

St. Ann's Corner of Harm Reduction, Inc.

Financial Statements
and
Independent Auditors' Report

June 30, 2010

(With Comparative Totals For June 30, 2009)

St. Ann's Corner of Harm Reduction, Inc.

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Independent Auditors' Report

To the Board of Directors of
St. Ann's Corner of Harm Reduction, Inc.
Bronx, New York

We have audited the accompanying statement of financial position of St. Ann's Corner of Harm Reduction, Inc. as of June 30, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2009 financial statements and, in our report dated February 11, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted of 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 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 St. Ann's Corner of Harm Reduction, Inc. as of June 30, 2010, and the changes in 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 March 22, 2011, on our consideration of St. Ann's Corner of Harm Reduction, Inc.'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 schedule of functional expenses on page 11 is presented for purposes of additional analysis and is not a required part of the financial statements. 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 information is fairly stated in all material respects in relation to the financial statements as a whole

Vargas, Ghigliotto & Rivera, LLP

New City, New York
March 22, 2011

St. Ann's Corner of Harm Reduction, Inc.
Statement of Financial Position
June 30, 2010
(with comparative totals as of June 30, 2009)

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Current Assets		
Cash	\$ 68,312	\$ 121,644
Contract Receivables (Note 3)	200,390	216,398
Other Receivables	-	6,345
Prepaid Expenses	3,659	6,404
Security Deposit	4,744	4,744
	<u>277,105</u>	<u>355,535</u>
Total Current Assets		
Fixed Assets		
Leasehold Improvements	131,921	131,921
Furniture and Fixtures	5,624	5,624
Machinery and Equipment	21,277	21,277
Office Equipment	42,573	42,573
	<u>201,395</u>	<u>201,395</u>
Less: Accumulated Depreciation	<u>(198,606)</u>	<u>(178,887)</u>
Total Fixed Assets	<u>2,789</u>	<u>22,508</u>
Total Assets	<u>\$ 279,894</u>	<u>\$ 378,043</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 30,008	\$ 35,198
Accrued Payroll Expenses (Note 6)	15,807	19,871
Contract - Advance Deposits (Note 4)	-	23,034
Refund Due on Governmental Contracts	7,848	7,848
	<u>53,663</u>	<u>85,951</u>
Total Current Liabilities / Total Liabilities		
Net Assets		
Unrestricted Net Assets	<u>226,231</u>	<u>292,092</u>
Total Net Assets	<u>226,231</u>	<u>292,092</u>
Total Liabilities and Net Assets	<u>\$ 279,894</u>	<u>\$ 378,043</u>

See accompanying notes and independent auditors' report.

St. Ann's Corner of Harm Reduction, Inc.
Statement of Activities
For the year ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

<u>PUBLIC SUPPORT AND REVENUE</u>	2010		<u>Total</u>	<u>2009</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>		
<u>Public Support</u>				
Government Grants/Contracts	\$ -	\$ 1,002,319	\$ 1,002,319	\$ 1,034,732
Government - In-Kind Materials		7,077	7,077	-
Foundation Grants	30,613	-	30,613	-
Foundation - In Kind Materials	-	106,562	106,562	-
Corporate and Individual	599	-	599	11,460
Total Public and Government Support	<u>31,212</u>	<u>1,115,958</u>	<u>1,147,170</u>	<u>1,046,192</u>
<u>Revenue</u>				
Miscellaneous Income	2,750	-	2,750	6,000
Interest Income	73	-	73	84
Total Revenue	<u>2,823</u>	<u>-</u>	<u>2,823</u>	<u>6,084</u>
Net Assets Released From Restrictions	<u>1,115,958</u>	<u>(1,115,958)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>1,149,993</u>	<u>-</u>	<u>1,149,993</u>	<u>1,052,276</u>
<u>EXPENSES</u>				
<u>Program Services</u>				
Research, Educational and Prevention	1,015,533	-	1,015,533	896,433
<u>Supporting Services</u>				
Management and General	156,015	-	156,015	160,568
Fund Raising	44,306	-	44,306	44,969
	<u>200,321</u>	<u>-</u>	<u>200,321</u>	<u>205,537</u>
Total Expenses	<u>1,215,854</u>	<u>-</u>	<u>1,215,854</u>	<u>1,101,970</u>
Change in Net Assets	(65,861)	-	(65,861)	(49,694)
Net Assets, Beginning of Year	<u>292,092</u>	<u>-</u>	<u>292,092</u>	<u>341,786</u>
Net Assets, End of Year	<u>\$ 226,231</u>	<u>\$ -</u>	<u>\$ 226,231</u>	<u>\$ 292,092</u>

See accompanying notes and independent auditors' report.

St. Ann's Corner of Harm Reduction, Inc.
Statement of Cash Flows
For the year ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

	<u>2010</u>	<u>2009</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in Net Assets	<u>\$ (65,861)</u>	<u>\$ (49,694)</u>
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	19,719	23,857
Changes in Assets and Liabilities		
(Increase) / Decrease in:		
Contract Receivables	16,008	25,089
Fee Receivables	6,345	11,544
Prepaid Expenses	2,745	4,625
Increase / (Decrease) in:		
Accounts Payable and Accrued Expenses	(5,190)	(14,355)
Payroll Taxes Payable	(4,064)	145
Contract - Advance Deposits	<u>(23,034)</u>	<u>(80,978)</u>
 TOTAL ADJUSTMENTS	 <u>12,529</u>	 <u>(30,073)</u>
 NET CASH USED IN OPERATING ACTIVITIES	 <u>(53,332)</u>	 <u>(79,767)</u>
 NET DECREASE IN CASH	 (53,332)	 (79,767)
 CASH - BEGINNING OF YEAR	 <u>121,644</u>	 <u>201,411</u>
 CASH - END OF YEAR	 <u>\$ 68,312</u>	 <u>\$ 121,644</u>

See accompanying notes and independent auditors' report.

St. Ann's Corner of Harm Reduction, Inc.

Notes to the Financial Statements

June 30, 2010

(With comparative financial information as of and for the year ended June 30, 2009)

NOTE 1 - ORGANIZATION

St. Ann's Corner of Harm Reduction, Inc. ("SACHR") is organized under the Not-For-Profit Corporation Law of the State of New York (the "State") and is qualified as exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

SACHR, a community based organization, is primarily engaged in community based education and family services with a focus on addressing the AIDS epidemic in the community. The services provided include, but are not limited to, needle exchange, HIV outreach, stress reduction, education workshop, support group, condom distribution and literature distribution.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies of SACHR are provided to assist the user in understanding the accompanying financial statements.

Basis of Accounting

The accompanying financial statements were prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS 117, SACHR is required to report information regarding financial position and activities according to the following three classes of net assets: Unrestricted net assets have no donor restrictions and have met all legal and donor requirements; Temporarily restricted net assets are temporarily restricted by donor stipulations and requirements; and Permanently restricted net assets are permanently restricted by donor stipulations and requirements.

Net Assets

Contributions that are not restricted by the donor are reported as increases in unrestricted net assets in the fiscal year in which the contributions are received. All donor-restricted contributions are reported as increases in temporarily or permanently (endowment) restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Temporarily restricted net assets are available only for specific program expenditures in subsequent periods.

Use of Estimates in the Preparation of Financial Statements

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporarily restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

St. Ann's Corner of Harm Reduction, Inc.

Notes to the Financial Statements

June 30, 2010

(With comparative financial information as of and for the year ended June 30, 2009)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of Revenue

Government contract revenue is recognized as earned in the period services are provided and costs are incurred.

Grant and Contracts

Support received under contracts with the United States Government, New York State and others is recorded as public support as SACHR fulfills its obligation under the contracts. Contract receivables represent amounts expected to be received after year-end on approved contracts. Deferred amounts represent cash received in advance of related expenditures.

Cash and Cash Equivalents

All short-term investments, including certificates of deposit with an original maturity or remaining maturity when purchased of three months or less are considered to be cash equivalents. Cash and cash equivalents are maintained at a level to meet anticipated operating cash needs, and are maintained in FDIC insured accounts at credit qualified financial institutions.

Comparative Information

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

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation, which is provided on the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the lesser of the useful life of the improvement or the life of the lease. Assets acquired in excess of \$2,000 are capitalized. Expenditures for repairs and maintenance are expensed as incurred.

Leasehold Improvements	10 Years
Equipment and Furniture	3 - 10 Years

Fair Value of Instruments

SACHR's financial instruments, none of which are held for trading purposes, include cash and cash equivalents, grants receivable, accounts payable, accrued expenses, and loan payable. The financial instruments approximate their fair value because they are short-term in nature or they are receivable or payable on demand.

Functional Expense

The costs of providing the Organization's various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

St. Ann's Corner of Harm Reduction, Inc.
Notes to the Financial Statements
June 30, 2010
(With comparative financial information as of and for the year ended June 30, 2009)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Boards (FASB) issued The Accounting Standards Codification (Codification). Effective July 1, 2009, the Codification is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The Codification is intended to reorganize, rather than change, existing GAAP. Accordingly, all references to currently existing GAAP have been removed and have been replaced with plain English explanations of the Partnership's accounting policies. The adoption of the Codification did not have a material impact on the Partnership's financial position or results of operations.

NOTE 3 - CONTRACT RECEIVABLES

Contract receivables consist of unreimbursed expenses through fiscal year ended June 30, 2010 and 2009 due from governmental agencies totaling \$200,390 and \$216,398 respectively.

NOTE 4 - CONTRACT - ADVANCE DEPOSITS

The amounts reported reflects advance deposits received on contracts (cost-reimbursement contracts), which was the result of prior year advances or funds that had not been utilized or expended for program purposes. Such funds are designated to be used during the subsequent fiscal year.

NOTE 5 - PENSION PLAN

Effective January 1, 2002, SACHR sponsored a salary reduction contribution plan pursuant to Section 403 (b) of the Internal Revenue Code, covering substantially all employees. Under the plan, employees contribute a specified percentage of their salary, or fixed dollar amount, to the plan. SACHR may elect to contribute up to 3% for employee compensation to the plan. The pension 403B matched by SACHR for fiscal years ended June 30, 2010 and 2009 was \$-0- and \$963, respectively. SACHR terminated the 403(b) plan in January 2010 and is in the process of liquidation the plan assets to plan participants.

NOTE 6 - ACCRUED PAYROLL EXPENSES

Accrued payroll expenses as of June 30 consisted of the following:

	<u>2010</u>	<u>2009</u>
Accrued Vacation	\$ 3,757	\$ 10,328
Accrued Payroll	11,026	8,666
Payroll Taxes	<u>1,024</u>	<u>877</u>
	<u>\$ 15,807</u>	<u>\$ 19,871</u>

St. Ann's Corner of Harm Reduction, Inc.

Notes to the Financial Statements

June 30, 2010

(With comparative financial information as of and for the year ended June 30, 2009)

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Occupancy Leases

At June 30, 2010, SACHR is obligated for minimum aggregate annual rent for office/program space. The lease expires on October 31, 2012. The minimum lease commitments under this occupancy lease agreement as follows:

<u>Year ending</u>	<u>Amount</u>
June 30, 2011	\$ 76,006
June 30, 2012	31,669
	<u>\$ 107,675</u>

Audits by Funding Sources

SACHR receives a significant portion of its funding from government grant/contracts, all of which are subject to audit by the funding source. The ultimate determination of amounts received under these programs is generally based upon allowable costs reported to and audited by the funding source. 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 believes that any disallowed costs, which may result from these examinations, will not have a material effect on the financial statements for the current reporting periods.

Property Purchased with Government Grant Monies

Per certain government grant contracts, title to assets purchased with grant monies remains with the granting source. However, SACHR has chosen to capitalize these costs since the grantors have typically not reclaimed the assets at the end of the grant periods.

NOTE 8 - CONCENTRATIONS

SUPPORT - SACHR received a substantial amount of its support from federal, state and city governmental grants. A reduction in the level of this support will have an effect on the organization's ability to carry out its program activities.

NOTE 9 – PRIOR PERIOD SUMMARIZED FINANCIAL INFORMATION

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

NOTE 10 – SUBSEQUENT EVENTS

In accordance with Statement of Financial Accounting Standards No. 165, *Subsequent Events*, the Organization has evaluated subsequent events between that statement of financial position date of June 30, 2010 and March 22, 2011, the date the financial statements were issued. No subsequent events requiring disclosure were noted.

Supplemental Information

St. Ann's Corner of Harm Reduction, Inc.
Schedule of Functional Expenses
For the year ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

	Program	Management and General	Fund Raising	2010 Total	2009
Salaries	\$ 438,074	\$ 88,376	\$ 31,389	\$ 557,839	\$ 536,582
Payroll Taxes and Employee Benefits	103,849	22,225	7,441	133,515	119,618
Total Salaries and Related Expenses	<u>541,923</u>	<u>110,601</u>	<u>38,830</u>	<u>691,354</u>	<u>656,200</u>
Other than personnel services:					
Consultants	8,559	513	-	9,072	44,155
Professional Fees	-	13,500	-	13,500	17,550
Rent	63,408	9,659	1,408	74,475	70,498
Utilities	29,083	4,430	646	34,159	34,017
Postage and Delivery	1,241	163	47	1,451	2,131
Telephone and Internet Service	12,009	1,582	454	14,045	15,288
Insurance	11,513	2,247	168	13,928	15,880
Recruiting	-	180	-	180	-
Program Supplies	53,370	-	-	53,370	66,708
In-Kind Program Supplies	113,674	-	-	113,674	-
Syringe and Medical Disposal	6,665	-	-	6,665	6,842
Equipment Lease and Maintenance	11,090	1,149	329	12,568	11,061
Equipment Purchases	170	-	-	170	980
Conferences and Meetings	1,675	192	-	1,867	17,732
Travel	5,170	2,183	-	7,353	3,791
Client Travel	12,796	-	-	12,796	9,719
Stipends	89,981	-	-	89,981	64,816
Office Supplies and Expenses	6,546	2,612	1,287	10,445	8,255
Repairs and Maintenance	25,755	3,923	572	30,250	27,465
Bank Service Charges	-	30	-	30	-
Payroll Service Charges and Other Fees	4,106	541	155	4,802	5,025
Total OTPS Before Depreciation	<u>998,734</u>	<u>153,505</u>	<u>43,896</u>	<u>1,196,135</u>	<u>1,078,113</u>
Depreciation & Amortization	<u>16,799</u>	<u>2,510</u>	<u>410</u>	<u>19,719</u>	<u>23,857</u>
Total Expenses	<u>\$ 1,015,533</u>	<u>\$ 156,015</u>	<u>\$ 44,306</u>	<u>\$ 1,215,854</u>	<u>\$ 1,101,970</u>

St. Ann's Corner of Harm Reduction, Inc.

Schedule of Expenditures of Federal Awards
and Accompanying Notes
For the year ended June 30, 2010

St. Ann's Corner of Harm Reduction, Inc.
 Schedule of Expenditures of Federal Awards
 For the year ended June 30, 2010

FEDERAL GRANTOR/ PASS-THROUGH <u>GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>CONTRACT NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
HIV Prevention Activities - Health Department Based NYS Department of Health AIDS Institution Health Research, Inc.	93.940		
HIV Prevention Education and Counseling to IDU's		45-16	\$ 177,925
HIV Prevention Education and Counseling to IDU's		45-17	28,782
HIV Prevention Services for Women and Families		2247-06	<u>156,877</u>
			<u>363,584</u>
Substance Abuse and Mental Health Services Administration Healthy Alternative Project	93.243	1H79SM059377-01	<u>65,721</u>
HIV Emergency Relief Project Grants NYS Department of Health AIDS Institution Medical and Health Research Association of NYC, Inc. Health Research, Inc.	93.914		
Mental Health Services		1326-10	52,679
Mental Health Services		1326-11	<u>26,406</u>
			<u>79,085</u>
U.S. DEPARTMENT OF AGRICULTURE			
Food Bank of New York City The Emergency Food Assistance Program	10.569		<u>7,077</u>
Total Expenditures of Federal Awards			<u>\$ 515,467</u>

St. Ann's Corner of Harm Reduction, Inc.
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2010

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of St. Ann's Corner of Harm Reduction, Inc. under programs of the federal government for the year ended June 30, 2010. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of St. Ann's Corner of Harm Reduction, Inc. it is not intended to and does not present the financial position, changes in net assets, or cash flows of the entity.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

St. Ann's Corner of Harm Reduction, Inc.
Summary Schedule of Prior Year Audit Findings
For the year ended June 30, 2010

Section II – Financial Statement Findings

There were no reported findings for the year ended June 30, 2009.

Section III – Federal Award Findings and Questioned Costs

There were no reported findings for the year ended June 30, 2009.



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 of
St. Ann's Corner of Harm Reduction, Inc.
Bronx, New York

We have audited the financial statements of St. Ann's Corner of Harm Reduction, Inc. as of and for the year ended June 30, 2010, and have issued our report thereon dated March 22, 2011. 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

In planning and performing our audit, we considered St. Ann's Corner of Harm Reduction, Inc.'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 St. Ann's Corner of Harm Reduction, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 the 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 above. However, we identified a deficiency in the internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting as item 2010-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether St. Ann's Corner of Harm Reduction, Inc.'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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2010-1.



St. Ann's Corner of Harm Reduction, Inc's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit St. Ann's Corner of Harm Reduction, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, 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.

Vargas, Ghigliotti & Rivera, LLP

New City, New York
March 22, 2011



Independent Auditors' Report on compliance with Requirements that could have
a Direct and Material Effect on Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133

To the Board of Directors of
St. Ann's Corner of Harm Reduction, Inc.
Bronx, New York

Compliance

We have audited St. Ann's Corner of Harm Reduction, Inc.'s 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 each of St. Ann's Corner of Harm Reduction, Inc.'s major federal program for the year ended June 30, 2010. St. Ann's Corner of Harm Reduction, Inc.'s major federal programs 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 each of its major federal programs is the responsibility of St. Ann's Corner of Harm Reduction, Inc.'s management. Our responsibility is to express an opinion on St. Ann's Corner of Harm Reduction, Inc.'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 St. Ann's Corner of Harm Reduction, Inc.'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 St. Ann's Corner of Harm Reduction, Inc.'s compliance with those requirements.

In our opinion, St. Ann's Corner of Harm Reduction, Inc. 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 programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2010-1.

Internal Control over Compliance

Management of St. Ann's Corner of Harm Reduction, Inc. 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 St. Ann's Corner of Harm Reduction, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program 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 St. Ann's Corner of Harm Reduction, Inc.'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. However, we identified certain a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2010-1. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

St. Ann's Corner of Harm Reduction, Inc's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit St. Ann's Corner of Harm Reduction, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, 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.

Vargas, Ghigliottty & Rivera, LLP

New City, New York
March 22, 2011

St. Ann's Corner of Harm Reduction, Inc.
 Schedule of Findings and Questioned Costs
 For the year ended June 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
~Material weakness(es) identified?	No
~Reportable condition(s) identified that are not considered to be material weakness(es)	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
~Material weakness(es) identified?	No
~Reportable condition(s) identified that are not considered to be material weakness(es)	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster:</u>
93.940	HIV Prevention Services for Women and Families
93.940	HIV Prevention Education and Counseling to IDUs

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

St. Ann's Corner of Harm Reduction, Inc.
Schedule of Findings and Questioned Costs
For the year ended June 30, 2010

Section II - Financial Statement Findings

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:

93.940 HIV Prevention Activities - Health Department Based

NYS Department of Health AIDS Institution
Health Research, Inc.

Criteria:

In accordance with the Department of Treasury, Internal Revenue Service, file Form 1099-MISC, Miscellaneous Income, for each person to whom you have paid during the year nonemployee compensation of \$600 or more for services in the course of our trade or business.

Statement of Condition:

Stipends were issued to nonemployees that exceeded \$600 as compensation and was not reported to the Internal Revenue Service.

Context:

The account classification of stipends was examined and it was determined that eleven out of eighty-nine participants exceed the \$600 threshold. Inquiry was made to management regarding the issuance of Form 1099-Misc and that none were issued.

Effect:

Noncompliance with provisions of the Internal Revenue Service for reporting nonemployee compensation that exceeded \$600.

Cause:

Organization was not aware that nonemployee compensation in the form of a stipends was required to be reported to the IRS in Form 1099-Misc.

Recommendation:

Prepare an analysis on a calendar basis and issue Form 1099-Misc. as required by the Internal Revenue Service.

Management's Response and Corrective Action Plan:

Management concurred with finding. Management will prepare an analysis for the calendar year December 31, 2010. Management will identify participants that exceeded the \$600 threshold and report to the IRS and issue Form 1099-Misc. to participants.

Section III - Federal Award Findings and Questioned Costs

Statement of Condition:

Stipends were issued to nonemployees that exceeded \$600 as compensation and was not reported to the Internal Revenue Service.

See Section II, Item 2010-1 for details.