Whitney M. Young, Jr. Health Center, Inc. and Foundation

Independent Auditor's Reports and Consolidated Financial Statements

December 31, 2012 and 2011

Whitney M. Young, Jr. Health Center, Inc. and Foundation
December 31, 2012 and 2011

Contents

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Directors
Whitney M. Young, Jr. Health Center, Inc. and Foundation
Albany, New York

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Whitney M. Young, Jr. Health Center, Inc. and Foundation (the "Organization"), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in net assets and cash flows for the years 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 financial position of Whitney M. Young, Jr. Health Center, Inc. and Foundation as of December 31, 2012 and 2011, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 6, 2013, on our consideration of the Organization's internal control over financial reporting and 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 Whitney M. Young, Jr. Health Center, Inc. and Foundation's internal control over financial reporting and compliance.

BKD, LLP

Springfield, Missouri
May 6, 2013

Whitney M. Young, Jr. Health Center, Inc. and Foundation
Consolidated Balance Sheets
December 31, 2012 and 2011

Assets

	2012	2011
Current Assets		
Cash and cash equivalents	$ 4,457,863	$ 2,976,985
Patient accounts receivable, net of allowance; 2012 - $619,968, 2011 - $586,283	776,519	1,002,001
Grants and other receivables	932,826	946,190
Contributions receivable - current	4,722	4,398
Prepaid expenses and other	182,629	165,715
Total current assets	6,354,559	5,095,289
Assets Limited As To Use		
Deferred compensation plan assets	259,529	236,570
Property and Equipment, At Cost		
Land and land improvements	11,001	11,001
Buildings and leasehold improvements	6,205,152	6,205,153
Equipment	1,866,661	1,797,738
Furniture and fixtures	715,361	730,329
Construction in progress	13,905	-
	8,812,080	8,744,221
Less accumulated depreciation	4,833,507	4,371,856
	3,978,573	4,372,365
Total assets	$ 10,592,661	$ 9,704,224

Liabilities and Net Assets

	2012	2011
Current Liabilities		
Current maturities of long-term debt	$ 123,423	$ 137,790
Accounts payable	288,967	306,152
Accrued expenses	951,993	1,020,781
Due to third-party payers	933,142	1,200,000
Total current liabilities	2,297,525	2,664,723
Long-Term Debt	887,608	931,419
Asset Retirement Obligation	23,636	22,947
Deferred Compensation	259,529	236,570
Total liabilities	3,468,298	3,855,659
Net Assets		
Unrestricted	7,037,174	5,436,789
Temporarily restricted	87,189	411,776
Total net assets	7,124,363	5,848,565
Total liabilities and net assets	$ 10,592,661	$ 9,704,224

Whitney M. Young, Jr. Health Center, Inc. and Foundation
Consolidated Statements of Operations
Years Ended December 31, 2012 and 2011

	2012	2011
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	$ 9,825,298	$ 8,734,767
Provision for uncollectible accounts	525,548	494,692
Net patient service revenue less provision for uncollectible accounts	9,299,750	8,240,075
Grant revenue	6,265,866	6,245,278
Contribution revenue	323,744	323,083
Other	22,816	32,682
Net assets released from restriction used for operations	390,416	140,077
Total unrestricted revenues, gains and other support	16,302,592	14,981,195
Expenses and Losses		
Salaries and wages	8,291,676	8,410,871
Employee benefits	1,500,349	1,510,860
Contract providers	983,821	871,511
Medical and dental supplies	1,291,008	1,033,365
Other supplies and services	1,673,665	1,752,128
Facility and rent	509,437	529,149
Interest	65,643	84,592
Depreciation and amortization	485,919	475,470
Loss on disposal of equipment	-	10,964
Total expenses and losses	14,801,518	14,678,910
Operating Income	1,501,074	302,285
Investment Return	86	632
Excess of Revenues Over Expenses	1,501,160	302,917
Contributions for acquisition of property and equipment	-	20,000
Grants for acquisition of property and equipment	99,225	849,988
Net assets released from restriction used for purchase of property and equipment	-	16,592
Increase in Unrestricted Net Assets	$ 1,600,385	$ 1,189,497

Whitney M. Young, Jr. Health Center, Inc. and Foundation

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2012 and 2011

	2012	2011
Unrestricted Net Assets		
Excess of revenues over expenses	$ 1,501,160	$ 302,917
Contributions for acquisition of property and equipment	-	20,000
Grants for acquisition of property and equipment	99,225	849,988
Net assets released from restriction used for purchase of property and equipment	-	16,592
Increase in unrestricted net assets	1,600,385	1,189,497
Temporarily Restricted Net Assets		
Contributions	65,829	4,797
Net assets released from restriction	(390,416)	(156,669)
Decrease in temporarily restricted net assets	(324,587)	(151,872)
Change in Net Assets	1,275,798	1,037,625
Net Assets, Beginning of Year	5,848,565	4,810,940
Net Assets, End of Year	$ 7,124,363	$ 5,848,565

Whitney M. Young, Jr. Health Center, Inc. and Foundation

Consolidated Statements of Cash Flows

Years Ended December 31, 2012 and 2011

	2012	2011
Operating Activities		
Change in net assets	$ 1,275,798	$ 1,037,625
Items not requiring (providing) operating activities cash flows		
Loss on disposal of property and equipment	-	10,964
Depreciation and amortization	485,919	475,470
Contributions restricted for acquisition of property and equipment	-	(20,000)
Grants for acquisition of property and equipment	(99,225)	(849,988)
Changes in		
Patient accounts receivable, net	225,482	(13,528)
Grants receivable	13,364	20,690
Contributions receivable	(324)	499,152
Prepaid assets	(16,914)	(38,089)
Accounts payable and accrued expenses	(47,494)	167,635
Due to third parties	(266,858)	-
Net cash provided by operating activities	1,569,748	1,289,931
Investing Activities		
Purchase of assets limited as to use	(22,959)	(7,899)
Purchase of property and equipment	(106,958)	(1,024,235)
Proceeds from disposition of property and equipment	-	32,650
Net cash used in investing activities	(129,917)	(999,484)
Financing Activities		
Proceeds from contributions for acquisition of property and equipment	-	20,000
Proceeds from grants for acquisition of property and equipment	99,225	849,988
Proceeds from issuance of long-term debt	850,000	-
Principal payments on long-term debt	(908,178)	(135,137)
Net cash provided by financing activities	41,047	734,851
Increase in Cash and Cash Equivalents	1,480,878	1,025,298
Cash and Cash Equivalents, Beginning of Year	2,976,985	1,951,687
Cash and Cash Equivalents, End of Year	$ 4,457,863	$ 2,976,985
Supplemental Cash Flows Information		
Interest paid	$ 62,532	$ 84,592
Accounts payable incurred for property and equipment	$ 10,568	$ 26,088
Asset retirement obligation retired due to sale	$ -	$ 30,076

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Whitney M. Young, Jr. Health Center, Inc. and Foundation (the "Organization") are not-for-profit corporations located in Albany, New York. Whitney M. Young, Jr. Health Center, Inc. (the "Health Center") primarily earns revenues by providing physician and related health care services through clinics located in Albany and Troy, New York. Whitney M. Young, Jr. Health Foundation, Inc. (the "Foundation") was created solely and exclusively to support and benefit the Health Center by engaging in fundraising activities. The Health Center is the sole member of the Foundation.

Principles of Consolidation

The consolidated financial statements include the accounts and transactions of the Health Center and the Foundation. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

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

Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2012 and 2011, cash equivalents consisted primarily of money market deposit accounts.

At December 31, 2012, the Organization's cash accounts did not exceed federally insured limits.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the $250,000 limit on FDIC insurance per covered institution. At December 31, 2012, the Organization had approximately $4,100,000 in noninterest-bearing transaction accounts.

Investment Return

Investment return includes interest income. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statement of operations as unrestricted or temporarily restricted based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited As To Use

Assets limited as to use include assets held for deferred compensation.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer 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 Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers 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 Organization records a significant provision for uncollectible accounts 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 if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Organization’s allowance for doubtful accounts for self-pay patients was 91% and 83% of self-pay accounts receivable at December 31, 2012 and 2011, respectively. The Organization’s write-offs decreased approximately $18,000 from approximately $510,000 for the year ended December 31, 2011, to approximately $492,000 for the year ended December 31, 2012.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Certain property and equipment have been purchased with grant funds. Such items may have a reversionary interest by the grantor if not used to further the grants objectives or held for a specific length of time.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairments were recognized during the years ended December 31, 2012 and 2011.

Temporarily Restricted Net Assets

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

Net Patient Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Contributions

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

In-Kind Contributions

The Organization receives in-kind contributions of pharmaceuticals and time from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended December 31, 2012 and 2011, $217,111 and $226,947, respectively, was received in in-kind contributions.

Government Grant

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by granting agency and, as a result of such audit, adjustments could be required.

Income Taxes

The Organization has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

Excess of Revenues Over Expenses

The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible health centers that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to six years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Organization continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Organization recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2012, the Organization completed the first-year requirements under the Medicaid program for qualifying providers. For the years ended December 31, 2012 and 2011, $191,250 and $0, respectively, was recorded as revenue, which is included in grant revenue within operating revenues in the statement of operations.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report which is the date the financial statements were available to be issued.

Note 2: Grant Revenue

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services (the "granting agency"). The general purpose of the grant is to provide expanded health care service delivery for residents of the Albany, New York, area. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended December 31, 2012 and 2011, the Organization recognized $3,263,502 and $3,152,482 in grant funds, respectively.

During March 2013, the Organization received a notice of grant award for the CHC grant covering the budget period for the year ending March 31, 2014. This notice of grant award includes prorated support in the amount of $534,816 for the period beginning April 1, 2013, through May 31, 2013. A notice of grant award is expected to be issued later in the budget period based on the final fiscal year 2013 Congressional appropriation for the Health Center program. This notice of grant award is expected to provide additional grant support for the project/budget periods that is consistent with Congressional intent for the health center program for fiscal year 2013.

In response to the current economic conditions, the federal government passed legislation appropriating grant dollars to community health centers under the American Recovery and Reinvestment Act (ARRA). The Organization has been awarded $313,420 for the March 27, 2009, to March 26, 2011, period to assist in meeting the needs of their community under the Increased Demand for Services (IDS) grant. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended December 31, 2012 and 2011, the Organization recognized $0 and $67,509, respectively, in IDS grant revenue. The Organization has also been awarded $955,565 under the Capital Improvement Program (CIP) grant for the June 29, 2009, to June 28, 2011, period to assist in meeting the needs of their community. During the years ended December 31, 2012 and 2011, the Organization recognized $0 and $813,015, respectively, in CIP grant revenue.

In addition to these grants, the Organization receives additional financial support from other federal and state sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis.

Note 3: Net Patient Service Revenue

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for the sliding fee program, the Organization recognizes revenue on the basis of its standard rates for service provided. On the basis of historical experience, a significant portion of the Organization's uninsured patients who do not qualify for the sliding fee program will be unable or unwilling to pay for the services provided. Thus the Organization records a significant provision for uncollectible accounts related to uninsured patients who do not qualify for the sliding fee program in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of net patient service revenue.

The Organization is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Organization and audits thereof by the Medicare fiscal intermediary. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medicaid. Covered FQHC services rendered to Medicaid program beneficiaries are paid based on a prospective reimbursement methodology. The Organization is reimbursed an all-inclusive rate for services under the program.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates and discounts from established charges.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended December 31, 2012 and 2011, were:

	2012	2011
Medicaid	$ 6,359,853	$ 6,160,970
Medicare	482,570	451,527
Self-pay	796,876	853,932
Other third-party payers	2,185,999	1,268,338
Total	$ 9,825,298	$ 8,734,767

During the year ended December 31, 2010, Organization management identified certain services being billed to the State of New York (State) that may not fully comply with State policy or current State interpretations regarding the billing. Management has reported these issues to the appropriate State agency and is working with the State to resolve all outstanding issues. The Organization has joined with other federally qualified health centers through the Community Health Care Association of New York State to challenge the State's interpretation of the regulations and various payment calculation methodologies related to the billed services discussed above, the ultimate outcome of which is uncertain. As the loss was recorded during the 2010 fiscal period there has been no effect included in the 2012 or 2011 net patient service revenues. The Organization has settled a portion of the outstanding issues for approximately $270,000 during the 2012 fiscal period and management has calculated an estimated loss contingency of $930,000 and $1.2 million, at December 31, 2012 and 2011, respectively, and has included a provision of this amount in the financial statements. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 4: Concentration of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at December 31, 2012 and 2011, is:

	2012	2011
Medicare	2%	4%
Medicaid	80%	74%
Other	18%	22%
	100%	100%

Note 5: Investments and Investment Return

Assets Limited As To Use

Assets limited as to use include:

	2012	2011
Deferred compensation plan assets		
Mutual funds	$ 259,529	$ 236,570

Total investment return, comprised of interest income from money market deposit accounts, is reflected in the statements of operations as investment return in the amount of $86 and $632 for the years ended December 31, 2012 and 2011, respectively.

Note 6: Short-Term Borrowings

The Organization secured a revolving note renewed annually with a current renewal period of December 31, 2013, and a maximum amount available of $750,000. At December 31, 2012 and 2011, there was $0, borrowed against this note. Interest is payable monthly at the bank's prime rate plus .50%, 3.75% on December 31, 2012 and 2011. This borrowing is established with M&T Bank and is secured, as per the bank's General Security Agreement, by the Organization's personal property, fixtures and deposits.

Note 7: Long-Term Debt

	2012	2011
Mortgage payable (A)	$ 156,500	$ 241,500
Mortgage payable (B)	-	796,037
Mortgage payable (C)	850,000	-
Capital lease obligation (D)	4,531	31,672
	1,011,031	1,069,209
Less current maturities	123,423	137,790
	$ 887,608	$ 931,419

(A) Mortgage payable with the Dormitory Authority of the State of New York (DASNY) in the original amount of $1,151,000; due in semiannual installments through August 15, 2014, including interest at 5.81% per annum and administrative fees, secured by real property, the building and all the furnishings located at the DeWitt site in Albany, New York.

The Organization has entered into a State Aid Grant with the New York State Office of Alcoholism and Substance Abuse Services (the “Agency”) in which the Agency will reimburse the Health Center for all amounts necessary to service the entire debt of the mortgage with DASNY. The Organization has authorized the Agency to deduct and withhold from the periodic reimbursements to the Health Center the amount required so as to completely satisfy the terms of the mortgage agreement.

(B) Mortgage payable in the original amount of $897,507 due August 1, 2027; payable $7,230 monthly, including interest at 7.50%; secured by real property located at 900 Lark Drive in Albany, New York. The former owner of the property holds the mortgage. This mortgage was paid in full during 2012 using funds from the mortgage payable discussed in (C) below.

(C) Mortgage payable in the original amount of $1,300,000. For the first nine months, the interest rate is variable, equal to the Bank’s Prime Rate (3.25% at December 31, 2012) plus 1.00% and payments will be interest only, followed by 180 monthly payments of $10,450 for principal and interest at a fixed rate of 5.25%, secured by a first priority lien and assignment of rents and leases on the property located at 920 Lark Drive in Albany, New York. If any or all of the outstanding principal amount is prepaid before the maturity date, there is a premium of 5% of the amount prepaid the first year, declining 1% each year thereafter, to a minimum of 1%. A prepayment up to 10% of the current outstanding principal balance is allowed without penalty.

(D) Capital lease obligation at an imputed rate of interest of 0.20%, due through February 15, 2013; collateralized by equipment. The assets under capital lease at December 31, 2012 and 2011, totaled $4,134 and $33,083, respectively, net of accumulated depreciation of $70,306 and $45,491, respectively. This capital lease was paid in full subsequent to year end.

Aggregate annual maturities of long-term debt at December 31, 2012, are:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease
2013	$ 118,892	$ 4,533
2014	126,604	-
2015	63,337	-
2016	66,743	-
2017	70,333	-
Thereafter	560,591	-
	$ 1,006,500	4,533
Less amount representing interest		2
Present value of future minimum lease payments		4,531
Less current maturities		4,531
Noncurrent portion		$ -

Note 8: Medical Malpractice Claims

The U.S. Department of Health and Human Services deemed the Organization and its practicing medical professionals covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

In 2012, the Organization adopted the provisions of Accounting Standards Update (ASU) 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, which eliminates the practice of netting claim liabilities with expected insurance recoveries for balance sheet presentation. Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Prior to the adoption of ASU 2010-24, accounting principles generally accepted in the United States of America required a health care provider to accrue only an estimate of the malpractice claims costs for both reported claims and claims incurred but not reported where the risk of loss had not been transferred to a financially viable insurer. There was no impact of the ASU adoption to the Organization’s financial statements.

Based upon the Organization's claims experience, no accrual has been made for medical malpractice costs for the years ended December 31, 2012 and 2011. However, because of the risk of providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

Note 9: Temporarily Restricted Net Assets

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

	2012	2011
Various patient service programs	$ 72,743	$ 389,104
HIV services	14,446	22,672
	$ 87,189	$ 411,776

During 2012 and 2011, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose in the amounts of $390,416 and $156,669, respectively.

Note 10: Functional Expenses

The Organization provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	2012	2011
Healthcare program services	$ 12,076,075	$ 11,966,011
General and administrative	2,612,313	2,634,907
Fundraising	113,130	77,992
	$ 14,801,518	$ 14,678,910

Note 11: Operating Leases

The Organization occupies one facility under a noncancelable operating lease for office space expiring in 2018. This lease requires the Organization to pay all executory costs (property taxes, maintenance and insurance) based on its share of leaseable space.

Future minimum lease payments at December 31, 2012, were:

2013	$ 106,005
2014	105,967
2015	105,543
2016	105,631
2017	106,598
Thereafter	97,715
Future minimum lease payments	$ 627,459

Note 12: Pension Plan

The Organization has a defined contribution pension plan covering substantially all employees. The Organization makes a matching contribution equal to 200% of the employee's annual contributions up to a maximum limit of 2% of the employee's annual salaries. Contributions totaled $217,804 and $212,913 for the years ended December 31, 2012 and 2011, respectively.

Note 13: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. The Organization has no securities classified as Level 1. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For these investments, the inputs used by the pricing services to determine fair value may include one, or a combination of, observable inputs such as benchmark securities, bids, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. Level 2 securities include privately held mutual funds. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Organization has no securities classified as Level 3.

		2012 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	$ 259,529	$ -	$ 259,529	$ -

		2011 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	$ 236,570	$ -	$ 236,570	$ -

Note 14: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *3*.

Grant Revenues

A concentration of revenues related to grant awards and other support is described in *Note 2*.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 8*.

Collective Bargaining Agreements

Approximately 36% of the Organization's employees are covered by collective bargaining agreements which will expire May 31, 2013.

Litigation

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. The Organization has malpractice and general liability insurance to cover potential claims. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Asset Retirement Obligation

Accounting principles generally accepted in the United States of America require that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The Organization's conditional asset retirement obligations primarily related to asbestos contained in buildings that the Organization owns. Environmental regulations exist in the state of New York that requires the Organization to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished.

Current Economic Conditions

The current economic environment presents community health centers with difficult circumstances and challenges. As employers make adjustments to health insurance plans or more patients become unemployed, certain patients may find it difficult to pay for services rendered. The upcoming implementation of the Affordable Care Act, including the health insurance exchanges and the decision by the state regarding Medicaid expansion, will directly impact community health centers' net revenues. Further, the effect of economic conditions on federal and state budgets could adversely impact the grant revenues available to community health centers and the programs they administer. Each of these factors could have an adverse impact on the Organization's future operating results.

Note 15: Construction in Progress

At December 31, 2012, the Organization has construction in progress related to renovations of the DeWitt Street clinic in Albany, New York. The estimated remaining cost is $540,000 with an estimated completion date of December 2013. This project will be funded primarily with Affordable Care Act – Capital Development Grant funds from the U.S. Department of Health and Human Services and internally generated funds.

At December 31, 2012, the Organization has construction in progress related to renovations of the Lark Drive clinic in Albany, New York. The estimated remaining cost is $500,000 with an estimated completion date of August 2013. This project will be funded primarily with the remaining loan funds described in *Note 7* that is still available to draw.

Supplementary Information

Whitney M. Young, Jr. Health Center, Inc. and Foundation

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2012

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	6H80CS00433 11-05	$ 1,387,935
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	U.S. Department of Health and Human Services	93.527	6H80CS00433 11-05	1,875,567
Total Health Centers Cluster				3,263,502
Special Supplemental Nutrition Program for Women, Infants and Children	U.S. Department of Agriculture/ New York State Department of Health	10.557	C-025810	517,615
Maternal and Child Health Services Block Grant to the States	U.S. Department of Health and Human Services/New York State Department of Health	93.994	C-022490	14,979
Coordinated Services and Access to Research for Women, Infants, Children and Youth	U.S. Department of Health and Human Services/Albany County/ Albany Medical College	93.153	1H12HA24855 01-00	41,391
Substance Abuse and Mental Health Services/Expansion/Enhancement of Substance Abuse Treatment and HIV Testing	U.S. Department of Health and Human Services	93.243	5H79TI018915-05	301,700
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	U.S. Department of Health and Human Services	93.943	5U65PS002697-03	240,924
Total forward				4,380,111

Whitney M. Young, Jr. Health Center, Inc. and Foundation

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2012

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Total forward				$ 4,380,111
ARRA - Health Information Technology Implementation	U.S. Department of Health and Human Services/Community Health Care Association of New York State	93.703	1 H2LCS18172 01-00	62,024
ACA Grants for Capital Development in Health Centers	U.S. Department of Health and Human Services	93.526	6 C8BCS23956 01-02	9,940
Grants to Provide Outpatient Early Intervention Services with Respect to HIV	U.S. Department of Health and Human Services	93.918	5 H76HA00032 22-00	390,194
				$ 4,842,269

Notes to Schedule

1. This schedule includes the federal awards activity of Whitney M. Young, Jr. Health Center, Inc. and Foundation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

2. Whitney M. Young, Jr. Health Center, Inc. and Foundation did not provide a federal award to a subrecipient during the year ended December 31, 2012.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Whitney M. Young, Jr. Health Center, Inc. and Foundation
Albany, New York

We have audited, 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, the consolidated financial statements of Whitney M. Young, Jr. Health Center, Inc. and Foundation (the "Organization"), which comprise the balance sheet as of December 31, 2012, and the related statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 6, 2013.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Organization's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance

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

Other Matter(s)

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

BKD, LLP

Springfield, Missouri
May 6, 2013

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Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Directors
Whitney M. Young, Jr. Health Center, Inc. and Foundation
Albany, New York

Report on Compliance for Each Major Federal Program

We have audited the compliance of Whitney M. Young, Jr. Health Center, Inc. and Foundation (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The Organization'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

Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Whitney M. Young, Jr. Health Center, Inc. and Foundation'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 Organization'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. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

Board of Directors
Whitney M. Young, Jr. Health Center, Inc. and Foundation

Opinion on Each Major Federal Program

In our opinion, Whitney M. Young, Jr. Health Center, Inc. and Foundation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

The management of Whitney M. Young, Jr. Health Center, Inc. and Foundation 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 Organization's internal control over compliance with the 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 our 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 Organization'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Other Matter

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.

BKD, LLP

Springfield, Missouri
May 6, 2013

Whitney M. Young, Jr. Health Center, Inc. and Foundation

Schedule of Findings and Questioned Costs

Year Ended December 31, 2012

Summary of Auditor's Results

1. The opinion expressed in the independent auditor's report was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimed

2. The independent auditor's report on internal control over financial reporting disclosed:

   Significant deficiency(ies) ☐ Yes ☒ No

   Material weakness(es)? ☐ Yes ☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

4. The independent auditor's report on internal control over compliance with requirements that could have a direct and material effect on major federal awards programs disclosed:

   Significant deficiency(ies) ☐ Yes ☒ No

   Material weakness(es)? ☐ Yes ☒ No

5. The opinion expressed in the independent auditor's report on compliance with requirements that could have a direct and material effect on major federal awards was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133? ☐ Yes ☒ No

7. The Organization's major programs were:

Cluster/Program	CFDA Number
Health Centers Cluster	93.224 and 93.527
Special Supplemental Nutrition Program for Women, Infants and Children	10.557
Grants to Provide Outpatient Early Intervention Services with Respect to HIV	93.918
Substance Abuse and Mental Health Services/Expansion/Enhancement of Substance Abuse Treatment	93.243

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was $300,000.

9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133. ☐ Yes ☒ No

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs

No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs

No matters are reportable.

Whitney M. Young, Jr. Health Center, Inc.

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2012

Reference Number	Summary of Finding	Status
11-1	CFDA No. 93.243, Substance Abuse and Mental Health Services/Expansion/Enhancement of Substance Abuse Treatment and HIV Testing (SAMSHA) U.S. Department of Health and Human Services Award No. 5H79TI018915-05, Program Year 2011 Criteria or Specific Requirement – Cash Management Condition – Grant funds were drawn down in advance of incurring expenditures for the SAMSHA grant. Context – Funds were drawn on the SAMSHA grant prior to incurring qualifying expenditures and funds were not expended shortly after being drawn. The funds were placed in a noninterest-bearing account. Effect – Grant funds were drawn down inappropriately in advance of expenditures. Cause – Organization management was not reviewing the grant expenditures incurred at a detailed level to prevent inappropriate drawdowns.	Resolved
11-2	CFDA No. 93.918, Grants to Provide Early Intervention Services with Respect to HIV U.S. Department of Health and Human Services Award No. 6H76HA00032-21-01, Program Year 2011 Criteria or Specific Requirement – Program Income Condition – Patients were inappropriately billed for services that exceeded the permissible charges that may be imposed following the grant and the patient's income. Context – Out of an undetermined number of HIV patients who received services during fiscal year 2011, a sample of 25 patients were tested. Four patients were inappropriately billed based on their income level. Two patients did not have any income documentation to support being billed for services. Effect – Patients were inappropriately billed for services. Cause – The Organization was not appropriately following the sliding fee policy for this grant.	Resolved