AND AFFILIATES

COMBINED FINANCIAL STATEMENTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133

JUNE 30, 2012

TOGETHER WITH

INDEPENDENT AUDITOR'S REPORT

THE BOSTON HEALTH CARE FOR THE HOMELESS
PROGRAM, INC. AND AFFILIATES

CONTENTS
JUNE 30, 2012

	PAGES
COVER PAGE	1 - 1A
UNQUALIFIED OPINION ON COMBINED FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - NOT-FOR-PROFIT ORGANIZATION	2 - 2A
COMBINED FINANCIAL STATEMENTS:	
Combined Statement of Financial Position	3 - 3B
Combined Statement of Activities	4 - 4B
Combined Statement of Cash Flows	5 - 6A
Combined Statement of Functional Expenses	7 - 8
Notes to Combined Financial Statements	9 - 27
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - NOT-FOR-PROFIT ORGANIZATION	28 - 28A
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMBINED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	29 - 30
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	31 - 32
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	33 - 34

UNIFORM FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT — **COVER PAGE** - Page 1 of 1

For the Year Ended : 6/30/2012 (M/D/YYYY) — Filed Electronically? (Y/N): Y

Filing Organization: THE BOSTON HEALTHCARE FOR THE HOMELESS PROGRAM (legal name) — (Doing Business As name, if applicable)

Federal Employer Identification Number (FEIN) for Filing Entity - 9 digits: 043160480

Other corporate names & FEINs if applicable: (Use for consolidated financial statements.)

BHCHP DEVELOPER, LLC	208506312
BHCHP MANAGER, INC.	208506342
BHCHP, LLC	208505073
BHCHP, MT	208505914

A.G. Public Charities Acct.# 030169 — Business Address: 780 ALBANY STREET (Street) — BOSTON (City) — MA (State) — 02118 (Zip)

Massachusetts Vendor Code Number 0431604800006

CEO or CFO : AGNES (First Name) — LEUNG (Last Name) — CHIEF FINANCIAL OFFICER (Title) — 857-654-1200 (Phone : Area Code / Number) — E-mail address: ALEUNG@BHCHP.ORG

CPA : ALEXANDER, ARONSON, FINNING & CO., P.C. — CPA Firm's Current Mass. License #: 0425 — CPA's E-mail Address: skaba@aafcpa.com

CPA Firm's Federal Employer Id. (FEIN) #: 042571780

Management Company Name:

A-133 Audit Submitted? (Y/N): Y

Have basic F/S been audited? (Y/N): Y

UFR Exemption/Exception Code#:

Organization Type Code : C — For-Profit Organization : NO — Date of Org./Incorp.: 5/1/1992 (M/D/YYYY) — Special Education (SPED) Contractor (Y/N): N

501(c)(3) Federal Tax Exempt (Y/N): Y — If Yes, Date of Exemption: 5/6/1993 (M/D/YYYY) — Cost Allocation Method Code : MD — Principal Purch. Agency: DPH

Program Performance Report (Internet system) is **not** required:

Primary Contractor(s): DPH

Program Number	Program Name	Subcontractor Name	Program Address: Street	City	State	Zip Code	Program Description	MMARS Prog.Code
1	HEALTHCARE FOR THE HOMELESS		SEE ATTACHED - PAGE 1A				RESPITE ACUTE AND HEALTH SERVICES	
7	HEALTH CENTER ENHANCEMENT	MASSACHUSETTS GENERAL HOSPITAL	780 ALBANY STREET	BOSTON	MA	02118	OUTREACH, MENTAL HEALTH AND DENTAL SERVICES	
10	HIV/AIDS COUNSELLING, TESTING AND REFERRAL		780 ALBANY STREET	BOSTON	MA	02118	HIV/AIDS COUNSELING AND TESTING	4950
12	HEALTHCARE FOR THE HOMELESS		780 ALBANY STREET	BOSTON	MA	02118	PRIMARY CARE FOR ADULTS	N/A
13	HEALTHCARE FOR THE HOMELESS	CAMBRIDGE HOSPITAL	780 ALBANY STREET	BOSTON	MA	02118	SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES	4929

Note: If your agency is exempt from filling this report (see instructions) complete this cover page only and submit it along with documentation to support the basis of the exemption.

BOSTON HEALTHCARE FOR THE HOMELESS PROGRAM, INC. AND AFFILIATES
FEIN# 04-3160480
ATTACHMENT TO UFR COVER PAGE - PROGRAM 1 ADDRESSES
JUNE 30, 2012

PROGRAM 1 ADDRESSES:

780 Albany Street, Boston, MA 02118-2524
444 Harrison Avenue, Boston, MA 02118-2404
363 Albany Street, Boston, MA 02118-2503
170 Morton Street, Boston, MA 02130-3735
38 Broad Street, Quincy, MA 02169-4604
1 Blackston Street, Tobin Building, Boston, MA 02109-1501
17 Court Street, Boston, MA 02108-2601
39 Boylston Street, Second Floor, Boston, MA 02116-4702
WACC 108, 55 Fruit Street, Boston, MA 02114-2696

Alexander Aronson Finning
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UNQUALIFIED OPINION ON FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - NOT-FOR-PROFIT ORGANIZATION

Independent Auditor's Report

To the Board of Directors of
The Boston Health Care for the Homeless Program, Inc. and Affiliates:

We have audited the accompanying combined statement of financial position of The Boston Health Care for the Homeless Program, Inc. (a Massachusetts corporation, not for profit) and Affiliates (collectively, the Agency) as of June 30, 2012, and the related combined statements of activities, cash flows, and functional expenses for the year then ended. These combined financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. The prior year summarized comparative information has been derived from the Agency's 2011 combined financial statements and, in our report dated October 11, 2011, we expressed an unqualified opinion on those combined financial statements.

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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of The Boston Health Care for the Homeless Program, Inc. and Affiliates as of June 30, 2012, and the changes in their net assets and their cash flows for the year 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 October 9, 2012, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary schedule of expenditures of federal awards – not-for-profit organization is presented for purposes of additional analysis as required by the 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 combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined 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 supplementary schedule of expenditures of federal awards – not-for-profit organization is fairly stated in all material respects in relation to the combined financial statements as a whole.

Alexander, Aronson, Finning & Co. P.C.

Wellesley, Massachusetts
October 9, 2012

ORGANIZATION : THE BOSTON HEALTHCARE FOR THE HOMELESS PI FEIN: 043160480

STATEMENT OF FINANCIAL POSITION AS OF 06/30/2012 WITH COMPARATIVE TOTALS AS OF 6/30/2011
(BALANCE SHEET)

		CURRENT OPERATIONS	PLANT	ENDOWMENT	CUSTODIAN	TOTAL THIS YEAR	TOTAL LAST YEAR
	ASSETS						
1	Cash and Cash Equivalents	6,204,958				6,204,958	7,437,632
2	Accounts Receivable, Program Services	5,909,384				5,909,384	4,278,343
3	Allowance for Doubtful Accounts	(296,293)				(296,293)	(233,829)
4	Net Accounts Receivable, Program Services	5,613,091				5,613,091	4,044,514
5	Contributions Receivable						
6	Notes Receivable						
7	Prepaid Expenses	564,042				564,042	159,540
8	Other Accounts Receivable	2,482,049				2,482,049	2,421,622
9	Other Current Assets	385,265	146,041			531,306	446,201
10	Short-Term Investments						
11	**TOTAL CURRENT ASSETS**	15,249,405	146,041			15,395,446	14,509,509
12	Land, Buildings, and Equipment		35,431,990			35,431,990	35,270,762
13	Accumulated Depreciation		(5,765,398)			(5,765,398)	(4,516,549)
14	Net Land, Buildings and Equipment		29,666,592			29,666,592	30,754,213
15	Long-Term Investments	21,300,995	1,500,000	6,127,197		28,928,192	27,455,745
16	Other Assets	174,320	1,507,400			1,681,720	1,894,822
17	Due From Other Funds						
18	**TOTAL ASSETS**	36,724,720	32,820,033	6,127,197		75,671,950	74,614,289
	LIABILITIES AND NET ASSETS						
19	Accounts Payable	1,008,302				1,008,302	810,786
20	Subcontract Payable						
21	Accrued Expenses	3,418,023				3,418,023	3,066,469
22	Current Notes Payable						
23	Current Portion Long-Term Debt						
24	Deferred Revenue						
25	Other Current Liabilities						
26	**TOTAL CURRENT LIABILITIES**	4,426,325				4,426,325	3,877,255
27	Long-Term Notes & Mortgage Payable		19,092,043			19,092,043	19,092,043
28	Other Liabilities						
29	Due to Other Funds						
30	**TOTAL LIABILITIES**	4,426,325	19,092,043			23,518,368	22,969,298
	NET ASSETS						
31	Unrestricted	21,240,826	13,727,990			34,968,816	34,497,220
32	Temporarily Restricted	11,057,569		1,127,197		12,184,766	12,147,771
33	Permanently Restricted			5,000,000		5,000,000	5,000,000
34	**TOTAL NET ASSETS**	32,298,395	13,727,990	6,127,197		52,153,582	51,644,991
35	**TOTAL LIABILITIES AND NET ASSETS**	36,724,720	32,820,033	6,127,197		75,671,950	74,614,289

See Accompanying Notes to the Financial Statements

BOSTON HEALTHCARE FOR THE HOMELESS PROGRAM, INC. AND AFFILIATES
FEIN# 04-3160480

ATTACHMENT TO UFR STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012
(With Comparative Totals as of June 30, 2011)

LINE 9 - OTHER CURRENT ASSETS	**2012**	**2011**
Inventory	$ 299,765	$ 265,030
Current portion of pledges receivable	146,041	95,671
Current portion of asset management reserve	85,500	85,500
	$ 531,306	$ 446,201

LINE 16 - OTHER ASSETS		
Asset held for redevelopment or sale	$ 1,103,293	$ 1,103,293
Intangible assets, net	199,755	214,572
Asset management reserve, net of current portion	174,320	259,577
Replacement reserve	161,063	120,584
Pledges receivable, net of current portion	43,289	196,796
	$ 1,681,720	$ 1,894,822

BOSTON HEALTHCARE FOR THE HOMELESS PROGRAM, INC. AND AFFILIATES

SCHEDULE OF INTERCOMPANY ELIMINATIONS-BALANCE SHEET
JUNE 30, 2012

Please see Note 3 for explanation of the various companies and the basis of combination.

	BHCHP INC. AND AFFILIATES	BHCHP LLC	BHCHP MT, LLC	TOTAL
Due from affiliates	-	427,769	385,234	813,003
Due to affiliates	(421,129)	(391,874)	-	(813,003)
				-

Entry to eliminate intercompany receivable.

Note receivable	(1,856,674)	-	-	(1,856,674)
Note payable	-	1,856,674	-	1,856,674
				-

Entry to eliminate a note receivable from BHCHP LLC on BHCHP, Inc.'s books.

Fixed assets	-	(2,382,996)	-	(2,382,996)
Investments in affiliates	(10,461,299)	-	(891,489)	(11,352,788)
Net Assets	10,461,299	2,382,996	891,489	13,735,784
				-

Entry to eliminate BHCHP, Inc.'s investment in BHCHP LLC and capitalized developer fees paid to BHCHP, Inc. by BHCHP, LLC.

ORGANIZATION : THE BOSTON HEALTHCARE FOR THE | FEIN: 043160480

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 06/30/2012 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED 06/30/2011

	REVENUES, GAINS, AND OTHER SUPPORT	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL THIS YEAR	TOTAL LAST YEAR
1	Contributions, Gifts, Legacies, Bequests & Special Events	1,624,534			1,624,534	1,466,230
2	In-Kind Contributions	32,976			32,976	121,471
3	Grants	1,032,611	1,513,885		2,546,496	2,601,461
4	Program Service Fees	34,102,374			34,102,374	32,176,995
5	Federated Fundraising Organization Allocation					
6	Investment Revenue	89,785	49,937		139,722	3,065,768
7	Revenue from Commercial Products & Services					
8	Other	700,215			700,215	318,684
9	Net Assets Released From Restrictions:					
10	Satisfaction of Program Restrictions	1,085,160	(1,085,160)			
11	Satisfaction of Equipment Acquisition Restrictions					
12	Expiration of Time Restrictions	441,667	(441,667)			
13	**TOTAL REVENUE, GAINS, AND OTHER SUPPORT**	39,109,322	36,995		39,146,317	39,750,609
	EXPENSES AND LOSSES					
14	Administration (Management & General)	6,432,297			6,432,297	6,310,478
15	Fundraising	962,802			962,802	1,065,258
16	Total Program Services	31,140,116			31,140,116	29,408,727
17	**TOTAL EXPENSES**	38,535,215			38,535,215	36,784,463
18	Losses	93,596			93596	131,520
19	**TOTAL EXPENSES AND LOSSES**	38,628,811			38,628,811	36,915,983
	CHANGES IN NET ASSETS:					
20	Property & Equipment Acquisitions from Unrestricted Funds					
21	Transfer of Realized Endowment Fund Appreciation					
22	Return to Donor					
23	Other Increases (Decreases)	(8,915)			(8,915)	916,831
24	**TOTAL CHANGES IN NET ASSETS**	471,596	36,995		508,591	3,751,457
25	**NET ASSETS AT BEGINNING OF YEAR**	34,497,220	12,147,771	5,000,000	51,644,991	47,893,514
26	**NET ASSETS AT END OF YEAR**	34,968,816	12,184,766	5,000,000	52,153,582	51,644,971

See Accompanying Notes to Financial Statements

BOSTON HEALTHCARE FOR THE HOMELESS PROGRAM, INC. AND AFFILIATES
FEIN# 04-3160480

ATTACHMENT TO UFR STATEMENT OF ACTIVITIES - OTHER INCREASES
FOR THE YEAR ENDED JUNE 30, 2012
(With Comparative Totals for the Year Ended June 30, 2011)

LINE 18	**2012**	**2011**
Carrying costs - asset held for redevelopment or sales	$ 93,596	$ 131,520

LINE 24

Changes in net assets attributable to BHCHP, INC and Affiliates	$ 486,476	$ 2,801,526
Plus: Changes in net assets attributable to non-controlling interest	31,030	33,120
Less: Distributions (line 23)	(8,915)	-
Plus: Adoption of an accounting principle (line 23)	-	916,831
Change in net assets	$ 508,591	$ 3,751,477

THE BOSTON HEALTHCARE FOR THE HOMELESS PROGRAM, INC. AND AFFILIATES

SCHEDULE OF INTERCOMPANY ELIMINATIONS-STATEMENT OF ACTIVITIES
JUNE 30, 2012

Please see Note 3 for explanation of the various companies and the basis of combination.

	BHCHP INC. AND AFFILIATES	BHCHP LLC	BHCHP MT, LLC	TOTAL
Rent expense	(3,887,987)			(3,887,987)
Rental income	-	1,939,536	1,948,451	3,887,987
				-

Entry to eliminate rent expense from BHCHP, Inc.'s books and corresponding rental income from BHCHP LLC's and BHCHP MT's books.

ORGANIZATION : THE BOSTON HEALTHCARE FOR T **FEIN:** 043160480

STATEMENT OF CASH FLOWS for the YEAR ENDED 06/30/2012

INDIRECT METHOD

		TOTAL
	Cash Flows from Operating Activities:	
1	Changes in Net Assets	508,591
	Adjustments to Reconcile Change In Net Assets to Net Cash provided by/(used in) Operating Activities:	
2	Depreciation	1,248,849
3	Losses	
4	Increase/Decrease in Net Accounts Receivable	(1,568,577)
5	Increase/Decrease in Prepaid Expenses	(404,502)
6	Increase/Decrease in Contributions Receivable	
7	Increase/Decrease in Accounts Payable	197,516
8	Increase/Decrease in Accrued Expenses	351,554
9	Increase/Decrease in Deferred Revenue	
10	Increase/Decrease in Subcontract Payable	
11	Contributions Restricted for Long-Term Investment	
12	Net Unrealized and Realized Gains on Long-Term Investments	42,360
13	Other Cash Used in/Provided by Operating Activities	116,964
14	Net Cash Provided by/(used in) Operating Activities	492,755
	Cash Flows from Investing Activities:	
15	Insurance Proceeds	
16	Purchase(s) of Capital Assets (Land, Bldgs. & Equip.)	(161,228)
17	Proceeds from Sale(s) of Investments	16,329,152
18	Purchase(s) of Investments	(17,843,959)
19	Purchase(s) of Assets Restricted To Long-Term Investment	
20	Other Investing Activities	(40,479)
21	Net Cash Provided by/(used in) Investing Activities	(1,716,514)
	Cash from Financing Activities:	
	Proceeds from Contributions Restricted For:	
22	Investment in Endowment	
23	Investment in Term Endowment	
24	Investment in Plant (Land Bldgs. & Equip.)	
	Other Financing Activities:	
25	Contributions Restricted for Long-Term Investment	
26	Interest and Dividends Restricted for Reinvestment	
27	Payments on Notes Payable	
28	Payments on Long-Term Debt	
29	Other Finance Payments/Reciepts	(8,915)
30	Net Cash Provided by/(used in) Financing Activities	(8,915)

See Accompanying Notes to the Financial Statements

ORGANIZATION : THE BOSTON HEALTHCARE FOR T **FEIN:** 043160480

STATEMENT OF CASH FLOWS for the YEAR ENDED 06/30/2012

INDIRECT METHOD

31	**Net Increase/(Decrease) in Cash and Cash Equivalents**	(1,232,674)
32	**Cash and Cash Equivalents at Beginning of Year**	7,437,632
33	**Cash and Cash Equivalents at End of Year**	6,204,958

Supplemental Disclosure of Cash Flow Information:

34	Cash Paid During the Year for Interest	869,110
35	Cash Paid During the Year for Taxes/Other	

Supplemental Data for Noncash Investing and Financing Activities:

36	Gifts of Equipment	
37	Other Noncash Investing and Financing Activities	
38	UNREALIZED LOSS ON INVESTMENT	(1,363,118)
39		
40		

See Accompanying Notes to the Financial Statements

BOSTON HEALTHCARE FOR THE HOMELESS PROGRAM, INC. AND AFFILIATES
FEIN# 04-3160480

ATTACHMENT TO UFR STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

LINE 13 - OTHER CASH USED IN /PROVIDED BY OPERATING ACTIVITIES

Pledges receivable	$	103,137
Asset management fee reserve		85,257
Amortization expense		14,817
Distributions		8,915
Inventory		(34,735)
Increase in other accounts receivable		(60,427)
	$	116,964

LINE 20 - OTHER INVESTING ACTIVITIES

Deposits to replacement reserve	$	(40,479)

LINE 29 - OTHER FINANCE PAYMENTS/RECEIPTS

Distributions	$	(8,915)

ORGANIZATION : THE BOSTON HEALTHCARE FOR THE HOMELESS **FEIN:** 043160480

Statement of Functional Expenses for the Year Ended: 06/30/2012

		SUPPORTING SERVICES		PROGRAM SERVICES
	TOTALS	ADMINISTRATION (MNGT. & GEN.)	FUND RAISING	TOTAL ALL PROGRAMS
1. Employee Compensation & Related Expenses	26,080,977	4,355,145	720,274	21,005,558
2. Occupancy	2,503,338	725,102	32,443	1,745,793
3. Other Program / Operating Expense	5,993,621	165,896	13,932	5,813,793
4. Subcontract Expense	608,968	62,788		546,180
5. Direct Administrative Expense	1,152,514	444,145	35,189	673,180
6. Other Expenses	946,948	331,590	145,413	469,945
7. Depreciation of Buildings and Equipment	1,248,849	347,631	15,551	885,667
8. TOTAL EXPENSES	38,535,215	6,432,297	962,802	31,140,116

See Accompanying Notes to Financial Statements

*

ORGANIZATION : THE BOSTON HEALTHCARE FOR THE HOMELESS **FEIN:** 043160480

Statement of Functional Expenses for the Year Ended: 06/30/12

	PROGRAM #	PROGRAM #	PROGRAM #	PROGRAM #	PROGRAM #
	1	7	10	12	13
1. Employee Compensation & Related Expenses	9,328,603	10,791,491	228,117	514,967	142,380
2. Occupancy	1,251,755	494,038			
3. Other Program / Operating Expense	4,615,808	1,177,636	19,578		771
4. Subcontract Expense		489,105			57,075
5. Direct Administrative Expense	458,829	208,349	6,002		
6. Other Expenses	187,922	281,943	80		
7. Depreciation of Buildings and Equipment	644,426	241,241			
8. TOTAL EXPENSES	16,487,343	13,683,803	253,777	514,967	200,226

See Accompanying Notes to Financial Statements

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

The Boston Health Care for the Homeless Program, Inc. (the Agency) and its Affiliates (see below) (collectively, the Agency and Affiliates) provides comprehensive, integrated health care and medical recuperative services to homeless persons in the Greater Boston, Massachusetts area.

The Agency is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. The Agency is also exempt from state income taxes. Donors may deduct contributions made to the Agency within Internal Revenue Code requirements.

SIGNIFICANT ACCOUNTING POLICIES

The Agency and Affiliates prepares its combined financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these footnotes are to the FASB Accounting Standards Codification.

Principles of Combination

The combined financial statements include the accounts of the Agency, BHCHP Developer, LLC (the Developer), BHCHP Manager, Inc. (the Corporation), BHCHP, LLC (the Company) and BHCHP MT, LLC (the Investor) (see Note 3). The activities and financial position of the Developer and the Corporation have been combined with the Agency in the accompanying combined financial statements. The Corporation holds common control over the Investor and the Company.

The Company and the Investor are considered to be variable interest entities (VIE) within the meaning of standards pertaining to the consolidation.

An entity considered to be the primary beneficiary of the VIE has both (a) the power to direct activities of the VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

Under this new guidance, the Corporation is considered to be the primary beneficiary of both the Company and the Investor, since the Corporation has significant control over the operations of both the Company and the Investor, and the obligation to absorb significant potential losses and the right to receive significant potential benefits. Since the Corporation is the primary beneficiary, the Company and the Investor are combined with the Corporation, a wholly-owned subsidiary of the Agency, in the accompanying combined financial statements.

All significant balances between classes of equity, intercompany balances, and transactions have been eliminated in the accompanying combined financial statements.

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of combined financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting for Uncertainty in Income Taxes

The Agency and Affiliates follows the *Accounting for Uncertainty in Income Taxes* standard, which requires the Agency and Affiliates to report uncertain tax positions, related interest and penalties, and to adjust its assets and liabilities related to unrecognized tax benefits and accrued interest and penalties accordingly. As of June 30, 2012, the Agency and Affiliates determined that there are no material unrecognized tax benefits to report.

Generally, information returns are subject to examination for three years after the date filed by the Internal Revenue Service and Massachusetts tax authorities. The Agency and Affiliates do not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking accounts and a money market account.

Patient Services Receivable

Patient services receivable is recorded net of contractual allowances (see page 12) and an allowance for doubtful accounts. Management estimates the allowance for doubtful accounts based on its analysis of specific accounts and payors. Accounts are written off when they are determined to be uncollectible.

Pledges Receivable

Pledges receivable at June 30, 2012, consists of contributions committed to the capital campaign (see Note 4), which ended in February, 2009. Pledges are recorded at their net present value when unconditionally committed. There was no restriction on these pledges as of June 30, 2012.

Fixed Assets

Fixed assets with estimated useful lives in excess of one year and values greater than $5,000 are capitalized at cost. Donated fixed assets are recorded at fair market value at the time of donation. Renewals and betterments are capitalized, while repairs and maintenance are expensed as they are incurred.

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES** (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed Assets (Continued)

Fixed assets are depreciated using the straight-line method over the following estimated useful lives and consist of the following at June 30, 2012:

	Estimated Useful Lives	
Buildings and leasehold improvements	20 - 39 years	$32,431,212
Equipment and furnishings	3 - 7 years	2,937,969
Vehicles	5 years	62,809
		35,431,990
Less - accumulated depreciation		5,765,398
		$29,666,592

Depreciation expense was $1,248,849 for the year ended June 30, 2012, and includes $41,026 relating to fixed assets acquired under capital lease (see Note 7).

The Agency and Affiliates account for the carrying value of long-lived assets in accordance with the U.S. GAAP requirements for *Accounting for the Impairment or Disposal of Long-Lived Assets*. As of June 30, 2012, the Agency and Affiliates have not recognized any reduction in the carrying value of its fixed assets when considering this requirement.

Intangible Assets and Amortization

Intangible assets consist of financing, legal and loan origination fees and are being amortized over thirty and fifteen years. Amortization expense was $14,817 for the year ended June 30, 2012. Annual amortization expense is approximately $14,800.

Revenue Recognition

Contract revenue is recorded over the contract period as services are provided and costs are incurred. Unrestricted grants and contributions are recorded as unrestricted revenue and net assets upon receipt or when unconditionally committed by the donor. Donor restricted grants and contributions that are donations with time or purpose restrictions are recognized as temporarily restricted revenues and net assets when received or when unconditionally committed by the donor. Temporarily restricted grants and contributions are transferred to unrestricted support and revenues and unrestricted net assets as services are performed and costs are incurred, or pro-rata over the period covered by the grant or contribution as time restrictions lapse.

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES** (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Gross patient service revenue is recorded at the full value of those services as assigned by the Agency. Net patient service revenue reflects the provision for contractual allowances and free care. Contractual allowances are accrued in the period the related services are rendered. Net patient service revenue is adjusted as required based on final settlements. Contractual allowances for the year ended June 30, 2012, aggregated approximately $34,150,000.

During fiscal year 2012, the Agency adopted the accounting standard related to *Measuring Charity Care for Disclosure* under U.S. GAAP. The Agency has a policy of providing free care services to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient prior to services being rendered. The Agency provided $9,271,285, of free care during the year ended June 30, 2012. The cost of providing these services was $5,881,114 for the year ended June 30, 2012. The cost of providing free care was calculated by multiplying the percentage of gross free care charges to gross patient charges by the total cost (including general and administrative allocation) of providing patient services. The Agency adjudicates claims for these services; therefore, charges for free care have been included in program service fees in the accompanying combined statement of activities. The Agency received partial reimbursement from third party payors for free care services of approximately $1,188,000 during the year ended June 30, 2012.

Approximately 67% of net patient service revenue was from the Commonwealth of Massachusetts, Office of Health and Human Services, the MassHealth program (Medicaid) for the year ended June 30, 2012. Charges made to most third party payors for patient services are periodically reviewed and adjusted based upon the submission of cost reports and possible subsequent audits. In the opinion of management, the effect of such cost determinations or adjustments, if any, will not have a material effect on the combined financial statements of the Agency.

Inventory

Inventory consists of medicine and medical supplies from an in-house pharmacy. This inventory is accounted for at the lower of cost (as determined by the first-in, first-out method) or market.

Advertising Costs

The Agency expenses advertising costs as they are incurred. Advertising expense was $11,798 for the year ended June 30, 2012, and is included in miscellaneous expense in the accompanying combined statement of functional expenses.

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES** (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods and Services

The Agency records donated goods and services based on the estimated value assigned to them by the donors or by management. During fiscal year 2012, the Agency received donated goods and services of approximately $33,000, which consisted of donated services related to the production of a video for the annual gala, donated food from the Boston Food Bank, and donated wine for the gala. The fair value of these donated goods and services are included in interest income and other and in related expenses on the accompanying combined statement of activities for the year ended June 30, 2012.

Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Agency. The Agency has grouped its unrestricted net assets into the following categories:

Operating ($7,833,970) represents funds available to carry on the operations of the Agency.

Board designated – capital expenditures and others ($1,800,000) represent funds designated by the Board of Directors for funding capital projects, including, without limitation, building acquisition, improvements, and the purchase of equipment and software. During fiscal year 2010, the Board voted to set aside $1,500,000 for the redevelopment of the Barbara M. McInnis House (the McInnis House) (see Note 2) and $300,000 for software and IT related operating costs.

Board designated – investments ($8,979,370) represent funds designated by the Board of Directors for long-term investments and growth. Income earned on this fund is reinvested in the fund. Use of this fund and its income can only be made with the approval of the Board of Directors.

Debt repayment fund (the Account) ($12,321,625) represents $3,155,420 of funds set aside by the Board of Directors and $9,166,205 of restricted capital campaign funds (see Page 14) to be used to repay $12,500,000 of the Company's debt (see Note 5). Income earned on the Account is added to the Account. The Account was funded by capital campaign funds (see page 14) and the Agency's other funds designated by the Board of Directors. During fiscal year 2011, the Board revised the investment goals of the Account to allow the Account to appreciate in value sufficient to pay down $12,500,000 of the Company's debt by fiscal year 2015.

Plant ($12,227,990) reflects and accounts for the activities relating to the Agency's fixed assets, net of any related debt. Plant net assets also include $1,500,000 of Board designated funds for the McInnis House (see above).

Non-controlling interest ($972,066) represents the non-controlling interests in BHCHP, LLC and BHCHP MT, LLC (see Note 3).

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES** (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Temporarily restricted net assets represent contributions received or pledged that have not yet been expended for their designated purpose. Temporarily restricted net assets also include appreciation and investment earnings on permanently restricted net assets.

Temporarily restricted net assets are available for donor-specified program activities and for capital improvements and equipment and are as follows:

2012	Balance at June 30, 2011	Donor Restricted Income	Released From Restrictions	Balance at June 30, 2012
Capital campaign - Debt repayment fund (see page 13)	$ 9,166,205	$ -	$ -	$ 9,166,205
Outreach	1,470,712	602,259	849,453	1,223,518
Appreciation on Facilities Endowment	1,077,260	49,937	-	1,127,197
Time restricted - general support	275,000	693,333	441,667	526,666
Respite homes program	135,876	123,293	139,457	119,712
Dental clinic	22,500	92,500	96,250	18,750
Pharmacy	-	2,500	-	2,500
Pastoral service	218	-	-	218
	$12,147,771	$1,563,822	$1,526,827	$12,184,766

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Permanently restricted net assets - The Agency's capital campaign, which ended in February, 2009, included funds to establish a $5 million endowment for facilities (the Facilities Endowment). Earnings from the Facilities Endowment are to be used to support the operations and maintenance costs of the Agency's facilities, including future facilities.

Changes in endowment net assets by class are as follows for the year ended June 30, 2012:

	Donor Restricted		
	Temporarily Restricted	Permanently Restricted	Total Donor Restricted
Endowment net assets, June 30, 2011	$1,077,260	$5,000,000	$6,077,260
Investment returns:			
Realized gain	454,964	-	454,964
Net unrealized loss on investments	(664,432)	-	(664,432)
Transfers in	157,689	-	157,689
Interest and dividends, net of fees	101,716	-	101,716
Total investment returns	49,937	-	49,937
Endowment net assets, June 30, 2012	$1,127,197	$5,000,000	$6,127,197

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment Policy

Massachusetts follows the Uniform Prudent Management of Institutional Funds Acts (UPMIFA). The Agency has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the Facilities Endowment, (b) the original value of subsequent gifts to the Facilities Endowment, and (c) accumulations to the Facilities Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any accumulated appreciation and unspent investment income related to the donor-restricted endowment fund, if any, is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Agency in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Agency will consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Agency and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Agency
(7) The investment policies of the Agency

The Agency has adopted an investment spending policy for the Facilities Endowment. Under the policy, annual withdrawals of investment earnings and endowment appreciation will not be more than 5% of the average market value of the Facilities Endowment (see page 15) over a rolling thirty-six month period. They Agency made no annual withdrawals of investments earnings and endowment appreciation within the first thirty-six month period ended June 30, 2012.

Expense Allocations

Expenses related directly to a program are distributed to that program, while other expenses are allocated based upon management's estimate of the percentage attributable to each program.

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES** (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

Management follows the criteria of the *Fair Value Measurements* standard. This standard defines fair value, establishes a framework for measuring fair value under U.S. GAAP, and mandate disclosures about fair value measurements. The criterion establishes a fair value framework that prioritizes the inputs and assumptions used to measure fair value.

The three levels of the fair value framework are as follows:

- Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 – Inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 – Inputs that are unobservable.

The measurement's level for any qualifying assets and liabilities within the framework is based upon the lowest level of any input that is significant to the fair value measurement. The Agency values all of its qualifying assets and liabilities using Level 1 inputs, except for certain assets held for sale, which use Level 2.

Investments

The Agency records all of its investments at fair market values using Levels 1 inputs (see Note 10). Investment income is recorded as earned. Realized gains and losses on investment transactions are recorded based on the average cost method. Unrealized gains and losses are recognized based on market value changes during the period. Investment income of unrestricted investment funds is available for operations and is therefore reflected in unrestricted net assets. Investment income on permanently restricted net assets is restricted for the Agency's facilities and is therefore reflected in temporarily restricted net assets (see page 15).

Subsequent Events

Subsequent events have been evaluated through October 9, 2012, which is the date the combined financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the combined financial statements

(2) THE BARBARA M. MCINNIS HOUSE

The Agency owns The Barbara M. McInnis House (the McInnis House) which, until July, 2008, was used to house a Medical Recuperative Unit (MRU) for homeless individuals. This facility had ninety beds. A portion of the funding originally used to renovate the McInnis House was provided by a $300,000 forgivable loan from the City of Boston, Public Facilities Department in fiscal year 1996. This forgivable loan was non-interest bearing and was due in 2010. The loan was secured by MRU. Under the terms of this forgivable loan, the Agency is required to comply with certain operating requirements and other covenants described in the grant and regulatory agreements.

The City of Boston has the option to purchase the McInnis House if any of the conditions are not met and has the right of first refusal to acquire the property under a bona fide third party offer. The purchase price is the balance of all City approved outstanding debt to institutional lenders, if any. If the Agency complies with the requirements of the loan and regulatory agreements, the loan will be forgiven at maturity.

Since this loan bears no interest, the discounted present value is immaterial to the combined financial statements taken as a whole. In addition, the Agency is expected to comply with all requirements and covenants of the loan. Considering both of these factors, the loan was recorded as a grant in 1996.

During fiscal year 2011, the City of Boston agreed to discharge the mortgage and security agreement on the McInnis House as specified in the regulatory agreement and relieved the Agency of all of obligations to the City. This is contingent upon the Agency closing on the sale of the McInnis House and financing for the redevelopment of the McInnis House into a single-room occupancy residential and respite care facility.

The Agency has accepted a proposal and signed a purchase and sale agreement with Jamaica Plain Neighborhood Development Corporation (JPNDC), a not-for-profit organization, to redevelop the McInnis House into permanent affordable housing to serve individuals who are medically vulnerable and chronically homeless. JPNDC has agreed to acquire the property for $1,575,000. At closing, under the purchase and sale agreement, the Agency and JPNDC will enter into a ninety-nine year lease to lease the first floor to the Agency. Annual rent will be $1, plus the Agency's proportionate share of certain operating expenses. The Agency will use the space to provide respite services for homeless people. The signed purchase and sale agreement will be subject to releases from the above encumbrances. Currently, there is neighborhood litigation in court to prevent the sale and development of the McInnis House by JPNDC. As of the date of this report, no court resolution has been reached regarding the proposed sale of the McInnis House. At June 30, 2012, the McInnis House is shown as asset held for redevelopment or sale in the accompanying combined statement of financial position.

During fiscal year 2012, the Agency incurred approximately $94,000 of carrying costs relating to the McInnis House. The Agency's recovery of those costs are not certain; accordingly, the Agency has expensed these costs as non-operating expense, carrying costs - assets held for redevelopment or sale, and is included in losses in the accompanying combined statement of activities for the year ended June 30, 2012.

(3) RELATED PARTY TRANSACTIONS

The Agency is related to the following entities:

BHCHP Manager, Inc. (the Corporation) is a for-profit corporation organized under the laws of the Commonwealth of Massachusetts on November 29, 2006, to engage in the business of owning and operating real estate. The Corporation is a wholly-owned subsidiary of the Agency and holds an 89.99% membership interest in the Company as the managing member. The Corporation had committed and made $8,205,188 (originally $10,205,188) in capital contributions to the Company from capital campaign funds raised by the Agency.

BHCHP Developer, LLC (the Developer) is a limited liability company (treated as a partnership for income tax purposes) organized under the laws of the Commonwealth of Massachusetts on December 26, 2006. The Agency holds a 98% interest in the capital, income, losses, and cash flow of the Developer. The Agency made $98 in capital contributions to the Developer. The Developer had no activities during fiscal year 2012.

BHCHP, LLC (the Company) is a limited liability company (treated as a partnership for income tax purposes) organized under the laws of the Commonwealth of Massachusetts on December 26, 2006, for the purpose of acquiring the leasehold interest in a building and rehabilitating the building (the Property) and leasing the Property to BHCHP MT, LLC (see below). The Property consists of 77,653 square feet of office space located in Boston, Massachusetts. The Company operates the Property in a manner intended to enable the Company to qualify as a qualified low-income community business for the purpose of the New Markets Tax Credits. The Agency holds a 0.01% interest in the capital, income, losses, and cash flow of the Company as a non-managing member. The Agency had committed and made a capital contribution of $5,324,000, proceeds from sale of state historic tax credits. The Agency later made additional capital contributions of $190,927 to cover development cost overruns. The Company allocates 45% and 55% of its profit to the Investor (see below) and Corporation (see above), respectively. Net distributable cash flow, cash from sale or refinancing and others is allocated to members as specified in the Company's operating agreement.

BHCHP MT, LLC (the Investor) is a single-member limited liability company and has elected to be disregarded for tax purposes. The Investor was organized under the laws of the Commonwealth of Massachusetts on November 29, 2006, to lease the Property from the Company for a term of not less than thirty-two years and sublease the Property to the Agency (see page 20) and other qualified businesses and make loans to and investments in the Company. MHIC New Markets CDE III LLC, Series 1 holds a 100% interest in the capital, income, losses, and cash flow of the Investor. The Investor holds a 10% membership interest in the Company as an investor member. The Investor made $891,489 in capital contributions to the Company. A portion of the capital contributions was used to fund the asset management reserve (see Note 12). The Investor's interest in the Company as of June 30, 2012, was $972,452 and is included in non-controlling interest as a component of net assets in the accompanying combined statement of financial position. The Investor's share of income in the Company is reflected as changes in net assets attributable to non-controlling interest in the accompanying combined statement of activities.

(3) **RELATED PARTY TRANSACTIONS** (Continued)

MHIC New Markets CDE III LLC, Series 1 (the CDE) is a limited liability company (treated as a partnership for income tax purposes) organized under the laws of the State of Delaware. The CDE is a certified qualified community development entity. MHIC New Markets Fund III (the Fund) holds a 99.99% membership interest in the CDE. The CDE is the sole member of the Investor (see page 19). The CDE's interest in the Investor is reflected as non-controlling interest in the accompanying combined financial statements as of and for the year ended June 30, 2012.

The Agency entered into the following transactions with its related parties:

- The Company leases the entire building of the Property (the Master Lease) to the Investor with an understanding that the Investor will lease back a portion of building to the Agency (see page 19). The Master Lease commenced on May 28, 2008, and expires on December 31, 2027. The Master Lease may be terminated automatically upon termination of the Prime Lease (see Note 7). Annual base rent is fixed at an amount as set forth below, plus the Investor's proportionate share of the real estate taxes and certain operating expenses. Rental income is calculated using the straight-line method over the terms of the lease. Rental income under this agreement was $1,939,536 for the year ended June 30, 2012.

  Annual fixed rent payments are as follows:

Year	Fixed Rent
2013	$1,911,537
2014	$1,949,976
2015 to termination date	$1,969,371

- The Investor has a sublease agreement (the Sublease) with the Agency to sublease a portion of the building of the Property to the Agency. The Sublease commenced on May 28, 2008, and expires May 28, 2023. However, the Sublease will automatically terminate upon termination of the Prime Lease (see Note 7). Annual base rent from the Agency to the Investor is fixed at an amount set forth below, plus the Agency's proportionate share of the real estate taxes and certain operating expense. Rental expense is calculated using the straight-line method over the term of the lease. Rent expense under this agreement was $1,948,151 for the year ended June 30, 2012.

  Annual fixed rent payments are as follows:

Year	Fixed Rent
2013	$1,920,482
2014	$1,958,891
2015 to termination date	$1,978,286

(3) **RELATED PARTY TRANSACTIONS** (Continued)

- The Agency has an agreement with the Company to carry on the day-to-day operations of the Company. The Agency will be reimbursed for its staff time and all out-of-pocket expenses (the reimbursed expense) incurred in the performance of its obligations under this agreement. The agreement became effective May 28, 2008 and renews annually unless canceled by either party. During fiscal year 2012, the Agency billed the Company $894,807 for the reimbursed expenses.

- As of June 30, 2012, due from/to affiliates consist of certain operating costs paid for by the Agency on behalf of its affiliates and rent outstanding under the Master Lease and Sublease (see page 20).

- See Note 5 for related party note agreements.

- A member of the Agency's Investment Committee and a Board member is a principal at the investment company providing investment consulting services to the Agency. During fiscal year 2012, the investment company billed the Agency approximately $72,000 for consulting services. These amounts are netted against investment income (see Note 10).

The Agency and its related parties have entered into the following agreements:

Right of Removal of the Managing Member

The Investor has the right to remove and replace the Corporation, if material default occurs in accordance with the provision of the agreement and such default is not addressed within the time period set forth as specified in the agreement. If removed, the Company shall pay the Corporation in the manner set forth in the agreement.

Purchase Option Agreement

The Corporation has the right and option to purchase the Investor's interest in the Company for a period of one year following the seventh anniversary or the date the Investor pays the final installment of its capital contribution. The purchase price under this agreement is the fair value of the Investor's interest as determined by an independent appraiser. If the Corporation elects to purchase the Investor's interest, the Corporation is required to provide a written notice to the Investor.

Operating Deficit

Under this agreement, the Corporation is required to make additional capital contributions (operating deficit capital contributions) to the Company to fund operating deficits. The Corporation will not be required to make additional capital contributions to pay principal on any loan or interest in excess of 20% of the total interest accruing and payable under any loan.

(4) PLEDGES RECEIVABLE

The Agency has pledges receivable for its capital campaign at June 30, 2012, which are due as follows:

Due within one year	$146,041
Due within two years	51,415
	197,456
Less - discount	8,126
Less - current portion	146,041
Non-current pledges receivable	$ 43,289

The pledges have been discounted using a 5% rate.

Four donor's aggregate balances represented approximately 71% of total outstanding pledge balance as of June 30, 2012.

(5) NOTES PAYABLE

Two notes payable to the CDE for $12,500,000 (Note A) and $3,125,000 (Note B) (collectively, the Notes). The Notes mature on December 28, 2021 (the maturity date). Beginning January 1, 2015, principal and interest for both notes are due in monthly installments based on a twenty-five (25) year amortization schedule through the maturity date. The Notes cannot be prepaid in whole or in part prior to January 1, 2015, without penalty. Thereafter, Note A may be prepaid in whole or in part and Note B may be prepaid in whole at any time provided the Agency provides the CDE with a thirty (30) day written notice of prepayment. The Notes are secured by a first mortgage on the Property and a guaranty of 80% of the Notes principal balances for the life of the Notes by the Health Resources and Services Administration (HRSA), a Federal agency.

- Note A bears interest at a fixed rate of 6.163% through the maturity date and interest only is due monthly through December 31, 2014 (see Note 3). $12,500,000

- Note B bears interest at a rate of 1% through the maturity date. 3,125,000

(5) NOTES PAYABLE (Continued)

Note payable to the CDE for $5,323,717. This note matures on December 31, 2036 (the maturity date). The note bears interest at 1% beginning January 1, 2009, through the maturity date. The note is secured by a second mortgage on the Property.	5,323,717
	20,948,717
Less: elimination	1,856,674
	$19,092,043

Future principal payments are due as follows:

2013	$ -
2014	$ -
2015	$ 162,057
2016	$ 335,058
2017	$ 350,372
Thereafter	$20,101,230

The notes payable agreements contain various covenants with which the Agency must comply. The Agency was in compliance with these covenants at June 30, 2012.

(6) RETIREMENT PLANS

The Agency maintains a profit sharing plan for employees who complete one year of employment and have worked at least 1,000 hours in twelve consecutive months. The Agency may make annual contributions as approved by the Board of Directors. Contributions vest over five years. Contributions made for the year ended June 30, 2012 was $846,653 and is included in employee compensation and related expenses in the accompanying combined statement of functional expenses.

The Agency also maintains a tax sheltered annuity plan under Section 403(b) of the Internal Revenue Code. Employees can make voluntary contributions to the plan through salary reductions. The Agency does not contribute to this plan.

(7) CAPITAL LEASE OBLIGATION

The Company has a lease agreement (the Prime Lease) with the Boston Public Health Commission for a long-term leasehold interest in the Property. The Prime Lease was assigned to the Company, and the Company assumed all the obligation of the Prime Lease in 2008 (see Note 3). The initial term of the Prime Lease is forty-two years, with two twenty-four year options to renew under the same terms as the initial term.

(7) CAPITAL LEASE OBLIGATION (Continued)

The lease payments were $1,600,000 for the initial forty-two year term, which were due in three installments through fiscal year 2009. Annual payment under the option terms will be $1.

The Agency must use the Property solely for the purpose of operating a health care facility for homeless individuals. The Agency is responsible for all operating costs and utilities and maintaining certain levels of insurance. See Note 3 for various sublease agreements.

The terms of the lease, including extension periods, exceed the economic life of the Property and, as such, the lease meets the criteria of a capital lease in accordance with U.S. GAAP. Accordingly, the $1,600,000 was capitalized and is included in building and leasehold improvements in the accompanying combined statement of financial position.

(8) CONTINGENCIES AND COMMITMENTS

The Agency, from time-to-time, is the defendant in lawsuits. It is management's belief that the Agency will prevail in these lawsuits. Accordingly, no amounts have been reflected in the accompanying combined financial statements for any potential liability resulting from these lawsuits.

(9) NOTE RECEIVABLE

In December, 2006, the Agency entered into a loan agreement with the Fund (see Note 3) to loan the Fund $1,856,674. The Fund used the loan proceeds to make equity investments in the CDE, an affiliate of the Fund and sole member of the Investor (see Note 3). The CDE used the proceeds from the equity investments from the Fund to fund a portion of the loans made to the Agency (see Note 5). The note bears interest at the rate of 1% per annum through December 31, 2036. Monthly payments of interest only is due commencing May 1, 2008, through maturity date. Interest income on the note as of June 30, 2012, was $18,876. The entire principal balance and all accrued interest are due and payable on December 31, 2036. The note can be prepaid in part or whole at any time without premium and penalty. There was $1,856,674 outstanding on this note as of June 30, 2012. This amount has been eliminated in the accompanying combined financial statements.

(10) INVESTMENTS

The Agency reflects investments at fair market value using Level 1 inputs (see Note 1). Investments are comprised of the following as of June 30, 2012:

	Cost	Fair Market Value	Unrealized Appreciation (Depreciation)
Government money market	$ 2,879,392	$ 2,879,392	$ -
U.S. Treasury notes and bond	12,188,414	12,321,625	133,211
Equities			
Consumer	3,171,583	3,490,495	318,912
Utilities	2,560,948	2,471,855	(89,093)
Chemicals	1,461,045	1,726,077	265,032
Transportation	1,281,038	1,670,636	389,598
Technology	1,851,930	1,663,215	(188,715)
Health	1,251,046	1,315,750	64,704
Other	1,407,183	1,389,147	(18,036)
	$28,052,579	$28,928,192	875,613
Unrealized appreciation as of June 30, 2011			2,238,731
Net unrealized losses for the year ended June 30, 2012			$(1,363,118)

Investments are not insured and are subject to ongoing market fluctuations. Investments are held for long-term purposes and, accordingly, are classified as non-current assets in the accompanying combined statement of financial position.

Investment income consists of the following for the year ended June 30, 2012:

Interest and dividends	$ 254,280
Net realized gain	1,320,758
Net unrealized gain (loss)	(1,363,118)
Investment fees	(72,198)
	$ 139,722

(11) CONCENTRATION OF CREDIT RISK

The Agency maintains its cash balances in a bank in Massachusetts. The Federal Deposit Insurance Corporation (FDIC) insures balances up to certain amounts. At certain times during the year, cash balances exceeded the insured amounts. The Agency has not experienced any losses in such accounts. The Agency believes it is not exposed to any significant credit risk on cash and cash equivalents.

The Company's sole asset is the Property (see Note 3) and the Company leases to a single tenant, the Investor (see Note 3). The Company derives substantially all of its revenues from rental activities.

(12) RESERVES

Replacement Reserve

Pursuant to the operating agreement, the Company is required to establish a replacement reserve account to be used to fund future repairs and replacements of the Property. Monthly deposits into this account are $3,041, which increase 4% annually. As of June 30, 2012, the balance in the account was $161,063 and is included in other assets in the accompanying combined statement of financial position.

Asset Management Reserve

Pursuant to the operating agreement, the Company is required to establish an asset management reserve account to be used to fund annual asset management fees of $85,500 due to the Investor (see Note 4) beginning 2008 through 2014. The initial deposit into this account was $598,500, funded by the proceeds from the Investor's second installment of capital contributions (see Note 3). As of June 30, 2012, the balance in this account was $259,820 which is included in other assets in the accompanying combined statement of financial position.

Contingency Reserve

The Corporation has a right to establish a contingency reserve using available funds of the Company to be used for specific needs or anticipated needs of the Property. The contingency reserve will not be available for distribution unless the Corporation determines that it is no longer necessary to hold the contingency reserve. As of June 30, 2012, there was no balance in the contingency reserve.

(13) FUNDING

Approximately 63% of the Agency's contracts revenue is for services provided under agreements with the Health Resources and Services Administration (HRSA), a department of the U.S. Department of Health and Human Services for the year ended June 30, 2012. As of June 30, 2012, approximately 18% of contracts and grants receivable in the accompanying combined statement of financial position was due from HRSA. These contracts are subject to possible audits by the appropriate government agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the combined statement of financial position of the Agency as of June 30, 2012, or on its combined statement of activities for the year then ended.

(14) CONDITIONAL GRANT

A foundation has awarded the Agency a $558,623 grant, of which $279,016 was received through June 30, 2012. The remaining balance of the grant of $279,607 is a conditional grant at June 30, 2012. Since this grant is conditional upon the Agency meeting and reporting certain milestones during the first half of the grant period, it is not reflected in the accompanying combined financial statements at June 30, 2012.

(15) SURPLUS REVENUE RETENTION

A nonprofit provider is allowed to retain an annual net surplus of up to 5% of gross revenues derived from delivering services to clients of the Commonwealth of Massachusetts under certain contracts, beginning with the fiscal year ended June 30, 1997. The cumulative amount retained may not exceed 20% of the prior year's gross revenues from Commonwealth of Massachusetts purchasing agencies, and must be segregated as surplus revenue retention net assets. A current year surplus which exceeds the 5% level or a cumulative surplus exceeding the 20% amount, may be: 1) reinvested in program services as stipulated by the purchasing agencies; 2) recouped or; 3) used by the Commonwealth to reduce the price of future contracts.

Following are the deficit amounts the Agency has as of June 30, 2012:

Surplus revenue retention (deficit), June 30, 2011	$(468,912)
Surplus revenue retention (deficit) for the year ended June 30, 2012	-
Surplus revenue retention (deficit), June 30, 2012	$(468,912)

THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC. AND AFFILIATES

SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - NOT-FOR-PROFIT ORGANIZATION
FOR THE YEAR ENDED JUNE 30, 2012

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	AGENCY OR PASS-THROUGH NUMBER	FEDERAL EXPENDITURES
U.S. Department of Health and Human Services			
Direct:			
Health Resources and Services Administration, Bureau of Primary Health Care			
Facility Loan Guarantee Program	93.162	N/A	$12,500,000
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	H80CS00006-10 H80CS00006-11	2,701,358
Nurse Education, Practice Quality and Retention Grants	93.359	D11HP19241-01 D11HP19241-02	218,467
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	H76HA00707-10 H76HA00707-11	287,728
Special Projects of National Significance	93.928	H97HA22718-01	68,005
Pass-through Boston Public Health Commission – City of Boston:			
Healthy Start Initiative	93.926	N/A	113,460
HIV Emergency Relief Project Grants	93.914	FY12009844A FY12010603A	142,098
Pass-through Massachusetts Department of Public Health:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	INTF2351MM3	60,068
HIV Prevention Activities – Health Department Based	93.940	INTF4942MM3	90,000
U.S. Department of Housing and Urban Development			
Pass-through Public Facilities Department – City of Boston:			
Supportive Housing Program	14.235	34743-12 32314-11	196,285

THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC. AND AFFILIATES

SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS -
NOT-FOR-PROFIT ORGANIZATION
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	AGENCY OR PASS-THROUGH NUMBER	FEDERAL EXPENDITURES
U.S. Department of Agriculture			
Pass-through Greater Boston Food Bank:			
Emergency Food Assistance Program Cluster -			
Emergency Food Assistance Program (Food Commodities)	10.569	N/A	10,132
TOTAL EXPENDITURES OF FEDERAL AWARDS			$16,387,601

NOTE 1: BASIS OF PRESENTATION

The accompanying Supplementary Schedule of Expenditures of Federal Awards - Not-For-Profit Organization includes the Federal assistance activity of the Agency and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

NOTE 2. LOANS OUTSTANDING

The Facilities Loan Guarantee Program includes outstanding loan balances of $12,500,000 at June 30, 2012.

Alexander Aronson Finning
CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS

Where Every Client Is A Valued Client

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMBINED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
The Boston Health Care for the Homeless Program, Inc. and Affiliates:

We have audited the combined financial statements of The Boston Health Care for the Homeless Program, Inc. and Affiliates (collectively, the Agency) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 9, 2012. 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

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's combined financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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 above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's combined 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 combined 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*.

This report is intended solely for the information and use of the Board of Directors, management, others within the Agency, 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.

Alexander, Aronson, Finning & Co., P.C.

Wellesley, Massachusetts
October 9, 2012

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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

Independent Auditor's Report

To the Board of Directors of
The Boston Health Care for the Homeless Program, Inc. and Affiliates:

Compliance

We have audited The Boston Health Care for the Homeless Program, Inc. and Affiliates' (collectively, the Agency) 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 Agency's major Federal programs for the year ended June 30, 2012. The Agency's major Federal programs are identified in the summary of auditor's 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 the Agency's management. Our responsibility is to express an opinion on the Agency'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 the Agency'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 the Agency's compliance with those requirements.

In our opinion, the Agency 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.

Internal Control Over Compliance

Management of the Agency 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 the Agency'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 the Agency's internal control over compliance.

Internal Control Over Compliance (Continued)

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.

This report is intended solely for the information and use of management, the Board of Directors, 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.

Alexander, Aronson Finning & Co., P.C.

Westborough, Massachusetts
October 9, 2012

THE BOSTON HEALTH CARE FOR THE HOMELESS PROGRAM, INC. AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

An unqualified opinion was issued on the combined financial statements of the auditee.

Internal control over financial reporting:

- Material weakness identified? _____ Yes __X__ No
- Significant deficiency identified? _____ Yes __X__ None reported

Noncompliance material to combined financial statements noted? _____ Yes __X__ No

Federal Awards

Internal control over major programs:

- Material weakness identified? _____ Yes __X__ No
- Significant deficiency identified? _____ Yes __X__ None reported

An unqualified opinion was issued on compliance for major programs.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? _____ Yes __X__ No

Identification of major programs:

Program or Cluster Title	Federal CFDA Number
Facility Loan Guarantee Program	93.162
Healthy Start Initiative	93.926

The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

Auditee qualified as low-risk auditee? __X__ Yes _____ No

II. COMBINED FINANCIAL STATEMENT FINDINGS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

None

III. FINDINGS AND QUESTIONS COSTS FOR FEDERAL AWARDS

None