154,809	\$ 126,600
New York State	150,752	65,658
New York City	<u>300,911</u>	<u>767,485</u>
	<u>\$ 606,472</u>	<u>\$ 959,743</u>

NOTE 5 - FIXED ASSETS

	<u>2008</u>	<u>2007</u>	<u>Estimated Useful Lives</u>
Land, building and building improvements (Note 7)	\$ 7,140,154	\$ 6,965,454	20-30 years
Furniture and equipment	<u>250,726</u>	<u>550,754</u>	3-7 years
	7,390,880	7,516,208	
Accumulated depreciation	<u>(2,592,245)</u>	<u>(2,631,393)</u>	
	<u>\$ 4,798,635</u>	<u>\$ 4,884,815</u>	

NOTE 6 - LINE OF CREDIT

Bailey House has an agreement with JP Morgan Chase Bank providing for a revolving \$1,000,000 line of credit with interest payable at .65% below prime (prime as of June 30, 2008 and 2007 was 8.25%). The line was secured by Bailey House, Inc.'s accounts receivable and expired on March 1, 2008. As of June 30, 2008 and 2007, Bailey House had an outstanding balance of \$0 and \$100,000, respectively. Interest expense for the year ended June 30, 2008 and 2007 is \$262 and \$16,057, respectively.

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BAILEY HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 7 - CAPITAL ADVANCE

Bailey-Holt House HDFC received a loan of \$3,930,000 (Acquisition Loan) from the City of New York through the U.S. Department of Housing and Urban Development under the Housing Opportunities for Persons with AIDS Program for the purchase of Bailey-Holt House. The City of New York has made available additional loans of \$1,105,653 for the renovation of Bailey-Holt House (Building and Project Loan) and \$128,775 to cover preconstruction costs in connection with the Bailey-Holt House renovation (Interim Loan).

The funds from the Building and Project Loan and the Interim Loan are held by the City of New York and advanced as renovation costs are incurred. The total amount available for drawdown at June 30, 2008 and 2007 was \$214,582. The Building and Project Loan, the Acquisition Loan and the Interim Loan were consolidated with the Building and Project Loan to create one loan with a 30-year term which expires April 2029. An interest rate of 1% will be charged at the debt service date, which is the 90th day after project completion. Provided the property is used for its specified purposes, both the principal balance of the loans and accrued interest shall be automatically reduced to zero in five equal annual decrements commencing in year 26 of the loan period.

NOTE 8 - NET ASSETS

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

	<u>2008</u>	<u>2007</u>
Nonresidential client services	\$ 52,305	\$ 186,864
For periods after June 30	<u>60,000</u>	<u>10,000</u>
	<u>\$ 112,305</u>	<u>\$ 196,864</u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<u>2008</u>	<u>2007</u>
Renovation	\$ 61,145	\$ 40,000
Housing development		60,000
Nonresidential client services	113,414	100,000
Passage of specified time	<u>10,000</u>	<u>82,416</u>
	<u>\$ 184,559</u>	<u>\$ 282,416</u>

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BAILEY HOUSE, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

NOTE 9 - LEASE COMMITMENTS

Bailey House leases office space under leases which expire in February 2009 and August 2011. The minimum annual rental payments are as follows:

2008-2009	\$ 388,388
2009-2010	365,190
2010-2011	<u>439,764</u>
	\$ <u>1,193,342</u>

Bailey House leases over 110 apartments to provide housing for persons with AIDS. The future minimum annual rental payments are as follows:

2008-2009	\$ 1,467,114
2009-2010	<u>1,553,426</u>
	\$ <u>3,020,540</u>

For the years ended June 30, 2008 and 2007, total rent expense was \$1,986,894 and \$1,632,139, respectively.

NOTE 10 - CONTRIBUTIONS RECEIVABLE

All unconditional contributions receivable have been recorded at present value. The receivables are recorded as follows:

2009	\$ <u>120,675</u>
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NOTE 11 - CONCENTRATIONS

Financial instruments which potentially subject Bailey House to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that these financial institutions have strong credit ratings and that credit risk related to these accounts is minimal.

BAILEY HOUSE, INC.

SCHEDULE I

SCHEDULE OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2008 AND 2007

	2008									
	Program Services					Supporting Services				
	Supportive Housing	Nonresidential Client Services	Technical Assistance	Total	Management and General	Fund Raising	Cost of Special Events	Total	Total	
Salaries	\$ 1,758,612	\$ 651,315	\$ 38,148	\$ 2,448,075	\$ 720,826	\$ 202,002	\$	\$ 922,828	\$ 3,370,903	
Payroll taxes and employee benefits	534,841	165,851	5,794	706,486	153,989	39,708		193,697	900,183	
Total salaries and related benefits	2,293,453	817,166	43,942	3,154,561	874,815	241,710		1,116,525	4,271,086	
Resident services										
Occupancy	1,589,350	4,862		1,594,212					1,594,212	
Food	143,359	59,750		203,109	26			26	203,135	
Recreational activities	9,131			9,131		395		395	9,526	
Other	13,724	42,762		56,486					56,486	
Total resident services	1,755,564	107,374		1,862,938	26	395		421	1,863,359	
Occupancy	270,845	171,121	7,521	449,487	152,289	59,957		212,246	661,733	
Maintenance and repairs	77,058	9,226	120	86,404	4,010	1,666		5,676	92,080	
Equipment lease and rental	48,726	6,857	1,019	56,602	18,176	7,223		25,399	82,001	
Telephone	31,009	11,006	340	42,355	4,452	2,421		6,873	49,228	
Supplies	154,933	65,481	372	220,786	77,217	44,541		121,758	342,544	
Postage and shipping	5,614	2,488	26	8,128	3,966	4,370		8,336	16,464	
Travel and transportation	3,659	1,824		5,483	7,751	213		7,964	13,447	
Insurance	46,873	5,859	239	52,971	8,615	1,799		10,414	63,385	
Professional fees and contract services	142,607	32,081		174,688	111,276	25,332		136,608	311,296	
Professional development and training	14,703	7,049		21,752	42,804	4,532		47,336	69,088	
Event expense	271,461			271,461	13,834	7,898	\$ 284,306	284,306	284,306	
Depreciation	3,742	2,914		6,656	22,391	1,725		21,732	293,193	
Other expenses									30,772	
Subtotal	1,071,230	315,906	9,637	1,396,773	466,781	161,677		912,764	2,309,537	
Total expenses reported by function on the statement of activities	\$ 5,120,247	\$ 1,240,446	\$ 53,579	\$ 6,414,272	\$ 1,341,622	\$ 403,782	\$ 284,306	\$ 2,029,710	\$ 8,443,982	

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BAILEY HOUSE, INC.

SCHEDULE 1

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SCHEDULE OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2008 AND 2007

	2007									
	Program Services				Supporting Services			Cost of		
	Supportive Housing	Nonresidential Client Services	Technical Assistance	Total	Management and General	Fund Raising	Special Events	Total	Total	Total
Salaries	\$ 1,783,167	\$ 586,522	\$ 276,381	\$ 2,646,070	\$ 698,609	\$ 273,349	\$	\$ 971,958	\$	\$ 3,618,028
Payroll taxes and employee benefits	535,605	146,907	48,726	731,238	63,748	42,963		106,711		837,949
Total salaries and related benefits	2,318,772	733,429	325,107	3,377,308	762,357	316,312		1,078,669		4,455,977
Resident services										
Occupancy	1,206,618	77,008		1,283,626	1,553			1,553		1,285,179
Food	130,683	4,381		135,064		48,442		48,442		183,506
Recreational activities	16,481	320		16,801	698	2,152		2,850		19,651
Other	10,473	25,180		35,653		200		200		35,853
Total resident services	1,364,255	106,889		1,471,144	2,251	50,794		53,045		1,524,189
Occupancy	237,465	141,236	55,421	434,122	104,033	51,801		155,834		589,956
Maintenance and repairs	71,105	13,128	476	84,709	4,741	630		5,371		90,080
Equipment lease and rental	44,225	7,927	8,962	61,114	23,459	7,523		30,982		92,096
Telephone	41,987	8,441	3,304	53,732	4,118	3,578		7,696		61,428
Supplies	66,838	48,845	29,669	145,352	38,596	30,742		69,338		214,690
Postage and shipping	3,972	3,048	868	7,888	4,108	5,313		9,421		17,309
Travel and transportation	7,789	5,849	3,018	16,656	4,608	147		4,755		21,411
Insurance	61,368	6,906	3,643	71,917	35,474	4,092		39,566		111,483
Professional fees and contract services	79,488	6,502	53,182	139,172	103,061	20,938		123,999		263,171
Professional development and training	3,022	5,502	1,429	9,953	7,191	3,431		10,622		20,575
Development expenses						17,514		17,514		17,514
Event expense							\$	136,850		136,850
Depreciation	288,987			288,987	24,543	266		136,850		313,796
Other expenses	1,901	2,809	835	5,545	23,226	3,246		26,472		32,017
Subtotal	908,147	250,193	160,807	1,319,147	377,158	149,221		663,279		1,982,376
Total expenses reported by function on the statement of activities	\$ 4,591,174	\$ 1,090,511	\$ 485,914	\$ 6,167,599	\$ 1,141,766	\$ 516,327	\$	\$ 1,794,943	\$	\$ 7,962,542

See independent auditor's report.