Hudson River HealthCare, Inc. and Subsidiaries

Consolidated Financial Statements,
Schedule of Expenditures of Federal and State Awards,
Internal Control and Compliance
(With Supplementary Information)
and Independent Auditor's Report

December 31, 2012

Hudson River HealthCare, Inc. and Subsidiaries

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Independent Auditor's Report

To the Board of Directors
Hudson River HealthCare, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Hudson River HealthCare, Inc. and Subsidiaries (the "Corporation") which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included in the accompanying statements on pages 25 and 26 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and the changes in net assets of the individual organizations, and is not a required part of the consolidated 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2013, on our consideration of the Corporation'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

CohnReznick LLP

New York, New York
August 20, 2013

Hudson River HealthCare, Inc. and Subsidiaries

Consolidated Statement of Financial Position
December 31, 2012

Assets	
Current assets:	
Cash and cash equivalents	$ 11,733,532
Patient services receivable, net (Note 2)	5,831,903
DHHS grants receivable	907,332
Contracts and other grants receivable (Note 3)	1,862,219
Other receivables (Note 12)	2,891,246
Prepaid expenses and other assets	415,882
Total current assets	23,642,114
Interest in net assets of Hudson River HealthCare Foundation (Notes 8 and 12)	1,360,365
Property and equipment, net (Note 4)	20,045,816
Security deposits and other (Note 6)	338,036
Deferred compensation (Note 14)	567,087
Total assets	$ 45,953,418
Liabilities and Net Assets	
Current liabilities:	
Accounts payable and accrued expenses	$ 5,792,832
Accrued compensation	2,672,877
Due to third-party payor	998,762
Current maturities of long-term debt (Note 6)	174,224
Current maturities of capital lease obligations (Note 7)	189,323
Refundable advances	234,595
Total current liabilities	10,062,613
Long-term debt less current maturities (Note 6)	4,659,082
Capital lease obligations, less current maturities (Note 7)	351,738
Deferred compensation (Note 14)	567,087
Total liabilities	15,640,520
Commitments and contingencies (Notes 10 and 14)	
Net assets:	
Unrestricted	28,952,533
Temporarily restricted	1,360,365
Total net assets	30,312,898
Total liabilities and net assets	$ 45,953,418

See Notes to Consolidated Financial Statements.

Hudson River HealthCare, Inc. and Subsidiaries

Consolidated Statement of Activities and Changes in Net Assets
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Total
Revenue:			
Patient services (net of contractual allowances and discounts) (Note 10)	$ 44,340,346		$ 44,340,346
Provision for bad debt	(3,032,926)		(3,032,926)
Net patient services revenue net of provision for bad debt	41,307,420		41,307,420
DHHS grant revenue (Note 9)	11,370,574		11,370,574
Contract services and other grants (Note 11)	8,521,756		8,521,756
Meaningful use incentives	1,381,253		1,381,253
Management fees	2,466,892		2,466,892
Other revenue (Note 12)	1,293,593		1,293,593
Total revenue	66,341,488		66,341,488
Expenses:			
Salaries and related benefits (Note 13)	42,730,117		42,730,117
Other than personnel services	17,105,031		17,105,031
Interest	328,310		328,310
Total expenses	60,163,458		60,163,458
Increase in net assets prior to depreciation and amortization	6,178,030		6,178,030
Depreciation and amortization	3,080,242		3,080,242
Increase in net assets prior to nonoperating activities	3,097,788		3,097,788
Nonoperating activities:			
DHHS grant revenue - capital projects (Note 9)	432,782		432,782
Contract services - capital projects (Note 11)	966,820		966,820
Change in interest in Hudson River HealthCare Foundation (Notes 8 and 12)		$ 221,273	221,273
Total nonoperating revenue	1,399,602	221,273	1,620,875
Changes in net assets	4,497,390	221,273	4,718,663
Net assets, beginning of year	24,455,143	1,139,092	25,594,235
Net assets, end of year	$ 28,952,533	$ 1,360,365	$ 30,312,898

See Notes to Consolidated Financial Statements.

Hudson River HealthCare, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses
Year Ended December 31, 2012

	Program Services	General and Administrative	Total
Salaries and wages	$ 27,557,060	$ 7,237,221	$ 34,794,281
Fringe benefits	6,285,173	1,650,663	7,935,836
Healthcare consultants	3,581,786		3,581,786
Professional fees	1,487,533	1,788,100	3,275,633
Laboratory and radiology	287,169		287,169
Consumable supplies	2,931,778	134,267	3,066,045
Occupancy	2,985,644	149,949	3,135,593
Insurance	278,624	50,905	329,529
Repairs, maintenance and equipment rental	154,008	55,440	209,448
Telephone	1,145,480	195,641	1,341,121
Travel, conferences and meetings	372,609	288,205	660,814
Patient transportation	80,620		80,620
Dues and subscriptions	94,418	94,763	189,181
Recruitment and public information	104,969	9,241	114,210
Printing and postage	231,364	42,247	273,611
Interest		328,310	328,310
Other	156,168	404,103	560,271
Totals	47,734,403	12,429,055	60,163,458
Depreciation and amortization	2,573,387	506,855	3,080,242
Total functional expenses	$ 50,307,790	$ 12,935,910	$ 63,243,700

See Notes to Consolidated Financial Statements.

Hudson River HealthCare, Inc. and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended December 31, 2012

Operating activities:	
Cash received from DHHS services	$ 10,505,624
Cash received from patient services	39,235,520
Cash received from contract services and other grants	8,905,139
Cash received from meaningful use incentives	1,381,253
Cash received from management fees	746,033
Cash received from other	745,639
Cash paid for interest	(328,310)
Cash paid to employees	(42,795,764)
Cash paid to vendors	(14,644,715)
Net cash provided by operating activities	3,750,419
Investing activities: purchase of property and equipment	(3,326,768)
Financing activities:	
Payment of capital lease obligations	(443,088)
Payment of long-term debt	(160,526)
Receipt of nonoperating DHHS capital grant	432,782
Receipt of nonoperating contract services capital grant	966,820
Net cash provided by financing activities	795,988
Net increase in cash and cash equivalents	1,219,639
Cash and cash equivalents, beginning of year	10,513,893
Cash and cash equivalents, end of year	$ 11,733,532
Reconciliation of changes in net assets to net cash provided by operating activities:	
Changes in net assets	$ 4,718,663
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Change in interest in Hudson River HealthCare Foundation	(221,273)
Nonoperating DHHS grant revenue - capital projects	(432,782)
Nonoperating contract services - capital projects	(966,820)
Provision for bad debts	3,032,926
Depreciation and amortization	3,080,242
Changes in operating assets and liabilities:	
Patient services receivable	(3,450,429)
DHHS grants receivable	(864,950)
Contracts receivable and other grants	334,054
Other receivables	(2,268,813)
Prepaid expenses and other assets	(186,492)
Security deposits	(12,881)
Accounts payable and accrued expenses	2,659,689
Accrued compensation	(65,647)
Due to third-party payor	(1,654,397)
Refundable advances	49,329
Net cash provided by operating activities	$ 3,750,419
Supplemental disclosure of noncash financing activity:	
Capital acquisitions funded through capital leases	$ 377,339

See Notes to Consolidated Financial Statements.

Note 1 - Organization and summary of significant accounting policies:

Organization:

Hudson River HealthCare, Inc. (the "Center") operates freestanding diagnostic and treatment centers, licensed under Article 28 of the New York State health law, located in the Hudson Valley Region and Eastern Long Island of New York State. The Center provides a broad range of health services to a largely medically-underserved population. The Center was incorporated as a not-for-profit corporation under the laws of the State of New York (the "State") and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code").

The Center owns 100% controlling financial interest in Community Health Monticello, LLC ("Monticello"). Monticello was formed primarily for the purpose of acquiring and constructing certain real property in Monticello, NY; to finance the acquisition and rehabilitation of real property on an adjacent plot; and to lease property to the Center.

The Center owns 100% controlling financial interest in Solutions 4 Community Health Inc. ("Solutions"), which is a taxable entity that provides medical billing. Solutions has the authority to issue 1,000 shares of common stock, $.01 par value per share.

The U.S. Department of Health and Human Services (the "DHHS") provides substantial support to the Center. The Center is obligated under the terms of the DHHS grants to comply with specified conditions and program requirements set forth by the grantor.

Basis of presentation:

The accompanying consolidated financial statements include the Center, and its wholly-owned subsidiaries, Monticello and Solutions. Hudson River HealthCare, Inc. and Subsidiaries are referred to collectively as the “Corporation”. All significant intercompany transactions and account balances have been eliminated in consolidation. The consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Use of estimates:

The preparation of the consolidated 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.

Cash and cash equivalents:

The Corporation maintains its cash and cash equivalents in bank deposit accounts. All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

Classification of net assets:

The accompanying consolidated financial statements present information regarding the Center's financial position and activities according to three classes of net assets.

Unrestricted net assets are not externally restricted for identified purposes by donors or grantors. Unrestricted net assets include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between the Center and an outside party other than a donor or grantor.

Temporarily restricted net assets are those whose use by the Center has been limited by donors to a specific purpose. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are recorded as net assets released from restrictions.

Permanently restricted net assets are net assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Center. Generally, the donors of these assets permit the Center to use all or part of the income earned on related investments for general or specific purposes. The Center does not have any permanently restricted net assets.

Concentration of credit risk:

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash and cash equivalents, patient services receivable, grants receivable, contracts receivable and other receivables. At times during the year, the Corporation's noninterest bearing cash balances may exceed the limits of Federal Deposit Insurance Corporation ("FDIC") insurance coverage. At December 31, 2012, the Corporation's uninsured cash balances totaled approximately $11,571,000. The Corporation monitors its financial institutions and the concentration of credit risk on a regular basis and does not anticipate nonperformance by the financial institutions.

Patient services receivable credit risk is limited because the receivables are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Center estimates doubtful accounts based on historical bad debts, factors related to specific payors' ability to pay and current economic trends. The Center writes off accounts receivable against the allowance when a balance is determined to be uncollectible.

Grants and contracts receivable credit risk is limited due to the nature of the grants and contracts. The Center regularly monitors its grants and contracts receivable by investigating delayed payments and differences when payments received do not conform to the amount billed. The Center considers all grants and contracts as collectible.

Other receivables consist of the Center's receivables from a related party for employee leasing fees and other contracted services (see Note 12) and Solutions' receivables from various customers. Other receivables credit risk is limited due to the Center's relationship with the related party and because Solutions regularly monitors the collection of its customers' payments. The Center and Solutions reduce the receivable by an allowance for doubtful accounts estimated based on historical collection rate, factors related to the payor's ability to pay and current economic trends. The Center and Solutions write off other receivables against the allowance when a balance is determined to be uncollectible.

Property and equipment:

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets ranging from 4 to 25 years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. The Corporation capitalizes all purchases of property and equipment in excess of $1,000 and with a useful life of over one year.

Maintenance, repairs and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation and amortization are removed from the accounts and any resulting gains or losses are included in changes in net assets.

Equipment under capital leases is recorded in property and equipment with corresponding obligations carried in short-and long-term liabilities. The amount capitalized is the lower of the present value of the minimum lease payments or the fair value of the leased asset. Amortization on assets leased under capital leases is recorded on a straight-line basis over the estimated useful life of the asset or the term of the lease, whichever is the lesser.

Construction in progress is recorded at cost. The Center capitalizes construction, insurance and other costs during the period of construction. Depreciation and amortization is recorded when construction is substantially complete and the assets are placed in service.

According to Federal regulations, any property and equipment obtained through Federal funds are subject to a lien by the Federal government. Provided that the Center maintains its tax-exempt status and the property and equipment are used for their intended purpose, the Center is not required to reimburse the Federal government. If the stated requirements are not met, the Center would be obligated to the Federal government in an amount equal to the fair value of the property and equipment.

Impairment of long-lived assets:

The Corporation reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Corporation compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the asset's carrying values and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends.

Grants and contracts:

Revenue from government grants and contracts designated for use in specific activities is recognized in the period when the expenditures have been incurred in compliance with the grantor's restrictions. Grants and contract awards for the acquisition of long-lived assets are reported as unrestricted nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances.

At December 31, 2012, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of $11,766,286 that have not been recorded in the accompanying consolidated financial statements, as they have not been earned. These grants and contracts require the Center to provide certain services during specified periods. If such services are not provided, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

Patient services revenue:

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administering agencies. As of December 31, 2012, estimated amounts due to third-party payors of $998,762 is reflected in the consolidated statement of financial position. These adjustments are accrued based on a rate appeal filed by the Center and are being recouped from the Center's future collections from Medicaid.

The Center provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Self-pay revenue is recorded at published charges with charitable care deducted to arrive at gross self-pay revenue. Contractual allowances are then deducted to arrive at net self-pay patient revenue before provision for bad debts.

In-kind contributions:

Donated vaccines are recognized in the accompanying consolidated financial statements based on fair value. Donated vaccines received in 2012 amounted to $9,471 and are included in contract services and other grants in the statement of activities and changes in net assets.

Contributions:

Contributions are recorded as either temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated asset. Contributions received with no donor stipulations are recorded as unrestricted revenue. 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 are reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue. Conditional contributions are recognized in the period when expenditures have been incurred in compliance with the grantor.

Meaningful use incentives:

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under the Medicare and Medicaid programs for certain professionals that: (1) meaningfully use certified Electronic Health Record (“EHR”) technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of healthcare, and (3) use the certified EHR technology to submit clinical and quality measures. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health (“HITECH”) Act. The criteria for meaningful use incentives will be staged in three steps over the course of the next six years and be disbursed based on a transitional schedule. The Center’s providers have met the criteria for Stage 1 and have earned $1,381,253 from the Medicaid incentive program for the year ended December 31, 2012.

Interest earned on Federal funds:

Interest earned on Federal funds is recorded as a payable to the United States Public Health Service ("PHS") in compliance with the regulations of the United States Office of Management and Budget.

Functional expenses:

The cost of providing the various services and other activities has been summarized on a functional basis in the consolidated statement of functional expenses. Accordingly, certain costs have been charged to program services or supporting services based on a combination of specific identification and allocation by management.

Performance indicator:

The consolidated statement of activities and changes in net assets includes the increase in net assets prior to non-operating activities as the performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator include capital grants and change in the Center's interest in the Hudson River HealthCare Foundation (the "Foundation") (See Note 8).

Tax status:

The Center was incorporated as a not-for-profit corporation under the laws of the State of New York and is exempt from Federal income taxes under Section 501(c)(3) of the Code, as well as from state income taxes. Therefore, there is no provision for income taxes. In addition, the Center is not classified as a private foundation.

Monticello is a for-profit entity with minimal operations for the year and incurred no material tax liability during 2012. Solutions is also a for-profit entity which had a tax liability of $196,450 as of December 31, 2012 which is included in accounts payable and accrued expenses in the consolidated statement of financial position.

The Corporation has no unrecognized tax benefits at December 31, 2012. The Center's and Solutions' Federal and state income tax returns prior to fiscal year 2009 are closed. Since Monticello was established in 2010, all of its Federal and state income tax returns are open. Management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

The Corporation recognizes interest and penalties associated with tax matters as operating expenses and includes accrued interest and penalties with accrued expenses in the consolidated statement of financial position.

Subsequent events:

The Corporation has evaluated subsequent events through August 20, 2013, which is the date the consolidated financial statements were available to be issued.

Note 2 - Patient services receivable, net:

Patient services receivable, net, consist of the following:

Medicaid	$ 1,358,294
Medicare	277,640
Other third-party payors	321,278
Self-pay	4,878,612
Medicaid managed care programs	477,258
New York State uncompensated care	3,247,480
Total	10,560,562
Less allowance for doubtful accounts	(4,728,659)
Total	$ 5,831,903

Patient services receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of patient services receivable, the Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill). The Center records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates provided by the Center's policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

The Center's allowance for doubtful accounts for self-pay patients was 97 percent of self-pay patient services receivable at December 31, 2012. In addition, the Center's self-pay write-offs were approximately $4,700,000 for fiscal year 2012. The Center has not changed its charity care or uninsured discount policies during fiscal year 2012. The Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Note 3 - Contracts and other grants receivable:

New York State Department of Health:	
Comprehensive Adolescent Pregnancy Prevention	$ 39,337
Family Planning Program	125,765
Aids Institute - Hepatitis	30,445
HEAL New York Phase VI	117,572
HEAL New York Phase X	41,988
Migrant Health	22,523
Women, Infants, and Children Program	46,564
Diabetes leadership	3,618
AIDS Institute - Supportive Service or HIV Primary Care Services	66,000
Preventive Dental	15,886
Migrant Discretionary	40,540
CDC HIV Primary Care	13,795
NYS Rural Healthcare Network	121,780
Westchester County Department of Health:	
Ryan White Part A Medical Case Management	31,039
Ryan White Part A Preventive Medicine	62,999
Dutchess County Department of Health:	
Ryan White Part A Medical Case Management	12,595
Westchester County Department of Social Services:	
Early Intervention Program	212,680
National Association of Community Health Centers:	
AmeriCorps Program	55,357
Albany Medical Center:	
Ryan White Title IV	7,406
Suffolk County Department of Health Services	166,666
CHCANYS Northeast Migrant Stream Coordinator	22,427
New York State Health Foundation	19,006
St. John's Community Benefit Grant	460,000
Other	126,231
Total	$ 1,862,219

Note 4 - Property and equipment:

The components of property and equipment are as follows:

Land	$ 499,440
Building and improvements	15,896,390
Furniture and equipment	17,204,332
Leasehold improvements	5,415,150
Total	39,015,312
Less accumulated depreciation and amortization	(19,726,836)
Total	19,288,476
Construction in progress	757,340
Total	$ 20,045,816

In the event DHHS grants are terminated, the DHHS reserves the right to transfer all property and equipment purchased with grant funds to PHS or third parties.

No depreciation has been provided on assets classified as construction in progress as these assets have not yet been placed in service.

Note 5 - Line of credit:

The Center has an available revolving line of credit in the amount of $3,000,000, which is due and payable by September 30, 2013, the date the agreement expires. The line of credit is secured by all of the Center's assets. This agreement requires interest to be charged at the bank's prime rate (3.25% at December 31, 2012) plus 0.5%. There is no balance due as of December 31, 2012.

Note 6 - Long-term debt:

Long-term debt consists of the following:

Renovation loan payable - $685,000 face amount, maturing on July 31, 2014, payable in equal monthly installments of $5,348, including interest per annum of 275 basis points above the Federal Home Loan rate of the Bank of New York but not to exceed 6.50%. The interest rate was 5.50% at December 31, 2012. The loan is secured by the related properties which have a carrying value of $199,800 as of December 31, 2012.	$ 504,279
Renovation loan payable - $600,000 face amount, maturing on November 1, 2020, payable in equal monthly installments of $5,825, including interest per annum at 7.60% or 200 basis points above the Federal Home Loan rate of the Bank of New York. The interest rate was 5.50% at December 31, 2012. The loan is secured by the related properties which have a carrying value of $864,465 as of December 31, 2012.	411,672
Mortgage payable - $1,600,000 face amount, maturing on January 1, 2021, payable in equal monthly installments of $14,617, including interest at 5.50% per annum. The loan is secured by the related properties which have a carrying value of $864,465 as of December 31, 2012.	1,067,355
Mortgage payable under a New Market Tax Credit (“NMTC”) financing agreement - $2,850,000 face amount, maturing on July 1, 2035, payable in equal monthly installments of $19,684, which shall be applied entirely to interest beginning July 1, 2010 at a variable interest rate which, as of December 31, 2012 was at 4.77%. On July 1, 2017, the loan converts to an amortizing loan. The loan is secured by related properties owned or hereafter acquired by Monticello. As of December 31, 2012, those properties consisted of property and equipment and security deposits with a carrying value of $2,680,556.	2,850,000
Total	4,833,306
Less current portion	(174,224)
Long-term debt	$4,659,082

Future maturities of long-term debt in each of the five years subsequent to December 31, 2012 and thereafter are as follows:

Year Ending December 31,	Amount
2013	$ 174,224
2014	185,145
2015	196,238
2016	207,760
2017	262,573
Thereafter	3,807,366
Total	$4,833,306

The Corporation is required to comply with certain covenants under its renovation loans payable, mortgage payable and line of credit.

On June 30, 2010, Monticello entered into an NMTC financing agreement with various entities for the purpose of receiving financing to acquire an existing facility as well as to construct a new facility. The NMTC structure consists of NMTC investors and other lenders that provide qualified equity investments ("QEI") to designated community development entities ("CDEs"), who, in turn, provide debt financing to qualified active low income community businesses ("QALICB"). An NMTC program permits taxpayers, who have made quality equity investments in CDEs, to receive a credit against their Federal income taxes.

HSBC Bank USA, National Association ("Leverage Lender") is the Sole Member in Primary Care Investment Fund LLC which is an Investment Fund. The Leverage Lender made a loan in an amount of $2,078,125 and equity investment of $890,625 to the Investment Fund. The Investment Fund used the combined proceeds of the Leverage Loan and the Fund Equity Investment to make a QEI in the amount of $2,968,750 in a CDE called PCDC Empire State Health Opportunities Fund I LLC ("PCDC"). The CDE in turn, used substantially all of the funds provided by the QEI to make a loan to Monticello in the amount of $2,850,000 for the qualified purpose of both acquiring and constructing a community health center in a low income area, as required by the terms of the agreements.

Monticello entered into one note in the amount of $2,850,000, with PCDC, with a maturity date of July 1, 2035 and interest at 4.77% per annum. Accrued and unpaid interest is due and payable in arrears in successive monthly payments beginning on August 1, 2010 and continuing through July 1, 2017. Thereafter, principal and interest payments of an aggregate amount of $19,684 will be due and payable in successive quarterly installments beginning on August 1, 2017 through maturity. This loan is recorded under long-term debt in the consolidated statement of financial position.

This structure will stay in effect for a period of 7 years, until July 1, 2017 when the NMTC period expires. Built within the agreements are put and call options for Monticello to acquire 100% of the Investment Fund at a purchase price in an amount equal to the sum of $1,000, any transfer taxes or other closing costs paid or payable by the Investment Fund attributable to the exercise of the put option and/or sale of the Investment Fund's interest and any amounts then due and owing from Monticello to the Investment Fund.

The Center has leased the project sites from Monticello for the operation of a primary care center and in turn subleased the project sites to Sullivan County Industrial Development Agency ("Agency"). The Agency has further sub-subleased the site back to the Center. The Center and PCDC have entered into a Guaranty of Payment agreement as of June 30, 2010 whereby the Center has guaranteed to PCDC prompt and full payment, whether at maturity or by acceleration or otherwise, of Monticello's obligations to pay all amounts due in respect of the promissory note.

As a requirement of the NMTC financing agreement, the Center established an interest-bearing debt service reserve fund to be used solely for the purpose of paying any fees associated with maintaining the debt service reserve fund and to remedy any defaults in payments. The debt service reserve fund balance was $118,106 as of December 31, 2012, and is included in security deposits and other in the consolidated statement of financial position.

Note 7 - Capital lease obligations:

The following is a summary of equipment held under capital leases:

Equipment	$1,340,678
Less accumulated amortization	(733,855)
Total	$ 606,823

The Center was liable under terms of capital lease obligations for the following minimum lease payments:

Year Ending December 31,	
2013	$ 215,664
2014	215,664
2015	102,920
2016	45,000
2017	7,500
Total minimum lease payments	586,748
Less amount representing interest	(45,687)
Present value of net minimum lease payments	541,061
Less current maturities of capital lease obligations	(189,323)
Capital lease obligations, less current maturities	$ 351,738

Note 8 - Interest in net assets of Hudson River HealthCare Foundation:

Amounts reported in the consolidated statement of financial position include interest in the net assets of the Foundation and temporarily restricted net assets represent monies raised by the Foundation on behalf of the Center. The interest is adjusted annually to reflect the changes in the net assets of the Foundation. The Foundation has no variance power over the funds, which will be distributed upon request by the Center. During the year ended December 31, 2012, the net assets of the Foundation increased by $221,273, which has been recorded in the consolidated statement of activities. No amounts were distributed to the Center during the year ended December 31, 2012. As of December 31, 2012, the Center's interest in the net assets of the Foundation amounted to $1,360,365.

Note 9 - DHHS grants:

For the year ended December 31, 2012, the Center recognized grant revenue from the DHHS as follows:

Grant Number	Grant Period	Total Grant	Operating Revenue	Non-Operating Revenue	Total
6 H80CS00313-10-02	3/1/11-1/31/12	$ 6,805,845	$ 850,730		$ 850,730
5 H80CS00313-11-06	2/1/12-1/31/13	9,854,647	9,667,564		9,667,564
5 H76HA00029-21-01	7/1/11-6/30/12	974,711	487,355		487,355
2 H76HA00029-22-00	7/1/11-6/30/13	974,711	487,355		487,355
1 Z0CMS330864-01-00	8/18/11-8/17/13	2,476,500	1,330,343		1,330,343
1 C8BCS23879-01-01	5/1/12-4/30/14	420,000		$ 264,741	264,741
6 C81CS14030-01-07	6/29/09-6/30/12	1,994,540		168,041	168,041
			12,823,347	432,782	13,256,129
Less subgrant passed through to other organizations			(1,452,773)		(1,452,773)
Totals			$ 11,370,574	$ 432,782	$ 11,803,356

Note 10- Patient services, net:

The Center recognizes patient services revenue associated with services provided to patients who have Medicaid, Medicare, Third Party Payor and Managed Care plans coverage on the basis of contractual rates for services rendered. For uninsured self pay patients that do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates if negotiated or provided by the Center's policy. Charity care services are computed using a sliding fee scale based on patient income and family size. On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Center records a provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

Medicaid	$14,176,406
Medicare	2,846,950
Medicaid managed care	13,234,415
Other third party payors	2,201,660
Self pay	4,869,592
New York State uncompensated care	6,548,173
New York State Medicaid managed care wraparound	463,150
Total	$44,340,346

Based on the cost of patient services, charity care approximates $5.2 million and community benefit approximates $10.6 million.

Medicaid and Medicare revenue is reimbursed to the Center at the net reimbursement rates as determined by each program. Reimbursement rates are subject to revisions under the provisions of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred.

Note 11- Contract services and other grants:

For the year ended December 31, 2012, contract services and other grants revenues consist of the following:

	Operating Revenue	Non-operating Revenue	Total Revenue Recognized
NYS Department of Health:			
CAPP	$ 441,602		$ 441,602
CDC HIV Primary Care	632,370		62,370
Family Planning	552,235		552,235
HEAL XVII	225,895	$ 182,662	408,557
HEAL VI – Nonoperating		227,987	227,987
HEAL X – Operating and Nonoperating	177,735		177,735
Hepatitis C	227,820		227,820
Migrant Health	86,093		86,093
Migrant Discretionary	172,621		172,621
Preventive Dental	52,652		52,652
WIC Program	1,239,205		1,239,205
HIV Primary Care	240,238		240,238
HIV Supportive Services	154,464		154,464
County of Suffolk Department of Health Services	1,173,450		1,173,450
Primary Care Development Corporation: CHC Capital Program		483,426	483,426
Refuah Health Center, Inc.	375,000		375,000
Health Center Network of New York	248,163		248,163
Rural Health Network	239,296		239,296
Westchester County Department of Health:			
Ryan White Part A Preventive Medicine	376,513		376,513
Ryan White Part A Adherence	147,889		147,889
Westchester County Youth Bureau:			
Early Intervention	979,873		979,873
Dutchess County Department of Health:			
Ryan White Part A Medical Case Management	115,715		115,715
National Association of Community Health Centers:			
Americorps	147,402		147,402
Albany Medical College:			
Ryan White Title IV	45,739		45,739
Westchester Community Opportunity Program			
CHCANYS Migrant Stream Coordinator	87,101		87,101
Stony Brook University Capital Grant		72,745	72,745
Health Research Incorporated: New York State Diabetes Leadership	36,540		36,540
New York State Health Foundation	143,031		143,031
Other grants:			
Westchester Community Foundation	30,000		30,000
Yonkers Community Benefit Grant	150,000		150,000
Foundation for Community Health	36,750		36,750
Westchester Medical Center Residency	30,000		30,000
St. John's Riverside Hospital Community Benefit Grant	460,000		460,000
Other grants	66,364		66,364
Totals	$ 8,521,756	$ 966,820	$ 9,488,576

Note 12- Related party transaction:

The Center is affiliated with the Foundation through minority board membership. The Foundation's administration operates out of the Center's facility. As of December 31, 2012, the Foundation owed $4,487 to the Center, which is included in other receivables.

The Center and the Foundation are financially interrelated organizations. Accordingly, the Center records as an asset its interest in the net assets of the Foundation, exclusive of any assets over which the Foundation is granted variance power (See Note 8). As of December 31, 2012, there are no assets over which the Foundation has been granted variance power.

The Center is affiliated with Hudson Information Technology for Community Health, Inc. ("HITCH") through minority board membership. HITCH is a sub-recipient of the Children's Health Insurance Program ("CHIP") grant passed through the Center from DHHS. In 2012, $1,158,589 of CHIP grant was passed on by the Center to HITCH and as of December 31, 2012, the Center had a liability to HITCH in relation to the CHIP award amounting to $260,497, which is reflected in the consolidated statement of financial position as a reduction of the Center's contracts and other grants receivable. The Center also passed through to HITCH, $463,145 of a Cancer Service Program grant from NYSDOH for the year 2012. The Center has an employee leasing agreement with HITCH; in 2012, the Center reported a total of $723,450 in leased employee revenue which is reported as part of other revenue in the consolidated statement of activities and changes in net assets. Additionally, through HITCH, the Center is a subcontractor of the Taconic Health Information Network and Community, Inc., ("THINC") which was awarded a HEAL XVII contract from New York State. Under the subcontracting agreement, the Center has recognized $408,557 of contract revenue from HEAL XVII, as disclosed in Note 11. As of December 31, 2012, the Center has $1,067,459 outstanding receivable from HITCH for contracted services which is reported under other receivables in the consolidated statement of financial position.

Note 13- Pension plan:

The Center maintains a defined contribution pension plan covering substantially all full-time employees who meet certain eligibility requirements. The amount contributed to the plan is a fixed percentage of participants' compensation. Pension expense amounted to $1,584,002 for the year ended December 31, 2012.

Approximately 6% of the Center's employees participate in the 1199 SEIU Health Care Employees Pension Fund, with Employer Identification Number ("EIN") 133604862 plan number 001. The Center's contribution to the plan is based on a percentage of salary for each eligible employee. This percentage was 9.16% for the period January 2012 to September 2012 and 11.50% for the period October 2012 to December 2012. Contributions, which are based on varying rates for the hours worked by the employees, totaled $163,030 for the year ended December 31, 2012. The Center is only required to pay the aforementioned contribution for the duration of the collective bargaining agreement which will expire on April 30, 2015. The Center is not required to pay a surcharge to the plan in 2013.

Government regulations impose certain requirements relative to multi-employer plans. If the Center were to terminate its participation in the multi-employer plan and withdraw from such plan, it could result in the Center having an obligation to the plan for a portion of any unfunded benefit obligation. As of December 31, 2012, the plan's administrator reported that the plan was in the green Pension Protection zone status. Furthermore, as of the January 1, 2012 valuation date, the plan was 90.1% funded based on actuarially-determined plan asset values and 74.69% funded based on unaudited fair market value of the plan assets. The plan pension officer stated that the plan was neither in the endangered status nor in critical status in the 2012 plan year, and that the plan has not adopted a funding improvement plan or a rehabilitation plan as of December 31, 2012.

The Center does not anticipate withdrawal from the plan, nor is the Center aware of any expected plan termination.

Note 14- Commitments and contingencies:

The Center has contracted with various funding agencies to perform certain healthcare services and receives Medicaid and Medicare revenue from the state and Federal governments. Reimbursements received under these contracts and payments from Medicaid and Medicare are subject to audit by Federal and state governments and other agencies. Upon audit, if discrepancies are discovered, the Center could be held responsible for refunding the amount in question.

The Center leases space under noncancelable operating leases. Rent expense for the year ended December 31, 2012 amounted to $1,973,031. Facilities leased under noncancelable operating leases require future minimum payments as follows:

Year Ending December 31,	
2013	$1,090,798
2014	987,779
2015	748,369
2016	672,342
2017	500,768
Thereafter	1,159,783
Total	$5,159,839

The Center has executed a deferred compensation agreement with a key employee, which requires future annual contributions totaling approximately $43,000 per year. Investments in these accounts, including any gains or losses, remain subject to the creditors of the Center until they are distributed upon termination of employment as defined in the agreement. The investment consists of the cash surrender value of a life insurance policy.

In April, 2013, the U.S. Department of Health and Human Services Office of Inspector General ("OIG") issued a report summarizing their findings regarding the Center's use of Federal funds awarded under the ARRA and made recommendations to Health Resources Service Administration ("HRSA"), the grantor agency. The audit report included recommendations that the Center refund $280,558 to the Federal government ($260,586 related to the Capital Improvement Program ("CIP") grant and $19,972 related to the Increased Demand Services ("IDS") grant) and ensure that the Center follow its policies and procedures for determining the allowability of costs claimed to Federal grants.

The Center received a letter dated April 10, 2013 from HRSA stating that they reviewed OIG's report and recommendations. In the same letter, HRSA required the Center to provide a response and a corrective action plan detailing how the Center implemented the recommendations that were cited in relation to the findings by OIG.

On May 30, 2013, the Center submitted a letter with their response on amounts recommended for refund and detailing their corrective action plan to HRSA.

At this time, HRSA has not responded to the Center's letter and has not taken any steps to require the refund of ARRA dollars to the Federal government. It is the opinion of management and their legal counsel that it is too speculative to estimate an amount that will be required for refund by HRSA, if any. As such, management has not recorded a liability for this amount.

The Center maintains its medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). FTCA provides malpractice coverage to eligible PHS-supported programs and applies to the Center and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage. The Center maintains gap insurance for claims that are not covered by FTCA.

Hudson River HealthCare, Inc. and Subsidiaries

Consolidating Statement of Financial Position
December 31, 2012

Assets	Hudson River HealthCare, Inc.	Community Health Monticello, LLC	Solutions 4 Community Health, Inc.	Eliminations	Total
Current assets:					
Cash and cash equivalents	$ 11,415,538	$ 11,329	$ 306,665		$ 11,733,532
Patient services receivable, net	5,831,903				5,831,903
DHHS grants receivable	907,332				907,332
Contracts and other grants receivable	1,862,219				1,862,219
Due from affiliate	1,457,136			$ (1,457,136)	-
Other receivables	1,150,939		1,740,307		2,891,246
Prepaid expenses and other assets	427,211			(11,329)	415,882
Total current assets	23,052,278	11,329	2,046,972	(1,468,465)	23,642,114
Interest in net assets of Hudson River HealthCare	1,360,365				1,360,365
Investment in subsidiaries	68,806			(68,806)	-
Property and equipment, net	17,461,631	2,562,450	21,735		20,045,816
Security deposits and other	219,930	118,106			338,036
Deferred compensation	567,087				567,087
Totals	$ 42,730,097	$ 2,691,885	$ 2,068,707	$ (1,537,271)	$ 45,953,418
Liabilities and Net Assets					
Current liabilities:					
Accounts payable and accrued expenses	$ 5,419,511		$ 373,321	$ -	$ 5,792,832
Accrued compensation	2,672,877				2,672,877
Due to third-party payor	998,762				998,762
Due to affiliate			1,457,136	(1,457,136)	-
Current maturities of long-term debt	174,224				174,224
Current maturities of capital lease obligations	189,323				189,323
Refundable advances	234,595	$ 11,329		(11,329)	234,595
Total current liabilities	9,689,292	11,329	1,830,457	(1,468,465)	10,062,613
Long-term debt less current maturities	1,809,082	2,850,000			4,659,082
Capital lease obligations, less current maturities	351,738				351,738
Deferred compensation	567,087				567,087
Total liabilities	12,417,199	2,861,329	1,830,457	(1,468,465)	15,640,520
Net assets:					
Unrestricted	28,952,533				28,952,533
Temporarily restricted	1,360,365				1,360,365
Total net assets	30,312,898	-	-	-	30,312,898
Equity (deficiency):					
Member's deficiency		(169,444)		169,444	-
Common stock			10	(10)	-
Retained earnings			238,240	(238,240)	-
Total equity (deficiency)	-	(169,444)	238,250	(68,806)	-
Total net asset and equity (deficiency)	30,312,898	(169,444)	238,250	(68,806)	30,312,898
Totals	$ 42,730,097	$ 2,691,885	$ 2,068,707	$ (1,537,271)	$ 45,953,418

See Independent Auditor's Report.

Hudson River HealthCare, Inc. and Subsidiaries

Consolidated Statement of Activities and Changes in Net Assets
Year Ended December 31, 2012

	Hudson River HealthCare, Inc. Unrestricted	Hudson River HealthCare, Inc. Temporarily Restricted	Hudson River HealthCare, Inc. Total	Community Health Monticello, LLC	Solutions 4 Community Health, Inc.	Eliminations	Total Consolidated
Revenue:							
Patient services (net of contractual allowances and discounts)	$ 44,340,346		$ 44,340,346				$ 44,340,346
Provision for bad debt	(3,032,926)		(3,032,926)				(3,032,926)
Net patient services revenue net of provision for bad debt	41,307,420		41,307,420				41,307,420
DHHS grant revenue	11,370,574		11,370,574				11,370,574
Contract services and other grants	8,521,756		8,521,756				8,521,756
Meaningful use incentives	1,381,253		1,381,253				1,381,253
Management fees					$ 2,466,892		2,466,892
Other revenue	2,882,516		2,882,516	$ 143,143		$ (1,732,066)	1,293,593
Total revenue	65,463,519		65,463,519	143,143	2,466,892	(1,732,066)	66,341,488
Expenses:							
Salaries and related benefits	42,730,117		42,730,117				42,730,117
Other than personnel services	16,582,780		16,582,780	7,198	2,231,234	(1,716,181)	17,105,031
Interest	192,365		192,365	135,945			328,310
Total expenses	59,505,262		59,505,262	143,143	2,231,234	(1,716,181)	60,163,458
Increase in net assets prior to depreciation and amortization	5,958,257		5,958,257		235,658	(15,885)	6,178,030
Depreciation and amortization	2,981,906		2,981,906	98,336			3,080,242
Increase (decrease) in net assets prior to nonoperating activities	2,976,351		2,976,351	(98,336)	235,658	(15,885)	3,097,788
Nonoperating activities:							
DHHS grant revenue - capital projects	432,782		432,782				432,782
Contract services - capital projects	966,820		966,820				966,820
Change in interest in Hudson River HealthCare Foundation		$ 221,273	221,273				221,273
Total nonoperating revenue	1,399,602	221,273	1,620,875	-	-	-	1,620,875
Changes in net assets	4,375,953	221,273	4,597,226	(98,336)	235,658	(15,885)	4,718,663
Net assets (deficiency), beginning of year	24,576,580	1,139,092	25,715,672	(71,108)	2,592	(52,921)	25,594,235
Net assets (deficiency), end of year	$ 28,952,533	$ 1,360,365	$ 30,312,898	$ (169,444)	$ 238,250	$ (68,806)	$ 30,312,898

See Independent Auditor's Report.

Hudson River HealthCare, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Total Expenditures
U.S. Department of Health and Human Services:			
Direct Programs:			
Health Centers Cluster:			
Consolidated Health Centers	93.224	N/A	$ 8,507,309
Affordable Care Act Grants for New and Expanded Services under the Health Center Program	93.527	N/A	2,010,984
Passed through Refuah Health Center, Inc:			
Health Centers Cluster:			
Consolidated Health Centers	93.224	Not Avaible	193,174
Affordable Care Act Grants for New and Expanded Services under the Health Center Program	93.527	Not Avaible	181,826
Total Health Centers Cluster (93.224-$8,700,483/93.527-$2,192,810)			10,893,293
Direct Programs:			
ARRA - Grants to Health Center Programs:			
Capital Improvement Program	93.703	N/A	168,041
Passed through Heath Center Network of New York:			
ARRA - Grants to Health Center Programs	93.703	Not Avaible	248,163
Total ARRA - Grants to Health Center Programs			416,204
Direct Programs:			
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	N/A	264,741
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	974,711
Children's Health Insurance Program (CHIP)	93.767	N/A	1,330,343
Passed through New York State Department of Health:			
Maternal and Child Health Services Block Grant to the States	93.994	C-022998	26,733
	93.994	C-027025	55,224
	93.994	C-027522	52,652
			134,609
Preventive Health and Health Services Block Grant	93.991	C-026976	39,744
	93.991	C-022998	49,889
			89,633
Immunization Cluster: Immunization Grants	93.268	C-022998	9,471
Family Planning Services	93.217	C-027025	115,969
Medicaid Cluster: Medical Assistance Program (Medicaid)	93.778	C-026976	123,649
Passed through Albany Medical College:			
Coordinated Services and Access to Research for WIC	93.153	H12HA00089	45,739
Passed through Health Research Inc.:			
HIV Prevention Activities: Health Department-Based	93.940	4031-02	13,241
	93.940	4031-01	49,129
			62,370
HIV Care Formula Grants	93.917	3964-02	43,818
	93.917	3964-01	110,646
Passed through Dutchess County Department of Health:			
HIV Care Formula Grants	93.917	Not Available	115,715
			270,179
Passed through Weschester County Department of Health:			
HIV Emergency Relief Project Grants	93.914	HLTRW11-HRHC-85257	147,889
Passed through Community Healthcare Association of New York State:			
Technical and Nonfinancial Assistance to Health Centers and National Health Service Corps ("NHSC") Delivery Sites	93.129	Not Available	87,101
Total U.S. Department of Health and Human Services			14,965,901
U.S. Department of Agriculture:			
Passed through New York State Department of Health:			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	C-025753	4,045,850
Total U.S. Department of Agriculture			4,045,850
U.S. National Corporation for Service:			
Passed through National Association of Community Health Centers:			
AmeriCorps	94.006	95ADNC010	147,402
Total U.S. National Corporation for Service			147,402
Total Federal Awards			$ 19,159,153

See Notes to Schedule of Expenditures of Federal Awards.

Notes to Schedule of Expenditures of Federal Awards

Note 1 - General information:

The accompanying schedule of expenditures of Federal awards (the "Schedule") presents the activities in all Federal awards of Hudson River HealthCare, Inc. (the "Center"). All financial assistance received directly from the Federal agencies as well as financial assistance passed through other governmental agencies or nonprofit organizations is included on the Schedule.

Note 2 - Basis of accounting:

The accompanying Schedule is presented using the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. The amounts reported in the Schedule as expenditures may differ from certain financial reports submitted to Federal funding agencies due to those reports being submitted on either a cash or modified accrual basis of accounting.

Note 3 - Relationship to basic consolidated financial statements:

Federal expenditures are reported on the consolidated statement of functional expenses as program services. In certain programs, the expenditures reported in the basic consolidated financial statements may differ from the expenditures reported in the Schedule due to program expenditures exceeding grant or contract budget limitations or agency-matching or in-kind contributions which are not included in the consolidated statement of activities and changes in net assets.

Note 4 - Subrecipients:

The Center provided Federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Agency or Pass - Through Grantor's Number	Amount Provided to Subrecipient
Children’s Health Insurance Program (CHIP)	93.767	N/A	$1,158,189
Health Centers Cluster	93.224/93.527	N/A	294,584
Total			$1,452,773

Note 5 - Nonmonetary assistance:

Nonmonetary assistance is reported in the Schedule at the fair value of the WIC checks. The total Federal share of the food instruments distributed by the Center amounted to $3,005,537.

Independent Auditor's 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
Hudson River HealthCare, Inc.

We have audited, in accordance with the 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, the financial statements of Hudson River HealthCare, Inc. and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hudson River HealthCare, Inc. and Subsidiaries internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hudson River HealthCare, Inc.'s and Subsidiaries internal control. Accordingly, we do not express an opinion on the effectiveness of Hudson River HealthCare, Inc.'s internal control.

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 reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2012-1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hudson River HealthCare, Inc. and Subsidiaries' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and other 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 matter 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 2012-1.

Hudson River HealthCare, Inc. and Subsidiaries' Response to Finding

Hudson River HealthCare, Inc. and Subsidiaries response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Hudson River HealthCare, Inc. and Subsidiaries response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

New York, New York
August 20, 2013

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

To the Board of Directors
Hudson River HealthCare, Inc.

Report on Compliance for Each Major Federal Program

We have audited Hudson River HealthCare, 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 Hudson River HealthCare, Inc.'s major Federal programs for the year ended December 31, 2012. Hudson River HealthCare, Inc.'s major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hudson River HealthCare, Inc.'s major Federal programs based on our audit of the types of compliance requirements referred to above. 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 Hudson River HealthCare, 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 on compliance for each major Federal program. However, our audit does not provide a legal determination of Hudson River HealthCare, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Hudson River HealthCare, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, 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 2012-1. Our opinion on each major Federal program is not modified with respect to this matter.

Hudson River HealthCare, Inc.'s response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Hudson River HealthCare, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Hudson River HealthCare, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hudson River HealthCare, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program 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 Hudson River HealthCare, 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. 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs, as item 2012-1 that we consider to be a significant deficiency.

Hudson River HealthCare, Inc.'s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Hudson River HealthCare, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

CohnReznick LLP

New York, New York
August 20, 2013

Hudson River HealthCare, Inc. and Subsidiaries

Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

Section I - Summary of Auditor's Results:

Consolidated Financial Statements:

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	___ yes	✓ no
• Significant deficiency(ies) identified?	✓ yes	___ none reported
Noncompliance material to consolidated financial statements noted?	___ yes	✓ no

Federal Awards:

Internal control over major programs:

• Material weakness(es) identified?	___ yes	✓ no
• Significant deficiency(ies) identified?	✓ yes	___ none reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	✓ yes	___ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program
	United States Department of Health and Human Services:
	Consolidated Health Center Cluster:
93.224/93.527	Consolidated Health Centers and Affordable Care Act Grants for New and Expanded Services under the Health Center Program
93.703	ARRA – Grants to Health Center Programs: Capital Improvement Program
93.767	Children's Health Insurance Program

Dollar threshold used to distinguish between type A and B programs:	$574,775	
Auditee qualified as low-risk auditee?	✓ yes	___ no

Section II - Financial Statement Findings:

None

Section III - Federal Award Findings and Questioned Costs:

Item 2012-1 Compliance with Reporting Requirements: Children's Health Insurance Program (CFDA 93.767)

Criteria:
The Notice of Grant Award states that sub-award reporting under the Federal Funding Accountability and Transparency Act ("FFATA" or the "Transparency Act") is applicable to the Children's Health Insurance Program (CFDA 93.767).

Statement of Condition:
Hudson River HealthCare, Inc. did not comply in a timely fashion with the sub-award reporting requirement pursuant to FFATA.

Questioned Costs:
None.

Effect:
Hudson River HealthCare, Inc. did not comply with the sub-award reporting requirement under FFATA.

Cause:
Hudson River HealthCare, Inc. did not find a definite and clear indication from the award letter terms and conditions that any sub-award reporting requirement applies to the Children's Health Insurance Program.

Recommendation:
We recommend that management improve their process of reviewing all the relevant documents that support an award or a grant, such as the award letter terms and conditions, the notice of grant award and the applicable OMB A-133 Compliance Supplement and if there are matters that are not clear, management should seek guidance from the granting agency. This will facilitate management's determination of applicable compliance requirements in relation to awards or grants received.

Management Response:
Subsequent to year end, Hudson River HealthCare, Inc. became aware of the requirement and management immediately performed the necessary procedures in order to comply with the requirements.

Hudson River HealthCare, Inc. and Subsidiaries

Schedule of Prior Year's Findings
Year Ended December 31, 2012

There were no prior year findings