HAMILTON HEALTH CENTER

ANNUAL FINANCIAL REPORT

MARCH 31, 2012

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HAMILTON HEALTH CENTER

LIST OF REPORT DISTRIBUTION
March 31, 2012

Employer Identification Number: 23-1858363

1 Report (Submitted electronically)	Federal Audit Clearinghouse Bureau of Census 1201 E. 10th Street Jeffersonville, Indiana 47132
1 Report (Submitted electronically)	Bureau of Audits Special Audit Services Division Forum Place – 8th Floor 555 Walnut Street Harrisburg, Pennsylvania 17101
1 Report	Family Health Council of Central Pennsylvania Suite 200 3461 Market Street Camp Hill, Pennsylvania 17011-4412
1 Report	Dauphin County Department of Drugs and Alcohol Services 1100 South Cameron Street Harrisburg, Pennsylvania 17104-2531
1 Report	Department of Building and Housing Development City of Harrisburg – Bureau of Housing Attention: Mark A. Stone The Rev. Martin L. King, Jr. City Government Building 10 North Second Street, Suite 206 Harrisburg, PA 17101-1681

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hamilton Health Center
Harrisburg, Pennsylvania

We have audited the accompanying consolidated balance sheets of Hamilton Health Center (a nonprofit organization) and subsidiary as of March 31, 2012 and 2011, and the related consolidated statements of operations and changes in net assets, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hamilton Health Center and subsidiary as of March 31, 2012 and 2011 and the results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2012 on our consideration of Hamilton Health Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of Hamilton Health Center taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. In addition, the consolidating information on pages 22 to 24 is presented for purposes of additional analysis of the consolidated financial statements rather than to

Board of Directors
Hamilton Health Center

present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. The schedule of expenditures of federal awards and consolidating 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.

Smith Elliott Kearns & Company, LLC

Carlisle, Pennsylvania
September 14, 2012

HAMILTON HEALTH CENTER

CONSOLIDATED BALANCE SHEETS
March 31, 2012 and 2011

ASSETS	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	$ 7,034,777	$ 1,214,465
Accounts receivable - Patients (net of allowance for doubtful accounts of $ 2,641,794 for 2012 and $ 1,926,550 for 2011)	1,193,074	1,363,622
Third-party payor settlements	367,286	413,008
Grants receivable	420,804	389,730
Pledges receivable	18,626	5,013
Accounts receivable - Other	100,868	69,193
Inventory	83,563	91,548
Prepaid expenses	94,811	82,112
Total current assets	9,313,809	3,628,691
PROPERTY AND EQUIPMENT		
Land and land improvements	1,478,459	117,051
Buildings and building improvements	1,950,905	1,889,781
Equipment, furniture and fixtures	3,788,027	3,649,200
Vehicles	68,766	68,766
Construction in progress	10,577,880	1,309,647
	17,864,037	7,034,445
Less accumulated depreciation	5,284,042	5,092,575
Property and equipment, net	12,579,995	1,941,870
OTHER ASSETS		
Pledges receivable	244	3,752
Beneficial interest in endowment	23,248	22,964
Deferred financing costs, (net of accumulated amortization of $ 8,235 for 2012 and $ 7,137 for 2011)	48,737	9,335
Total assets	$ 21,966,033	$ 5,606,612

LIABILITIES AND NET ASSETS	2012	2011
CURRENT LIABILITIES		
Current portion of long-term debt	$ 64,538	$ 64,406
Accounts payable - Trade	311,187	245,473
Accounts payable - Construction	1,760,358	521,905
Accrued expenses	29,595	23,661
Accrued payroll and taxes	731,560	735,062
Accrued interest	136,093	-
Deferred revenue	190,286	203,208
Total current liabilities	3,223,617	1,793,715
Long-term debt, net of current portion	15,192,128	545,581
Total liabilities	18,415,745	2,339,296
NET ASSETS		
Unrestricted		
Designated for endowment	23,248	22,964
Undesignated	3,503,000	3,230,517
	3,526,248	3,253,481
Temporarily restricted	24,040	13,835
Total net assets	3,550,288	3,267,316
Total liabilities and net assets	$ 21,966,033	$ 5,606,612

See accompanying Notes to Financial Statements

HAMILTON HEALTH CENTER

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years Ended March 31, 2012 and 2011

	2012	2011
REVENUE AND OTHER SUPPORT		
Net patient service revenue	$ 4,431,649	$ 4,397,710
Premium revenue	2,005,454	2,113,275
Grant revenue	4,539,372	4,557,801
Pharmacy revenue	2,191,799	2,112,781
Incentive program revenue	233,750	-
Interest income	1,813	3,136
Contributions	24,578	2,303
Other	38,316	38,150
Total revenue and other support	13,466,731	13,225,156
EXPENSES		
Salaries and benefits	7,830,491	7,778,773
Contracted services	1,735,481	1,582,082
Medical supplies and drugs	1,992,704	2,028,572
Insurance	76,676	26,096
Rental expense	67,367	61,802
Other operating expenses	408,661	407,884
Provision for bad debts	715,244	744,942
Depreciation and amortization	192,565	221,257
General and administrative	423,089	335,939
Total expenses	13,442,278	13,187,347
Operating income	24,453	37,809
Unrealized gain on investments	196	3,261
Net assets released from restriction	131,750	26,583
Federal Grants - Capital projects	116,368	69,170
Increase in unrestricted net assets	272,767	136,823
TEMPORARILY RESTRICTED NET ASSETS		
Capital Campaign Pledges	141,855	3,666
Memorial Contributions	100	100
Net assets released from restriction	(131,750)	(26,583)
Increase (decrease) in temporarily restricted net assets	10,205	(22,817)
INCREASE IN NET ASSETS	282,972	114,006
Net assets, beginning	3,267,316	3,153,310
Net assets, ending	$ 3,550,288	$ 3,267,316

See accompanying Notes to Financial Statements

HAMILTON HEALTH CENTER

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended March 31, 2012

	Program	General and Administrative	Total
Salaries	$ 5,451,755	$ 1,013,154	$ 6,464,909
Employee benefits	717,329	102,773	820,102
Payroll taxes	453,965	91,515	545,480
Purchased services	1,268,739	466,742	1,735,481
Advertising	16,010	9,109	25,119
Amortization	-	1,098	1,098
Bad debts	715,244	-	715,244
Bank fees	-	8,185	8,185
Building repairs	5,621	61,826	67,447
Communications	15,962	52,282	68,244
Contributions	-	-	-
Depreciation	168,491	22,976	191,467
Dues and subscriptions	21,691	34,038	55,729
Equipment purchases	359	1,576	1,935
Equipment rental	8,449	21,395	29,844
Equipment repairs	10,980	10,232	21,212
Insurance	-	76,676	76,676
Interest	2,245	22,007	24,252
Late fees	-	1,377	1,377
Licenses	4,011	742	4,753
Miscellaneous	11,669	1,620	13,289
Outreach	126,707	8,367	135,074
Pharmacy expense	1,462,721	-	1,462,721
Printing	547	447	994
Postage	12,150	915	13,065
Professional fees	17,489	44,691	62,180
Rent	12,218	25,305	37,523
Staff development	69,250	17,970	87,220
Supplies	529,983	67,652	597,635
Staff travel	61,537	7,676	69,213
Utilities	16,274	68,616	84,890
Vehicles expenses	16,159	3,761	19,920
Total expenses	$ 11,197,555	$ 2,244,723	$ 13,442,278

See accompanying Notes to Financial Statements

HAMILTON HEALTH CENTER

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended March 31, 2011

	Program	General and Administrative	Total
Salaries	$ 5,417,172	$ 1,033,280	$ 6,450,452
Employee benefits	671,109	125,857	796,966
Payroll taxes	446,254	85,101	531,355
Purchased services	1,221,597	360,485	1,582,082
Advertising	22,915	9,497	32,412
Amortization	-	1,098	1,098
Bad debts	744,942	-	744,942
Bank fees	-	3,705	3,705
Building repairs	7,526	40,319	47,845
Communications	15,577	43,602	59,179
Contributions	-	250	250
Depreciation	193,740	26,419	220,159
Dues and subscriptions	19,454	36,648	56,102
Equipment purchases	13,011	1,804	14,815
Equipment rental	7,879	20,873	28,752
Equipment repairs	18,365	3,954	22,319
Insurance	-	26,096	26,096
Interest	2,467	24,227	26,694
Late fees	24	1,114	1,138
Licenses	8,136	1,121	9,257
Miscellaneous	5,847	1,785	7,632
Outreach	134,200	804	135,004
Pharmacy expense	1,546,569	-	1,546,569
Printing	468	382	850
Postage	14,034	1,110	15,144
Professional fees	2,167	38,411	40,578
Rent	11,600	21,450	33,050
Staff development	38,429	11,845	50,274
Supplies	482,003	49,010	531,013
Staff travel	46,738	8,376	55,114
Utilities	42,616	53,397	96,013
Vehicles expenses	15,910	4,578	20,488
Total expenses	$ 11,150,749	$ 2,036,598	$ 13,187,347

See accompanying Notes to Financial Statements

HAMILTON HEALTH CENTER

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended March 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ 282,972	$ 114,006
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	192,565	221,257
Bad debts	715,244	744,942
Unrealized gain	(196)	(3,261)
Contributed capital	-	-
Decrease/(increase) in:		
Accounts receivable - Patients	(544,696)	(513,681)
Third-party payor settlements	45,722	(5,994)
Grants receivable	(31,074)	402,277
Accounts receivable - Other	(31,675)	44,100
Inventory	7,985	301
Prepaid expenses	(12,699)	(1,345)
Pledges receivable	(10,105)	22,917
Increase/(decrease) in:		
Accounts payable	65,625	(31,546)
Accrued expenses	5,934	(41,174)
Accrued payroll and taxes	(3,502)	109,846
Accrued interest	136,093	-
Deferred revenue	(12,922)	(211,067)
Net cash provided by operating activities	805,271	851,578
Cash flows from investing activities:		
Purchase of fixed assets	(9,591,139)	(620,230)
Net cash used by investing activities	(9,591,139)	(620,230)
Cash flows from financing activities:		
Proceeds from long-term borrowings	14,710,744	-
Payment on long-term borrowings	(64,064)	(63,975)
Payment of financing costs	(40,500)	-
Net cash provided (used) by financing activities	14,606,180	(63,975)
Net increase in cash and cash equivalents	5,820,312	167,373
Cash and cash equivalents, beginning of year	1,214,465	1,047,092
Cash and cash equivalents, end of year	$ 7,034,777	$ 1,214,465
SUPPLEMENTAL DISCLOSURES		
Cash paid for intere (Net of capitalized interest of $ 456,983)	$ 21,853	$ 26,694
NON-CASH INVESTING AND FINANCING		
Equipment purchased on credit	$ -	$ 356,905
Building construction payable	$ 1,289,835	$ -

See accompanying Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Nature of Operations

Hamilton Health Center (the "Center") is a nonprofit corporation that provides medical and dental services to all requesting individuals within the greater Harrisburg, Pennsylvania area. The Center has been designated a Federally Qualified Health Center (FQHC). Accordingly, in cases where patients are economically unable to pay, discounts are provided as required by federal regulations.

During 2012, the Center formed Hamilton Health Center Community Services, Inc. ("HHCCS"), a wholly controlled subsidiary of the Center. HHCCS was formed for the purpose of renovating a building to house the Center's clinical areas (medical and dental) and the Women, Infants and Children (WIC) program. This building will be leased to the Center for these programs.

Principles of Consolidation

The consolidated financial statements for 2012 include the accounts of the Center and its subsidiary, HHCCS. All significant intercompany transactions have been eliminated.

Accounting Method

The Center presents its financial statements on the accrual basis of accounting, with income recognized when earned and expenses recognized when incurred.

Cash and Cash Equivalents

The Center considers all short-term investments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable – Patients

The Center provides credit in the normal course of its business to patients. Patient receivables are generally due 15 days after billed. An allowance is carried for patient accounts that may become uncollectible in future periods. The allowance for doubtful accounts is based on management's judgment of uncollectible accounts, historical trends and other information. Patient receivables are charged against the allowance when, in the judgment of management, it is unlikely they will be collected.

Promises to Give (Pledges Receivable)

Unconditional promises to give are recognized as revenues or gains in the period the promises are received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Center are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the condition is substantially met or the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations and changes in net assets as net assets released from restrictions.

Inventory

Inventory is valued at cost using the first in, first out method (FIFO).

Property and Equipment

Property and equipment is stated at cost less an allowance for accumulated depreciation. Contributed property and equipment is recorded at fair value as of the date contributed. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Depreciation of property and equipment is computed using the straight-line method over the following lives:

Land improvements	10 – 15 years
Building and building improvements	5 – 39 years
Equipment, furniture and fixtures	3 – 29 years
Vehicles	4 – 5 years

Property and equipment acquired with U.S. Department of Health and Human Services (DHHS) funds are considered to be owned by the Center while used in the program or in future authorized programs. However, DHHS retains a reversionary interest in these assets as well as the right to determine the use of any proceeds from the sale of such assets. Accordingly, the Center may not transfer, mortgage, assign, lease or in any other manner, encumber certain items without the prior approval of DHHS.

Individual items which are $ 600 or greater, or homogeneous groups of items that are over $ 1,000 and have a useful life in excess of two years are capitalized. Upon sale or disposition, the asset account is relieved of the cost and the accumulated depreciation account is charged with the depreciation taken prior to the sale. The resulting gain or loss is credited or charged to operations.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Deferred Financing Costs

The Center incurred mortgage issuance costs during the year ended March 31, 2005. These costs are being amortized on the straight-line basis over the life of the loan of fifteen years. Total amortization expense for each of the years ended March 31, 2012 and 2011 was $ 1,098.

Deferred Revenue

The Center recognizes revenue as earned. Amounts received in advance of the period for which the service is rendered are deferred.

Note 1. **Summary of Significant Accounting Policies (Continued)**

Donated Services

The value of services provided by volunteers has not been valued in the financial statements because the criteria for recognition under generally accepted accounting principles has not been satisfied.

Estimates

Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates. The Center's most significant estimate is the allowance for doubtful accounts. The Center's estimate is based on historical collection experience and a review of the current status of its accounts receivable. It is reasonably possible that the Center's estimate of the allowance for doubtful accounts will change within the near term. The amount of the change that is reasonably possible cannot be determined.

Advertising

Non-direct-response advertising costs reported in the statement of functional expenses are expensed the first time the advertising takes place.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those that have been restricted by donors based on a time or purpose restriction.

Permanently Restricted Net Assets

Permanently restricted net assets are those that must be maintained permanently by the Center according to donor-imposed stipulations. There were no permanently restricted net assets at March 31, 2012 or 2011.

Operating Income

The statement of operations and changes in net assets includes operating income. Changes in unrestricted net assets, which are excluded from operating income consistent with industry practice, include unrealized gains or losses on investments other than trading securities and contributions of long lived assets.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors.

Premium Revenue

The Center has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the Center receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the Center. In addition, the HMO's make fee-for-service payments to the Center for certain covered services based upon discounted fee schedules.

Note 1. Summary of Significant Accounting Policies (Continued)

Charity Care

The Center has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis. The amount due is determined using a reduced fee scale. Since the Center does not expect payment for the fees waived, estimated charges for charity care are not included in Net Patient Service Revenue.

During the years ended March 31, 2012 and 2011, the Organization provided $ 1,667,479 and $ 1,556,450 of charity care. These amounts were determined based on a ratio of costs to gross charges. The Organization received grant funds for uncompensated care of $ 1,642,186 and $ 1,509,002 for 2012 and 2011, respectively.

Malpractice Insurance

The Center has an occurrence policy which covers malpractice claims reported during and after the policy term. This coverage is provided under the Federal Tort Claims Act.

Income Tax Status

The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and qualifies as a public charity.

Uncertain Tax Positions

The Center follows the Financial Accounting Standards Board (FASB) Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of March 31, 2012, the Center had no uncertain tax positions that qualify for either recognition or disclosure in the Center's financial statements. With few exceptions, the Center is no longer subject to federal, state or local income tax examinations by tax authorities for years before 2009.

Reclassifications

Certain reclassifications were made to the previously reported amounts for 2011 in order for them to be comparative to 2012.

Note 2. Grants Receivable

Grants receivable consists of the following at March 31:

	2012	2011
Women, Infants and Children Grant	$ 145,764	$ 142,642
Title III	34,496	48,554
Healthy Start Initiative	82,061	76,727
Capital Improvement Program	-	32,232
Dauphin County - Baby Love and Sister Friend Grant	18,261	22,821
Integrated Development Services		21,706
Refugee Health Program	24,805	20,744
CHIPRA Grant	67,118	-
Family Health Council - Family Planning Grant	23,044	9,660
Miscellaneous	25,255	14,644
	$ 420,804	$ 389,730

Note 3. Notes Payable and Long-Term Debt

Long -Term Debt - HHCCS	2012	2011
City First Capital XVII, LLC - QLICI Note A (See item A below)	$ 6,330,290	$ -
City First Capital XVII, LLC - QLICI Note B (See item A below)	1,607,710	-
Commonwealth Cornerstone Group LTD. XIII - QLICI Note A (See item A below)	5,925,290	-
(A) Commonwealth Cornerstone Group LTD. XIII - QLICI Note B (See item A below)	2,012,710	-
Total long-term debt - HHCCS	15,876,000	-
Long -Term Debt - the Center		
Fulton Bank - Term Loan (See item B below)	7,582,220	-
Fulton Bank - Bridge Loan (See item B below)	3,508,104	-
Mortgage payable to a financial institution, secured by buildings requiring monthly payments of $ 6,379 at the New York Prime Rate plus one percent with a final balloon payment. The note is due September 2019.	489,798	543,961
Note payable from a local government requiring annual interest payments of $ 3,000 (3% rate) beginning December 2002 for three years and then a ten year permanent amortization requiring monthly payments of $ 775 including principal and interest through December 2015. The note is unsecured.	56,124	63,618
Note payable from financing company secured by a vehicle, requiring monthly payments of $ 401 beginning October 2005 for five years at 0% interest. The note is due September 2011.	-	2,408
Total long-term debt - the Center	11,636,246	609,987
Total long-term debt before eliminations	27,512,246	609,987
Eliminations	(12,255,580)	-
Total long-term debt after eliminations	15,256,666	609,987
Less current portion of long-term debt	(64,538)	(64,406)
Total long-term debt	$ 15,192,128	$ 545,581

Note 3. Notes Payable and Long-Term Debt - Continued

On August 10, 2011, HHCCS entered into an agreement for the renovation of a building. The construction contract, which is valued at $ 9,500,000, will be financed through various loans and grants.

(A) HHCCS obtained financing of $ 15,876,000 through four notes with City First Capital XVII, LLC and Commonwealth Cornerstone Group LTD., XIII, which are single purpose community development entities. These notes bear interest at 4.49% per annum and require quarterly interest only payments through August 15, 2018. Commencing on August 15, 2018 and continuing on the 15th day of each February, May, August and November, principal and interest payments will be required to sufficiently amortize the loans by the maturity date of August 31, 2041. These notes are secured by a first mortgage lien on the property and assignment of leases, rents and fixtures. These notes cannot be prepaid prior to August 10, 2018.

(B) The Center also borrowed a total of $ 11,823,366 from Fulton Bank, NA (the "Bank") through three loans. The proceeds of these loans were loaned to Hamilton Health Center Investment Fund, LP (the "Investment Fund"), a single purpose investment fund wholly-owned by an affiliate of the Bank, to make corresponding investments in Commonwealth Cornerstone Group LTD., XIII and City First Capital XVII, LLC.

The first loan was a "One-Day Loan" in the amount of $ 733,042 which was used for only one day to provide funds for the borrower to invest in the Investment Fund pursuant to the New Markets Tax Credit transaction. The interest rate on this loan was 4% per annum. This loan was made and repaid on August 10, 2011.

The second loan is the "Term Loan" in the amount of $ 7,582, 220 which was used to loan to the Investment Fund pursuant to the New Markets Tax Credit transaction. The interest rate on this loan is fixed at 5.25% per annum through August 9, 2016. Beginning August 10, 2016 and through the remaining term of the loan, the Term Loan shall bear interest at a variable rate equal to the Prime Rate but in no event will be less than 4% per annum. The Term Loan is to be repaid as follows:

(a) Commencing on the 30th day of September, 2011 and continuing on the last business day of each March, June, September and December of each year, payments of interest only on the then outstanding principal balance of the Term Loan shall be due and payable.

(b) Commencing September 30, 2013 and on the last business day of each March, June, September and December of each year through September 30, 2018, payments of principal and interest in an amount necessary to fully amortize the principal amount of the Term Loan over an amortization period of twenty (20) years based on the then current interest rate.

(c) Commencing November 30, 2018 and on the last business day of each February, May, August and November of each year through May 30, 2033, payments of principal and interest in an amount necessary to fully amortize the principal amount of the Term Loan over an amortization period of twenty (20) years based on the then current interest rate.

(d) On August 23, 2033, one final payment of all outstanding principal and interest of the Term Loan.

Note 3. **Notes Payable and Long-Term Debt - Continued**

The third loan is the "Bridge Loan" in the amount of $ 3,508,104 which was used to loan to the Investment Fund pursuant to the New Markets Tax Credit transaction and is to be reimbursed with proceeds of any grants to be received. The Bridge Loan shall bear interest at a variable rate equal to the Prime Rate, but in no event will be less than 4% per annum. The Bridge Loan is to be repaid as follows:

(a) Commencing on the 30th day of September, 2011 and continuing on the last business day of each March, June, September and December of each year, monthly payments of interest only on the unpaid principal balance owed on the Bridge Loan.

(b) On June 30, 2013, one final payment of all outstanding principal and interest of the Bridge Loan.

(c) Payments of principal shall be paid by the Borrower on the Bridge Loan within five (5) days of receipt of any proceeds received from the Grants in an amount equal to the grant proceeds received.

The Center's loan to the Investment Fund has an interest rate of 5.25% and is subject to the following repayment schedule:

Prior to August 15, 2018 accrued but unpaid interest shall be due and payable in equal quarterly installments on the fifth day prior to the end of each March, June, September and December of each year commencing on September 25, 2011. Commencing on August 15, 2018 and continuing on the fifth day prior to the end of each February, May, August and November thereafter until August 31, 2041, the Investment Fund will make equal quarterly installments of principal and interest on the outstanding principal balance of this Note through the end of the calendar month in an amount sufficient to fully amortize the outstanding principal balance of this Note as of August 31, 2041. The entire outstanding principal balance under the Note plus all accrued and unpaid interest thereon shall become due and payable on August 31, 2041.

This loan is secured by a security interest in the Investment Funds interest in the Community Development Entities and all dividends, distributions, cash and other investment instruments.

The Center assigned this security interest to the Bank in exchange for the three Bank loans previously mentioned.

The Center has also obtained a Redevelopment Assistance Capital Program Grant for the project in the amount of $ 3,000,000 through the Capital Region Economic Development Corporation. This funding will be paid out over a period of six months to assist with project costs.

Note 3. **Notes Payable and Long-Term Debt - Continued**

Scheduled principal repayments on long-term debt are as follows:

Schedule of Maturities:

2013	$	64,538
2014		3,739,913
2015		299,729
2016		338,838
2017		322,284
Thereafter		10,491,364
	$	15,256,666

Interest expense incurred was $ 478,836 for 2012 of which $ 456,983 was capitalized as part of construction. The interest costs capitalized was offset by $ 62,096 of interest income on investments related to this financing. Interest expense for 2011 was $ 26,694 .

Notes payable – line of credit consists of a line of credit with a financial institution with a term of five years. The interest rate is the New York Prime Rate plus one percent. The rate at March 31, 2012 and 2011 was 4.25%. The note is secured by accounts receivable and personal property. The line of credit is for a maximum of $ 100,000. As of March 31, 2012 and 2011, there was no outstanding balance on this line of credit.

Note 4. **Net Patient Service Revenue**

The Center has agreements with third party payors that provide for payment to the Center at amounts that differ from its established rates. A summary of the payment arrangements with major third party payors is as follows:

Medicare: Services provided to Medicare program beneficiaries are paid at an annually determined cost reimbursement rate. The rate is fixed regardless of the service provided or patient classification. The Center is reimbursed at the tentative rate with final cost settlement occurring after submission of an annual cost report and audit of the Center to the Medicare fiscal intermediary.

Medicaid: Services provided to Medicaid program beneficiaries are reimbursed based on a prospective payment system.

Medicaid-HMO: The Center maintains agreements with publicly sponsored Medicaid HMO's licensed by the Commonwealth of Pennsylvania, Department of Insurance. The Center receives both capitated payments for patients enrolled with these plans as well as fee-for-service revenue through the provision of specialized treatment and dental procedures. The Center also receives wrap-around payments for services provided to this patient base, allowing the Center to receive full prospective payment reimbursement at the rates determined under the Medicaid reimbursement methodology described above.

The Center also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Center under these agreements includes capitation payments, as well as negotiated rates based on specialty and dental services provided.

Note 5. Concentration

The Center receives a substantial portion of its revenue from a grant with the U.S. Department of Health and Human Services. Any significant reductions in this grant could have an adverse impact on the Center.

The company maintains cash deposits at a financial institution. The balances at times may exceed the federal deposit insurance corporation limits. Management considers this to be a normal business risk.

Note 6. Defined Contribution Retirement Plan

Effective January 1, 2002, the Center adopted a retirement plan under Internal Revenue Code Section 401(k). Under the plan, the employee becomes eligible to participate beginning the first day of employment. The Center also has a tax deferred annuity for highly compensated individuals.

Employee participation in the plan is voluntary. Upon approval of the Center's Board of Directors each year, the Center matches up to 3% of each eligible employee's gross earnings. The vesting schedule is as follows:

Years of Service	Vesting Percentage
0 - 2	0%
2	25%
3	50%
4	75%
5 or more	100%

Plan contributions for the year ended March 31, 2012 and 2011 were $ 88,091 and $ 79,966, respectively.

Note 7. Lease Commitments

At March 31, 2012, the future minimum lease payments under long-term operating leases for the next five years are presented as follows:

2013	$ 22,346
2014	19,751
2015	11,963
2016	10,105
2017	2,280
	$ 66,445

Lease expense under operating leases totaled $ 67,367 and $ 61,802 for the years ended March 31, 2012 and 2011, respectively.

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at March 31:

	2012	2011
Capital Campaign Pledges Receivable	$ 18,870	$ 8,765
Memorial Fund for Social Services	5,170	5,070
	$ 24,040	$ 13,835

Note 9. Beneficial Interest in Endowment

The Center has a board designated endowment with the Foundation for Enhancing Communities, Inc. The Center will receive a portion of the annual income to cover expenses. The Foundation for Enhancing Communities, Inc. does have variance power; however, it is their intention for the Center to receive the income on the funds held.

Note 10. Pledges Receivable

Outstanding pledges at March 31 are expected to be received as follows:

	2012	2011
Less than one year	$ 18,900	$ 5,192
One to five years	250	3,958
Gross pledges receivable	19,150	9,150
Discount for present value of cash flows	(280)	(385)
Net contributions receivable	$ 18,870	$ 8,765

Discount rates of 1.55% and 1.765% were used to determine present value at March 31, 2012 and 2011, respectively.

Note 11. Contingencies and Commitments

The Center's funding sources reserve the right to perform audit work in addition to the work performed by the independent auditors. Disallowed costs, if any, resulting from such additional work would have to be absorbed by the Center. Management does not believe that any significant costs would be incurred by the Center from additional work by the funding agencies.

During the course of providing services to its clients, the Center may be subject to various suits and claims. At March 31, 2012 and 2011, there were no claims that management or legal counsel believes would have a material effect on the Center's financial position.

The Organization has commitments related to the construction project totaling $ 3,962,314 at March 31, 2012.

Note 12. Subsequent Events

The Center has evaluated events and transactions subsequent to March 31, 2012 through August 27, 2012, the date these financial statements were available to be issued. Based on the definitions and requirements of generally accepted accounting principles, management has not identified any events that have occurred subsequent to March 31, 2012 and through August 27, 2012, that require recognition or disclosure in the financial statements.

HAMILTON HEALTH CENTER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended March 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Grant funds Received	Accrued (Deferred) at beginning of year	Revenue Recognized	Accrued (Deferred) at end of year	Federal Expenditures
U.S. Department of Health and Human Services							
ARRA - Capital Improvement Program	93.703	N/A	$ 326,616	$ 32,232	$ 294,384	$ -	$ 294,384
ARRA - Increase Services to Health Centers	93.703	N/A	21,706	21,706	-		-
Health Centers Cluster			348,322	53,938	294,384	-	294,384
Community Health Centers	93.224 *	N/A	1,642,186	-	1,642,186	-	1,642,186
Title III HIV Centers	93.918 C	N/A	227,755	48,554	213,697	34,496	213,697
Healthy Start Initiative - Eliminating Racial/Ethnic Disparities	93.926 *	N/A	685,106	76,727	690,440	82,061	690,440
Pass-through Grantor - Dauphin County Executive Commission on Drug & Alcohol, Inc.							
Maternal Addiction Program	93.959	SAP 4100027130	121,193	22,821	116,633	18,261	116,633
Pass-through Grantor - Family Health Council of Central Pennsylvania							
Family Planning Services - Title X Grant	93.217	6FPHPA030282-34-01	53,607	9,660	66,991	23,044	66,991
Family Planning Services - Title XX Grant	93.667	SAP 4100049361	9,445	-	9,445	-	9,445
Family Planning Services - Title V	93.994	SAP 4100038436	10,046	-	10,046	-	10,046
Chlamydia Project	93.977	SAP 4100037892	1,779	296	2,313	830	2,313
Pass-through Grantor - Pennsylvania State University Epidemiologic Research							
Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection In Selected Population Groups	93.943	1U62PS003222-01-HHC	12,915	1,410	14,430	2,925	14,430
Pass-through Grantor - Pennsylvania Department of Public Welfare							
CHIPRA Grant	93.767	1Z0C30546-01-00	44,820	-	111,938	67,118	111,938
Pass-through Grantor - Pennsylvania Department of Education - Bureau of Teaching and Learning Division of Curriculum							
HIV/STD/Pregnancy Prevention Education Mini-grant	93.938	1033059	5,936	-	5,936	-	5,936
Pass-through Grantor - Commonwealth of Pennsylvania							
Department of Health - Refugee Health Program	93.566	PPA09229	89,548	20,744	93,609	24,805	93,609
Subtotal - U.S. Department of Health and Human Services			3,252,658	234,150	3,272,048	253,540	3,272,048
U.S. Department of Housing and Urban Development							
Pass-through Grantor - Harrisburg Housing Authority							
Public and Indian Housing	14.850 A	N/A	22,800	1,900	22,800	1,900	22,800
U.S. Department of Agriculture							
Pass-through Grantor - Pennsylvania Department of Health							
Special Supplemental Nutrition Program for	10.557 *	SAP 4100048784	626,866	45,370	727,260	145,764	727,260
Women, Infants, and Children	10.557 *	SAP 4100048784	501,608	-	501,608	-	501,608
			1,128,474	45,370	1,228,868	145,764	1,228,868
Total expenditures of federal awards			$ 4,403,932	$ 281,420	$ 4,523,716	$ 401,204	$ 4,523,716

* Major Program

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. **Basis of Presentation**

The schedule of expenditures of federal awards includes the federal grant activity of Hamilton Health Center and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

HAMILTON HEALTH CENTER

CONSOLIDATING BALANCE SHEET
March 31, 2012

ASSETS	Hamilton Health Center, Inc.	Hamilton Health Center Community Services, Inc.	Eliminations	Consolidated Totals
CURRENT ASSETS				
Cash and cash equivalents	$ 1,614,531	$ 5,420,246	$ -	$ 7,034,777
Accounts receivable - Patients (net of allowance for doubtful accounts of $ 2,641,794 for 2012 and $ 1,926,550 for 2011)	1,193,074	-	-	1,193,074
Third-party payor settlements	367,286	-	-	367,286
Grants receivable	420,804	-	-	420,804
Pledges receivable	18,626	-	-	18,626
Accounts receivable - Other	100,868	-	-	100,868
Inventory	83,563	-	-	83,563
Prepaid expenses	94,811	-	-	94,811
Due from related entity	91,750	-	(91,750)	-
Total current assets	3,985,313	5,420,246	(91,750)	9,313,809
PROPERTY AND EQUIPMENT				
Land and land improvements	117,051	1,361,408	-	1,478,459
Buildings and building improvements	1,950,905	-	-	1,950,905
Equipment, furniture and fixtures	3,788,027	-	-	3,788,027
Vehicles	68,766	-	-	68,766
Construction in progress	550,370	10,876,952	(849,442)	10,577,880
	6,475,119	12,238,360	(849,442)	17,864,037
Less accumulated depreciation	5,284,042	-	-	5,284,042
Property and equipment, net	11,759,161	12,238,360	(849,442)	23,148,079
OTHER ASSETS				
Loan receivable	12,255,580	-	(12,255,580)	-
Pledges receivable	244	-	-	244
Beneficial interest in endowment	23,248	-	-	23,248
Deferred financing costs, (net of accumulated amortization of $ 8,235 for 2012 and $ 7,137 for 2011)	8,237	40,500	-	48,737
Total assets	$ 17,463,699	$ 17,699,106	$ (13,196,772)	$ 21,966,033

LIABILITIES AND NET ASSETS	Hamilton Health Center, Inc.	Hamilton Health Center Community Services, Inc.	Eliminations	Consolidated Totals
CURRENT LIABILITIES				
Current portion of long-term debt	$ 64,538	$ -	$ -	$ 64,538
Accounts payable - trade	311,187	-	-	311,187
Accounts payable - construction	470,523	1,289,835	-	1,760,358
Accrued expenses	29,595	-	-	29,595
Accrued payroll and taxes	731,560	-	-	731,560
Accrued interest	136,093	-	-	136,093
Deferred revenue	190,286	-	-	190,286
Deferred developer fee	393,268		(393,268)	-
Due to related entity	-	91,750	(91,750)	-
Total current liabilities	2,327,050	1,381,585	(485,018)	3,223,617
Long-term debt, net of current portion	11,571,708	15,876,000	(12,255,580)	15,192,128
Total liabilities	13,898,758	17,257,585	(12,740,598)	18,415,745
NET ASSETS				
Unrestricted				
Designated for endowment	23,248	-	-	23,248
Undesignated	3,517,653	441,521	(456,174)	3,383,000
	3,540,901	441,521	(456,174)	3,406,248
Temporarily restricted	24,040	-	-	24,040
Total net assets	3,564,941	441,521	(456,174)	3,430,288
Total liabilities and net assets	$ 17,463,699	$ 17,699,106	$ (13,196,772)	$ 21,846,033

HAMILTON HEALTH CENTER
CONSOLIDATI\NG STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
Year Ended March 31, 2012

	Hamilton Health Center	Hamilton Health Center Community Services, Inc.	Eliminations	Consolidated Totals
REVENUE AND OTHER SUPPORT				
Net patient service revenue	$ 4,431,649	$ -	$ -	$ 4,431,649
Premium revenue	2,005,454	-	-	2,005,454
Grant revenue	4,539,372	-	-	4,539,372
Pharmacy revenue	2,191,799	-	-	2,191,799
Incentive program revenue	233,750	-	-	233,750
Interest income	414,673	-	(412,860)	1,813
Contributions	24,578	-	-	24,578
Other	38,316	-	-	38,316
Developers fee	393,268	-	(393,268)	-
Total revenue and other support	14,272,859	-	(806,128)	13,466,731
EXPENSES				
Salaries and benefits	7,830,491	-	-	7,830,491
Contracted services	1,735,481	-	-	1,735,481
Medical supplies and drugs	1,992,704	-	-	1,992,704
Insurance	76,676	-	-	76,676
Rental expense	67,367	-	-	67,367
Other operating expenses	408,661	-	-	408,661
Provision for bad debts	715,244	-	-	715,244
Depreciation	192,565	-	-	192,565
General and administrative	772,252	791	(349,954)	423,089
Total expenses	13,791,441	791	(349,954)	13,442,278
Operating income	481,418	(791)	(456,174)	24,453
Unrealized gain on investments	196	-	-	196
Net assets released from restriction	131,750	-	-	131,750
Federal Grants - Capital projects	116,368	-	-	116,368
Contributed capital	(442,312)	442,312	-	-
Increase in unrestricted net assets	287,420	441,521	(456,174)	272,767
TEMPORARILY RESTRICTED NET ASSETS				
Capital Campaign Pledges	141,855	-	-	141,855
Memorial Contributions	100	-	-	100
Net assets released from restriction	(131,750)	-	-	(131,750)
Increase in temporarily restricted net assets	10,205	-	-	10,205
INCREASE IN NET ASSETS	297,625	441,521	(456,174)	282,972
Net assets, beginning	3,267,316	-	-	3,267,316
Net assets, ending	$ 3,564,941	$ 441,521	$ (456,174)	$ 3,550,288

HAMILTON HEALTH CENTER
CONSOLIDATED STATEMENTS OF CASH FLOWS
Year Ended March 31, 2012

	Hamilton Health Center	Hamilton Health Center Community Services, Inc.	Eliminations	Consolidated Totals
Cash flows from operating activities:				
Change in net assets	$ 297,625 $ -	$ 441,521	$ (456,174)	$ 282,972
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization	192,565	-	-	192,565
Bad debts	715,244	-	-	715,244
Unrealized gain	(196)	-	-	(196)
Contributed capital	442,312	(442,312)	-	-
Decrease/(increase) in:				
Accounts receivable - Patients	(544,696)	-	-	(544,696)
Third-party payor settlements	45,722	-	-	45,722
Grants receivable	(31,074)	-	-	(31,074)
Accounts receivable - Other	(31,675)	-	-	(31,675)
Inventory	7,985	-	-	7,985
Prepaid expenses	(12,699)	-	-	(12,699)
Pledges receivable	(10,105)	-	-	(10,105)
Due from related entity	(91,750)	-	91,750	-
Increase/(decrease) in:				
Accounts payable	65,625	-	-	65,625
Accrued expenses	5,934	-	-	5,934
Accrued payroll and taxes	(3,502)	-	-	(3,502)
Accrued interest	136,093	-	-	136,093
Deferred revenue	(12,922)	-	-	(12,922)
Deferred developer fee	393,268	-	(393,268)	-
Due to related entity	-	91,750	(91,750)	-
Net cash provided by operating activities	1,563,754	90,959	(849,442)	805,271
Cash flows from investing activities:				
Purchase of fixed assets	(274,142)	(10,506,213)	1,189,216	(9,591,139)
Reimbursement of fixed asset purchases	339,774	-	(339,774)	-
Purchase of notes receivable	(12,255,580)	-	12,255,580	-
Net cash provided by (used by) investing activities	(12,189,948)	(10,506,213)	13,105,022	(9,591,139)
Cash flows from financing activities:				
Proceeds from long-term borrowings	11,090,324	15,876,000	(12,255,580)	14,710,744
Payment on long-term borrowings	(64,064)	-	-	(64,064)
Payment of financing costs	-	(40,500)	-	(40,500)
Net cash provided by (used by) financing activities	11,026,260	15,835,500	(12,255,580)	14,606,180
Net increase in cash and cash equivalents	400,066	5,420,246	-	5,820,312
Cash and cash equivalents, beginning of year	1,214,465	-	-	1,214,465
Cash and cash equivalents, end of year	$ 1,614,531	$ 5,420,246	$ -	$ 7,034,777
SUPPLEMENTAL DISCLOSURES				
Cash paid for interest (Net of capitalized interest of $ 456,983)	$ 238,113	$ 456,983	$ (673,243)	$ 21,853
NON-CASH INVESTING AND FINANCING				
Construction payable	$ -	$ 1,289,835	$ -	$ 1,289,835

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

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

Board of Directors
Hamilton Health Center
Harrisburg, Pennsylvania

We have audited the financial statements of Hamilton Health Center (a nonprofit organization) as of and for the year ended March 31, 2012, and have issued our report thereon dated September 14, 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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph 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 Hamilton Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such as opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2012-01.

Board of Directors
Hamilton Health Center

We noted certain matters that we reported to management of the Hamilton Health Center in a separate letter dated September 14, 2012.

Hamilton Health Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Hamilton Health Center's responses and, accordingly, we express no opinion on them.

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

Smith Elliott Kearns & Company, LLC

Carlisle, Pennsylvania
September 14, 2012

SEK&Co

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Hamilton Health Center
Harrisburg, Pennsylvania

Compliance

We have audited Hamilton Health Center's 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 Hamilton Health Center's major federal programs for the year ended March 31, 2012. Hamilton Health Center'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 Hamilton Health Center's management. Our responsibility is to express an opinion on Hamilton Health Center'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 Hamilton Health Center'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 Hamilton Health Center's compliance with those requirements.

As described in items 2012-02, 2012-03 and 2011-04 in the accompanying schedule of findings and questioned costs, Hamilton Health Center did not comply with requirements regarding program income, maintaining records and filing of accurate reports that are applicable to its Community Health Centers program. Compliance with such requirements is necessary, in our opinion, for Hamilton Health Center to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Hamilton Health Center 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 March 31, 2012.

Board of Directors
Hamilton Health Center

Internal Control over Compliance

Management of Hamilton Health Center 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 Hamilton Health Center'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 Hamilton Health Center's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Hamilton Health Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Hamilton Health Center's responses and, accordingly, we express no opinion on the responses.

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

Smith Elliott Kearns & Company, LLC

Carlisle, Pennsylvania
September 14, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2012

A. **Summary of Auditor's Results**

1. The auditor's report expresses an unqualified opinion on the financial statements of Hamilton Health Center (the "Center").

2. No significant deficiencies or material weaknesses were disclosed during the audit of the financial statements of the Center.

3. One instance of noncompliance material to the financial statements of the Center, required to be reported in accordance with "*Government Auditing Standards,*" was disclosed during the audit.

4. No significant deficiencies or material weaknesses in internal control relating to the audit of the major federal award programs are reported in the "Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133".

5. The auditor's report on compliance for the major federal award programs for the Center expresses a qualified opinion.

6. There are three findings relative to the major federal award programs for the Center reported in Part C of this schedule.

7. The programs tested as major programs include:

Community Health Centers	(CFDA Number 93.224)
Women, Infants and Children	(CFDA Number 10.557)
Healthy Start Initiative – Eliminating Racial/Ethnic Disparities	(CFDA Number 93.926)

8. The threshold for distinguishing Types A and B programs was $ 300,000.

9. The Center was determined to not be a low-risk auditee.

B. **Findings – Financial Statements Audit**

NONCOMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS

2012-01 Procedures of Reduced Fee Scale Program

Condition: Retention of documentation to support the income levels entered into the EHS system to determine eligibility for the Reduced Fee Scale is inconsistent. Any employee in the Registration department can enter Reduced Fee Scale information which automatically assigns a classification and applies reduced fees with or without a completed application. No employee entering the applicant's information is verifying the classification assessment based on stated income in the application or when proof of income is provided. Multiple occurrences were noted where support retained did not reconcile to the Household Assessments from the EHS system, a proper classification was not applied based on the supporting documentation, and the Household Assessment did not support the classification applied in the EHS system. Furthermore, we noted instances where an error in the EHS system is applying classifications at previous levels (i.e., applying Slide D at Slide C rates). In one instance, we noted a credit balance resulting from the overpayment by a patient adjusted off instead of credited to the patient's account.

Criteria: All applications and income verification documents for patients assigned a classification based on the Reduced Fee Scale should be retained in a filing system. The employee entering the applicant's information should verify the classification assessment to ensure the EHS system is reporting accurate information. The classification should not be assigned by Registration employees without completion of an application to support information entered into EHS system except for the one time presumptive visit. Application and income support retained should match Household Assessments, which would in turn support the classification applied in the EHS system.

Effect: The possibility of inappropriate classification assignments and application of discounts to patients that do not meet stated income criteria for an assigned classification could occur.

Cause: Applications and income verification have not been consistently retained. There is no monitoring process taking place to ensure the EHS system is assigning the proper classifications. There is no requirement for registration employees to have a patient complete a Reduced Fee Application at registration when time does not allow a visit to the Health Benefits department. Currently there are no controls in the system to prevent duplication of presumptive eligibility.

B. Findings – Financial Statements Audit (Continued)

Recommendation: We recommend the applications and income documentation used to determine eligibility for the Reduced Fee Scale be retained for the duration of patient eligibility. We recommend employees entering application and income information verify the classification assessment to ensure the EHS system is assigning the proper classification and there are no data entry errors. We also recommend access and ability to manipulate date of service, in order to allow a presumptive Class assessment in the EHS system, be limited to management personnel. Standards should be formalized in writing detailing the proper processes to calculate income from patient provided support. We recommend EHS be contacted to gain a better understanding of the effect of the Household Assessment module on the automated application of a classification in the EHS system, as well as to address the error resulting in classification rates being applied lower than the classification assigned.

Questioned Costs: $ - 0 -

View of Responsible Officials and Planned Corrective Action:

Management is currently developing revised, written procedures for the reduced fee scale program. Effective with the Center's move to its new location, the responsibility for eligibility determinations will be transferred solely to the registration staff. This will enable the assessment to be performed at check-in, whenever required. It will also reduce the potential for duplication of presumptive eligibility. Application and income support will be retained in the EHS system. The reduced fee scale program form will require staff to sign-off on each patient's income determination. The sign-off will serve as verification that the household assessment entered in the system agrees to the income support in the file. Management will develop a procedure to conduct regular reviews of eligibility determinations.

Application of the current sliding fee scale to a patient's account is governed by rule engines within the EHS software. EHS will be contacted and the rule engines will be regularly reviewed to ensure discounts are being properly applied to patient accounts.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended March 31, 2012

C. **Findings and Questioned Costs – Major Federal Award Programs Audit**

NONCOMPLIANCE

Community Health Centers (CFDA Number 93.224)

2012-02 Procedures of Reduced Fee Scale Program

See comments for 2012-01

NONCOMPLIANCE

Women, Infants and Children (CFDA Number 10.557)

2012-03 Retention of Participant Files

Condition: Retention of participant files to support assessments made in the Women, Infants and Children program have not been consistently retained.

Criteria: Ideally, all participant files are retained in a filing system.

Effect: The possibility of inappropriate designation of benefits.

Cause: Participant files have not been consistently retained and tend to be difficult to locate when participants change their service location and physical files are transferred.

Recommendation: We recommend the participant files be retained for the duration of participant eligibility and designation of benefits. We further recommend these files be digitized, as their small size would make the undertaking a reasonable task and provide easy access to file documents, regardless of service location used.

Questioned Costs: $ - 0 -

View of Responsible Officials and Planned Corrective Action:

A plan will be developed to improve the filing system for the program files. Procedures will be implemented to ensure that the files are retained for the duration of participant eligibility, and in accordance with grant requirements.

NONCOMPLIANCE

Healthy Start Initiative – Eliminating Racial/Ethnic Disparities (CFDA Number 93.926)

C. Findings and Questioned Costs – Major Federal Award Programs Audit (Continued)

2012-04 Accurate Filing of Required Reports

Condition: Well Family System generated informational reports do not reconcile to Progress and Performance Reports submitted to the Grantor. Budgetary information provided in the Progress Report does not reconcile to the supporting schedules.

Criteria: Reports should be supported with information easily reconciled to the reports and obtained from the Well Family System for the reporting period. Budgetary amounts submitted should reconcile to supporting schedules.

Effect: Inaccurate information may be reported to the Grantor.

Cause: The Well Family System used to collect and retain data of participants does not have the capability to provide accurate participant data as of a stated date, when requested at a later date. While the Organization may have used accurate data generated at or close to the report date, it did not retain the information and could not locate the reconciling schedule. Additionally, some of the budgetary salary amounts in the Progress Report were placed in the wrong columns and some were improperly calculated.

Recommendation: We recommend the information from the Well Family System be generated as close as possible to the reporting period end, and then maintained independently in Excel or PDF format. We further recommend budgetary salary information is entered based on the Grant Summary report and the Internal Re-budget spreadsheet maintained by the CFO. This report should also be reviewed for accuracy.

Questioned Costs: $ - 0 -

View of Responsible Officials and Planned Corrective Action:

Procedures will be implemented to ensure that source data supporting reports filed with grantor agencies is maintained. Management will also strengthen procedures for review prior to the filing of these reports.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended March 31, 2012

2011-01 Documentation and Approval of Master Fee Schedule

Condition: A dated, electronic document extracted from the patient account system is being retained as the master fee schedule. This schedule does not track changes or provide reference to minutes or other approval from the Board of Directors for such changes. Charge codes used for tracking purposes, which have no dollar values assigned, are omitted from the master fee schedule.

Status: Currently when changes are made a master file is created and maintained. When changes are made, a new master file is created. This situation has been corrected.

2011-02 Procedures of Reduced Fee Scale Program

Condition: The health center is required to have a fee schedule of discounts and adjustments based on a patient's ability to pay. The retention of documentation to support the patient's income level entered into the EHS system to determine eligibility for the Reduced Fee Scale is inconsistent. Any employee in the Registration department can enter Reduced Fee Scale information which automatically assigns a classification and applies reduced fees with or without a completed application. No employee entering the applicant's information is verifying the classification assessment based on stated income in the application or when proof of income is provided.

Status: This condition continues to exist. See Finding 2012-01

2011-03 Documentation and Approval of Master Fee Schedule

See comments for 2011-01

2011-04 Procedures of Reduced Fee Scale Program

See comments for 2011-02

2011-05 Accurate and Timely Filing of Required Reports

Condition: The Federal Financial Report for the Community Health Centers grant funds for the period April 1, 2010 through March 31, 2011 was not filed until August 5, 2011.

Status: The Financial Status Report was filed timely this year.

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

Board of Directors
Hamilton Health Center
Harrisburg, Pennsylvania

We have completed our audit of the financial statements of Hamilton Health Center for the year ended March 31, 2012 and have issued our report thereon dated September 14, 2012. We believe part of our responsibility, as your independent accountants, is to bring to your attention our observations and suggestions which we believe are opportunities for strengthening internal controls, improving operating efficiency and assisting you in managing the growth of your Organization. The comments and suggestions which follow cover matters that came to our attention during our recent audit that we believe merit your consideration.

Supporting Documentation

During testing we noted one credit card payment in which there were several items charged by management for which there was no supporting documentation. All individuals who utilize the Organization's credit cards should be required to provide support for all items charged.

Retention of Participant Provided Support

During our single audit of the WIC program, it was noted there is no internal control in place requiring the retention of participant provided support. Therefore, whatever information is used to enter data regarding a participant's address, income status and other information, is not photocopied and retained. This places a large amount of trust in the accuracy of the staff when populating the State's WIC system for a participant. This also leaves no clear method to test the accuracy of the information and verify the eligibility of the participant. The State has issued no findings regarding this lack of retention, and there doesn't appear to be a grant requirement for the retention of supporting information. However, the Organization's Reduced Fee Scale program also relies on grant funds and the Organization has established internal controls requiring the retention of eligibility support in the patient file. It is considered a best practice to emulate this practice in similar programs at the Organization, unless specifically prohibited in grant agreements. It is our recommendation the WIC program adopts a similar retention policy to support information entered into the State WIC system.

Board of Directors
Hamilton Health Center
September 14, 2012

Management Structure

During our audit, we noted the current Chief Financial Officer (CFO) is responsible for multiple tasks outside the realm of duties of CFOs in similar sized Federally Qualified Health Centers (FQHC). Typically, an FQHC of the size of your Organization will employ a CFO, as well as another senior level administrative officer. The added responsibility assigned to your CFO, in the absence of such a position appears to cause difficulty in the CFO having enough work hours to perform all job duties assigned. We recommend the Organization consider another senior level position, to share this work which is not all financial related.

Accounting Standards Updates

The Financial Accounting Standards Board has issued an accounting standard update related to health care entities, which the Organization should be aware of:

Accounting Update (2011-07) Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and Allowance for Doubtful Accounts for Certain Health Care Entities will require bad debt expense associated with patient service revenue to be reported as a deduction from patient service revenue and not as an operating expense as it is currently reported in the statement of operations. It also requires enhanced disclosures about revenue recognition, bad debt assessments, patient service revenue and information on the changes in the allowance for doubtful accounts. The reporting of bad debt expense does not affect the reporting of other non-patient service revenue bad debt expense such as from employee loans. This standard is effective for the Organization's year ended March 31, 2013.

Proposed Changes to the Single Audit Act

In late February 2012, the Office of Management Budget proposed certain changes to the Single Audit requirements. The most significant of the proposed changes is to raise the threshold requiring a single audit from \$ 500,000 of federal expenditures to \$ 1,000,000. In addition, those entities which expend more than \$ 1,000,000 and less than \$ 3,000,000, would be required to undergo a more focused version of the Single Audit. This more focused version would require only two compliance items to be tested, one of which would always be allowable and unallowable costs, and the other requirement would be of the oversight agency's choosing. Those expending $ 3,000,000 or more would continue to undergo the full Single Audit. We will continue to monitor these proposed changes and keep you informed.

This report is intended solely for the information and use of the Board of Directors, management and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

We acknowledge and appreciate the courtesy and assistance extended to our representatives by your Organization during our audit. The above comments and suggestions are made because we are interested in the continued success of Hamilton Health Center. We will be pleased to further discuss these comments and recommendations at your convenience.

Smith Elliott Kearns & Company, LLC

Hamilton Health Center FQHC

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Voice 717 232-9971 • Fax 717 909-8948 • www.hamiltonhealthcenter.com

Corrective Action Plan
September 14, 2012

Department of Health and Human Services

Hamilton Health Center respectfully submits the following corrective action plan for the fiscal year ended March 31, 2012.

Name and address of independent public accounting firm:
Smith Elliott Kearns & Company, LLC
19 Brookwood Avenue, Suite 101
Carlisle, PA 17015

Audit period: April 1, 2011 – March 31, 2012

The findings from the schedule of findings and questioned costs included in the financial statements dated September 14, 2012 are discussed below. The findings are numbered consistently with the numbers in the schedule.

Findings – Financial Statements Audit

Noncompliance Material to the Financial Statements:

2012-01 Procedures of Reduced Fee Scale Program

Recommendation: Applications and income documentation used to determine eligibility for the Reduced Fee Scale should be retained for the duration of patient eligibility. Employees entering application and income information should verify the classification assessment to ensure the EHS system is assigning the proper classification and there are no data entry errors. Access and ability to manipulate date of service, in order to allow a presumptive class assessment in the EHS system, should be limited to management personnel. Standards should be formalized in writing, detailing the proper processes to calculate income from patient provided support. EHS should be contacted to gain a better understanding of the effect of the Household Assessment module on the automated application of a classification in the EHS system, as well as to address the error resulting in classification rates being applied lower than the classification assigned.

Action Taken: Management is currently developing revised, written procedures for the reduced fee scale program. Effective with the Center's move to its new location, the responsibility for eligibility determinations will be transferred solely to the registration staff. This will enable the assessment to be performed at check-in, whenever required. It will also reduce the potential for duplication of presumptive eligibility. Application and income support will be retained in the EHS system. The reduced fee scale program for will require staff to sign-off on each patient's income determination. The sign-off will serve as verification that the household assessment entered in the system agrees to the income support in the file. Management will develop a procedure to conduct regular reviews of eligibility determinations.

Application of the current sliding fee scale to a patient's account is governed by rule engines within the EHS software. EHS will be contacted and the rule engines will be regularly reviewed to ensure discounts are being properly applied to patient accounts.

Findings and Questioned Costs – Major Federal Award Programs Audit

Noncompliance

2012-02 Procedures of Reduced Fee Scale Program

Community Health Centers (CFDA Number 93.224)

See comments for 2012-01

Noncompliance

2012-03 Retention of Participant Files

Women, Infants and Children (CFDA Number 10.557)

Recommendation: The participant files should be retained for the duration of participant eligibility and designation of benefits. The files should be digitized, as their small size would make the undertaking a reasonable task and provide easy access to file documents, regardless of service location used.

Action Taken: A plan will be developed to improve the filling system for program files. Procedures will be implemented to ensure that the files are retained for the duration of participant eligibility, and in accordance with grant requirements.

Noncompliance

2012-04 Accurate Filing of Required Reports

Healthy Start Initiative – Eliminating Racial/Ethnic Disparities (CFDA Number 93.926)

Recommendation: The information from the Well Family System should be generated as close as possible to the reporting period end, and then maintained independently in Excel or PDF format. Budgetary salary information should be entered based on the grant summary report and internal re-budget spreadsheet maintained by the CFO. This report should also be reviewed for accuracy.

Action Taken: Procedures will be implemented to ensure that source data supporting reports filed with grantor agencies is maintained. Management will also strengthen procedures for review prior to the filing of these reports.

Should there be any questions regarding this Corrective Action Plan, please contact me at 717-635-9781.

Sincerely yours,

Kimberly Alumbaugh

Kimberly Alumbaugh
Chief Financial Officer