

**Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde
Community Health Center)**

**Financial Statements,
Schedule of Expenditures of Federal Awards,
Internal Control and Compliance
(With Supplementary Information)
and Independent Auditors' Report**

June 30, 2012 and 2011

**Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde
Community Health Center)**

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Independent Auditors' Report

To the Board of Directors
Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde Community Health Center)

We have audited the accompanying statements of financial position of Community Health Project, Inc. (d/b/a Michael Callen - Audre Lorde Community Health Center) ("Callen-Lorde") as of June 30, 2012 and 2011 and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Callen-Lorde as of June 30, 2012 and 2011, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2013, on our consideration of Callen-Lorde's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The accompanying schedule of expenditures of Federal awards for the year ended June 30, 2012 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 2012 basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of Federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "CohnReznick LLP".

New York, New York
February 12, 2013

**Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde
Community Health Center)**

**Statements of Financial Position
June 30, 2012 and 2011**

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 1,767,153	\$ 533,322
Patient services receivable, net	3,324,899	2,611,552
Grants and contracts receivable	1,241,617	2,236,798
Prepaid expenses and other current assets	110,794	50,576
Inventory	361,776	362,396
Total current assets	6,806,239	5,794,644
Property and equipment, net	6,709,892	6,830,688
Deferred financing fees, net of accumulated amortization of \$434,273 and \$407,130	379,992	407,135
Security deposits	272,014	272,014
Totals	\$ 14,168,137	\$ 13,304,481
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Line of credit	\$ 200,000	\$ 1,150,000
Accounts payable and accrued expenses	1,632,034	1,305,885
Accrued compensation	811,983	790,697
Note payable	345,538	335,011
Due to third party	145,056	387,803
Total current liabilities	3,134,611	3,969,396
Long-term liabilities:		
Note payable less current maturities	4,135,138	4,480,676
Due to third party less current maturities	116,667	166,667
Total long-term liabilities	4,251,805	4,647,343
Total liabilities	7,386,416	8,616,739
Commitments and contingencies		
Net assets:		
Unrestricted net assets	6,515,272	4,509,358
Temporarily restricted net assets	266,449	178,384
Total net assets	6,781,721	4,687,742
Totals	\$ 14,168,137	\$ 13,304,481

See Notes to Financial Statements.

**Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde
Community Health Center)**

**Statements of Activities and Changes in Net Assets
Years Ended June 30, 2012 and 2011**

	2012	2011
Unrestricted revenue:		
DHHS grants	\$ 447,043	\$ 473,909
Patient services, net	28,454,898	15,755,039
Contract services and other grants	3,748,142	4,937,966
Fundraising and contributions	846,823	1,190,569
Other	37,931	194,753
Released from restrictions	247,041	
	33,781,878	22,552,236
Expenses:		
Salaries and related benefits	13,467,253	13,295,365
Other than personnel services	17,812,059	8,610,419
Interest	274,523	325,844
Provision for bad debts	168,270	167,820
	31,722,105	22,399,448
Operating income prior to depreciation and amortization and nonoperating revenue	2,059,773	152,788
Depreciation and amortization	363,384	331,679
Operating income (loss) prior to nonoperating revenue	1,696,389	(178,891)
Nonoperating revenue: contract services and other grants for capital additions	309,525	942,589
Increase in unrestricted net assets	2,005,914	763,698
Changes in temporarily restricted net assets:		
Contributions	335,106	178,384
Release to operations	(247,041)	
Increase in temporarily restricted net assets	88,065	178,384
Increase in net assets	2,093,979	942,082
Net assets, beginning of year	4,687,742	3,745,660
Net assets, end of year	\$ 6,781,721	\$ 4,687,742

See Notes to Financial Statements.

**Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde
Community Health Center)**

**Statement of Functional Expenses
Year Ended June 30, 2012**

	Program Services	General and Administrative	Fund- Raising	Total
Salaries and wages	\$ 8,695,025	\$ 2,031,439	\$ 224,282	\$ 10,950,746
Employee benefits	1,998,137	466,829	51,541	2,516,507
Consultants and contractual services	449,117	647,742	4,950	1,101,809
Professional fees		212,639		212,639
Consumable supplies	609,893	100,834		710,727
Laboratory and radiology	157,289			157,289
Pharmaceuticals	14,474,807			14,474,807
Occupancy	170,650	54,057	30,095	254,802
Insurance	85,578	31,553		117,131
Equipment rental and maintenance	67,836	52,177		120,013
Telephone	59,715	15,492		75,207
Printing, publications and postage	40,906	10,227		51,133
Travel, conference and meeting	57,545	5,329	1,630	64,504
Dues and subscriptions	75,006	68,525	5,579	149,110
Health promotion	2,051			2,051
Interest	249,541	24,982		274,523
Provision for bad debts	168,270			168,270
Other	30,010	87,397	203,430	320,837
Totals	<u>27,391,376</u>	<u>3,809,222</u>	<u>521,507</u>	<u>31,722,105</u>
Depreciation and amortization	<u>330,316</u>	<u>33,068</u>		<u>363,384</u>
Total functional expenses	<u>\$ 27,721,692</u>	<u>\$ 3,842,290</u>	<u>\$ 521,507</u>	<u>\$ 32,085,489</u>

**Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde
Community Health Center)**

**Statement of Functional Expenses
Year Ended June 30, 2011**

	Program Services	General and Administrative	Fund- Raising	Total
Salaries and wages	\$ 8,916,565	\$ 1,866,712	\$ 254,795	\$ 11,038,072
Employee benefits	1,823,443	381,744	52,106	2,257,293
Consultants and contractual services	669,887	571,850	3,502	1,245,239
Professional fees		236,111		236,111
Consumable supplies	459,551	126,263	609	586,423
Laboratory and radiology	202,482			202,482
Pharmaceuticals	5,075,327			5,075,327
Occupancy	243,459	37,692	15,750	296,901
Insurance	54,323	59,872		114,195
Equipment rental and maintenance	75,816	15,872	2,167	93,855
Telephone	56,848	11,901	1,624	70,373
Printing, publications and postage	65,918	16,480		82,398
Travel, conference and meeting	72,765	10,914	218	83,897
Dues and subscriptions	127,305	26,652	3,638	157,595
Health promotion	5,366			5,366
Interest	244,936	80,908		325,844
Provision for bad debts	167,820			167,820
Other	117,672	52,934	189,651	360,257
Totals	<u>18,379,483</u>	<u>3,495,905</u>	<u>524,060</u>	<u>22,399,448</u>
Depreciation and amortization	<u>294,233</u>	<u>37,446</u>		<u>331,679</u>
Total functional expenses	<u>\$ 18,673,716</u>	<u>\$ 3,533,351</u>	<u>\$ 524,060</u>	<u>\$ 22,731,127</u>

See Notes to Financial Statements.

Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde
Community Health Center)

Statements of Cash Flow
Years Ended June 30, 2012 and 2011

	2012	2011
Operating activities:		
Cash received from patient services	\$ 27,573,281	\$ 14,890,422
Cash received from grants and contract services	5,190,366	6,385,508
Cash received from fundraising and contributions	1,181,929	1,368,953
Cash received from other	37,931	194,753
Cash paid to employees	(13,445,967)	(13,408,485)
Cash paid to vendors	(17,545,508)	(10,151,522)
Cash paid for interest	(247,380)	(298,702)
Net cash provided by (used in) operating activities	2,744,652	(1,019,073)
Investing activities: purchases of property and equipment	(242,588)	(1,342,539)
Financing activities:		
Proceeds from line of credit	1,050,000	1,150,000
Repayments of line of credit	(2,000,000)	
Cash received from DHHS grants for capital expenditures	309,525	942,589
Cash received from bridge loan		571,252
Cash received from refund of security deposit		24,610
Repayments of bridge loan		(650,000)
Repayments of note payable	(335,011)	(296,814)
Cash received from third party		1,908,155
Repayments to third party	(292,747)	(1,353,685)
Net cash provided by (used in) financing activities	(1,268,233)	2,296,107
Net increase (decrease) in cash and cash equivalents	1,233,831	(65,505)
Cash and cash equivalents, beginning of year	533,322	598,827
Cash and cash equivalents, end of year	\$ 1,767,153	\$ 533,322
Reconciliation of increase in net assets to net cash provided by (used in) operating activities:		
Increase in net assets	\$ 2,093,979	\$ 942,082
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	363,384	331,679
Amortization of deferred financing fees	27,143	27,142
Nonoperating revenue from contract services and other grants for capital additions	(309,525)	(942,589)
Provision for bad debts	168,270	167,820
Changes in operating assets and liabilities:		
Patient services receivable	(881,617)	(864,617)
Grants and contracts receivable	995,181	973,633
Inventory	620	(362,396)
Prepaid expenses and other current assets	(60,218)	(41,793)
Accounts payable and accrued expenses	326,149	(1,136,914)
Accrued compensation	21,286	(113,120)
Net cash provided by (used in) operating activities	\$ 2,744,652	\$ (1,019,073)

See Notes to Financial Statements.

**Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde
Community Health Center)**

Notes to Financial Statements

Note 1 - Organization:

Community Health Project, Inc. (d/b/a Michael Callen - Audre Lorde Community Health Center) ("Callen-Lorde" or the "Center") is a community-based healthcare center located in New York, New York. The Center provides high-quality healthcare and related services primarily to the lesbian, gay, bisexual and transgender community of New York in all its diversity, without regard to ability to pay. To further this mission, the Center promotes health education and wellness, and advocates for lesbian, gay, bisexual and transgender health issues.

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

Note 2 - Significant accounting policies:

Basis of presentation:

The financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Classification of net assets:

The Center classifies its net assets into three categories, which are described as follows:

Unrestricted net assets are reflective of revenues and expenses associated with the principal operating activities of the Center and are not subject to donor-imposed stipulations.

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Center and/or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities and changes in net assets as assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the financial statements.

Community Health Project, Inc.
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Community Health Center)

Notes to Financial Statements

Permanently restricted net assets are subject to donor-imposed stipulations that must be maintained permanently by the Center. There were no permanently restricted net assets at June 30, 2012 and 2011.

Cash and cash equivalents:

The Center maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed Federally-insured limits. The Center has not experienced any losses in such accounts. At June 30, 2012, the Center's cash and cash equivalents balance exceeds Federally-insured limits by approximately \$1,020,100. All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

Patient services receivable and concentration of credit risk:

The collection of receivables from third-party payors and patients is the Center'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 receivables from third-party payors are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under the Center's charity care policy, less amounts covered by third-party payors and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Center considers accounts past due when they are outstanding beyond 60 days with no payment. The Center generally does not charge interest on past due accounts. Patient receivables are written off to the allowance account when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debts expense when received.

Grants and contracts receivable:

Grants and contracts receivable consists of costs under the grant and contract agreements which were incurred prior to year-end for which payment has not been received. Grants and contracts receivable credit risk is limited due to the nature of the grants and contracts. The Center regularly monitors its grants and contracts receivable by investigating delayed payments and differences when payments received do not conform to the amount billed. The Center considers all grants and contracts as collectible.

Community Health Project, Inc.
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Notes to Financial Statements

Fair value of financial instruments:

The Center's material financial instruments at June 30, 2012 and 2011 for which disclosure of estimated fair value is required by certain accounting standards consists of cash and cash equivalents, patient services receivable, grants and contracts receivable, line of credit, accounts payable and accrued expenses, accrued compensation, advances from a third party, and notes payable to unrelated parties. The fair values of cash and cash equivalents, patient services receivable, grants and contracts receivable, line of credit, accounts payable and accrued expenses and accrued compensation are equal to their carrying value because of their liquidity and short-term maturity. Management believes that the fair values of notes payable to unrelated parties do not differ materially from their aggregate carrying values in that substantially all the obligations bear interest rates that are based on market rates or interest rates that are periodically adjustable to rates that are based on market rates. Management believes that as a result of the relationship between the Center and the third party from whom an advance was received, there is no practical method that can be used to determine the fair value of advances from a third party.

Inventory:

Inventory, consisting of supplies and drugs, is stated at the lower of cost (first-in, first-out basis) or market.

Property and equipment:

Property and equipment are stated at cost, or, if donated, at the fair value at the date of donation. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets, ranging from 2 to 40 years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less. The Center capitalizes all purchases of property and equipment in excess of \$2,500.

Construction-in-progress is recorded at cost. The Center 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 equipment items obtained through Federal funds are subject to a lien by the Federal government. Provided that the Center maintains its tax-exempt status, and the equipment is used for its intended purpose, the Center is not required to reimburse the Federal government. If the stated requirements are not met, the Center would be obligated to the Federal government in an amount equal to the fair value of the equipment.

**Community Health Project, Inc.
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Notes to Financial Statements

Impairment of long-lived assets:

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

Deferred financing fees:

Deferred financing fees consist of various expenses the Center incurred in obtaining long-term financing. These costs are being amortized over the expected life of the debt, which is approximately 30 years.

Patient service revenue:

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administrating agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined.

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

**Community Health Project, Inc.
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Notes to Financial Statements

Pharmacy revenue is generated through the pharmacy and 340b program that the Center operates through its agreement with a third party for the year ended June 30, 2012. Under this program, the Center uses the third party as its agent for the purpose of operating and managing the pharmacy and providing pharmacy services.

Grants and contracts revenue:

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 nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances. At June 30, 2012, the Center has received conditional grants and contracts from governmental entities in the aggregate amount of \$1,736,324 that have not been recorded in the accompanying financial statements. These grants and contracts require the Center to provide certain services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allotted under the contracts.

Contributions:

Contributions are recorded as either temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated asset. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue. Conditional contributions are recognized in the period when expenditures have been incurred in compliance with the grantor.

Interest earned on Federal funds:

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

Functional expenses:

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

**Community Health Project, Inc.
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Notes to Financial Statements

Tax status:

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

The Center has no unrecognized tax benefits at June 30, 2012 and 2011. The Center's Federal and state income tax returns prior to fiscal year 2009 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

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

Subsequent events:

The Center has evaluated subsequent events through February 12, 2013, which is the date the financial statements were available to be issued.

Note 3 - Patient services receivable, net:

Patient services receivable, net consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Medicaid	\$847,306	\$ 1,009,581
Medicare	143,142	85,529
Private insurance	200,380	158,084
Self-pay	205,602	51,527
Managed care	265,421	109,900
Pharmacy	1,190,849	721,635
New York State Uncompensated Care	<u>1,165,039</u>	<u>806,478</u>
Totals	4,017,739	2,942,734
Less allowance for doubtful accounts	<u>692,840</u>	<u>331,182</u>
Totals	<u>\$3,324,899</u>	<u>\$2,611,552</u>

**Community Health Project, Inc.
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Notes to Financial Statements

Note 4 - Grants and contracts receivable:

Grants and contracts receivable consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
New York State Department of Health	\$ 355,982	\$1,495,782
New York City Department of Health	636,995	588,431
Lutheran Medical Center	123,468	123,468
National Institute of Health		12,385
Other	<u>125,172</u>	<u>16,732</u>
Totals	<u>\$1,241,617</u>	<u>\$2,236,798</u>

Note 5 - Property and equipment, net:

Property and equipment, net, consists of the following at June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 1,000,000	\$ 1,000,000
Building and building improvements	7,876,907	7,864,723
Furniture and equipment	2,951,234	2,942,616
Construction-in-progress	<u>221,329</u>	
Totals	<u>12,049,470</u>	<u>11,807,339</u>
Less accumulated depreciation	<u>5,339,578</u>	<u>4,976,651</u>
Totals	<u>\$ 6,709,892</u>	<u>\$ 6,830,688</u>

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

Note 6 - Line of credit:

The Center has a revolving line of credit available in the amount of \$1,500,000 which is due to expire on December 1, 2013. This agreement requires interest to be charged at the greater of the national average prime rate plus 2%, or 6.75% per annum (6.75% at June 30, 2012). The debt is collateralized by a second priority security interest in the Center's New York State bad debt and charity care receivables and patient accounts receivable.

The outstanding line of credit balances were \$200,000 and \$1,150,000 at June 30, 2012 and 2011, respectively.

**Community Health Project, Inc.
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Community Health Center)**

Notes to Financial Statements

Note 7 - Note payable:

On September 14, 1995, the Center purchased a 27,000-square-foot building located at 356 West 18th Street in New York, New York. Completion of improvements to the property allowed the Center to consolidate its operations at a single location on March 2, 1998.

Long-term debt consists of the following at June 30:

	<u>2012</u>	<u>2011</u>
<p>On October 1, 1996, the Center obtained permanent financing for its facility. On that date, the Center entered into a ground lease and a construction disbursement agreement with the Dormitory Authority of the State of New York ("DASNY"). DASNY's disbursements to the Center under these agreements, which were financed through DASNY's issuance of bonds, totaled \$7,630,000. Under these agreements, the Center makes lease payments to DASNY in amounts equal to the principal and interest payments required under the bonds through April 1, 2023. On August 26, 2010, the DASNY bonds were refinanced through the issuance of new DASNY bonds. Under the new bonds, the Center's security deposit for the lease, held by DASNY through its intermediary was reduced to \$261,251, which is included in the statements of financial position under security deposits. Also, the monthly amortization amounts (for principal and interest) were reduced with an average interest rate over the remaining term of the debt expected to be 3.56%.</p>	\$4,480,676	\$4,815,687
Less current maturities	<u>345,538</u>	<u>335,011</u>
Long-term portion	<u>\$4,135,138</u>	<u>\$4,480,676</u>

The aggregate amount of principal payments of long-term debt in each of the five years subsequent to 2012 and thereafter is as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 345,538
2014	354,222
2015	367,118
2016	381,592
2017	397,908
Thereafter	<u>2,634,298</u>
Total	<u>\$ 4,480,676</u>

Callen-Lorde is required to comply with certain covenants under its line of credit and note payable.

**Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde
Community Health Center)**

Notes to Financial Statements

Note 8 - Due to third party:

Amounts due to third party pertain to amounts owed to a vendor operating and managing the 340b program. A portion of the amount due to the third party is \$250,000, representing a noninterest bearing liability payable over a period of 5 years to be amortized monthly in the amount of \$4,167. The remaining balance in the amount of \$95,056 is due within the next 12 months.

Payments due to third party are due in each of the four years subsequent to June 30, 2012 as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 145,056
2014	50,000
2015	50,000
2016	<u>16,667</u>
Total	<u>\$ 261,723</u>

Note 9 - Temporarily restricted net assets:

The Center receives contributions from various funders designated for program specific purposes. The following consists of the unspent restricted funds as of June 30:

	<u>2012</u>	<u>2011</u>
Program for integration of health and mental health services	\$ 127,270	\$ 52,270
MMU Care Coordination program	89,909	65,233
Health information technology capacity building projects	30,206	
Transgender patient data project	19,064	
Transgender health initiative program	<u> </u>	<u>60,881</u>
Total	<u>\$ 266,449</u>	<u>\$ 178,384</u>

**Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde
Community Health Center)**

Notes to Financial Statements

Note 10- Patient services revenue, net:

For the years ended June 30, 2012 and 2011, patient services, net consists of the following:

	<u>2012</u>	<u>2011</u>
Medicaid	\$ 3,965,982	\$ 4,752,139
Medicaid managed care	1,284,516	515,430
Medicare	281,794	287,401
Private insurance	911,651	754,820
Pharmacy 340B program	16,829,445	5,854,998
Self-pay	<u>673,541</u>	<u>790,982</u>
Totals	23,946,929	12,955,770
New York State Uncompensated Care	1,971,790	1,249,197
New York State Medicaid Managed Care Wraparound	<u>2,536,179</u>	<u>1,550,072</u>
Totals	<u>\$28,454,898</u>	<u>\$15,755,039</u>

Based on the cost of patient services, charity care and community benefit (nonreimbursed services) consist of the following for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Charity care	\$ 2,736,040	\$4,449,396
Community benefit	573,941	735,022

Medicaid and Medicare revenue is reimbursed to Callen-Lorde 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.

**Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde
Community Health Center)**

Notes to Financial Statements

Note 11- Contract services and other grants revenue:

Contract services and other grants revenue consist of the following for the years ended June 30:

	2012	2011
New York City Department of Health	\$1,782,942	\$2,157,418
New York State Department of Health	1,636,679*	2,760,324*
Lutheran Medical Center:		
CHC Program	493,872	493,872
ARRA – Capital Improvement Program	66,259*	238,716*
ARRA – Increased Services to Health Centers		57,594
Other	77,915	172,631
Totals	\$4,057,667	\$5,880,555

*New York State Department of Health includes nonoperating revenue of \$243,266 and \$703,873 for 2012 and 2011, respectively. The Lutheran Medical Center ARRA – Capital Improvement Program is all nonoperating revenue.

Note 12- DHHS grants:

For the years ended June 30 2012 and 2011, Callen-Lorde received the following grants from the DHHS:

Grant Number	Grant Period	Total Grant	2012 Revenue	2011 Revenue
6 H76HA00636-12-02	07/01/11– 06/30/12	\$341,005	\$341,005	\$ -
1U65PS003571-01	09/30/11 – 9/29/12	175,267	86,640	
5 H76HA00636-11-00	07/01/10 – 06/30/11	341,005		341,005
1 P06HA20633-01-00	09/01/10 – 08/31/11	100,000	19,398	80,602
6 H97HA15300-01-03	09/01/09 - 08/31/10	52,302		52,302
Totals			\$447,043	\$473,909

**Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde
Community Health Center)**

Notes to Financial Statements

Note 13- Fundraising and contributions:

Fundraising and contributions revenue consists of the following for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Fundraising	\$ 314,984	\$ 314,463
Contributions	<u>866,945*</u>	<u>1,054,490*</u>
Totals	<u>\$ 1,181,929</u>	<u>\$ 1,368,953</u>

*Includes temporarily restricted contributions amounting to \$335,106 and \$178,384 for 2012 and 2011, respectively. See Note 9 for more details.

Note 14- Commitments and contingencies:

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

Callen-Lorde maintains its medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). FTCA provides malpractice coverage to eligible PHS-Supported programs and applies to the Center and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage. The Center purchases professional and general liability insurance to cover medical malpractice claims in excess of the FTCA coverage. There are no known claims or incidents that may result in the assertion of additional claims arising from services provided to patients as of June 30, 2012.

**Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde
Community Health Center)**

Notes to Financial Statements

The healthcare industry is subject to voluminous and complex laws and regulations of Federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws, and false claims prohibitions. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulation by healthcare providers. Callen-Lorde believes that it is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Upon audit, if discrepancies are discovered, Callen-Lorde could be held responsible for refunding the amount in questions.

Note 15- Pension plan:

Callen-Lorde maintains a contributory defined contribution retirement plan covering substantially all its employees. Participants are always fully vested in their contributions to the plan and benefits are limited to plan assets. Callen-Lorde does not contribute to the plan.

**Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde
Community Health Center)**

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012**

<u>Federal Grantor / Pass Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Grantor's Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services:			
Direct programs:			
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	<u>\$ 360,404</u>
HIV Prevention Activities-Non-Governmental Organization Based	93.939	N/A	<u>86,639</u>
Passed through Lutheran Medical Center:			
Consolidated Health Centers Cluster:			
Consolidated Health Centers	93.224	Not Available	385,395
Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program	93.527	Not Available	<u>108,477</u>
Subtotal Consolidated Health Centers Cluster			<u>493,872</u>
ARRA - Grants to Health Centers:			
ARRA - Capital Improvement Program	93.703	Not Available	<u>66,259</u>
Passed through Public Health Solution:			
HIV Emergency Relief Project Grants	93.914	09-MCM-707	<u>922,831</u>
Family Planning Services	93.217	10-CALLEN-01	<u>110,253</u>
HIV Prevention Activities-Health Department Based	93.940	07-NPP-707/07-RTS-707/11-HTR-707	306,191
Passed through Health Research Inc.:			
HIV Prevention Activities-Health Department Based	93.940	3985-01 / 3985-02	<u>59,647</u>
Subtotal 93.940			<u>365,838</u>
HIV Care Formula Grants	93.917	3038-05 / 3038-06	<u>21,863</u>
Passed through Columbia University:			
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs			
	93.919	Not Available	<u>292</u>
Passed Through New York State Department of Health Office of Health Insurance Programs:			
Children's Health Insurance Program (CHIP)	93.767	050605NY5021	<u>27,822</u>
Medical Assistance Program	93.778	050805NY5048	<u>27,822</u>
Passed Through Center for Disease Control and Prevention:			
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	11-CL-01	<u>154,399</u>
Passed Through National Institutes of Health:			
Mental Health Research Grants	93.242	5R34MH087216-03	<u>39,405</u>
Total Federal awards - U.S. Department of Health and Human Services			<u>\$ 2,677,699</u>

See Notes to Schedule of Expenditures of Federal Awards.

**Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde
Community Health Center)**

**Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012**

Note 1 - Basis of presentation:

The accompanying schedule of expenditures of Federal awards presents the activities in Federal awards of Callen-Lorde. All financial assistance received directly from Federal agencies, as well as financial assistance passed through other governmental agencies or nonprofit organizations, are included in the schedule.

Note 2 - Basis of accounting:

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

Note 3 - Subrecipients:

Of the Federal expenditures presented in this schedule, Callen-Lorde provided no Federal awards to subrecipients.

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

To the Board of Directors
Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde Community Health Center)

We have audited the financial statements of Community Health Project, Inc. (d/b/a Michael Callen - Audre Lorde Community Health Center) ("Callen-Lorde"), as of and for the year ended June 30, 2012, and have issued our report thereon dated February 12, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Callen-Lorde is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Callen-Lorde's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Callen-Lorde's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Callen-Lorde's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2012-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Callen-Lorde's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2012-1.

We noted certain matters that we reported to management of Callen-Lorde in a separate letter dated February 12, 2013.

Callen-Lorde's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Callen-Lorde's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors, others within the entity, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



New York, New York
February 12, 2013

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

To the Board of Directors
Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde Community Health Center)

Compliance

We have audited Community Health Project, Inc.'s (d/b/a Michael Callen - Audre Lorde Community Health Center) ("Callen-Lorde") 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 Callen-Lorde's major Federal programs for the year ended June 30, 2012. Callen-Lorde's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Callen-Lorde's management. Our responsibility is to express an opinion on Callen-Lorde's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Callen-Lorde's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Callen-Lorde's compliance with those requirements.

In our opinion, Callen-Lorde complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-1.

Internal Control over Compliance

Management of Callen-Lorde is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Callen-Lorde's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Callen-Lorde's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2012-1. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Callen-Lorde's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Callen-Lorde's response and, accordingly, we express no opinion on the response.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of Callen-Lorde's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on Callen-Lorde's compliance but not to provide an opinion on the effectiveness of Callen-Lorde's internal control over compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Callen-Lorde's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.



New York, New York
February 12, 2013

**Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde
Community Health Center)**

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Section I - Summary of Auditors' Results:

Financial Statements:

Type of auditors' report issued:

Unqualified

- Material weakness(es) identified? ___ yes no
- Significant deficiency(ies) identified? ___ yes none reported

Noncompliance material to financial statements noted?

___ yes no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? ___ yes no
- Significant deficiency(ies) identified? yes ___ none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in
accordance with Section 510(a) of Circular A-133?

yes ___ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program

93.703

United States Department of Health and
Human Services:
ARRA – Grants to Health
Center Programs
Consolidated Health Center Cluster:
Consolidated Health Centers
Affordable Care Act (ACA) Grants
for New and Expanded Services
under the Health Center Program
HIV Emergency Relief Project Grants

93.224
93.527

93.914

Dollar threshold used to distinguish
between type A and B programs

\$300,000

Auditee qualified as low-risk auditee?

___ yes no

**Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde
Community Health Center)**

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Section II – Financial Statement Findings:

None.

**Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde
Community Health Center)**

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Section III – Federal Award Findings and Questioned Costs:

**CFDA 93.224/93.527: Consolidated Health Centers Cluster Program and CFDA 93.914:
HIV Emergency Relief Project Grants**

Item 2012-1 – Sliding Fee

Criteria

In accordance with OMB Circular A-133, health centers should have a schedule of discounts applied and adjusted on the basis of the patient's ability to pay, with the patient's ability to pay determined on the basis of the official poverty guideline. In order to establish the patient's ability to pay, a center or provider needs to obtain the basis for the patient's income.

Statement of Condition

For 6 out of 40 samples tested, Callen-Lorde did not have on file, any proof of the patients' income or an attestation form signed by the patient, declaring his or her income level.

Questioned Costs:

None

Effect

Callen-Lorde may not have properly calculated the sliding fee or discount given to the patients and the discount given, if any, may not have been based on the patient's ability to pay.

Recommendation

We recommend that management establish controls to review the documents submitted or completed by patients during the registration process to ensure completeness thereof. Management may also perform periodic internal audits of patient records aimed at ensuring the completeness of such records.

Management's Response

Management concurs with the finding and will ensure that controls are established to ensure appropriate retention of patient income attestation documents.

**Community Health Project, Inc.
(d/b/a Michael Callen - Audre Lorde
Community Health Center)**

**Schedule of Prior Year's Findings
Year Ended June 30, 2012**

<u>Finding Number</u>	<u>Condition</u>	<u>Status</u>
2011-1	For four grants and contracts and for certain patient services revenues, Callen-Lorde failed to recognize the revenue during the period it was earned or realized. Furthermore, Callen-Lorde did not record the payment of a liability as a reduction of the liability account.	Management has corrected the finding in 2012.
2011-2	For three out of four self-pay visits tested, Callen-Lorde did not have on file, any proof of the patient's income or an attestation form signed by the patient, declaring his or her income level.	Management has not yet corrected the finding in 2012. See Finding 2012-1.