The Institute for Family Health and Affiliates

Consolidated Financial Statements and
OMB Circular A-133 Financial Report
Together With Independent Auditors' Report

December 31, 2012

The Institute for Family Health and Affiliates

Contents

O'CONNOR DAVIES

PKF

Independent Auditors' Report

Board of Directors
The Institute for Family Health and Affiliates

We have audited the accompanying consolidated financial statements of The Institute for Family Health and Affiliates (the "Institute"), 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 and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 Institute for Family Health and Affiliates as of December 31, 2012, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

O'CONNOR DAVIES, LLP
500 Mamaroneck Avenue, Suite 301, Harrison, NY 10528 I Tel: 914.381.8900 I Fax: 914.381.8910 I www.odpkf.com

Other Matters

Change in Presentation of the Provision for Bad Debts

As discussed in Note 2 to the accompanying consolidated financial statements, in 2012, the Institute adopted the provisions of new accounting guidance on the *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which resulted in a change to the presentation of provision for bad debts in the accompanying consolidated statement of activities and changes in net assets effective January 1, 2012. Our opinion is not modified with respect to this matter.

Report on Supplementary Schedules

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating schedule of financial position, consolidating schedule of activities and changes in net assets on pages 26 and 27 and the consolidated schedule of functional expenses on page 28 are presented for purposes of additional analysis and are 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.

Report on Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 schedule of expenditure of federal awards 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 May 24, 2013 on our consideration of the Institute'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* in considering the Institute's internal control over financial reporting and compliance.

O'Connor Davies, LLP

Harrison, New York
May 24, 2013

The Institute for Family Health and Affiliates

Consolidated Statement of Financial Position
December 31, 2012

ASSETS	
Current Assets	
Cash and cash equivalents	$ 4,966,471
Restricted cash	8,932,649
Patient services receivable, net of allowances of $5,968,000	14,515,983
Grants and contracts receivable	16,001,288
Receivable from NYCEDC	4,345,000
Deposit and other receivables	2,106,195
Prepaid expenses and other	1,140,817
Hospital service contracts receivable	262,500
Total Current Assets	52,270,903
Goodwill	2,998,806
Deferred financing costs, net	2,489,890
Assets limited as to use	892,258
Loan receivable	21,351,110
Property and equipment, net	38,045,711
Total Assets	$ 118,048,678
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable and accrued expenses	$ 11,942,606
Accrued compensation and benefits	1,821,338
Line of credit	2,976,887
Current portion of long-term debt	16,084,173
Refundable advances-state and other	1,471,000
Total Current Liabilities	34,296,004
Long-term debt, net of current portion	37,554,440
Total Liabilities	71,850,444
Net Assets	
Unrestricted net assets	44,799,927
Temporarily restricted net assets	1,398,307
Total Net Assets	46,198,234
Total Liabilities and Net Assets	$ 118,048,678

See notes to consolidated financial statements

The Institute for Family Health and Affiliates

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

OPERATING REVENUE	
Net patient service revenue	$ 59,113,989
Provision for bad debts	(4,629,470)
Patient services revenue, less provision for bad debts	54,484,519
Grants and contracts	21,572,582
Hospital service contracts	5,415,566
Net assets released from restrictions	1,762,230
Meaningful use incentives	1,100,000
Interest income	17,106
Other	1,829,888
Total Revenue	86,181,891
OPERATING EXPENSE	
Salaries and benefits	62,314,290
Other than personnel services	21,721,728
Interest expense	864,106
Total Expenses	84,900,124
Operating Income Prior to Depreciation and Amortization	1,281,767
Depreciation and amortization expense	991,057
Gain from operations	290,710
NON-OPERATING REVENUE	
Grants and contracts for construction projects	13,017,552
Contribution from NYCEDC	4,345,000
Change in Unrestricted Net Assets	17,653,262
TEMPORARILY RESTRICTED NET ASSETS	
Contributions	1,686,646
Net assets released from restrictions	(1,762,230)
Change in Temporarily Restricted Net Assets	(75,584)
Change in Net Assets	17,577,678
NET ASSETS	
Beginning of year	28,620,556
End of year	$ 46,198,234

See notes to consolidated financial statements

The Institute for Family Health and Affiliates

Consolidated Statement of Cash Flows
Year Ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 17,577,678
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation and amortization	868,718
Amortization of deferred financing costs	122,339
Provision for bad debts	4,629,470
Change in operating assets and liabilities	
Patient services receivable	(8,598,701)
Grants and contracts receivable	(8,499,789)
Hospital service contracts receivable	(87,500)
Deposit and other receivables	(3,214,638)
Prepaid expenses and other	(309,306)
Accounts payable and accrued expenses	1,975,952
Accrued compensation	668,450
Refundable advances state and other	305,586
Net Cash from Operating Activities	5,438,259
CASH FLOWS FROM INVESTING ACTIVITIES	
Loan receivable	(21,351,110)
Purchases of property and equipment	(19,736,499)
Restricted cash	(8,932,649)
Change in assets limited as to use	(112,522)
Net Cash from Investing Activities	(50,132,780)
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal repayments on long-term debt	(6,895,073)
Proceeds from new long-term debt	50,811,005
Proceeds from line of credit	2,976,887
Deferred financing costs	(2,074,244)
Net Cash from Financing Activities	44,818,575
Change in Cash and Cash Equivalents	124,054
CASH AND CASH EQUIVALENTS	
Beginning of year	4,842,417
End of year	$ 4,966,471
SUPPLEMENTAL CASH FLOW INFORMATION	
Cash paid for interest	$ 864,106
Cash paid for capitalized interest	170,000
Property and equipment additions included in accounts payable and accrued expenses paid with restricted cash in 2013	3,383,365

See notes to consolidated financial statements

1. Organization

The Institute for Family Health (the "Center") is a New York not-for-profit corporation that provides medical, mental health, dental and other healthcare related services through the development and operation of family practice centers located in Manhattan, Bronx, Dutchess and Ulster counties in New York and provides medical training in New York City and Kingston, New York and other health research programs. The consolidated financial statements include the following entities:

- The Mid-Hudson Family Health Institute Foundation d/b/a Institute for Family Health Foundation, Inc. (the "Mid-Hudson Foundation"), is a New York not-for-profit corporation incorporated for the purpose of advancing the objectives of the Center by developing financial support from sources not otherwise available.

- The IFH Foundation is a New York not-for-profit corporation that was incorporated to help facilitate the Center in receiving funds as part of a financing using the New Markets Tax Credit as the qualified active low-income community business (note 10).

- IFH Properties, LLC ("IFH Properties") is a limited liability company that was formed in Delaware in February 2012 as a single member limited liability company. IFH Properties was created to build and own the Family Health Center of Harlem using funds from the New Markets Tax Credit as the qualified active low-income community business borrower (note 10). IFH Foundation is the sole member of IFH Properties.

- Family Health ACO LLC was established during 2012 to facilitate patient-centered health service delivery for Medicare fee-for-service beneficiaries residing in medically underserved communities in New York State. Family Health ACO LLC was inactive in 2012.

The accompanying consolidated financial statements include the accounts of the Center, Mid-Hudson Foundation, IFH Foundation, IFH Properties, and Family Health ACO LLC (collectively, the "Institute"). All intercompany transactions and account balances have been eliminated.

Tax Exempt Status

The Center, Mid-Hudson Foundation, and the IFH Foundation were incorporated as not-for-profit corporations under the laws of the State of New York and are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, there is no provision for income taxes.

IFH Properties and Family Health ACO LLC are single member limited liability companies which were formed under the laws of the State of Delaware and are effectively exempt from income taxes because they are disregarded as entities separate from their sole members, which are themselves exempt under Section 501(c)(3) of the Internal Revenue Code.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Institute's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). Resources are classified for accounting and reporting purposes into net asset classes according to donor imposed restrictions. Unrestricted net assets are those whose use is not subject to any donor imposed restrictions. Temporarily restricted net assets are those resulting from contributions and other inflows of assets whose use by the Institute is limited by donor imposed stipulations that will be met either by passage of time or that can be fulfilled and removed by actions of the Institute pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Permanently restricted net assets are donor restricted gifts that must be maintained permanently by the Institute to provide present and future income for operations. At December 31, 2012, there were no permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Contributions

All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to other restrictions. The Institute's policy is to report as unrestricted support, contributions with donor imposed restrictions when these restrictions are met in the same year the contributions are received.

Fair Value of Financial Instruments

The Institute follows US GAAP guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

2. Summary of Significant Accounting Policies *(continued)*

Cash and Cash Equivalents

Cash and cash equivalents include certain investments with maturity dates of three months or less at the time of purchase. The Institute maintains its cash in bank deposit accounts which, at times, may exceed Federally insured limits. The Institute has not experienced any losses in such accounts. Cash and cash equivalents do not include cash and investments whose use is limited.

Restricted Cash

Restricted cash consists of cash received as part of the New Markets Tax Credit financing that will be used to pay accrued liabilities associated with property and equipment additions as well as interest and other fees in 2013. The bank account is controlled by TD Bank (note 10).

Patient Services Receivable and Concentration of Credit Risk

The collection of receivables from third-party payors and patients is the Institute's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient services receivable are reported at their outstanding unpaid principal balances reduced by an allowance for doubtful accounts. The Institute estimates doubtful accounts based on historical bad debts, factors related to specific payors' ability to pay and current economic trends. The Institute writes off accounts receivable against the allowance when a balance is determined to be uncollectible.

Property and Equipment

Property and equipment is carried at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, ranging from 5 to 40 years. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful life of the improvement or the term of the lease.

Construction-in-progress is recorded at cost. The Institute capitalizes construction, insurance and other costs during the period of construction. Depreciation 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 lien by the Federal government. As long as the Institute maintains its tax-exempt status, or so long as the equipment is used for its intended purpose, the Institute is not required to reimburse the Federal government. If the stated requirements are not met, the Institute would be obligated to the Federal government in an amount equal to the fair value of the property and equipment.

2. Summary of Significant Accounting Policies *(continued)*

Impairment of Long-lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Institute records impairment losses on long-lived assets used in operations when the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. The Institute does not believe that any material impairment currently exists related to its long-lived assets.

Asset Retirement Obligations

The Institute accounts for Asset Retirement Obligations ("ARO") in accordance with US GAAP, which defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation, does not defer recognition of a liability. The fair value of the ARO is recorded on a discounted basis and accreted over time for the change in fair value. Management has determined that there are no ARO liabilities that are required to be reported at December 31, 2012.

Deferred Financing Costs

Deferred financing costs are amortized over the life of the debt. Amortization expense was $122,339 for the year ended December 31, 2012.

Goodwill

The Institute adopted new Financial Accounting Standards Board ("FASB") guidance on goodwill impairment testing which allows an entity to first assess qualitative factors to determine whether it is more likely than not that goodwill may be impaired. Under this guidance, qualitative factors are assessed at least annually, or more frequently, if events or changes in circumstances indicate that the carrying value of the reporting unit is less than its carrying amount. If the Institute's qualitative assessment indicates that goodwill may be impaired the Institute will estimate the fair value of the reporting unit based on one or more of the following valuation techniques; i. income; ii. discounted cash flows, or; iii. market approach. If such fair value estimate is less than the carrying value of goodwill, an impairment loss is recognized. The Institute concluded that goodwill was not impaired during the year.

2. Summary of Significant Accounting Policies *(continued)*

Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Self-pay revenue is recorded at published charges with charitable care deducted to arrive at gross self-pay patient revenue, less contractual allowances to arrive at net self-pay revenue. All other patient service revenue is recorded at published charges with contractual allowances deducted to arrive at net patient service revenue.

Grants and Contracts

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

In-Kind Contributions

Donated vaccines are recognized in the accompanying consolidated financial statements at fair value.

Meaningful Use Incentives

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish a one-time incentive payment 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 health care 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 four years and will be paid out based on a transitional schedule.

Assets Limited as to Use

Assets limited as to use are recorded at fair value and include assets held under loan agreements with Primary Care Development Corporation, Ulster County and TD Bank for debt service funds and interest reserve funds. Assets limited to use are held in cash and cash equivalents and are reported as long-term in the accompanying consolidated statement of financial position as their use is anticipated to occur after one year. At December 31, 2012, funds held with Primary Care Development Corporation, Ulster County and TD Bank were $701,700, $158,036 and $32,522. Total assets limited as to use at December 31, 2012 were $892,258.

2. Summary of Significant Accounting Policies *(continued)*

Professional and Similar Liabilities

The Institute presents insurance claim liabilities and related recoveries on a gross basis. Any estimated insurance recovery is reflected as a receivable on the same basis as the liabilities, subject to the need for a valuation allowance for uncollectible accounts.

Self Insured Health Insurance

The Institute is self insured for health insurance for non-union employees. The Institute records a liability for medical claims that have been incurred but not paid for employees covered by the self insured plan. The Institute has recorded a liability for claims incurred but not paid of approximately $400,000, which is recorded in accounts payable and accrued expenses in the accompanying consolidated statement of financial position.

Functional Expenses

Expenses are charged to program services, general and administrative or fundraising/development based on a combination of specific identification and allocation by management.

Operating Indicator

The consolidated statement of activities and changes in net assets include the caption gain from operations as the operating indicator. Changes in unrestricted net assets which are excluded from gain from operations, consistent with industry practice, include grants and contracts for construction projects. Peripheral or incidental transactions are reported as non-operating revenue and expenses.

Accounting for Uncertainty in Income Taxes

The Institute recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Institute had no uncertain tax positions that would require financial statement recognition or disclosure. The Institute is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to December 31, 2009.

Change in Accounting Principle

In July 2011, FASB issued Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful accounts for Certain Health Care Entities* (the “ASU"). In accordance with the ASU, the Institute changed the presentation of its consolidated statement of activities by reclassifying the provision for bad debts associated with patient service revenue from operating expense to a deduction from patient service revenue, similar to contractual allowances and discounts. Additionally, the Institute has provided enhanced disclosures about its policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The Institute adopted the ASU as of January 1, 2012, which has no effect on the previously reported excess of revenue over expenses or on net assets.

2. Summary of Significant Accounting Policies *(continued)*

Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through May 24, 2013, which is the date the consolidated financial statements were available to be issued.

3. Patient Services Receivable and Revenue

The Institute recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual and formula-driven rates for the services rendered. Patient service revenue for the year ended December 31, 2012, net of contractual allowances and discounts (but before the provision for bad debts), recognized from these major payor sources based on primary insurance designation, is as follows:

	Third-Party	Self-Pay	Total All Payors
Net patient service revenue	$54,888,989	$4,225,000	$59,113,989

Deductibles and copayments under third-party payment programs within the third-party payor amount above are the patient's responsibility and the Institute considers these amounts in its determination of the provision for bad debts based on collection experience. Accounts receivable is also reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Institute 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.

The Institute's allowance for doubtful accounts totaled approximately $6.0 million at December 31, 2012. The allowance for doubtful accounts for self-pay patients was approximately 90% of self-pay accounts receivable as of December 31, 2012. Overall, the total of self-pay discounts and write-offs did not change significantly in 2012. The Institute did not experience significant changes in write-off trends and did not change its charity care policy in 2012.

3. Patient Services Receivable and Revenue *(continued)*

Patient services receivable, net, consists of the following at December 31, 2012:

Medicaid	$ 2,629,642
Medicaid managed care	2,694,867
Medicare	2,457,270
Private insurance	3,277,161
Self-pay	6,614,075
Pharmacy	6,731
	17,679,746
Less allowance for doubtful accounts	(5,967,891)
Subtotal	11,711,855
NYS Uncompensated Care	1,351,625
NYS Medicaid Managed Care Wraparound	1,452,503
Total	$ 14,515,983

For the year ended December 31, 2012, the mix of patient services revenue, net is as follows:

Medicaid	30.35%
Medicaid managed care	35.37%
Medicare	13.01%
Private insurance	14.12%
Self-pay	7.15%
Total	100.00%

Based on the cost of patient services, charity care approximates $3,035,000 and community benefit approximates $3,530,000.

4. Loan Receivable

In connection with the New Markets Tax Credit transaction (note 10), on March 2, 2012, the Center loaned 481 IFH Investment Fund, LLC, an unrelated entity, $21,351,110. The loan is secured by a first lien on the membership interest of PCDC Empire State Health Opportunities Fund III, LLC and CHHS Subsidiary CDE 5, LLC (collectively the “Sub Community Development Entities”). The loan is comprised of a Senior Note in the amount of $2,151,110, a Junior Note A in the amount of $15,000,000 and a Junior Note B in the amount of $4,200,000. The notes are interest only until 2019 and carry an interest accrual rate of 2.15%, payable at the rate of .53% through June 30, 2019. The Senior Note in the amount of $2,151,110 is due June 30, 2019 and the remaining notes are due on March 31, 2042.

4. Loan Receivable *(continued)*

Cross Collateralization

As part of the loan agreement related to the New Markets Tax Credit, collateral for the Center's loan receivable to 481 IFH Investment Fund, LLC and IFH Properties loan payable to the Sub Community Development Entities (note 10) are essentially the same net asset (the Family Health Center of Harlem). The Center's loan to 481 IFH Investment Fund, LLC is collateralized by the assets of the Sub Community Development Entities. The Sub Community Development Entities' assets have been distributed by the Sub Community Development Entities to IFH Properties to purchase and build the Family Health Center of Harlem. Accordingly, the assets of the IFH Properties, a consolidated entity, serve as collateral for the loan receivable to 481 IFH Investment Fund, LLC. The consolidated financial statements do not include any adjustments that might result from a default by 481 IFH Investment Fund, LLC on the loan receivable.

5. Deposit and Other Receivables

Deposit and other receivables consist of the following as of December 31, 2012:

Meaningful Use Incentive Funding	$ 1,100,000
Due from CMS - CCTP program	388,448
Other	617,747
Total	$ 2,106,195

6. Deferred Financing Costs, Net

Deferred financing costs arose when the Institute refinanced a mortgage and as part of the debt agreements related to the New Markets Tax Credit (note 10). Amortization is recorded over the term of the debt. Deferred costs and accumulated amortization at December 31, 2012 are summarized as follows:

Deferred bond issuance costs	$ 2,825,368
Accumulated amortization	(335,478)
Total	$ 2,489,890

7. Property and Equipment, Net

Property and equipment, net consists of the following at December 31, 2012:

Land	$ 484,448
Building and building improvements	34,760,199
Leasehold improvements	4,450,723
Furniture and fixtures	12,775,350
	52,470,720
Less accumulated depreciation and amortization	(15,090,520)
	37,380,200
Construction-in-progress	665,511
	$ 38,045,711

7. Property and Equipment, Net *(continued)*

Depreciation and amortization expense for the year ended December 31, 2012 was $868,718.

Interest that was capitalized during the period of construction for the Family Center of Harlem (note 10) in 2012 was approximately $170,000.

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

8. Line of Credit

The Institute has a line of credit agreement with a bank in the amount of $5,000,000 which is secured by certain assets of the Institute. Interest is charged at 4.25% per annum and the line of credit expires on September 30, 2013. As of December 31, 2012, the outstanding balance on the line of credit was $2,976,887. The Institute is required to comply with certain covenants under the line of credit agreement.

9. Receivable from the New York City Economic Development Corporation

In February 2012, the Institute entered into an agreement with the New York City Economic Development Corporation ("NYCEDC"). Under the terms of the agreement, if the Center vacates the premises located at 1879 Madison Avenue (the "Property"), the Center will receive an early lease termination payment of $4,345,000. The Center satisfied the condition of vacating the Property on December 17, 2012. Accordingly, the Institute recorded a receivable from NYCEDC and a contribution from NYCEDC for $4,345,000 in the accompanying consolidated financial statements.

On February 26, 2013, the Institute was paid $4,345,000 for vacating the Property in accordance with the terms of the agreement. The proceeds from the note and loan agreement were paid to TD Bank to satisfy the IFH Loan Junior Bridge Note B (note 10).

10. Long-term Debt

At December 31, 2012, long-term debt consists of the following:

Debt associated with the New Markets Tax Credit:	
TD Bank	
(a) IFH Loan Junior Bridge Note A	$ 11,234,995
(b) IFH Loan Junior Bridge Note B	4,345,000
(c) IFH Loan Senior Note	2,151,110
Sub Community Development Entities	
(d) PCDC Empire State Health Opportunities Fund III LLC Loan (Senior Loan)	2,151,110
(e) PCDC Empire State Health Opportunities Fund III LLC Loan (Junior Loan)	17,238,786
(f) CHHS Subsidiary CDE5, LLC Loan (Junior Loan)	9,725,000
Other debt:	
(g) Ulster County Industrial Development Agency Bond	2,415,732
(h) Primary Care Development Corporation	4,376,880
	$ 53,638,613

New Markets Tax Credit

On March 2, 2012, the Institute and IFH Properties entered into various debt agreements facilitated by the New Markets Tax Credit to fund the opening of the Family Health Center of Harlem, a 37,000 square foot health care facility located at 1824 Madison Avenue at 119th Street.

Items (a) through (f) relate to the debt agreements entered into by the Center and IFH Properties as a result of the New Markets Tax Credit.

Loans between the Center and TD Bank under the IFH Loan and Security Agreement

a) The Center entered into a bridge loan agreement with TD Bank for $15,200,000. The bridge loan was made to the Institute for funds that will be received from the New York State Department of Health by the Center for the HEAL NY Phase 19 Grant ("HEAL Grant"). The loan has an interest rate of 2.15% and was due on March 1, 2013. The loan was subsequently extended to May 31, 2013. Principal payments were made by the Center through December 31, 2012 of $3,965,005, leaving a remaining balance at December 31, 2012 of $11,234,995. The remainder of the loan was repaid to TD Bank on March 28, 2013 predominantly through the proceeds received from the Heal Grant.

10. Long-term Debt *(continued)*

Loans between the Center and TD Bank under the IFH Loan and Security Agreement (continued)

b) The Center entered into a bridge loan agreement with TD Bank for $4,345,000. The bridge loan was made to the Institute for funds that will be received related to a loan from the New York City Economic Development Corporation (note 9). The loan has an interest rate of 2.15% and was due on March 1, 2013. The loan was subsequently extended to May 31, 2013. The loan was repaid to TD Bank on February 26, 2013 through the proceeds received from a loan from the New York City Economic Development Corporation.

c) The Center entered into a loan agreement with TD Bank for $2,151,110. The loan is interest only until June 30, 2019 at an interest rate of 4.00%. The entire principal balance is due on June 30, 2019.

Loans in (a) through (c) above are collateralized by the Heal Grant, the New York City Economic Development Corporation loan proceeds, $4 million under a supplemental pledge agreement and other rights under Section 3.1 of the IFH Loan and Security Agreement. The proceeds of funds received from (a) through (c) were loaned to 481 IFH Investment Fund, LLC, an entity unrelated to the Institute (note 4).

As part of the TD Bank financing, the Center was required to establish a bridge loan interest reserve for IFH Loan Junior Bridge Note A and IFH Loan Junior Bridge Note B with TD Bank of $100,000 and $200,000, respectively.

In connection with loans (a) through (c), the Center is required to meet debt covenants related to reporting as well as financial covenants. The Center was not in compliance with certain financial covenants and has obtained a waiver dated May 8, 2013 for these financial covenant violations that waives their covenant violations through January 1, 2014.

Loans between IFH Properties and the Sub Community Development Entities under Senior and Junior Loan Agreements

The following loans were obtained by IFH Properties as the qualified low-income community business borrower from the Sub Community Development Entities to purchase and build the Family Health Center of Harlem:

d) IFH Properties entered into a loan agreement on March 2, 2012 with PCDC Empire State Health Opportunities Fund III LLC Loan. The loan is interest only until June 30, 2019 at an interest rate of 1.01%. The entire principal balance is due on June 30, 2019.

e) IFH Properties entered into a second loan agreement on March 2, 2012 with PCDC Empire State Health Opportunities Fund III LLC Loan. The loan is interest only until June 30, 2019. The loan has an interest rate of 1.01% and is due on March 31, 2042.

10. Long-term Debt *(continued)*

Loans between IFH Properties and the Sub Community Development Entities under Senior and Junior Loan Agreements (continued)

f) IFH Properties entered into a loan agreement on March 2, 2012 with CHHS Subsidiary CDE5, LLC Loan. The loan is interest only until June 30, 2019. The loan has an interest rate of 1.01% and is due on March 31, 2042.

PCDC Empire State Health Opportunities Fund III LLC is managed by Primary Care Development Corporation (a Community Development Entity). CHHS Subsidiary CDE5, LLC Loan is managed by Community Hospitality Health Care Services (a Community Developmental Entity).

Loans (d) through (f) are collateralized by the land and property of the Family Health Center of Harlem. Loans (e) and (f) are both subordinate to loan (d). In connection with loans (d) through (f), IFH Properties LLC is required to meet certain debt reporting covenants.

On March 2, 2012, IFH Properties purchased the property and building used for the Family Health Center of Harlem from the Center at cost for $3,774,016 and paid the Center development fees of $158,000.

Other Debt

Ulster County Bond

g) The Institute entered into a mortgage with the Ulster County Industrial Development Agency Bond, with a $4,250,000 face amount, due July 1, 2023. The mortgage is payable in monthly installments of $25,484 with interest at 5.35% per annum. This mortgage is secured by certain real property.

Primary Care Development Corporation

h) The Center entered into the following loans with Primary Care Development Corporation ("PCDC"):

1) Secured loan to finance the purchase of certain assets with an original face amount of $3,420,000. The maturity date of the loan is September 1, 2022, with principal and interest payable in monthly installments of $30,549 at the stated interest rate of 6.90%. The loan is secured by a mortgage on certain properties of the Institute.

2) Secured loan to finance the purchase of certain assets with an original face amount of $2,380,000. The maturity date of the loan is September 1, 2022, with principal and interest payable in monthly installments of $21,259 at the stated interest rate of 6.90%. The loan is secured by a mortgage on certain properties of the Institute.

The Center is required to comply with certain covenants under its PCDC secured loans. The Center was not in compliance with certain financial covenants and has obtained a waiver dated May 9, 2013 that waives their covenant violations through January 1, 2014.

10. Long-term Debt *(continued)*

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

2013	$ 16,084,173
2014	565,243
2015	572,621
2016	610,777
2017	651,499
Thereafter	35,154,300
Total	$ 53,638,613

The fair value of the Institute's debt approximates the carrying value.

11. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2012 consist of contributions received from the following organizations for specific programs and activities.

	Balance 12/31/2011	2012 Additions	Release from Restrictions	Balance 12/31/2012
Altman Foundation - Institute Link	$ 17,701	$ 50,000	$ (49,687)	$ 18,014
Ira Da Camp Foundation - Dental Supplies	200,000	-	(200,000)	-
Mary Helen Rowan - Capital Project	125,000	-	-	125,000
Robin Hood Foundation - Diabetes and Free Clinic Programs	1,041,075	1,325,000	(1,369,477)	996,598
New York Commnunity Trust - Research on Electronic Medical Records	90,115	-	(90,115)	-
NYS Health Foundation	-	301,646	(48,976)	252,670
Cigna	-	10,000	(3,975)	6,025
	$ 1,473,891	$ 1,686,646	$ (1,762,230)	$ 1,398,307

12. Grants and Contracts Revenue

Grants and contracts revenue consists of the following as of December 31, 2012:

U.S. Department of Health and Human Services (DHHS):		
Health Resources and Services Administration:		
Consolidated Health Centers Program	$	4,233,701
ARRA - Health Information Technology Implementation		270,222
ARRA - Diabetes		65,426
Ryan White Title III: Early Intervention Services		528,011
Affordable Care Act Teaching Health Center Graduate Medical Education		1,423,865
National Institute of Health (NIH):		
National Center on Minority Health and Disparities		505,299
EXPORT Stroke		10,902
EXPORT Community Core		3,686
Center for Disease Control and Prevention (CDC):		
Racial and Ethnic Approach to Community Health		754,336
Agency for Healthcare Research and Quality		10,414
HITCH: CHIPRA Outreach and Enrollment Grants		191,621
HITCH: Cancer Services Program		57,795
National Library of Medicine		68,524
Care for the Homeless		860,930
NYC Department of Health and Mental Hygiene:		
Care Coordination Protocol for HIV Infected Persons		531,391
Immunization Grants		501,094
NYS Offices for Children and Family Services:		
Ulster County Healthy Start		914,091
Dutchess County Healthy Families		817,051
NYS Department of Health (NYSDOH):		
Heal 10		125,722
Heal 17		276,048
Community Health Workers		182,567
School Based Health		157,431
Health Workforce Retraining Initiative		280,212
School Wellness Policies		119,832
Oral Health Grant		50,415
Women, Infants and Children		821,849
NYS Department of Health Aids Institute:		
Ryan White Part B - BCSS Mental Health		248,327
CDC		109,456
Rebate		347,301
Expanded Testing		1,476

12. Grants and Contracts Revenue *(continued)*

Community Based Care Transition Program	$	85,205
Fund for Public Health - Community Transformation Grant		128,810
NYC Department of Social Services of the Human Resource Administration:		
Federal Employment and Guidance Services		2,893,575
Collaborations for Health Improvement in East Harlem - Project HEED		40,422
Dutchess County Department of Health - Ryan White HIV		74,301
Rural Health Network		224,741
NYS Office of Mental Health		157,032
Catskill Hudson AHEC		81,250
NYS Health Foundation - Diabetes Campaign		19,500
Single Stop USA		267,612
March of Dimes Foundation		184,826
Kingston Hospital		674,854
Kingston City District		23,670
St. Luke's Roosevelt		650,000
Ellenville School		39,000
New Paltz School		20,400
Johnson & Johnson		87,539
NY College of Osteopathic Medicine		59,900
Mt. Sinai Hospital Community Benefit Grant		393,750
NYS Developmental Disabilities Planning Council		34,591
National Association of Community Health Centers - Community Health		194,613
Ulster Greene ARC		70,000
Wellcare		205,586
Other		492,412
Total Operating	$	21,572,582
Non-Operating:		
US Department of Health and Human Services (DHHS):		
Health Resources and Services Administration:		
ARRA - Capital Improvement Grant	$	176,022
ACA SBHC PS 57		32,116
IFI Capital Development Grant		4,158
New York State Department of Health (NYSDOH):		
HEAL 6 - Walton Expansion		1,446,475
HEAL 19 - North General Capital		10,432,602
City Counsel of Harlem		926,179
Total Non-operating	$	13,017,552
Total	$	34,590,134

13. Pension Plan

Profit Sharing Plan

The Institute maintains a noncontributory profit-sharing plan which covers all employees meeting certain eligibility requirements. Contributions to the plan are based on a percent of salaries. The Board of Directors voted to make a contribution to the profit-sharing plan for the year ended December 31, 2012 in the amount of $500,000 which is recorded as part of accounts payable and accrued expenses.

Multi Employer Union Pension Plan

The Institute contributes to the Local 1199 multiemployer defined benefit pension (the "Plan"). The risks of participating in the multiemployer plan are different from a single-employer plan in the following aspects:

a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c. If an employer chooses to stop participating in some of its multiemployer plans, the employer may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Institute's participation in the Plan for the year ended December 31, 2012 is outlined in the table below. The "EIN Number" column provides the Employer Identification Number ("EIN"). The most recent Pension Protection Act ("PPA") zone status available in 2012 is for the Plan's year-end at December 31, 2012. The zone status is based on information that the Institute received from the Plan and is certified by the actuaries of the Plan. Among other factors, pension plans in the red zone are generally less than 65% funded, pension plans in the yellow zone are less than 80% funded, and pension plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates pension plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is pending or has been implemented. The last column lists the expiration dates of the collective bargaining agreement to which the Plan is subject.

Pension Fund	EIN Number	Plan Number	Pension Protection Act Zone Status 2012	FIP/RP Status Pending/ Implemented	Contributions by the Organization 2012	Expiration Date of Collective Bargaining Agreement
1199 Plan	13-3604862	1	Green as of 2012	Yes	$ 191,000	2015

Form 5500 is not yet available for the Plan year ended in 2012

14. Commitments and Contingencies

Reimbursement

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

Medicaid and Medicare revenue is reimbursed to the Institute 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.

Health Care Revenue and Regulatory Compliance

The health care industry is subject to numerous laws and regulations imposed by Federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. In addition, certain cost reports, which serve as the basis for final settlement with the Medicare program, remain open for audit and settlement, as are New York State Medicaid cost reports for prior years.

Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Furthermore, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. Accordingly, there is at least a reasonable possibility that recorded estimates for health care revenue will change in the near term and the change could be material to the Institute's financial condition, results of operations and cash flows.

The Institute is not aware of any allegations of noncompliance that could have a material adverse effect on the amounts recorded in the consolidated financial statements. In addition, management believes that the Institute has an effective compliance program in place to assist in complying with current laws and regulations and is in compliance, in all material respects, with applicable laws and regulations.

14. Commitments and Contingencies *(continued)*

Malpractice

The Institute maintains its medical malpractice coverage under the Federal Tort Claims Act ("FTCA") for its Community Health Center program activities. FTCA provides malpractice coverage to eligible PHS-supported programs and applies to the Institute 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 Institute maintains gap insurance for claims that are not covered by FTCA.

Lease from Related Party

The Institute leases office space from Family Life Ventures and is charged a pro rata percentage of the building's operating costs. For the year ended December 31, 2012, the Institute incurred $1,054,197 in rental costs. Two members of management and one former employee of the Institute are owners of Family Life Ventures. Management believes that rent paid to Family Life Ventures is at comparable market rates. There are no other transactions between the Institute and Family Life Ventures.

Lease between the Center and Properties of the Family Health Center of Harlem

On March 2, 2012, IFH Properties entered into an agreement to lease the Family Health Center of Harlem to the Center. The term of the lease is 30 years and payments of rent by the Center to IFH Properties begins in January 2013.

Operating lease

Occupancy expense for the year ended December 31, 2012 amounted to $4,041,688, which includes rent paid to Family Life Ventures. All facilities are operated under non-cancelable operating leases requiring future minimum payments as follows:

2013	$ 3,455,961
2014	3,512,748
2015	3,317,939
2016	3,372,730
2017	3,132,319
Thereafter	30,152,685
Total	$ 46,944,382

* * * * *

The Institute for Family Health and Affiliates

Supplemental Information

December 31, 2012

The Institute for Family Health and Affiliates

Consolidating Schedule of Financial Position
December 31, 2012

	The Institute for Family Health	IFH Properties	IFH Foundation	Mid Hudson Foundation	The Institute for Family Health- ACO	Elimination	Consolidated Total
ASSETS							
Current Assets							
Cash and cash equivalents	$ 4,948,947	$ 4,583	$ -	$ 12,441	$ 500	$ -	$ 4,966,471
Restricted cash	-	8,932,649	-	-	-	-	8,932,649
Patient services receivable, net of allowances of $5,968,000	14,515,983	-	-	-	-	-	14,515,983
Grants and contracts receivable	16,001,288	-	-	-	-	-	16,001,288
Receivable from NYCEDC	4,345,000	-	-	-	-	-	4,345,000
Deposit and other receivables	2,110,614	-	-	-	-	(4,419)	2,106,195
Prepaid expenses and other	1,140,817	-	-	80,065	-	(80,065)	1,140,817
Hospital service contracts receivable	262,500	-	-	-	-	-	262,500
Total Current Assets	43,325,149	8,937,232	-	92,506	500	(84,484)	52,270,903
Goodwill	2,998,806	-	-	-	-	-	2,998,806
Deferred financing costs, net	610,689	1,879,201	-	-	-	-	2,489,890
Assets limited as to use	812,258	80,000	-	-	-	-	892,258
Loan receivable	21,351,110	-	-	-	-	-	21,351,110
Property and equipment, net	16,215,496	21,830,215	-	-	-	-	38,045,711
Total Assets	$ 85,313,508	$ 32,726,648	$ -	$ 92,506	$ 500	$ (84,484)	$ 118,048,678
LIABILITIES AND NET ASSETS							
Current Liabilities							
Accounts payable and accrued expenses	$ 8,589,306	$ 3,387,284	$ -	$ 50,000	$ 500	$ (84,484)	$ 11,942,606
Accrued compensation and benefits	1,821,338	-	-	-	-	-	1,821,338
Line of credit	2,976,887	-	-	-	-	-	2,976,887
Current portion of long-term debt	16,084,173	-	-	-	-	-	16,084,173
Refundable advances-state and other	1,471,000	-	-	-	-	-	1,471,000
Total Current Liabilities	30,942,704	3,387,284	-	50,000	500	(84,484)	34,296,004
Long-term debt, less current portion	8,439,544	29,114,896	-	-	-	-	37,554,440
Total Liabilities	39,382,248	32,502,180	-	50,000	500	(84,484)	71,850,444
Net Assets							
Unrestricted net assets	44,532,953	224,468	-	42,506	-	-	44,799,927
Temporarily restricted net assets	1,398,307	-	-	-	-	-	1,398,307
Total Net Assets	45,931,260	224,468	-	42,506	-	-	46,198,234
Total Liabilities and Net Assets	$ 85,313,508	$ 32,726,648	$ -	$ 92,506	$ 500	$ (84,484)	$ 118,048,678

See independent auditors' report

The Institute for Family Health and Affiliates

Consolidating Schedule of Activities and Changes in Net Assets
December 31, 2012

	The Institute for Family Health	IFH Properties	IFH Foundation	Mid Hudson Foundation	The Institute for Family Health- ACO	Elimination	Consolidated Total
OPERATING REVENUE							
Net patient services revenue	$ 59,113,989	$ -	$ -	$ -	$ -	$ -	$ 59,113,989
Provision for bad debts	(4,629,470)	-	-	-	-	-	(4,629,470)
Patient services revenue, less provision for bad debts	54,484,519	-	-	-	-	-	54,484,519
Grants and contracts	21,572,582	-	-	-	-	-	21,572,582
Hospital service contracts	5,415,566	-	-	-	-	-	5,415,566
Net assets released from restrictions	1,762,230	-	-	-	-	-	1,762,230
Meaningful use incentives	1,100,000	-	-	-	-	-	1,100,000
Interest income	17,106	-	-	-	-	-	17,106
Other	1,586,139	1,088,825	-	3,924	-	(849,000)	1,829,888
Total Revenue	85,938,142	1,088,825	-	3,924	-	(849,000)	86,181,891
OPERATING EXPENSE							
Salaries and benefits	62,314,290	-	-	-	-	-	62,314,290
Other than personnel services	21,694,121	864,357	-	12,250	-	(849,000)	21,721,728
Interest expenses	864,106	-	-	-	-	-	864,106
Total Expenses	84,872,517	864,357	-	12,250	-	(849,000)	84,900,124
Operating Income Prior to Depreciation and Amortization	1,065,625	224,468	-	(8,326)	-	-	1,281,767
Depreciation and amortization expense	991,057	-	-	-	-	-	991,057
Gain (loss) from operations	74,568	224,468	-	(8,326)	-	-	290,710
NON-OPERATING REVENUE							
Grants and contracts for construction projects	13,017,552	-	-	-	-	-	13,017,552
Contribution from NYCEDC	4,345,000	-	-	-	-	-	4,345,000
Change in Unrestricted Net Assets	17,437,120	224,468	-	(8,326)	-	-	17,653,262
TEMPORARILY RESTRICTED NET ASSETS							
Contributions	1,686,646	-	-	-	-	-	1,686,646
Net assets released from restrictions	(1,762,230)	-	-	-	-	-	(1,762,230)
Change in Temporarily Restricted Net Assets	(75,584)	-	-	-	-	-	(75,584)
Change in Net Assets	17,361,536	224,468	-	(8,326)	-	-	17,577,678
NET ASSETS							
Beginning of year	28,569,724	-	-	50,832	-	-	28,620,556
End of year	$ 45,931,260	$ 224,468	$ -	$ 42,506	$ -	$ -	$ 46,198,234

The Institute for Family Health and Affiliates

Consolidated Schedule of Functional Expenses
December 31, 2012

	Program Services	General and Administrative	Fundraising/ Development	Total
Salaries and wages	$ 44,584,864	$ 4,972,766	$ 1,682,724	$ 51,240,354
Fringe benefits	9,588,508	1,069,453	361,890	11,019,851
Consultants and contractual services	3,810,360	2,154,598	281,421	6,246,379
Professional fees	-	534,743	-	534,743
Travel, conferences and meetings	435,897	439,156	53,361	928,414
Occupancy	3,061,245	1,004,481	-	4,065,726
Consumable supplies	4,367,458	1,236,029	22,284	5,625,771
Insurance	250,062	111,549	-	361,611
Equipment rental and maintenance	317,474	98,771	5,402	421,647
Postage	190,844	24,408	34,728	249,980
Dues, subscriptions and publications	317,046	-	1,629	318,675
Interest	656,060	207,788	257	864,105
Other	1,639,093	1,360,452	23,323	3,022,868
	69,218,911	13,214,194	2,467,019	84,900,124
Depreciation and amortization	746,202	244,855	-	991,057
Total Functional Expenses	$ 69,965,113	$ 13,459,049	$ 2,467,019	$ 85,891,181

O'CONNOR DAVIES

PKF

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*

Independent Auditors' Report

Board of Directors
The Institute for Family Health and Affiliates

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 consolidated financial statements of the Institute for Family Health and Affiliates, which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institute's 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 the Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute'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 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. 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 weaknesses or significant deficiencies. 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.

O'CONNOR DAVIES, LLP
500 Mamaroneck Avenue, Suite 301, Harrison, NY 10528 I Tel: 914.381.8900 I Fax: 914.381.8910 I www.odpkf.com

Compliance and Other Matters

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

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 to 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.

O'Connor Davies, LLP

Harrison, New York
May 24, 2013

O'CONNOR DAVIES

PKF

Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

Independent Auditors' Report

Board of Directors
The Institute for Family Health and Affiliates

Report on Compliance for Each Major Federal Program

We have audited The Institute for Family Health and Affiliates (the "Institute") 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 the Institute's major federal programs for the year ended December 31, 2012. The Institute's major federal programs are identified in the summary of auditors' 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 the Institute'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 the Institute'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 the Institute's compliance.

Opinion on Each Major Federal Program

In our opinion, the Institute 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.

Report on Internal Control Over Compliance

Management of the Institute 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 the Institute'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 the Institute'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.

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.

O'Connor Davies, LLP

Harrison, New York
May 24, 2013

The Institute for Family Health and Affiliates

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	*Federal CFDA Number*	*Pass-Through Entity Identifying Number*	*Federal Expenditures*
Department of Health and Human Services			
Health Centers-Cluster			
Direct Programs:			
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	N/A	$ 1,742,644
Consolidated Health Centers	93.224	N/A	2,452,257
Total Department of Health and Human Services Direct Programs			4,194,901
Passed-through Care for Homeless			
Consolidated Health Centers	93.224	N/A	688,744
Total Health Centers-Cluster			4,883,645
Other Programs			
Direct programs			
Affordable Care Act - Teaching Health Center Graduate Medical Education Payments Program	93.530	N/A	1,423,865
Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	93.501	N/A	32,116
* ARRA - Grants to Health Center Programs			
Capital Improvement Program	93.703	N/A	176,022
Diabetes Project	93.703	N/A	65,426
Health Information Technology Implementation	93.703	N/A	270,222
Medical Library Assistance	93.879	N/A	68,524
Minority Health and Health Disparities Research	93.307	N/A	505,299
Research on Healthcare Costs, Quality and Outcomes	93.226	N/A	10,414
The Patient Protection and Affordable Care Act of 2010 (ACA)	93.541	N/A	754,337
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	528,011
Total Department of Health and Human Services Direct Programs			3,834,236
Passed-through the City of New York Department of Health and Mental Hygiene			
Immunization Cooperative Agreements	93.268	N/A	501,094
Passed-through Community Health Worker			
Medical Assistance Program	93.778	C021363	182,567
Passed-through Federation Employment and Guidance Services Inc.			
Temporary Assistance for Needy Families	93.558	1-5219-8200-000-528	616,187
Medical Assistance Program	93.778	1-5219-8200-000-528	316,702
Passed-through Care for Homeless			
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	172,186
Passed-through Catskill Hudson Area Health Education Center			
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	N/A	17,875
Passed-through Hudson Information Technology for Community Health, Inc.			
Children's Health Insurance Program	93.767	N/A	191,621
Passed-through NYS Developmental Disability Planning Council			
Developmental Disabilities Basic Support and Advocacy Grants	93.630	C022117	34,591

See Independent Auditors' Report and Notes to Schedule of Expenditures of Federal Awards

The Institute for Family Health and Affiliates

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

Passed-through Dutchess County Department of Health			
HIV Emergency Relief Project Grants	93.914	11-0370-3/12-HD	74,301
Passed-through Health Research Inc.			
HIV Care Formula Grants	93.917	3428-04 & 3428-05	248,327
HIV Prevention Activities-Health Department Based	93.940	3998.02 & 3998.03	109,456
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	N/A	1,476
Passed-through Fund for Public Health In New York, Inc.			
PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Prevention and Public Health Funds	93.531	72INFHE-001	128,810
Passed-through Mt. Sinai School of Medicine			
Minority Health and Health Disparities Research	93.307	25 R24 MD001691-07-08 7 & 5 P60 MD000270-10	55,010
Passed-through New York eHealth Collaborative			
* ARRA - Health Information Technology Regional Extension Centers Program	93.718		39,000
Passed-through NYS Department of Health			
Maternal and Child Health Services Block Grant to the States	93.994	C027540	50,415
Passed-through Public Health Solutions			
HIV Emergency Relief Project Grants	93.914	10-MCM-642	531,391
Passed-through New York State Department of Health			
Maternal and Child Health Services Block Grant to the States	93.994	C022454	25,189
Total Department of Health and Human Services Pass-Through Programs			3,296,198
Total Department of Health and Human Services			12,014,079
Corporation for National and Community Service			
Passed-through National Association of Community Health Centers			
AmeriCorps	94.006	N/A	194,613
United States Department of Agriculture			
Passed-through Federation Employment and Guidance Service Inc			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	528	513,899
Passed-through New York State Department of Health			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	C025773	3,247,339
Total United States Department of Agriculture			3,761,238
Total Expenditures of Federal Awards			$ 15,969,930

See Independent Auditors' Report and Notes to Schedule of Expenditures of Federal Awards

The Institute for Family Health and Affiliates

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

NOTE 1 - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of The Institute of Family Health (the "Institute") under programs of the federal government for the year ended December 31, 2012. The information in this Schedule is presented in accordance with the requirements of the 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 the Institute, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Institute.

NOTE 2 - 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 of Non-profit Organizations,* wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through identifying numbers are presented where available.

NOTE 3 - For the year ended December 31, 2012, the Institute did not have an mortgage or loan funds that should be included in the federal expenditures presented in this Schedule.

NOTE 4 - The Institute provided Federal awards to subrecipients as follows:

Program Title	***Federal CFDA Number***	***Pass-Through Entity Identifying Number***	***Amount Provided to Subrecipient***
Research on Healthcare Costs, Quality and Outcomes	**93.226**	N/A	$ 37,718
Minority Health and Health Disparities Research	**93.307**	25 R24 MD001691-07-08 7 & 5 P60 MD000270-10	87,594
ARRA - Grants to Health Center Programs	**93.703**	N/A	56,876
			$ 182,188

NOTE 5 - Of the Federal expenditures presented in this schedule, the Institute received $2,556,986 from CFDA #10.557 and $501,094 from CFDA #93.268, which are noncash items.

The Institute for Family Health and Affiliates

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

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	____ yes __X__ no
Significant deficiency(ies) identified?	____ yes __X__ none reported
Noncompliance material to financial statements noted?	____ yes __X__ no

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	____ yes __X__ no
Significant deficiency(ies) identified?	____ yes __X__ none reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	____ yes __X__ no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
93.268	Immunization Cooperative Agreements
93.541	The Patient Protection and Affordable Care Act of 2010 (ACA)
93.703	ARRA - Grants to Health Center Programs
93.718	ARRA - Health Information Technology Regional Extension Centers Program
93.778	Medical Assistance Program
93.917	HIV Care Formula Grants
93.530	Affordable Care Act - Teaching Health Center Graduate Medical Education Payments Program
93.940	HIV Prevention Activities-Health Department Based
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs:	$479,098
Auditee qualified as low-risk auditee?	__X__ yes ____ no

Section II - Financial Statement Findings

During our audit, we noted no material findings for the year ended December 31, 2012.

Section III - Federal Award Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance and none of the costs reported in the federal financially assisted program are questioned or recommended to be disallowed.

The Institute for Family Health and Affiliates

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

NONE