

Gay Men's Health Crisis, Inc. and Affiliates
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2002
(With comparative financial information for 2001)

| | 2002 | 2001 |
|--|---------------|---------------|
| ASSETS | | |
| Cash and cash equivalents (Note 2) | \$ 1,797,309 | \$ 635,926 |
| Investments | 59,182 | 35,718 |
| Government grants receivable (net of allowance for uncollectible grants of \$100,000 in 2002) | 2,391,313 | 1,479,825 |
| Pledges receivable (net of allowance for uncollectible pledges of \$18,098 in 2002 and \$125,000 in 2001) (Note 3) | 1,070,420 | 1,163,152 |
| Pledges receivable - building fund (Note 3) | 75,000 | 590,000 |
| Other receivables | 257,698 | 102,233 |
| Prepaid expenses and other assets | 272,276 | 287,195 |
| Restricted cash (Note 5) | 549,219 | 533,946 |
| Leasehold improvements, office furniture and equipment, net (Note 4) | 9,410,224 | 10,459,944 |
| Security deposits | 686,142 | 686,142 |
| Total Assets | \$ 16,568,783 | \$ 15,974,081 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 983,559 | \$ 1,381,072 |
| Government contract advances | 2,073,708 | 1,337,499 |
| Loans payable (Note 5) | - | 1,169,860 |
| Accrued compensated absences | 280,335 | 241,886 |
| Other liabilities | 43,455 | 43,455 |
| Total liabilities | \$ 3,381,057 | \$ 4,173,772 |
| Commitments and contingencies (Notes 7 and 8) | - | - |
| Net assets | | |
| Unrestricted | | |
| For current operations | \$ 2,195,099 | \$ 817,227 |
| Invested in leasehold improvements and equipment | 9,410,224 | 10,459,944 |
| Total unrestricted | 11,605,323 | 11,277,171 |
| Temporarily restricted (Note 9) | 1,582,403 | 523,138 |
| Total net assets | \$ 13,187,726 | \$ 11,800,309 |
| Total Liabilities and Net Assets | \$ 16,568,783 | \$ 15,974,081 |

The accompanying notes are an integral part of these consolidated financial statements.

Gay Men's Health Crisis, Inc. and Affiliates
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2002
(With comparative financial information for 2001)

| | <u>Temporarily Unrestricted</u> | <u>Restricted</u> | <u>2002</u> | <u>2001</u> |
|--|-------------------------------------|--------------------|-------------------|---------------------|
| SUPPORT AND REVENUE | | | | |
| Support: | | | | |
| Contributions | \$ 5,513,651 | \$1,654,764 | \$ 7,168,415 | \$ 7,363,936 |
| Contributed services and in-kind support | 1,632,767 | - | 1,632,767 | 1,592,438 |
| Special events, net (Note 6) | 5,859,012 | - | 5,859,012 | 5,262,852 |
| Other income | - | 645,257 | 645,257 | - |
| Government contracts | 7,874,484 | - | 7,874,484 | 6,794,489 |
| Total support | <u>20,879,914</u> | <u>2,300,021</u> | <u>23,179,935</u> | <u>21,013,714</u> |
| Investment income, net | 17,831 | - | 17,831 | 30,785 |
| Rental income (Note 7) | 534,023 | - | 534,023 | 268,331 |
| Third party reimbursement | 879,540 | - | 879,540 | 873,483 |
| Publication sales and HIV testing | 45,343 | - | 45,343 | 50,999 |
| Other | 59,618 | - | 59,618 | 294,097 |
| Total revenue | <u>22,416,269</u> | <u>2,300,021</u> | <u>24,716,290</u> | <u>22,531,410</u> |
| Net assets released from restrictions: | | | | |
| Expiration of time restriction | 811,552 | (811,552) | - | - |
| Restrictions satisfied by performance | 429,204 | (429,204) | - | - |
| Total net assets released from restrictions | <u>1,240,756</u> | <u>(1,240,756)</u> | <u>-</u> | <u>-</u> |
| Total support and revenue | <u>23,657,025</u> | <u>1,059,265</u> | <u>24,716,290</u> | <u>22,531,410</u> |
| EXPENSES | | | | |
| Program services: | | | | |
| Care and support | 9,542,972 | - | 9,542,972 | 9,102,536 |
| Prevention and education | 6,070,530 | - | 6,070,530 | 5,378,022 |
| Public policy, information and advocacy | 2,536,336 | - | 2,536,336 | 2,588,504 |
| Total program services | <u>18,149,838</u> | <u>-</u> | <u>18,149,838</u> | <u>17,069,062</u> |
| Supporting services: | | | | |
| Management and general (Note 2): | | | | |
| Program | 1,059,884 | - | 1,059,884 | 510,631 |
| Real estate | 171,729 | - | 171,729 | 159,775 |
| Total management and general | <u>1,231,613</u> | <u>-</u> | <u>1,231,613</u> | <u>670,406</u> |
| Fundraising | 3,947,422 | - | 3,947,422 | 4,589,916 |
| Total expenses | <u>23,328,873</u> | <u>-</u> | <u>23,328,873</u> | <u>22,329,384</u> |
| Change in net assets | 328,152 | 1,059,265 | 1,387,417 | 202,026 |
| Net assets at beginning of year, as previously reported | 11,277,171 | 523,138 | 11,800,309 | 17,125,730 |
| Prior period adjustment | - | - | - | (5,527,447) |
| Net assets at beginning of year, as restated | <u>11,277,171</u> | <u>523,138</u> | <u>11,800,309</u> | <u>11,598,283</u> |
| Net assets at end of year | <u>\$ 11,605,323</u> | <u>\$1,582,403</u> | <u>13,187,726</u> | <u>\$ 1,800,309</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Gay Men's Health Crisis, Inc. and Affiliates
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2002
(With comparative financial information for 2001)

| | Program Services | | | | Supporting Services | | | | 2002 | 2001 |
|---|---------------------|--------------------------|---|----------------------|--------------------------------|-------------------|---------------------|---------------------|----------------------|----------------------|
| | Care and Support | Prevention and Education | Public Policy, Information and Advocacy | Total | Management and General Program | Real Estate | Fund-Raising | Total | | |
| Personnel and Volunteer Services | | | | | | | | | | |
| Staff compensation | \$ 4,017,395 | \$ 2,695,073 | \$ 952,437 | \$ 7,664,905 | \$ 140,941 | \$ - | \$ 635,770 | \$ 776,711 | \$ 8,441,617 | \$ 7,818,542 |
| Employee benefits and payroll taxes | 815,426 | 435,850 | 137,661 | 1,388,937 | 22,528 | - | 102,292 | 124,820 | 1,513,757 | 1,332,645 |
| Contributed services | 936,255 | 628,116 | 46,038 | 1,610,409 | 17,400 | - | 4,959 | 22,359 | 1,632,768 | 1,592,439 |
| Total personnel and volunteer services | <u>5,769,076</u> | <u>3,759,039</u> | <u>1,136,136</u> | <u>10,664,251</u> | <u>180,869</u> | <u>-</u> | <u>743,021</u> | <u>923,890</u> | <u>11,588,141</u> | <u>10,743,626</u> |
| Other than Personnel Costs | | | | | | | | | | |
| Professional fees and contract service | 841,728 | 485,956 | 419,974 | 1,747,658 | 74,497 | - | 1,648,531 | 1,723,028 | 3,470,686 | 3,918,957 |
| Postage and shipping | 28,298 | 27,859 | 88,107 | 144,264 | 721 | - | 317,483 | 318,204 | 462,468 | 497,575 |
| Telephone | 54,608 | 64,487 | 19,072 | 138,167 | 1,238 | - | 13,708 | 14,946 | 153,113 | 225,129 |
| Occupancy | 1,082,544 | 604,714 | 119,152 | 1,806,410 | 13,177 | 82,197 | 97,125 | 192,499 | 1,998,909 | 1,862,445 |
| Supplies | 76,495 | 74,831 | 18,245 | 169,571 | 3,202 | - | 21,062 | 24,264 | 193,835 | 146,908 |
| Printing | 69,645 | 52,180 | 88,163 | 209,988 | 192 | - | 320,579 | 320,771 | 530,759 | 499,372 |
| Equipment rental and maintenance | 87,919 | 63,465 | 19,054 | 170,438 | 4,492 | - | 26,520 | 31,012 | 201,450 | 215,781 |
| Memberships and subscriptions | 21,544 | 2,407 | 94,637 | 118,588 | 310 | - | 268 | 578 | 119,166 | 145,276 |
| Staff and volunteer training and support | 20,433 | 61,982 | 1,021 | 83,436 | 2,314 | - | 640 | 2,954 | 86,390 | 37,711 |
| Meetings | 230 | 198 | 29,593 | 30,021 | 457 | - | 27,414 | 27,871 | 57,892 | 7,204 |
| Travel and related costs | 19,448 | 71,402 | 119,342 | 210,192 | 1,638 | - | 114,842 | 116,480 | 326,672 | 172,488 |
| Marketing and promotion | 5,905 | 74,822 | 12,988 | 93,715 | 36 | - | 33,652 | 33,688 | 127,403 | 328,265 |
| Staff and volunteer recruitment | 2,609 | 370 | 531 | 3,510 | 284 | - | 4,050 | 4,334 | 7,844 | 34,800 |
| Food and related costs | 300,301 | - | - | 300,301 | - | - | - | - | 300,301 | 331,208 |
| Grants to other AIDS service organizations | 4,155 | 208 | 218,459 | 222,822 | 923 | - | - | 923 | 223,745 | 75,137 |
| Direct financial aid to clients | 95,123 | - | - | 95,123 | - | - | - | - | 95,123 | 131,154 |
| Insurance | 104,508 | 68,187 | 17,479 | 190,174 | 1,233 | 2,594 | 6,771 | 10,598 | 200,772 | 169,472 |
| Real estate and other taxes | 111,528 | 62,001 | 11,976 | 185,505 | 1,216 | 22,828 | 10,295 | 34,339 | 219,844 | 233,700 |
| Interest | 37,624 | 19,683 | 6,579 | 63,886 | 2,334 | - | 3,105 | 5,439 | 69,325 | 345,020 |
| Bad debt | - | - | - | - | 746,320 | - | - | 746,320 | 746,320 | 125,000 |
| Miscellaneous | 109,983 | 195,007 | 37,148 | 342,138 | 12,454 | - | 502,258 | 514,712 | 856,850 | 751,897 |
| Total other than personnel costs | <u>3,074,628</u> | <u>1,929,759</u> | <u>1,321,520</u> | <u>6,325,907</u> | <u>867,037</u> | <u>107,619</u> | <u>3,148,303</u> | <u>4,122,959</u> | <u>10,448,866</u> | <u>10,254,499</u> |
| Total expenses before depreciation and amortization | 8,843,704 | 5,688,798 | 2,457,656 | 16,990,158 | 1,047,907 | 107,619 | 3,891,324 | 5,046,850 | 22,037,008 | 20,998,125 |
| Depreciation and amortization | 699,268 | 381,732 | 78,680 | 1,159,680 | 11,977 | 64,110 | 56,098 | 132,185 | 1,291,865 | 1,331,259 |
| Total expenses | <u>\$ 9,542,972</u> | <u>\$ 6,070,530</u> | <u>\$ 2,536,336</u> | <u>\$ 18,149,838</u> | <u>\$ 1,059,884</u> | <u>\$ 171,729</u> | <u>\$ 3,947,422</u> | <u>\$ 5,179,035</u> | <u>\$ 23,328,873</u> | <u>\$ 22,329,384</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Gay Men's Health Crisis, Inc. and Affiliates
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2002
(With comparative financial information for 2001)

| | <u>2002</u> | <u>2001</u> |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 1,387,417 | \$ 202,026 |
| Prior period adjustment | - | (5,527,447) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,291,865 | 1,331,259 |
| Forgiveness of debt | (734,615) | - |
| Bad debt | 745,202 | 125,000 |
| Net realized losses (gains) on investments | 1,118 | (1,441) |
| (Increase) decrease in government grants receivable | (1,045,744) | 3,850,218 |
| Increase in pledges receivable | (393,214) | (32,459) |
| (Increase) decrease in other receivables | (155,465) | 315,736 |
| Decrease in prepaid expenses and other assets | 14,919 | 47,018 |
| Decrease in accounts payable and accrued liabilities | (37,898) | (663,631) |
| Increase in government contract advances | 736,209 | 1,337,499 |
| Increase in accrued compensated absences | 38,449 | 29,293 |
| Decrease in other liabilities | - | (224,590) |
| Net cash provided by operating activities | <u>1,848,243</u> | <u>788,481</u> |
| Cash flows from investing activities: | | |
| Deposit to restricted cash | (15,273) | (22,865) |
| Purchases of term endowment investment | (24,582) | - |
| Proceeds from sale of term endowment investment | ----- | 13,846 |
| Capital expenditure | (242,145) | (299,127) |
| Net cash used in investing activities | <u>(282,000)</u> | <u>(308,146)</u> |
| Cash flows from financing activities: | | |
| Proceeds from contributions receivable - building fund | 515,000 | 440,698 |
| Borrowings under line-of-credit agreement and term note | - | 2,600,000 |
| Repayments under line-of-credit agreement and term note | (919,860) | (4,188,467) |
| Net cash used in financing activities | <u>(404,860)</u> | <u>(1,147,769)</u> |
| Net increase (decrease) in cash and cash equivalents | 1,161,383 | (667,434) |
| Cash and cash equivalents at beginning of year | <u>\$ 635,926</u> | <u>\$ 1,303,360</u> |
| Cash and cash equivalents at end of year | <u>\$ 1,797,309</u> | <u>\$ 635,926</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for interest | <u>\$ 69,325</u> | <u>\$ 345,021</u> |

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1. MISSION AND ORGANIZATIONAL STRUCTURE:

Organization's Structure

The accompanying consolidated financial statements of Gay Men's Health Crisis, Inc. and Affiliates (collectively referred to as the "Organization") include the financial statements of three affiliated not-for-profit organizations:

| | | |
|--|---|---------------------------------------|
| Gay Men's Health Crisis, Inc. (GMHC) | - | AIDS Service, Education, and Advocacy |
| Gay Men's Health Crisis Action, Inc. (GMHC Action) | - | Lobbying and Public Policy Influence |
| GMHC Health Services, Inc. (GMHC Health Services) | - | HIV Testing and Medical Service |

All inter-organizational balances and transactions have been eliminated in consolidation.

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

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

Gay Men's Health Crisis, Inc.

GMHC is a not-for-profit, volunteer-supported and community-based organization committed to national leadership in the fight against AIDS. Founded by volunteers in 1981 when the first cases of AIDS were reported in New York, GMHC was incorporated under New York State law on June 25, 1982. GMHC seeks to reduce the spread of HIV disease, help people with HIV maintain and improve their health and independence, and keep the prevention, treatment, and cure of HIV an urgent national and local priority. Over 11,000 men, women, and children are served by GMHC's direct support programs for people with AIDS; preventive education, public policy, and technical assistance reach hundreds of thousands of others. GMHC provides a broad array of programs through the efforts of several trained volunteers and professional staff.

Gay Men's Health Crisis Action, Inc.

GMHC Action was incorporated under Delaware law on February 3, 1993. GMHC Action's mission is to influence public policy on HIV and AIDS-related issues through a range of public education, advocacy and electoral activities. GMHC Action will monitor activities at all levels of government (federal, state, and local) to assess the efforts of elected officials to respond to the HIV-AIDS epidemic and to encourage them to strengthen those efforts. GMHC Action, through its New York volunteer force, uses direct contact with legislators and communications to members of the general public who are concerned about the governmental response to AIDS.

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

GMHC Health Services, Inc.

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

Program Services

GMHC's program services include the following:

- The Office of Program Management – directs and manages all services provided in program Services ensuring programmatic accountability, effectiveness, and integration; develops new programs and sources of funding to meet additional needs in response to the changing epidemic; ensures the continued delivery of all existing services and monitors the quality of those services; and works with the Executive Director, Program Committee of the Board of Directors and the full Board of

Directors to keep them informed of all services provided and secure their approval for all new services, changes in services, and annual budgets.

Care & Support Services – helps HIV positive people maintain and improve their health and independence through a continuum of psychosocial support services.

Access and Assessment – registers, screens and assesses new clients; creates a service plan addressing client needs; and connects clients to early engagement case management and adult mental health support services and/or refers/links them to other agency services.

The Treatment Education Program – offers individual counseling, educational workshops, forums and seminars, fact sheets in English and Spanish, and a Treatment Library with Internet access to relevant medical information.

The Buddy Program – utilizes volunteers to provide emotional support and to help clients who are too sick to perform basic chores or errands.

Group Services – offers several different support groups on a weekly basis for persons living with HIV/AIDS and their significant others.

Intensive Case Management – provides ongoing help to HIV positive clients with multiple and complex problems and provides a safety net for those at high risk for losing essential services and resources.

The Life Steps Program – provides support in obtaining and keeping housing, peer support, group and individual counseling, socialization activities and harm reduction services to HIV positive clients living in unstable housing.

The Learning Center – helps arrange scholarships at local schools and universities and provides classes on site.

The Meals Program – provides meals throughout, and in collaboration with the Nutrition and Wellness Program, works to ensure the success of HIV treatments, which are dependent on proper diet and adherence to complicated regimens.

The Nutrition and Wellness Program – provides individual counseling, nutrition clinics, cooking classes, exercise classes, and a range of complementary therapies such as reiki, acupuncture and massage for HIV positive clients.

Legal Services and Client Advocacy – advocates for the fair treatment of people living with HIV/AIDS. Each year it provides free legal assistance to clients, offering direct representation and advice on a variety of complex HIV/AIDS-related legal issues. Client Advocates assist clients in accessing government benefits and entitlements, in obtaining government supported and private health insurance, and assessing financial issues related to housing, employment, and insurance. Each year the Client Advocacy helpline answers questions from thousands of callers.

In addition, most of the Care and Support Services listed above provide/participate in a diverse array of panel presentations, workshops, forums, outreach, and technical assistance locally, nationally, and internationally and produce materials free to the public.

Prevention and Education Services – reach thousands of persons a year and focus on high risk populations, utilizing targeted, culturally appropriate messages. Most services are available to the general public regardless of serostatus.

- The HIV Prevention Department – provides services for gay and bisexual men.

These programs include:

1. Gay Gotham – a multi-cultural outreach program of gay men coming together to act on and raise greater consciousness of HIV prevention and gay men's health.
2. House of Latex – a youth and young adult outreach program that offers sexual health counseling, referrals, group and volunteer opportunities to GLBTQ youth affiliated with the house and ball community.
3. Proyecto PAPI – by and for Latino gay and bisexual men "creating spaces" for a healthier future.
4. Soul Food – by and for black gay and bisexual men who practice same sex desire.
5. Gay Men's Counseling and Education (GMHE) – sexual health counseling, topical workshops, and discussion groups.
6. Substance Use Counseling and Education (SUCE) – harm-reduction based individual and group counseling services that focus on substance use and its role in sexual decision making.

- Women and Family Services – provides culturally appropriate outreach, education, and support services for women and families at risk for and living with HIV/AIDS. Programs include:
 1. Women In Action/Mujeres In Accion – targets HIV positive women with current and past history of chemical dependency.
 2. The Child Life Program – seeks to strengthen family systems through concrete and educational services, including a food pantry, nutritional counseling, parenting and other skills-building workshops.
 3. The Lesbian AIDS Project (LAP) – offers educational workshops, forums, and community presentations, as well as individual counseling, groups and social events for lesbian and bisexual women.
- Hotline and A-Team – the hotline provides anonymous HIV related information, education, referrals and emotional support to thousands of callers annually. While the majority of callers are from the New York metropolitan area, the Hotline is accessible throughout the U.S. by means of a toll-free 800 number. The Hotline Online email service responds to emails, making use of the same active listening and counseling skills that work so successfully for our callers. The A-Team is a walk-in counseling service for those in crisis. Experienced Hotline volunteers provide one-on-one counseling and referrals as needed.
- The Terry K Watanabe Volunteer Center – effectively recruits, trains, supervises and supports volunteers who work throughout GMHC, as well as foster internships and training. The Volunteer Center also shares expertise in volunteer management and provides technical assistance to other service organizations locally and abroad.
- David Geffen Center for HIV Prevention and Health Education – provides easily accessible confidential HIV and syphilis testing, pre-test and post-test counseling, information and other services related to sexual health; supports continued risk reduction behavior by all clients regardless of their serostatus; and facilitates access to early intervention information and treatment for those who are HIV positive.

Public Policy, Information, and Advocacy

Twenty years of providing direct services and education have given GMHC a unique familiarity with the needs of people with AIDS, the ability to fight effectively for public policies that support fairness, HIV prevention efforts, biomedical research, and the delivery of AIDS services, including medical care. GMHC's public policy and communications departments build diverse coalitions of organizations and individuals, publicize the service and education needs created by AIDS; and work closely with policymakers in New York City, Albany, and Washington, D.C. to help mold an effective governmental response to the epidemic. To ensure that the public is educated on important AIDS-related issues, GMHC holds press conferences, arranges interviews, and creates advocacy campaigns. By working together with the public and policymakers, GMHC seeks to construct new and better solutions to an ongoing crisis.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for non-profit organizations.

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that require the assets to be maintained permanently by the Organization. The Organization currently does not have any permanently restricted net assets.

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

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Organization considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

The Organization maintains its cash in a number of bank accounts. The cash in these accounts from time to time exceeds the Federal Deposit Insurance Coverage and subjects the Organization to concentration of credit risk. However, the Organization monitors this risk on a regular basis.

Investments

Investments are presented at fair value based upon quoted market prices.

Grants and Contributions

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

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

Unconditional promises to give (pledges) are recognized as revenues in the period awarded at their net present value discounted at a risk-free rate.

Third-Party Reimbursements

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

Leasehold Improvements, Office Furniture and Equipment

Leasehold improvements, office furniture and equipment are recorded at cost or, in the case of gifts, at appraised value at the date of the gift.

Depreciation is provided over the estimated useful lives of the respective assets on the straight-line basis. Depreciation is recorded on the half-year convention in both the year of asset acquisition and disposition. Equipment held under capital leases and leasehold improvements are amortized on the straight-line method over the estimated useful lives of the assets or the life of the respective leases, whichever is shorter.

Contributed Services and In-kind Support

Numerous volunteers have contributed many hours to the Organization to provide services to persons with AIDS, conduct fund-raising, and provide administrative support. The Organization has consistently recorded, at fair value, as support and expenses, certain program-related contributed services that meet the criteria set forth in Statement of Financial Accounting Standards No. 116, "Accounting for Contributions Received and Contributions Made."

Expenses related to donated goods are recorded in the accompanying combined statement of functional expenses in the expense caption, which reflects the nature of the gift.

Government Contracts

Revenue from government contracts is recognized when reimbursable expenses are incurred under the terms of the contracts. Contract payments in excess of qualified expenses are accounted for as contract advances.

Allocation of Functional Expenses

Expenses are recorded in functional categories by program and supporting services when incurred. In certain cases, allocation of expenses between categories are made.

Additionally, indirect supporting service expenses which are not directly identifiable by program are allocated by staff levels or management's estimate of percentage of effort.

Accounting Estimates

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

Comparative Financial Information

The consolidated financial statements include certain 2001 comparative information. With respect to the consolidated statement of activities, such prior year information is not presented by net asset class and, in the combined statement of functional expenses, 2001 expenses by object are presented in total rather than by functional category. Accordingly, such information should be read with the Organization's 2001 consolidated financial statements from which the summarized information was derived.

NOTE 3. PLEDGES RECEIVABLE:

Pledges receivable, including multi-year commitments, were discounted to net present values using a discount rate of 8.5%. The commitments for 2002 and 2001 are as follows:

| | 2002 | 2001 |
|---|--------------|--------------|
| Less than one year | \$ 822,802 | \$ 520,760 |
| One to five years | 405,000 | 1,431,000 |
| Total | 1,227,802 | 1,951,760 |
| Less unamortized discount | (64,284) | (73,608) |
| Less allowance for uncollectible contributions receivable | (18,098) | (125,000) |
| Total pledges receivable, net | \$ 1,145,420 | \$ 1,753,152 |

NOTE 4. LEASEHOLD IMPROVEMENTS, OFFICE FURNITURE AND EQUIPMENT:

Leasehold improvements, office furniture and equipment consist of the following:

| | 2002 | 2001 |
|---|---------------|---------------|
| Leasehold improvements | \$ 14,331,966 | \$ 14,270,706 |
| Furniture and equipment | 3,348,608 | 3,167,724 |
| | 17,680,574 | 17,438,430 |
| Less accumulated depreciation and amortization | 8,270,350 | 6,978,486 |
| Leasehold improvements, office furniture and equipment, net | \$ 9,410,224 | \$ 10,459,944 |

Depreciation and amortization expenses for the years ended June 30, 2002 and 2001 amounted to \$1,291,865 and \$1,331,259 respectively.

NOTE 5. LOANS PAYABLE:

Loans payable consist of the following:

| | 2002 | 2001 |
|-------------------------------------|---------|--------------|
| Loan from board member's estate (a) | \$ ---- | \$ 1,000,000 |
| Term loan and note (b) | ---- | 169,860 |
| | ---- | 1,169,860 |
| Less current portion | ---- | (169,860) |
| Noncurrent portion | \$ ---- | \$ 1,000,000 |

(a) In July 1997, GMHC entered into a loan agreement for \$1,000,000 with a board member to bridge working capital and building fund cash requirements. In August 1998, the amount became due to the board member's estate. This loan bears interest at the prime rate. In May 2002, GMHC paid \$750,000 towards the relinquishment of the loan outstanding at June 30, 2001. The balance of \$250,000 and the accrued interest of \$484,615 was forgiven and has been recognized as a contribution in the current year's financial statements. The donor has placed a time restriction of five years on the contribution.

(b) In October 1997, GMHC entered into a loan agreement with two financial institutions to provide a \$3,350,000 term loan to finance the remaining capital expenditures related to leasehold improvements. The term loan expired on December 31, 2002 but was repaid in full prior to June 30, 2002. GMHC has a \$4,000,000 line of credit to support seasonal working capital needs. As of June 30, 2002, there was no outstanding balance on the line of credit. On March 15, 2002, the financial institutions extended the expiration date of the line of credit to January 1, 2003.

Restricted Cash

The financial institutions require the Organization to maintain a cash collateral account to secure existing obligations and the line of credit. At June 30, 2002 and 2001, \$549,219 and \$533,946, respectively, were in the separate restricted account.

NOTE 6. SPECIAL EVENTS:

Special events are reported net of costs of direct benefits to donors of \$308,563 and \$17,497 for the years ended June 30, 2002 and 2001, respectively.

NOTE 7. OPERATING LEASE COMMITMENT:

The Organization is obligated under an operating lease for an office facility expiring on December 15, 2010. Future minimum annual rental payments under the lease are as follows:

| Year ending June 30 | Amount |
|---------------------|---------------|
| 2003 | \$ 1,408,000 |
| 2004 | 1,464,000 |
| 2005 | 1,522,000 |
| 2006 | 1,583,000 |
| 2007 | 1,771,000 |
| Thereafter | 10,008,000 |
| | \$ 17,756,000 |

Rent expense for the years ended June 30, 2002 and 2001 was approximately \$1,404,754 and \$1,275,613, respectively.

The Organization has sublet a portion of its facility to an unrelated corporation whose lease expires on May 1, 2010. The required minimum annual rental income payments are as follows:

| Year ending June 30 | Amount |
|---------------------|--------------|
| 2003 | \$ 237,000 |
| 2004 | 244,000 |
| 2005 | 252,000 |
| 2006 | 260,000 |
| 2007 | 270,000 |
| Thereafter | 1,428,000 |
| | \$ 2,691,000 |

NOTE 8. LITIGATION:

The Organization is a defendant in a number of legal actions. While the final outcome cannot be determined at this time, management is of the opinion that the ultimate liability if any, from the final resolution of these matters will not have a material effect on the Organization's financial statements. Management has, however, made a provision of \$125,000.

NOTE 9. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following time and program purposes:

| | |
|-----------------------------|--------------|
| Periods after June 30, 2002 | \$ 1,304,839 |
| Specific grant program: | |
| Client programs | 277,564 |
| | \$ 1,582,403 |