The Institute for Family Health and Affiliates

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

December 31, 2013

The Institute for Family Health and Affiliates

December 31, 2013

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O'CONNOR DAVIES

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Independent Auditors' Report

Board of Directors
The Institute for Family Health and Affiliates

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Institute for Family Health and Affiliates' (the "Institute"), which comprise the consolidated statement of financial position as of December 31, 2013 and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Institute for Family Health and Affiliates as of December 31, 2013, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Schedules

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating schedule of financial position, consolidating schedule of operations and changes in net assets and the consolidated schedule of functional expenses on pages 26 through 28 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report on Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2014 on our consideration of the Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institute's internal control over financial reporting and compliance.

O'Connor Davies, LLP

Harrison, New York
May 30, 2014

The Institute for Family Health and Affiliates

Consolidated Statement of Financial Position
December 31, 2013

ASSETS	
Current Assets	
Cash and cash equivalents	$ 12,954,502
Restricted cash	1,920,351
Patient services receivable, net of allowances of $5,495,000	11,785,590
Grants and contracts receivable	7,162,995
Deposits and other receivables	1,332,384
Prepaid expenses and other	1,699,050
Hospital service contracts receivable	525,000
Total Current Assets	37,379,872
Deferred financing costs, net	2,160,720
Assets limited as to use	121,508
Loan receivable	21,351,110
Property and equipment, net	42,753,663
Goodwill	2,998,806
	$ 106,765,679
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable and accrued expenses	$ 6,690,933
Accrued compensation and benefits	2,820,849
Current portion of long-term debt	342,229
Refundable advances-state and other	1,211,187
Total Current Liabilities	11,065,198
Deferred rent liability	982,084
Long-term debt, net of current portion	40,311,237
Total Liabilities	52,358,519
Net Assets	
Unrestricted	53,118,383
Temporarily restricted	1,288,777
Total Net Assets	54,407,160
	$ 106,765,679

See notes to consolidated financial statements

The Institute for Family Health and Affiliates

Consolidated Statement of Activities and Changes in Net Assets
Year Ended December 31, 2013

OPERATING REVENUE	
Net patient service revenue (Note 3)	$ 65,516,427
Provision for bad debts	(5,494,509)
Patient services revenue, less provision for bad debts	60,021,918
Capitation revenue	5,319,723
Grants and contracts	28,559,607
Hospital service contracts	4,867,122
Net assets released from restrictions	1,534,530
Meaningful use incentives	1,168,993
Interest income	180,186
Other	2,501,226
Total Revenue	104,153,305
OPERATING EXPENSE	
Salaries and benefits	69,528,589
Other than personnel services	23,706,324
Interest expense	1,531,208
Total Expenses	94,766,121
Operating Income Prior to Depreciation and Amortization	9,387,184
Depreciation and amortization expense	2,245,030
Gain from operations	7,142,154
NON-OPERATING REVENUE	
Grants and contracts for construction projects	1,176,302
Change in Unrestricted Net Assets	8,318,456
TEMPORARILY RESTRICTED NET ASSETS	
Contributions	1,425,000
Net assets released from restrictions	(1,534,530)
Change in Temporarily Restricted Net Assets	(109,530)
Change in Net Assets	8,208,926
NET ASSETS	
Beginning of year	46,198,234
End of year	$ 54,407,160

See notes to consolidated financial statements

The Institute for Family Health and Affiliates

Consolidated Statement of Cash Flows
Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 8,208,926
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation and amortization	1,679,941
Amortization of deferred financing costs	565,089
Provision for bad debts	6,189,466
Deferred rent liability	982,084
Change in operating assets and liabilities	
Patient services receivable	(2,764,116)
Grants and contracts receivable	8,143,336
Hospital service contracts receivable	(262,500)
Deposit and other receivables	5,118,811
Prepaid expenses and other	(558,233)
Accounts payable and accrued expenses	(5,974,957)
Accrued compensation	499,511
Refundable advances state and other	112,783
Net Cash From Operating Activities	21,940,141
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(5,549,893)
Restricted cash	7,012,298
Change in assets limited as to use	770,750
Net Cash From Investing Activities	2,233,155
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal repayments on long-term debt	(22,413,739)
Proceeds from new long-term debt	9,428,592
Principal repayments on line of credit	(2,976,887)
Deferred financing costs	(223,231)
Net Cash From Financing Activities	(16,185,265)
Change in Cash and Cash Equivalents	7,988,031
CASH AND CASH EQUIVALENTS	
Beginning of year	4,966,471
End of year	$ 12,954,502
SUPPLEMENTAL CASH FLOW INFORMATION	
Cash paid for interest	$ 1,531,208
Property and equipment additions included in accounts payable and accrued expenses	838,000

See notes to consolidated financial statements

1. Organization

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

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

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

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

- Family Health ACO LLC was established during 2012 to facilitate patient-centered health service delivery for Medicare fee-for-service beneficiaries residing in medically underserved communities in New York State. Family Health ACO LLC was inactive in 2013.

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

Tax Exempt Status

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The Institute's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). Resources are classified for accounting and reporting purposes into net asset classes according to donor imposed restrictions. Unrestricted net assets are those whose use is not subject to any donor imposed restrictions. Temporarily restricted net assets are those resulting from contributions and other inflows of assets whose use by the Institute is limited by donor imposed stipulations that will be met either by the passage of time or that can be fulfilled and removed by actions of the Institute pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to other restrictions. The Institute's policy is to report as unrestricted support, contributions with donor imposed restrictions when these restrictions are met in the same year the contributions are received. Permanently restricted net assets are donor restricted gifts that must be maintained permanently by the Institute to provide present and future income for operations. At December 31, 2013, there were no permanently restricted net assets.

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Significant estimates and assumptions include contractual allowances and allowances for uncollectible receivables and the allocation of expenses to functional classifications. Actual results could differ from those estimates.

Fair Value of Financial Instruments

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

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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

Cash and Cash Equivalents

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

Restricted Cash

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

Patient Services Receivable and Concentration of Credit Risk

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

Property and Equipment

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

The Institute capitalizes construction, insurance and other costs during the period of construction. Depreciation is recorded when construction is substantially complete and the assets are placed in service.

The Institute capitalizes property and equipment purchased with Federal funds and depreciates those assets over their estimated useful lives. According to Federal regulations, any property and equipment obtained through Federal funds are subject to lien by the Federal government. As long as the Institute maintains its tax-exempt status, or so long as the equipment is used for its intended purpose, the Institute is not required to reimburse the Federal government or return those assets. If the stated requirements are not met, the Institute would be obligated to the Federal government in an amount equal to the fair value of the property and equipment.

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

Impairment of Long-lived Assets

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

Asset Retirement Obligations

The Institute accounts for Asset Retirement Obligations ("ARO") in accordance with US GAAP, which defines a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may and/or may not be within the control of the entity. Uncertainty with respect to the timing and/or method of settlement of the asset retirement obligation, does not defer recognition of a liability. The fair value of the ARO is recorded on a discounted basis and accreted over time for the change in fair value. Management has determined that there are no ARO liabilities that are required to be reported at December 31, 2013.

Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain long-term financing. Amortization of these costs is over the life of the applicable indebtedness.

Goodwill

The Institute follows U.S. GAAP guidance on goodwill impairment testing which allows an entity to first assess qualitative factors to determine whether it is more likely than not that goodwill may be impaired. Under this guidance, qualitative factors are assessed at least annually, or more frequently, if events or changes in circumstances indicate that the carrying value of the reporting unit is less than its carrying amount. If the Institute's qualitative assessment indicates that goodwill may be impaired the Institute will estimate the fair value of the reporting unit based on one or more of the following valuation techniques; i. income; ii. discounted cash flows, or; iii. market approach. If such fair value estimate is less than the carrying value of goodwill, an impairment loss is recognized. The Institute concluded that goodwill was not impaired during the year ended December 31, 2013.

Deferred Rent Liability

The Center has entered into several operating lease agreements, some of which contain provisions for future rent increases, rent free periods or periods in which rent payments are reduced. The total amount of rental payments due over the lease term is being charged to rent expense on the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid is recorded as a change in the deferred rent liability, which is included in the consolidated statement of financial position.

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

Patient Service Revenue

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

Capitation Revenue

The Institute has agreements with certain health maintenance organizations (“HMO”s) to provide medical services to subscribing participants. Under these agreements, the Institute receives monthly capitation payments based on the number of participants of each HMO's assigned to the Center, regardless of services actually performed by the Institute.

Charity Care

The Center is open to all patients, regardless of their ability to pay. In the ordinary course of business, the Center renders services to patients who are financially unable to pay for medical care. The Center provides care to these patients who meet certain criteria under its sliding fee discount policy without charge or at amounts less than the established rates. Sliding fee discount eligibility is established based on limited or no insurance coverage, income compared to published poverty levels and family size, as well as other factors. Because the Center does not pursue collection of amounts determined to qualify as sliding fee discount, they are not reported as revenue. The Center maintains records to identify and monitor the level of sliding fee discount it provides. Sliding fee discount is measured based on the Center’s estimated direct and indirect costs of providing uninsured services.

Grants and Contracts

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

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

Meaningful Use Incentives

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish a one-time incentive payment under the Medicare and Medicaid programs for certain professionals that: (1) meaningfully use certified Electronic Health Record ("EHR") technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of health care and (3) use the certified EHR technology to submit clinical and quality measures. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health ("HITECH") Act. The criteria for meaningful use incentives will be staged in three steps over the course of the next four years and will be received based on a transitional schedule.

Assets Limited as to Use

Assets limited as to use include assets held by trustees under loan agreements for debt service funds and interest reserve funds. Assets limited to use are held in cash and cash equivalents and are reported as long-term in the accompanying consolidated statement of financial position as their use is anticipated to occur after one year.

In-Kind Contributions

Donated vaccines are recognized at fair value in other than personnel services in the accompanying consolidated financial statements.

Professional and Similar Liabilities

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

Self Insured Health Insurance

The Institute is self-insured for health insurance for non-union employees. The Institute records a liability for medical claims that have been incurred but not paid for employees covered by the self insured plan. For the year ended December 31, 2013, the Institute has recorded a liability for claims incurred but not paid of approximately $500,000, which is recorded in accounts payable and accrued expenses in the accompanying consolidated statement of financial position.

Functional Expenses

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

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

Operating Indicator

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

Accounting for Uncertainty in Income Taxes

The Institute recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Institute had no uncertain tax positions that would require consolidated financial statements recognition or disclosure. The Institute is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to December 31, 2010.

Subsequent Events

Management has evaluated subsequent events for disclosure and/or recognition in the consolidated financial statements through May 30, 2014, which is the date the consolidated financial statements were available to be issued.

3. Patient Services Receivable and Revenue

The Institute recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual and formula-driven rates for the services rendered. Patient service revenue for the year ended December 31, 2013, net of contractual allowances and discounts (but before the provision for bad debts), recognized from these major payor sources based on primary insurance designation, is as follows:

Third-Party	$ 61,619,569
Self-Pay	3,896,858
Total	$ 65,516,427

Deductibles and copayments under third-party payment programs within the third-party payor amount above are the patient's responsibility and the Institute considers these amounts in its determination of the provision for bad debts based on collection experience. Accounts receivable is also reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Institute analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

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

The Institute's allowance for doubtful accounts totaled approximately $5.5 million at December 31, 2013. The allowance for doubtful accounts for self-pay patients was approximately 88% of self-pay accounts receivable for the year ended December 31, 2013. Overall, the total of self-pay discounts and write-offs did not change significantly in 2013. The Institute did not experience significant changes in write-off trends and did not change its charity care policy in 2013.

For the year ended December 31, 2013, the Center received a retroactive adjustment for Medicaid rate changes of approximately $11.2 million, of which approximately $9.4 million related to prior years, which increased the gain from operations.

Patient services receivable, net, consists of the following at December 31, 2013:

Medicaid	$ 3,084,508
Medicaid managed care	1,363,912
Medicare	1,640,008
Private insurance	3,077,057
Self-pay	6,239,237
Pharmacy	149,246
	15,553,968
Less allowance for doubtful accounts	(5,494,504)
Subtotal	10,059,464
NYS Medicaid Managed Care Wraparound	1,726,126
	$ 11,785,590

For the year ended December 31, 2013, the mix of patient services revenue, net is as follows:

Medicaid	33%
Medicaid managed care	31%
Medicare	12%
Private insurance	15%
Self-pay	9%
	100%

Based on the cost of patient services, charity care approximated $3,654,000 and community benefit approximated $7,212,000.

4. Loan Receivable

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

Cross Collateralization

As part of the loan agreement related to the New Markets Tax Credit, collateral for the Center's loan receivable to 481 IFH Investment Fund, LLC are the assets of the Sub Community Development Entities. The Sub Community Development Entities have used the funds received by 481 IFH Investment Fund, LLC to provide a loan to IFH Properties (a consolidated entity) to purchase and build the Family Health Center of Harlem. Accordingly, the loan payable to the Sub Community Development Entities (which constitute substantially all of the assets of the Sub Community Development Entities) serves as collateral for the loan receivable from 481 IFH Investment Fund, LLC. The consolidated financial statements do not include any adjustments that might result from a default by 481 IFH Investment Fund, LLC on the loan receivable.

5. Deposits and Other Receivables

Deposits and other receivables consist of the following at December 31, 2013:

Meaningful Use Incentive Funding	$ 1,168,993
Other	163,391
	$ 1,332,384

6. Deferred Financing Costs, Net

Deferred financing costs arose when the Institute refinanced a mortgage and as part of the debt agreements related to the New Markets Tax Credit (Note 10). Amortization is recorded over the term of the debt. Deferred costs and accumulated amortization at December 31, 2013 are summarized as follows:

Deferred debt issuance costs	$ 2,249,081
Accumulated amortization	(88,361)
	$ 2,160,720

The Center expensed approximately $430,000 of deferred financing fees during 2013 in connection with the repayment of debt refinanced with Citibank (Note 10e).

7. Property and Equipment, Net

Property and equipment, net consists of the following at December 31, 2013:

Land	$ 484,448
Building and building improvements	41,060,679
Leasehold improvements	4,652,853
Furniture and fixtures	13,258,168
	59,456,148
Accumulated depreciation and amortization	(16,770,461)
	42,685,687
Construction-in-progress	67,976
	$ 42,753,663

Construction in progress is for various ongoing projects at the Center. The total estimated additional costs to complete these projects approximates $100,000. The projects are expected to be completed in 2014.

No interest was capitalized during the year ended December 31, 2013.

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

8. Line of Credit

The Institute had a line of credit agreement with TD Bank in the amount of $5,000,000 which was secured by certain assets of the Institute. Interest was charged at 4.25% per annum. In October 2013, the line of credit matured and the Institute repaid the balance outstanding on the line of credit.

On December 19, 2013, the Institute secured a new revolving line of credit with Citibank in the amount of $5,000,000. The line of credit matures on December 19, 2014 and has a variable interest rate for each advance equal to LIBOR rate plus 2%. No amounts were drawn down on this line of credit and no balance is outstanding as of December 31, 2013.

9. Receivable from the New York City Economic Development Corporation

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

9. Receivable from the New York City Economic Development Corporation *(continued)*

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

10. Long-term Debt

At December 31, 2013 long-term debt consists of the following:

Debt associated with the New Markets Tax Credit:	
TD Bank	
(a) IFH Loan Senior Note	$ 2,151,110
Sub Community Development Entities	
(b) PCDC Empire State Health Opportunities Fund III LLC Loan (Senior Loan)	2,151,110
(c) PCDC Empire State Health Opportunities Fund III LLC Loan (Junior Loan)	17,238,786
(d) CHHS Subsidiary CDE5, LLC Loan (Junior Loan)	9,725,000
Other debt:	
(e) Citibank Loan	9,340,000
(f) ADP Loan	47,460
	$ 40,653,466

New Markets Tax Credit

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

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

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

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

10. Long-term Debt *(continued)*

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

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

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

The loan is collateralized by the HEAL Grant, the New York City Economic Development Corporation loan proceeds, $4 million under a supplemental pledge agreement and other rights under Section 3.1 of the IFH Loan and Security Agreement. The proceeds of the funds were loaned to 481 IFH Investment Fund, LLC, an entity unrelated to the Institute (Note 4).

In connection with the loans the Center is required to meet financial and debt reporting covenants.

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

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

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

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

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

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

10. Long-term Debt *(continued)*

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

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

e) On December 19, 2013, the Center entered in to the following loan agreements with Citibank:

1) Mortgage note in the amount of $9,340,000 at an annual interest rate of 4.21%. The note matures on December 19, 2033. The proceeds from the note were used to repay loans in connection with the New Markets Tax Credit.

2) Leasehold term note in the amount of $3,500,000 for the purpose of financing a renovation project at the Stevenson Family Health Center. The note has an annual interest rate of 2.89% and matures on December 20, 2020. As of December 31, 2013, no amounts were drawn on this note.

3) Equipment term note in the amount of $1,500,000 to finance equipment purchases by the Center for the Stevenson Family Health Center. The note has an annual interest rate of 2.89% and matures on December 20, 2020. As of December 31, 2013, no amounts were drawn on this note.

Other Debt

f) In 2013, the Center executed a promissory note with Automatic Data Processing ("ADP") to finance equipment from ADP. The note is payable in consecutive monthly installments until it is paid in full. The note is non-interest bearing and matures in 2014.

Future principal payments on long-term debt in each of the five years subsequent to December 31, 2013 and thereafter are as follows:

2014	$ 342,229
2015	326,813
2016	330,941
2017	345,146
2018	359,960
Thereafter	38,948,377
Total	$ 40,653,466

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

11. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2013 consist of contributions received from the following organizations for specific programs and activities.

	Balance 12/31/2012	2013 Additions	Release from Restrictions	Balance 12/31/2013
Altman Foundation - Institute Link and Messaging Campaign	$ 18,014	$ 100,000	$ (41,399)	$ 76,615
Mary Helen Rowan - Capital Project	125,000	-	-	125,000
Robin Hood Foundation - Diabetes and Free Clinic Programs	996,598	1,325,000	(1,316,519)	1,005,079
NYS Health Foundation	252,670	-	(176,612)	76,058
Cigna	6,025	-	-	6,025
	$ 1,398,307	$ 1,425,000	$ (1,534,530)	$ 1,288,777

12. Grants and Contracts Revenue

Grants and contracts revenue consists of the following at December 31, 2013:

U.S. Department of Health and Human Services (DHHS):	
Health Resources and Services Administration:	
Consolidated Health Centers Program	$ 4,212,853
HRSA Outreach and Enrollment	69,326
Supplemental HIV Award	21,142
SAMSHA	479,172
Ryan White Title III: Early Intervention Services	541,438
ACA - Teaching Health Center Graduate Medical Education	3,977,246
ACA SBHC PS 57	102,166
IFI Capital Development Grant	61,239
National Institute of Health (NIH):	
National Center on Minority Health and Disparities	253,108
National Human Genome Research Institute	53,668
National Library of Medicine Spanish MyChart	118,770
Center for Disease Control and Prevention (CDC):	
Racial and Ethnic Approach to Community Health	255,397
Agency for Healthcare Research and Quality	6,801
HITCH: CHIPRA Outreach and Enrollment Grants	144,696
HITCH: Cancer Services Program	60,842
Care for the Homeless	845,521
NYC Department of Health and Mental Hygiene:	
Care Coordination Protocol for HIV Infected Persons	404,078
Immunization Grants	548,949
NYS Offices for Children and Family Services:	
Ulster County Healthy Start	988,423
Dutchess County Healthy Families	620,806

12. Grants and Contracts Revenue

NYS Department of Health (NYSDOH):	
Heal 10	$ 113,721
Heal 17	938,957
Heal 22	135,500
Community Health Workers	166,265
School Based Health	296,082
Health Workforce Retraining Initiative	286,690
School Wellness Policies	123,613
Oral Health Grant	55,991
Women, Infants and Children	874,872
Doctors Across New York	387,471
Vital Access Program	1,356,428
NYS Department of Health Aids Institute:	
Ryan White Part B - BCSS Mental Health	219,718
Rebate	343,817
New York State Department of Health Bureau of Maternal & Child Health:	
Maternal and Infant Community Health Collaboratives	45,630
Community Based Care Transition Program	473,676
Fund for Public Health - Community Transformation Grant	169,225
Hospital Medical Home Demonstration Program - Beth Israel	472,075
Hospital Medical Home Demonstration Program - Kingston	576,396
Hospital Medical Home Demonstration Program - Mt. Sinai	456,333
NYC Department of Social Services of the Human Resource Administration:	
Federal Employment and Guidance Services	2,695,471
Collaborations for Health Improvement in East Harlem - Project HEED	13,006
Beth Israel Hospital Community Benefit Grant	687,535
Dutchess County Department of Health - Ryan White HIV	17,875
Rural Health Network	175,078
NYS Office of Mental Health	157,032
Catskill Hudson AHEC	85,053
New York Metro AHEC	146,936
Single Stop USA	255,504
Single Stop to Veterans	67,350
University of Washington Collaborative Care Project	203,322
March of Dimes Foundation	42,400
EPIC	130,000
Kingston Hospital	500,000
Kingston Schools	141,432
Weill Cornell Medical College	100,950
Pfizer	71,259
Ellenville School	37,500
Ellenville Hospital	116,000
Johnson & Johnson	27,324
University of Pittsburgh	70,495
Mt. Sinai Community Benefit Grant	675,000

12. Grants and Contracts Revenue *(continued)*

National Association of Community Health Centers - Community Health	$ 167,469
Ulster Greene ARC	70,000
Wellcare	193,000
Other	454,515
Total Operating	28,559,607
Non-Operating:	
New York State Department of Health (NYSDOH):	
HEAL 19 - North General Capital	923,464
City Counsel of Harlem	252,838
Total Non-operating	1,176,302
	$ 29,735,909

13. Pension Plan

Profit Sharing Plan

The Institute maintains a noncontributory profit-sharing plan which covers all employees meeting certain eligibility requirements. Contributions to the plan are based on a percent of salaries. The Board of Directors voted to make a contribution to the profit-sharing plan for the year ended December 31, 2013 in the amount of approximately $500,000 which is recorded as part of accrued compensation and benefits.

Union Pension Plans

The Institute contributes to the 1199 SEIU Health Care Employees Pension Plan, Building Service 32BJ Pension Fund and Local 153 Pension Plan (the “Union Plans”), pursuant to collective bargaining agreements that cover its union employees. The risks of participating in the multiemployer plan are different from a single-employer plan in the following aspects:

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

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

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

13. Pension Plan *(continued)*

Union Pension Plans (continued)

The Institute's participation in the Union Plans for the year ended December 31, 2013 is outlined in the table below. The "EIN Number" column provides the Employer Identification Number ("EIN"). The most recent Pension Protection Act ("PPA") zone status available in 2013 is for the Union Plans' year-end at December 31, 2012. The zone status is based on information that the Institute received from the Union Plans and is certified by the actuaries of the Union Plans. Among other factors, pension plans in the red zone are generally less than 65% funded, pension plans in the yellow zone are less than 80% funded, and pension plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates pension plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is pending or has been implemented. The last column lists the expiration dates of the collective bargaining agreements to which the Union Plans are subject.

Multi Employer Union Pension Plan

Pension Fund	EIN Number	Plan Number	Pension Protection Act Zone Status
1199 SEIU Health Care Employees Pension Fund	13-3604862	001	Green as of 1/1/13
Local 32BJ SEIU	13-1879376	001	Red as of 7/1/2013
Local 153 Pension Fund	13-2864289	001	Red as of 1/1/13

FIR / RP Status Pending/Implemented	Contributions by	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
No	$ 107,095	No	Expired 1/31/13
Yes	24,000	No	12/31/2015
Yes	84,000	No	12/31/2014

Form 5500 is not yet available for the aforementioned Union Plans' year ended in 2013.

14. Commitments and Contingencies

Reimbursement

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

14. Commitments and Contingencies *(continued)*

Reimbursement (continued)

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

Health Care Revenue and Regulatory Compliance

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

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

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

Collective Bargaining Agreement

During year ended December 31, 2013, approximately 22% of the Institute's employees are covered by various collective bargaining agreements. The agreements cover RN's, service, maintenance, technical, clerical and professional employees. A summary of the various labor contracts is as follows at December 31, 2013:

Union	% of Employees Covered	Contract Expiration date
1199SEIU United Healthcare Workers East	12%	Expired 1/31/2013
Local 32BJ Service Employees International Union	1%	12/31/2015
Local 153 Office and Professional Employees International Union	9%	12/31/2014

As of the date of this report, the Services Employees International Union Local 1199 contract has not been renewed. Management does not currently anticipate that non renewal of the contract will have a material impact on the financial position or operations of the Center for the year ended December 31, 2013.

14. Commitments and Contingencies *(continued)*

Malpractice

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

Lease from Related Party

The Institute leases office space from Family Life Ventures and is charged a pro rata percentage of the building's operating costs. For the year ended December 31, 2013, the Institute incurred $1,085,620 in rental costs. Two members of management and one former employee of the Institute are owners of Family Life Ventures. Management believes that rent paid to Family Life Ventures is at comparable market rates. There are no other transactions between the Institute and Family Life Ventures.

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

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

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

Operating lease

Occupancy expense for the year ended December 31, 2013 amounted to $5,278,722, which includes rent paid to Family Life Ventures. All facilities are operated under non-cancelable operating leases requiring future minimum payments as follows:

2014	$ 3,926,926
2015	3,920,818
2016	3,975,826
2017	3,726,090
2018	3,432,630
Thereafter	30,083,184
Total	$ 49,065,474

15. Subsequent Event

In 2014, the Center exercised an option in their lease agreement to purchase their New Paltz site for $9,600,000. A refundable deposit of $480,000 has been made to the seller of the site. The Center is awaiting approval from the lender to proceed with the transaction.

* * * * *

The Institute for Family Health and Affiliates

Supplemental Information
December 31, 2013

The Institute for Family Health and Affiliates

Consolidating Schedule of Financial Position
December 31, 2013

	The Institute for Family Health	IFH Properties	IFH Foundation	Mid Hudson Foundation	The Institute for Family Health- ACO	Eliminations	Consolidated Total
ASSETS							
Current Assets							
Cash and cash equivalents	$ 12,876,531	$ 66,030	$ -	$ 11,441	$ 500	$ -	$ 12,954,502
Restricted cash	-	1,920,351	-	-	-	-	1,920,351
Patient services receivable, net of allowances of $5,495,000	11,785,590	-	-	-	-	-	11,785,590
Grants and contracts receivable	7,162,995	-	-	-	-	-	7,162,995
Deposit and other receivables	1,332,384	-	-	-	-	-	1,332,384
Due from the Center	-	496,502	-	-	-	(496,502)	-
Prepaid expenses and other	1,699,050	-	-	81,169	-	(81,169)	1,699,050
Hospital service contracts receivable	525,000	-	-	-	-	-	525,000
Total Current Assets	35,381,550	2,482,883	-	92,610	500	(577,671)	37,379,872
Deferred financing costs, net	328,499	1,832,221	-	-	-	-	2,160,720
Assets limited as to use	41,508	80,000	-	-	-	-	121,508
Loan receivable	21,351,110	-	-	-	-	-	21,351,110
Property and equipment, net	17,370,989	25,382,674	-	-	-	-	42,753,663
Goodwill	2,998,806	-	-	-	-	-	2,998,806
	$ 77,472,462	$ 29,777,778	$ -	$ 92,610	$ 500	$ (577,671)	$ 106,765,679
LIABILITIES AND NET ASSETS							
Current Liabilities							
Accounts payable and accrued expenses	$ 5,883,973	$ 837,629	$ -	$ 50,000	$ 500	$ (81,169)	$ 6,690,933
Accrued compensation and benefits	2,820,849	-	-	-	-	-	2,820,849
Due to IFH Properties	496,502	-	-	-	-	(496,502)	-
Current portion of long-term debt	342,229	-	-	-	-	-	342,229
Refundable advances-state and other	1,211,187	-	-	-	-	-	1,211,187
Total Current Liabilities	10,754,740	837,629	-	50,000	500	(577,671)	11,065,198
Deferred rent liability	982,084	-	-	-	-	-	982,084
Long-term debt, less current portion	11,196,341	29,114,896	-	-	-	-	40,311,237
Total Liabilities	22,933,165	29,952,525	-	50,000	500	(577,671)	52,358,519
Net Assets							
Unrestricted net assets	53,250,520	(174,747)	-	42,610	-	-	53,118,383
Temporarily restricted net assets	1,288,777	-	-	-	-	-	1,288,777
Total Net Assets	54,539,297	(174,747)	-	42,610	-	-	54,407,160
	$ 77,472,462	$ 29,777,778	$ -	$ 92,610	$ 500	$ (577,671)	$ 106,765,679

See independent auditors' report

The Institute for Family Health and Affiliates

Consolidating Schedule of Activities and Changes in Net Assets
Year ended December 31, 2013

	The Institute for Family Health	IFH Properties	IFH Foundation	Mid Hudson Foundation	The Institute for Family Health- ACO	Eliminations	Consolidated Total
OPERATING REVENUE							
Net patient service revenue (Note 3)	$ 65,516,427	$ -	$ -	$ -	$ -	$ -	$ 65,516,427
Provision for bad debts	(5,494,509)	-	-	-	-	-	(5,494,509)
Patient services revenue, less provision for bad debts	60,021,918	-	-	-	-	-	60,021,918
Capitation revenue	5,319,723	-	-	-	-	-	5,319,723
Grants and contracts	28,559,607	-	-	-	-	-	28,559,607
Hospital service contracts	4,867,122	-	-	-	-	-	4,867,122
Net assets released from restrictions	1,534,530	-	-	-	-	-	1,534,530
Meaningful use incentives	1,168,993	-	-	-	-	-	1,168,993
Interest income	180,186	-	-	-	-	-	180,186
Other	2,162,370	2,156,099	-	3,000	-	(1,820,243)	2,501,226
Total Revenue	103,814,449	2,156,099	-	3,000	-	(1,820,243)	104,153,305
OPERATING EXPENSE							
Salaries and benefits	69,528,589	-	-	-	-	-	69,528,589
Other than personnel services	24,017,302	1,506,369	-	2,896	-	(1,820,243)	23,706,324
Interest expenses	1,238,231	292,977	-	-	-	-	1,531,208
Total Expenses	94,784,122	1,799,346	-	2,896	-	(1,820,243)	94,766,121
Operating Income Prior to Depreciation and Amortization	9,030,327	356,753	-	104	-	-	9,387,184
Depreciation and amortization expense	1,489,062	755,968	-	-	-	-	2,245,030
Gain (loss) from operations	7,541,265	(399,215)	-	104	-	-	7,142,154
NON-OPERATING REVENUE							
Grants and contracts for construction projects	1,176,302	-	-	-	-	-	1,176,302
Change in Unrestricted Net Assets	8,717,567	(399,215)	-	104	-	-	8,318,456
TEMPORARILY RESTRICTED NET ASSETS							
Contributions	1,425,000	-	-	-	-	-	1,425,000
Net assets released from restrictions	(1,534,530)	-	-	-	-	-	(1,534,530)
Change in Temporarily Restricted Net Assets	(109,530)	-	-	-	-	-	(109,530)
Change in Net Assets	8,608,037	(399,215)	-	104	-	-	8,208,926
NET ASSETS							
Beginning of year	45,931,260	224,468	-	42,506	-	-	46,198,234
End of year	$ 54,539,297	$ (174,747)	$ -	$ 42,610	$ -	$ -	$ 54,407,160

See independent auditors' report

The Institute for Family Health and Affiliates

Consolidated Schedule of Functional Expenses
December 31, 2013

	Program Services	General and Administrative	Fundraising/ Development	Total
Salaries and wages	$ 49,399,414	$ 6,620,191	$ 1,331,331	$ 57,350,936
Fringe benefits	10,489,251	1,405,702	282,689	12,177,642
Consultants and contractual services	3,306,854	1,746,255	125,912	5,179,021
Professional fees	-	600,586	-	600,586
Travel, conferences and meetings	789,481	151,735	23,266	964,482
Occupancy	3,691,721	1,157,872	75,120	4,924,713
Telephone and utilities	1,214,704	521,473	703	1,736,880
Consumable supplies	6,250,123	397,021	17,811	6,664,955
Insurance	417,736	38,930	-	456,666
Equipment rental and maintenance	572,539	240,708	5,415	818,662
Postage	188,410	16,578	43,042	248,030
Dues, licenses and publications	282,021	-	7,586	289,607
Interest	1,122,654	408,554	-	1,531,208
Provision for bad debts	694,957	-	-	694,957
Other	318,453	807,191	2,132	1,127,776
	78,738,318	14,112,796	1,915,007	94,766,121
Depreciation and amortization	1,570,081	674,949	-	2,245,030
Total Functional Expenses	$ 80,308,399	$ 14,787,745	$ 1,915,007	$ 97,011,151

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

Independent Auditors' Report

Board of Directors
The Institute for Family Health and Affiliates

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Institute for Family Health and Affiliates, which comprise the consolidated statement of financial position as of December 31, 2013, and the related consolidated statements of activities and change 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 30, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

O'Connor Davies, LLP

Harrison, New York
May 30, 2014

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

Independent Auditors' Report

Board of Directors
The Institute for Family Health and Affiliates

Report on Compliance for Each Major Federal Program

We have audited The Institute for Family Health and Affiliates' (the "Institute") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Institute's major federal programs for the year ended December 31, 2013. The Institute's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Institute's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Institute's compliance.

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Opinion on Each Major Federal Program

In our opinion, the Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Institute's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

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

O'Connor Davies, LLP

Harrison, New York
May 30, 2014

The Institute for Family Health and Affiliates

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Health Centers - Cluster			
Department of Health and Human Services Direct Programs			
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	*N/A*	$ 1,855,458
Consolidated Health Centers	93.224	*N/A*	2,445,082
Total Department of Health and Human Services Direct Programs			4,300,540
Passed-through Care for Homeless			
Consolidated Health Centers	93.224	*N/A*	687,488
Total Health Centers Cluster			4,988,028
Other Programs			
Department of Health and Human Services Direct Programs			
Affordable Care Act - Teaching Health Center Graduate Medical Education Payments Program	93.530		3,977,246
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	*N/A*	61,239
Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	93.501	*N/A*	102,165
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	*N/A*	541,438
Human Genome Research	93.172	*N/A*	53,668
Medical Library Assistance	93.879	*N/A*	118,770
Minority Health and Health Disparities Research	93.307	*N/A*	253,108
PPHF 2012: Racial and Ethnic Approaches to Community Health Program financed solely by 2012 Public Prevention and Health Funds	93.738	*N/A*	255,397
Research on Healthcare Costs, Quality and Outcomes	93.226	*N/A*	6,801
State Planning and Establishment Grants for the Affordable Care Act (ACA) Exchanges	93.525	*N/A*	9,305
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	*N/A*	479,171
The Patient Protection and Affordable Care Act of 2010 (ACA)	93.541	*N/A*	1,894
Total Department of Health and Human Services Direct Programs			5,860,202
Department of Health and Human Services Pass-Through Programs			
Passed-through Beth Israel			
Medical Assistance Program	93.778	*N/A*	472,075
Passed-through Community Health Worker			
Medical Assistance Program	93.778	*C021363*	83,133
Passed-through Guidance Services Inc.			
Medical Assistance Program	93.778	*N/A*	269,547
Passed-through IPA Navigator			
Medical Assistance Program	93.778	*N/A*	5,487
Passed-through Kingston Hospital			
Medical Assistance Program	93.778	*N/A*	576,396
Passed-through Mt. Sinai			
Medical Assistance Program	93.778	*N/A*	456,333
Passed-through UC Maternal Infant Community Health Collaborative			
Medical Assistance Program	93.778	*N/A*	25,729
			1,888,700
Passed-through the City of New York Department of Health and Mental Hygiene			
Immunization Cooperative agreements	93.268	*N/A*	548,949
Passed-through Federation Employment and Guidance Service, Inc.			
Temporary Assistance for Needy Families	93.558	*N/A*	619,958

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

The Institute for Family Health and Affiliates

Schedule of Expenditures of Federal Awards *(continued)*
Year Ended December 31, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Passed-through Care for the Homeless			
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	*N/A*	$ 158,033
Passed-through Catskill Hudson Area Health Education Center			
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	*N/A*	18,712
Passed-through Dutchess County Department of Health			
HIV Emergency Relief Project Grants	93.914	*11-0370-3/12-HD*	17,875
Passed-through Fund for Public Health In New York, Inc.			
PPHF 2012: Community Transfromation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Prevention and Public Health Funds	93.531	*72INFHE-001*	169,225
Passed-through Health Research, Inc.			
HIV Care Formula Grants	93.917	*3428-05*	219,718
Passed-through Maternal Infant Services Network			
Children's Health Insurance Program	93.767	*N/A*	376
Passed-through Hudson Information Technology for Community Health, Inc.			
Children's Health Insurance Program	93.767	*N/A*	144,696
Passed-through Mt. Sinai School of Medicine			
Minority Health and Health Disparities Research	93.307	*0255-0718-4609*	13,006
Passed-through New York State Department of Health			
Maternal and Child Health Services Block Grant to the States	93.994	*C022454*	26,821
Passed-through New York State Department of Health			
Maternal and Child Health Services Block Grant to the States	93.994	*C027540*	55,991
Passed-through New York State Department of Health			
Maternal and Child Health Services Block Grant to the States	93.994	*C026581*	80,098
Passed-through NYS Developmental Disability Planning Council			
Developmental Disabilities Basic Support and Advocacy Grants	93.630	*C022068*	22,179
Passed-through Public Health Solutions			
HIV Emergency Relief Project Grants	93.914	*10-MCM-642*	404,078
Passed-through University of Pittsburgh			
Medical Library Assistance	93.879	*N/A*	70,495
Total Department of Health and Human Services Pass-through Programs			4,458,910
Total Department of Health and Human Services			15,307,140
Corporation for National and Community Service			
Passed-through National Association of Community Health Centers			
AmeriCorps	94.006	*N/A*	167,469
United States Department of Agriculture			
Passed-through Federation Employment and Guidance Service, Inc.			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	*1-5219-8200-000-528*	458,230
Passed-through New York State Department of Health			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	*C025773*	3,776,142
Total United States Department of Agriculture			4,234,372
Total Expenditures of Federal Awards			$ 19,708,981

The Institute for Family Health and Affiliates

Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2013

NOTE 1 - The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of The Institute of Family Health (the "Institute") under programs of the federal government for the year ended December 31, 2013. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Because the Schedule presents only a selected portion of the operations of the Institute, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Institute.

NOTE 2 - Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles of Non-profit Organizations,* wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through identifying numbers are presented where available.

NOTE 3 - For the year ended December 31, 2013, the Institute did not have any mortgage or loan funds that should be included in the federal expenditures presented in this Schedule.

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

Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Amount Provided to Subrecipient
Minority Health and Health Disparities Research	93.307	25 R24 MD001691-07-08 7 & 5 P60 MD000270-10	$ 85,652
Medical Library Assistance	93.879	N/A	58,845
			$ 144,497

NOTE 5 - Of the Federal expenditures presented in this Schedule, the Institute received $3,008,115 from CFDA #10.557 and $548,949 from CFDA #93.268, which are noncash items.

The Institute for Family Health and Affiliates

Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
93.224 & 93.527	Health Centers Cluster
93.531	PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Prevention and Public Health Funds
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease
93.738	PPHF 2012: Racial and Ethnic Approaches to Community Health Program financed solely by 2012 Public Prevention and Health Funds
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance
93.307	Minority Health and Health Disparities Research
10.557	Special Supplemental Nutrition Program for Women, Infants and Children

Dollar threshold used to distinguish between Type A and Type B programs:	$591,269
Auditee qualified as low-risk auditee?	__X__ yes ____ no

Section II - Financial Statement Findings

During our audit, we noted no material findings for the year ended December 31, 2013.

Section III - Federal Award Findings and Questioned Costs

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

The Institute for Family Health and Affiliates

Schedule of Prior Year's Findings
Year Ended December 31, 2013

NONE