*Lester Halpern & Company P.C.*
Certified Public Accountants

Thomas A. Terry CPA ♦ Betty Jane Bourdon CPA ♦ Mary-Anne S. Stearns CPA ♦ Robert B. McKay CPA ♦ Lester L. Halpern CPA Retired

**INDEPENDENT AUDITOR'S REPORT**

October 17, 2012

To The Officers and Directors
Holyoke Health Center, Inc. and Subsidiaries
230 Maple Street
Holyoke, Massachusetts 01040

We have audited the accompanying consolidated statement of financial position of Holyoke Health Center, Inc. and Subsidiaries as of June 30, 2012, and the related consolidated statements of changes in net assets, activities, cash flows, and functional expense for the year then ended. These consolidated financial statements are the responsibility of the Organizations' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Organizations' June 30, 2011 consolidated financial statements and, in our report dated November 14, 2011, we expressed an unqualified opinion on those consolidated 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 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 the significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Holyoke Health Center, Inc. and Subsidiaries as of June 30, 2012, and the consolidated 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 17, 2012, on our consideration of Holyoke Health Center, Inc. and Subsidiaries' internal control over financial reporting and on our tests of their 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.



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

Very truly yours,

Lester Halpern & Company P.C.

Certified Public Accountants

Exhibit A

HOLYOKE HEALTH CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR 2011

ASSETS

| | 2012 | Restated 2011 |
|---|---|---|
| Current Assets: | | |
| Cash | $ 696,670 | $ 663,843 |
| Accounts receivable, net of allowance for uncollectibles of $2,127,658 in 2012 and $1,434,518 in 2011 | 3,315,780 | 3,094,901 |
| Accounts receivable - due from related parties | 10,697 | 10,369 |
| Inventory | 180,367 | 170,535 |
| Prepaid expense | 55,714 | 36,013 |
| Total Current Assets | 4,259,228 | 3,975,661 |
| Property and Equipment in Use: | | |
| Land | 110,000 | 110,000 |
| Building and building improvements | 4,494,387 | 4,494,387 |
| Motor vehicles | 65,527 | 38,202 |
| Equipment | 3,783,347 | 3,037,251 |
| Furniture and fixtures | 693,180 | 685,620 |
| Leasehold improvements | 316,855 | 289,581 |
| | 9,463,296 | 8,655,041 |
| Less - accumulated depreciation | (3,503,472) | (3,004,075) |
| Total Property and Equipment in Use | 5,959,824 | 5,650,966 |
| Other Assets: | | |
| Restricted cash | 2,486 | 2,486 |
| Sinking fund for NCBDC notes | 346,588 | 246,096 |
| Note receivable - MNMF | 1,868,486 | 1,868,486 |
| Note receivable - HHC, LLC | 866,365 | 866,365 |
| Accrued interest receivable - MNMF and HHC, LLC | 578,520 | 481,621 |
| Construction in progress | 448,015 | 577,671 |
| Deposits | 5,477 | 5,477 |
| Intangible assets | 120,000 | 120,000 |
| Developer fee receivable - HHC, LLC | 1,993,550 | 2,039,598 |
| Investments in related entities | 1,935,000 | 1,935,001 |
| Total Other Assets | 8,164,487 | 8,142,801 |
| TOTAL ASSETS | $ 18,383,539 | $ 17,769,428 |

LIABILITIES AND NET ASSETS

| | | |
|---|---|---|
| Current Liabilities: | | |
| Accounts payable | $ 1,148,868 | $ 782,678 |
| Accrued expense | 1,582,168 | 1,256,756 |
| Deferred revenue | 20,464 | 33,545 |
| Short-term note payable | 525,000 | 225,000 |
| Long-term debt - due in one year | 314,121 | 208,096 |
| Total Current Liabilities | 3,590,621 | 2,506,075 |
| Long-Term Liabilities: | | |
| Long-term debt - due after one year | 4,777,718 | 4,898,507 |
| Total Liabilities | 8,368,339 | 7,404,582 |
| Net Assets and Equity: | | |
| Unrestricted net assets | 7,664,734 | 7,768,759 |
| Temporarily restricted net assets | 376,566 | 573,108 |
| Members' equity | 1,936,133 | 1,983,950 |
| | 9,977,433 | 10,325,817 |
| Non-controlling interest | 37,767 | 39,029 |
| Total Net Assets and Equity | 10,015,200 | 10,364,846 |
| TOTAL LIABILITIES AND NET ASSETS | $ 18,383,539 | $ 17,769,428 |

See accompanying notes.

Exhibit B

HOLYOKE HEALTH CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR 2011

| | Unrestricted | Temporarily Restricted | Members' Equity | Non-Controlling Interest | Total |
|---|---|---|---|---|---|
| Balance - June 30, 2010 - As Previously Reported | $ 6,914,041 | $ 0 | $ 2,074,017 | $ 41,145 | $ 9,029,203 |
| Adjustment to record temporarily restricted grants as revenues | | 698,352 | | | 698,352 |
| Balance - June 30, 2010 - As Restated | 6,914,041 | 698,352 | 2,074,017 | 41,145 | 9,727,555 |
| Change in net assets for year | 767,311 | (125,244) | (2,660) | (332) | 639,075 |
| Distributions | 87,407 | | (87,407) | (1,784) | (1,784) |
| Balance - June 30, 2011 | 7,768,759 | 573,108 | 1,983,950 | 39,029 | 10,364,846 |
| Change in net assets for year | (149,152) | (196,542) | (2,690) | (341) | (348,725) |
| Distributions | 45,127 | | (45,127) | (921) | (921) |
| Balance - June 30, 2012 | $ 7,664,734 | $ 376,566 | $ 1,936,133 | $ 37,767 | $ 10,015,200 |

See accompanying notes.

Exhibit C

HOLYOKE HEALTH CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR 2011

| | 2012 | | | Restated 2011 |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | |
| Operational Revenue and Support: | | | | |
| Fees For Service and Capitation - | | | | |
| Medicare | $ 4,866,728 | | $ 4,866,728 | $ 3,887,664 |
| Medicaid | 9,698,797 | | 9,698,797 | 7,878,923 |
| Neighborhood Health Plan | 491,892 | | 491,892 | 631,586 |
| Boston Health Network | 2,863,870 | | 2,863,870 | 3,078,802 |
| Network Health Plan | 619,361 | | 619,361 | 587,524 |
| Correctional Facility | 336,155 | | 336,155 | 374,670 |
| Third Party | 2,324,185 | | 2,324,185 | 1,678,585 |
| Patients | 1,059,958 | | 1,059,958 | 783,700 |
| Health Safety Net | 2,060,039 | | 2,060,039 | 2,097,606 |
| Total Fees | 24,320,985 | | 24,320,985 | 20,999,060 |
| Federal contracts | 3,883,682 | | 3,883,682 | 4,222,812 |
| State contracts | 913,552 | | 913,552 | 960,072 |
| Other contracts and grants | 487,301 | $ 761,515 | 1,248,816 | 1,077,352 |
| Interest | 1,092 | | 1,092 | 864 |
| Donations | 28,090 | | 28,090 | 3,630 |
| Rental income | 3,000 | | 3,000 | 7,575 |
| Management fee | 107,155 | | 107,155 | 103,506 |
| Miscellaneous | 54,736 | | 54,736 | 659,659 |
| Net assets released from restriction | 958,057 | (958,057) | | |
| Total Operational Revenue and Support | 30,757,650 | (196,542) | 30,561,108 | 28,034,530 |
| Expense: | | | | |
| Program Services: | | | | |
| Medical | 11,295,454 | | 11,295,454 | 11,212,637 |
| Dental | 6,946,039 | | 6,946,039 | 5,069,349 |
| Physical Therapy | 256,373 | | 256,373 | 220,145 |
| Health education/outreach | 1,010,035 | | 1,010,035 | 867,147 |
| Pharmacy | 6,764,188 | | 6,764,188 | 6,042,208 |
| Total Program Services | 26,272,089 | | 26,272,089 | 23,411,486 |
| Support Services: | | | | |
| Administration | 2,946,765 | | 2,946,765 | 2,461,392 |
| Health Information management and billing | 1,235,553 | | 1,235,553 | 1,074,521 |
| Facility | 552,324 | | 552,324 | 541,505 |
| Total Support Services | 4,734,642 | | 4,734,642 | 4,077,418 |
| Total Expense | 31,006,731 | | 31,006,731 | 27,488,904 |
| Change in Net Assets From Operations | (249,081) | (196,542) | (445,623) | 545,626 |
| Interest income from investments in related entity | 96,898 | | 96,898 | 93,449 |
| Change in Net Assets | $ (152,183) | $ (196,542) | $ (348,725) | $ 639,075 |

See accompanying notes.

Exhibit D

# HOLYOKE HEALTH CENTER, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR 2011

| | 2012 | Restated 2011 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Cash received from support and service fees | $ 29,601,499 | $ 26,001,074 |
| Donations received | 765 | 3,630 |
| Cash paid to suppliers and employees | (28,816,279) | (25,735,214) |
| Developer fee received | 46,048 | 89,191 |
| Rents received | 3,000 | 7,575 |
| Interest received | 1,092 | 864 |
| Interest paid | (370,334) | (319,661) |
| Net Cash Provided by Operating Activities | 465,791 | 47,459 |
| Cash Flows from Investing Activities: | | |
| Additions to property and equipment | (408,151) | (560,514) |
| Deposits to sinking fund for NCBDC notes | (100,492) | (111,859) |
| Security deposits paid | | (3,400) |
| Net Cash Used in Investing Activities | (508,643) | (675,773) |
| Cash Flows from Financing Activities: | | |
| Net borrowed on short-term notes | 300,000 | |
| Repayment of long-term debt | (223,400) | (103,578) |
| Distribution | (921) | (1,784) |
| Net Cash Provided by (Used in) Financing Activities | 75,679 | (105,362) |
| Net Increase (Decrease) in Cash | 32,827 | (733,676) |
| Cash - beginning of year | 663,843 | 1,397,519 |
| Cash - End of Year | $ 696,670 | $ 663,843 |
| Schedule of Noncash Activities: | | |
| Assets purchased under capital lease | $ 240,766 | $ 629,265 |
| Buy-out of capital lease through new capital lease | | $ (54,205) |
| Donated van | $ 27,325 | |

See accompanying notes.

Exhibit E

HOLYOKE HEALTH CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR 2011

| | 2012 | Restated 2011 |
|---|---|---|
| Change in Net Assets | $ (348,725) | $ 639,075 |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities: | | |
| Depreciation | 499,397 | 443,370 |
| Donated van | (27,325) | |
| Increase in allowance for uncollectibles | 693,140 | 954,737 |
| Loss from Holyoke HC, LLC | 1 | 77 |
| Change in assets and liabilities - | | |
| (Increase) decrease - accounts receivable | (914,019) | (2,006,538) |
| - accounts receivable - due from related parties | (328) | (114) |
| - inventory | (9,832) | 4,093 |
| - prepaid expense | (19,701) | (12,462) |
| - accrued interest receivable - MNMF and HHC, LLC | (96,898) | (93,449) |
| - developer fee received - HHC, LLC | 46,048 | 89,191 |
| (Decrease) increase - accounts payable | 331,702 | 278,709 |
| - accrued expense | 325,412 | (234,418) |
| - deferred revenue | (13,081) | (14,812) |
| Total Adjustments | 814,516 | (591,616) |
| Net Cash Provided by Operating Activities | $ 465,791 | $ 47,459 |

See accompanying notes.

HOLYOKE HEALTH CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR 2011

| | 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Medical | Dental | Physical Therapy | Health Education/ Outreach | Pharmacy | Total Program Services |
| Expense: | | | | | | |
| Salaries and wages | $ 7,155,860 | $ 3,861,505 | $ 159,869 | $ 521,156 | $ 1,485,271 | $ 13,183,661 |
| Contract and consulting | 1,007,318 | 206,599 | 8,640 | 258,288 | 2,368 | 1,483,213 |
| Payroll taxes | 599,003 | 316,576 | 13,318 | 43,651 | 124,423 | 1,096,971 |
| Fringe benefits | 740,415 | 393,052 | 16,028 | 53,825 | 153,239 | 1,356,559 |
| Rent expense | 424,850 | 261,102 | 15,600 | 29,100 | 76,000 | 806,652 |
| Real estate taxes | | | | | | |
| Cost of goods sold | | | | | 4,546,614 | 4,546,614 |
| Supplies | 420,770 | 1,028,098 | 1,082 | 26,062 | 49,874 | 1,525,886 |
| Printing and copying | 18,844 | 8,615 | 308 | 2,020 | 829 | 30,616 |
| Dues and subscriptions | 43,322 | 31,143 | | 1,437 | 7,158 | 83,060 |
| Insurance | | 977 | | | 1,000 | 1,977 |
| Education, training and travel | 70,117 | 22,690 | | 24,055 | 629 | 117,491 |
| Miscellaneous | 22,773 | 39,834 | 655 | 11,867 | 39,314 | 114,443 |
| Repairs and maintenance | 21,127 | 55,483 | 3,074 | 16,099 | 25,661 | 121,444 |
| Trash disposal | 18,903 | | | 1,393 | | 20,296 |
| Advertising | 3,958 | 1,021 | | 486 | 540 | 6,005 |
| Employee physicals | 3,799 | 4,940 | | 258 | 1,027 | 10,024 |
| Postage | 2,925 | 999 | | 104 | 36 | 4,064 |
| Telephone expense | 37,499 | 14,357 | | 1,170 | 8,931 | 61,957 |
| Utilities | 1,469 | 1,608 | | 4,090 | | 7,167 |
| Legal and accounting | 15,240 | 8,152 | | | 450 | 23,842 |
| Computer expense | 630 | 1,236 | | | | 1,866 |
| Equipment rental | 29,202 | 14,198 | 877 | 736 | 877 | 45,890 |
| Meetings | 21,944 | 1,428 | | 11,250 | | 34,622 |
| Interest expense | | | | | 16,336 | 16,336 |
| Client personal allowance | 11,399 | | | | | 11,399 |
| Patient transportation | 12,319 | 210 | | 2,988 | | 15,517 |
| Total Expense Before Depreciation and Bad Debt | 10,683,686 | 6,273,823 | 219,451 | 1,010,035 | 6,540,577 | 24,727,572 |
| Depreciation | 61,524 | 118,183 | 405 | | 65,530 | 245,642 |
| Bad debt expense | 550,244 | 554,033 | 36,517 | | 158,081 | 1,298,875 |
| Total Expense | $ 11,295,454 | $ 6,946,039 | $ 256,373 | $ 1,010,035 | $ 6,764,188 | $ 26,272,089 |

See accompanying notes.





(Continued)

HOLYOKE HEALTH CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR 2011

| | 2012 | | | | | 2011 |
|---|---|---|---|---|---|---|
| | Administration | Health Information Management and Billing | Facility | Total Support Services | Total | Total |
| Expense: | | | | | | |
| Salaries and wages | $ 1,310,432 | $ 800,186 | $ 233,306 | $ 2,343,924 | $ 15,527,585 | $ 13,555,164 |
| Contract and consulting | 23,915 | 16,098 | 19,415 | 59,428 | 1,542,641 | 1,435,047 |
| Payroll taxes | 120,038 | 66,979 | 19,528 | 206,545 | 1,303,516 | 1,124,889 |
| Fringe benefits | 131,729 | 72,548 | 24,064 | 228,341 | 1,584,900 | 1,513,169 |
| Rent expense | 230,000 | 75,000 | 27,800 | 332,800 | 1,139,452 | 1,015,708 |
| Real estate taxes | 204 | | | 204 | 204 | 235 |
| Cost of goods sold | | | | | 4,546,614 | 3,765,219 |
| Supplies | 11,902 | 14,429 | 62,853 | 89,184 | 1,615,070 | 1,347,377 |
| Printing and copying | 2,340 | 1,922 | | 4,262 | 34,878 | 48,633 |
| Dues and subscriptions | 80,555 | 1,047 | | 81,602 | 164,662 | 133,120 |
| Insurance | 123,864 | | | 123,864 | 125,841 | 105,269 |
| Education, training and travel | 22,550 | 219 | 344 | 23,113 | 140,604 | 142,252 |
| Miscellaneous | 33,712 | 4,425 | 519 | 38,656 | 153,099 | 115,722 |
| Repairs and maintenance | 45,152 | 104,499 | 9,316 | 158,967 | 280,411 | 210,104 |
| Trash disposal | | | 3,976 | 3,976 | 24,272 | 19,341 |
| Advertising | 7,313 | 514 | | 7,827 | 13,832 | 9,770 |
| Employee physicals | 741 | 633 | 414 | 1,788 | 11,812 | 3,148 |
| Postage | 33,506 | 90 | 18 | 33,614 | 37,678 | 34,848 |
| Telephone expense | 39,529 | | 7,160 | 46,689 | 108,646 | 93,487 |
| Utilities | | | 25,323 | 25,323 | 32,490 | 28,259 |
| Legal and accounting | 89,502 | | | 89,502 | 113,344 | 103,197 |
| Computer expense | 64,127 | 63,284 | | 127,411 | 129,277 | 74,578 |
| Payroll service expense | 68,215 | | | 68,215 | 68,215 | 69,858 |
| Equipment rental | 4,618 | 13,480 | 250 | 18,348 | 64,238 | 40,246 |
| Meetings | 12,769 | | | 12,769 | 47,391 | 31,857 |
| Interest expense | 354,535 | | | 354,535 | 370,871 | 319,239 |
| Client personal allowance | | | | | 11,399 | 9,773 |
| Patient transportation | | | | | 15,517 | 15,661 |
| Total Expense Before Depreciation and Bad Debt | 2,811,248 | 1,235,353 | 434,286 | 4,480,887 | 29,208,459 | 25,365,170 |
| Depreciation | 135,517 | 200 | 118,038 | 253,755 | 499,397 | 443,370 |
| Bad debt expense | | | | | 1,298,875 | 1,680,364 |
| Total Expense | $ 2,946,765 | $ 1,235,553 | $ 552,324 | $ 4,734,642 | $ 31,006,731 | $ 27,488,904 |

See accompanying notes.

1. Summary of Significant Accounting Policies:

Consolidation - These consolidated financial statements include the activity of the Holyoke Health Center, Inc. and its majority owned subsidiaries (the Center). These subsidiaries include its 79% owned subsidiary HHC Developer, Inc. (HHC Developer) and its 98% owned subsidiary CHCCF/HHC Development LLC (CHCCF/HHC). All intercompany transactions have been eliminated from these consolidated financial statements.

Organization - Holyoke Health Center, Inc. is a not for profit corporation under the laws of the Commonwealth of Massachusetts and is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3), except for taxes on unrelated business income. In addition, the Center qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). The Center provides clinical health, pharmacy and dental services to local residents of the greater Holyoke/Chicopee area.

HHC Developer is a Subchapter C corporation established to be a .01% owner and the managing member of Holyoke HC, LLC, a related real estate limited liability company. CHCCF/HHC is a limited liability corporation and was created to develop property owned by Holyoke HC, LLC. None of these entities are expected to incur income tax liabilities.

Accounting Method - The consolidated financial statements of Holyoke Health Center, Inc. and Subsidiaries are prepared on the accrual basis.

Capitalization of Expenditures - Expenditures for property and equipment are capitalized for any individual item costing more than $1,500. Expenditures for maintenance and repairs are expensed against income as incurred.

Depreciation - The cost of property and equipment in use is depreciated on the straight-line basis over the following estimated useful lives:

| | |
|---|---|
| Building and building improvements | 15-27.5 years |
| Motor vehicles | 3 - 5 years |
| Dental, medical, office and computer equipment | 3 - 10 years |
| Furniture and fixtures | 7 years |
| Leasehold improvements | 5-20 years |

Depreciation expense was $499,397 and $443,370 for the years ended June 30, 2012 and 2011, respectively.

Cost of property includes preacquisition, acquisition, and construction costs including interest during construction period.

Basis of Presentation - The net assets of Holyoke Health Center, Inc. are reported in each of the following three classes when applicable: (a) unrestricted net assets, (b) temporarily restricted net assets, and (c) permanently restricted net assets. Net assets of the two restricted classes are created only by donor imposed restrictions. Restricted contributions and grants whose restrictions are met in the same reporting period are shown in the consolidated financial statements as unrestricted support. Equity of the subsidiaries is shown as members' equity in these consolidated financial statements. Equity of minority investors in the subsidiaries is reflected as non-controlling interest in the consolidated financial statements. The distribution of equity from the subsidiaries is limited by agreements with outside parties until certain tax credit requirements are met.

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

Functional Allocation of Expenses - The costs of providing program and supporting services have been summarized on a functional basis in the consolidated statement of activities. Expenses associated with a particular function are charged directly to that function. Other expenses have been allocated to program and supporting services based on the benefit received.

Investments - Investments in Holyoke HC, LLC (HHC, LLC) are recorded under the equity method as more fully described in Note 14.

Cash Flows - For the Consolidated Statement of Cash Flows, cash includes cash on hand; cash in checking, savings and money market account; and certificates of deposit with original maturities of less than three months. Cash restricted to specific purposes is considered as an investing activity.

Income Recognition - Patient service revenue is reported at the estimated net realizable amounts from patients, third-parties and others for services rendered. Medicare revenue is based on per patient visit interim rates established by that program and is subject to future adjustment based on cost reports for the fiscal year. Medicare rates subject to final settlement cover the period from July 1, 2011 through June 30, 2012. Management believes that any medicare settlements for this period will not be material. Medicaid revenue is based on per patient visit fixed rates established by that program. Boston Health Network and Centercare revenue is based on monthly fees per enrolled participant (monthly capitation) and are subject to certain adjustments as prescribed in the respective agreements. Third party revenue is based on per patient visit rates set by various insurance companies. Patient revenue is based on a sliding fee scale established by the Center. Donations are unrestricted funds from individuals and corporations and are recognized when pledged. Donations of equipment, space and supplies are recorded at their estimated fair market value. Interest on notes receivable is recognized as it accrues under the terms of the loan agreements.

Receivables - Accounts, notes and accrued interest receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to bad debt expense and a credit to the valuation allowance based on payment history of the particular payor or payor class. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts or notes receivable.

Advertising - The Corporation expenses the cost of advertising as incurred. Advertising expense was $13,832 and $9,770 for the years ended June 30, 2012 and 2011, respectively.

Prior-Year Information - The Consolidated Statement of Functional Expense includes certain prior-year summarized comparative information in total but not by function and the comparative statement of activities includes the prior year in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organizations' consolidated financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Inventory - Inventory consists of pharmaceutical and related goods held for sale and are recorded at the lower of cost or market valued on the first-in, first-out basis.

Subsequent Events - The Center has evaluated events that have occurred subsequent to June 30, 2012, through October 17, 2012, the date the consolidated financial statements were available to be issued, and has determined there were no material events requiring recognition or disclosure.

Income Taxes - Holyoke Health Center, Inc. is a not-for-profit corporation and has been recognized as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and accordingly does not record a provision for income taxes on its related earnings. The Corporation believes that in the event of an examination by taxing authorities, its tax positions taken in previously filed information returns and as reflected in its financial statements, with regard to issues affecting its tax exempt status, unrelated business income, and related matters, would prevail based upon the technical merits of such positions. Therefore, the Corporation has concluded that no tax benefits or liabilities are required to be recognized. The Corporation's open tax periods are 2009 through 2012.

HHC Developer reports income on the accrual method for financial statement and income tax reporting. HHC Developer is organized as a taxable for-profit company. Income taxes are provided at the applicable rates on income for financial reporting purposes. HHC Developer's income tax filings are subject to audit by various taxing authorities. HHC Developer's open audit periods are 2009 through 2011. HHC Developer believes its tax estimates are appropriate based on current facts and circumstances.

No provision for income taxes has been recorded for CHCCF/HHC. The members of this limited liability company are taxed individually on their share of LLC earnings, which are allocated among the members in accordance with the LLC agreement. The LLC is subject to various federal and state income tax examinations for the years of 2009 through 2011.

Penalties and interest, if any, assessed by income taxing authorities at the entity level, will be included in operating expenses.

2. Profit Sharing Plan:

The Center maintains a profit sharing plan for all employees with more than six months service. Contributions are made annually at the discretion of the board of directors. Profit sharing contributions were $49,649 and $124,289 for the years ended June 30, 2012 and 2011, respectively.

3. Concentration of Credit Risk:

All receivables are unsecured and are considered collectible by management net of the allowance for uncollectibles.

At June 30, 2012 and 2011, the Organizations had $782,628 and $482,104, respectively, on deposit at local banks in excess of the amount insured by FDIC.

4. Deferred Revenue:

Deferred revenue at June 30, 2012 and 2011 represents contract funds received as of those dates in excess of amounts earned under the terms of the contracts.

5. Charity Care:

Holyoke Health Center, Inc. and Subsidiaries have a policy of providing charity care to patients who are unable to pay. Such patients are identified and the related costs of those services are estimated based on the average cost of providing services within those departments. The cost of these services totaled approximately $2,554,703 in fiscal 2012 and $2,425,000 in fiscal 2011. The Commonwealth of Massachusetts provides funds for certain charity care from its Health Safety Net as shown on Exhibit C.

6. Operating Leases:

The Center has the following leases for space and equipment:

1. Space at 267 High Street, Holyoke, starting September, 2010 through August, 2013. Rent is $2,600 per month for each year. The lease agreement requires the Center to pay all operating costs including real estate taxes.

2. Space at 230 Maple Street, Holyoke, lease started December 31, 2001 through December 31, 2012. Lease costs are $78,108 per month. The lease agreement requires the Center to pay its proportionate share of operating costs including real estate taxes. This property is owned by a related party.

3. Copier leases expiring between October, 2011 and March, 2015.

4. Space at 601 Memorial Drive, Chicopee starting June, 2011 through May, 2018 with one option to extend for a six year period. Rent is $8,820 per month for each of the first four years and $9,349 for the last three years. Rent during the extension period would be $9,878 per month. In addition, the Center is required to pay its proportionate share of common area maintenance, real estate taxes and insurance.

5. Space at 326 Appleton Street, Holyoke starting July 1, 2010 through June 30, 2011. This lease was extended through June 30, 2015 with two extension options for two years each. Rent is $2,200 per month for the first year, $2,425 per month for the second year and $2,500 per month for the last three years. Both of the extension periods would have rents of $2,500 per month. The Center is responsible for its own utilities, insurance, and certain repair and maintenance costs.

The Center also had short-term leases for space and equipment:

Lease expense was as follows:

| | 2012 | 2011 |
|---|---|---|
| Space - minimum on long-term leases | $1,103,440 | $1,003,716 |
| Space - short-term and contingent lease costs | 36,012 | 11,992 |
| Equipment - minimum on long-term leases | 34,041 | 27,291 |
| Equipment - short-term and contingent lease costs | 30,197 | 12,955 |
| | $1,203,690 | $1,055,954 |

Future minimum lease payments on long-term leases are as follows:

| Year End June 30 | |
|---|---|
| 2013 | $ 672,228 |
| 2014 | 160,504 |
| 2015 | 141,503 |
| 2016 | 112,188 |
| 2017 | 112,188 |
| Thereafter | 102,839 |
| | $1,301,450 |

7. Long-Term Debt:

| | 2012 | 2011 |
|---|---|---|
| Capital lease, secured by pharmacy register equipment, payable $616 monthly including interest at 13.59%, matured March, 2012. | | $ 5,248 |
| Capital lease, secured by pharmacy phone system, payable $1,005 monthly including interest at 8.68%, matures March, 2014. | $ 19,526 | 29,426 |
| Note payable to NCBDC CDE 20, LLC, secured by Chicopee real estate, rents, personal property, deposit accounts and leases, interest at 6.693% paid monthly, all principal due at maturity date of January 30, 2014. | 3,383,362 | 3,383,362 |
| Note payable to NCBDC CDE 20, LLC, secured by Chicopee real estate, rents, personal property, deposit accounts and leases, interest at 6.693% paid monthly, all principal due at maturity date of January 30, 2037, at the option of the lender there is a put option which may allow the Center to purchase this note from the holder for $1,000. | 1,059,301 | 1,059,301 |
| Capital lease, secured by pharmacy robotic dispensing system, payable $3,915 monthly including interest at 7.6%, matures November, 2016. | 178,534 | 188,806 |
| Capital lease, secured by medical software, imputed interest is at 7.3%, payable $18,352 monthly, matures August, 2013. | 245,462 | 440,460 |
| Capital lease, secured by computer equipment, interest at 0%, payable $5,016 monthly, matures December, 2015 | 205,654 | |
| | 5,091,839 | 5,106,603 |
| Less - amount due within one year | 314,121 | 208,096 |
| Amount Due After One Year | $4,777,718 | $4,898,507 |

The two notes with NCBDC CDE 20, LLC have certain financial covenants. At June 30, 2012, the Center was noncompliant with one of these covenants. NCBDC CDE 20, LLC has waived this covenant for the year ended June 30, 2012. At June 30, 2011, the Center was in compliance with all financial covenants. These two notes are secured by real estate and personal property with a net book value of $4,342,863 at June 30, 2012.

Future payments on these notes are expected to be as follows:

| Year Ended June 30 | |
|---|---|
| 2013 | $ 314,121 |
| 2014 | 3,526,211 |
| 2015 | 100,619 |
| 2016 | 68,597 |
| 2017 | 22,990 |
| Thereafter | 1,059,301 |
| | $5,091,839 |

Leased assets recorded under capital leases include:

| | 2012 | 2011 |
|---|---|---|
| Register equipment | $ 26,733 | $ 26,733 |
| Robotic dispensing system | 218,845 | 218,845 |
| Phone system | 48,806 | 48,806 |
| Software | 393,583 | 440,460 |
| Server equipment | 187,011 | |
| | 874,978 | 734,844 |
| Less - accumulated depreciation | 126,566 | 48,463 |
| Net Book Value | $748,412 | $686,381 |

Future payments under capital leases are as follows:

| Total Payments | |
|---|---|
| 2013 | $333,442 |
| 2014 | 152,924 |
| 2015 | 107,169 |
| 2016 | 77,073 |
| 2017 | 23,488 |
| | 694,096 |
| Less - amount representing interest | 44,920 |
| Amount Representing Principal | $649,176 |

8. Short-Term Note Payable:

The Center has a working capital line of credit with a bank which is renewed annually. The maximum amount available is $800,000. At June 30, 2012 and 2011, respectively, $525,000 and $225,000 was outstanding against this line of credit. This note is secured by all personal property of the Center including specific equipment as identified in the security agreement as well as accounts receivable. Interest rate is the prime rate published in the Wall Street Journal. The facility is available through February 1, 2013 when it is expected to be renewed.

The Center has a non-revolving multi-draw term note with a bank. The maximum amount available is $400,000. At June 30, 2012, there was no balance outstanding on this note. The interest rate is the prime rate published in the Wall Street Journal. The facility is available through May 30, 2013.

9. Contingencies and Significant Estimates:

The Holyoke Health Center, Inc. and Subsidiaries receive a significant portion of their support from state and federal contracts. The contracts permit the funding entities to audit both the financial operation of the contract and compliance with the terms of the contract agreements. Such audits could result in the disallowance of some costs charged to the contracts and therefore, create a liability to the funding entities. Liabilities resulting from these audits, if any, will be recorded in the period in which the amount of liability is ascertained.

The Center has entered into certain agreements relating to Holyoke HC, LLC, a related party. Under these agreements, the Center has made the following guarantees:

1. Payment of liquidating damages for any unauthorized withdrawals.
2. Additional capital contributions needed to repay investor partner to maintain internal rate of return of 7.4%.
3. Payment for operating deficits in excess of operating reserve.
4. Managing Holyoke HC, LLC in accordance with certain criteria specified in the operating agreement.
5. Completion of development in compliance with operating and development agreements.
6. Payment of all costs in excess of the Financial Forecast.
7. Payment of any amounts that Holyoke HC, LLC is required to disgorge under applicable bankruptcy laws.

The Health Resources and Services Administration (HRSA) has guaranteed 80% of the loans made to Holyoke HC, LLC. The total of the loans that HRSA partially guaranteed is $11,718,750. As part of that guarantee, HRSA has certain recourse against the Center in an event of default on those loans.

Some of the financial covenants on the debt owed by Holyoke HC, LLC are calculated by including Holyoke HC, LLC combined with the Center. These covenants are calculated at December 31 each year. At December 31, 2011 and 2010, the Organizations were in compliance with all of these covenants. Total principal on the Holyoke HC, LLC debts that the Center has guaranteed is $11,718,750. The Center has an investment in Holyoke HC, LLC of $1,935,000. In addition, the Center is owed a developer fee, a note receivable and accrued interest from Holyoke HC, LLC totaling $3,170,457 at June 30, 2012 and $3,162,573 at June 30, 2011. The Center is also owed $2,136,464 at June 30, 2012 and $2,093,497 at June 30, 2011 in notes receivable and accrued interest from MHIC New Market Fund II, LLC which is the investor member of Holyoke HC, LLC. Holyoke HC, LLC will likely be terminated in the near future. The form of and amount of what will be received by the Center upon termination of Holyoke HC, LLC represents a significant estimate that may change materially at the time of termination.

At June 30, 2012, there are no known liabilities as a result of these agreements and management does not anticipate any future liabilities as a result of these guarantees. Given the complex terms of the guarantees, no estimate can be provided for the maximum potential liability.

10. Receivables:

Accounts receivable consist of the following:

| | 2012 | 2011 |
|---|---|---|
| Medicaid | $2,141,345 | $1,244,441 |
| Medicare | 695,735 | 1,243,326 |
| Commercial insurance | 916,733 | 362,141 |
| Patients | 315,778 | 410,957 |
| Health Safety Net | 895,249 | 759,378 |
| Contracts | 226,824 | 279,095 |
| Commonwealth Care | 206,025 | 126,150 |
| Other | 45,749 | 103,931 |
| | 5,443,438 | 4,529,419 |
| Less - allowance for uncollectibles | 2,127,658 | 1,434,518 |
| | $3,315,780 | $3,094,901 |

11. Notes Receivable:

| | 2012 | 2011 |
|---|---|---|
| Note receivable from Holyoke HC, LLC; third security position on 230 Maple Street, Holyoke property; interest at 4.7% compounded monthly, accrued interest at June 30, 2012 and 2011 is $310,542 and $256,610, respectively, all interest and principal is due at maturity on April 1, 2035 | $ 866,365 | $ 866,365 |
| Note receivable from MHIC New Markets Fund II, LLC, third security position on 230 Maple Street, Holyoke property, interest at 2% compounded monthly, accrued interest at June 30, 2012 and 2011 is $267,978 and $225,011, respectively, all interest and principal is due at maturity on April 1, 2035 | $1,868,486 | $1,868,486 |

12. State Surplus Revenue Retention:

The Commonwealth of Massachusetts has regulations governing the excess of state revenues over expenses for not-for-profit organizations subject to the Operational Services Division's authority. Such a surplus, up to 5% of current year state revenues, shall be retained by the organization for its charitable purposes. The sum of these annual surpluses may not exceed 20% of the organization's prior year state revenues. If an organization has a surplus in excess of the 5% or 20% rule, the Commonwealth may stipulate the use of such excess by the agency, request the return of the surplus to the state, or reduce state funding in future years. Amounts within the 5% and 20% rules are included in net assets. Any amount in excess of these rules is a liability to the Commonwealth.

Through June 30, 2012, Holyoke Health Center, Inc. had no surpluses in excess of the 5% or 20% rules. The deficiency in surplus revenue included in net assets is as follows:

| | 2012 | 2011 |
|---|---|---|
| Balance at beginning of year | $(601,626) | $(601,626) |
| Change during year | 0 | 0 |
| Balance at end of year | $(601,626) | $(601,626) |

13. Interest Expense:

The total cost of interest for the years ended June 30, 2012 and 2011 was $370,871 and $319,239, respectively.

14. Investment in Related Entities:

As more fully discussed in Note 15, HHC Developer and Holyoke Health Center, Inc. own .01% of Holyoke HC, LLC. The Center made capital contributions to Holyoke HC, LLC totaling $1,935,300. As the managing member of Holyoke HC, LLC, HHC Developer accounts for this investment under the equity method. The investments by The Center and HHC Developer in HHC, LLC totaled $1,935,000 and $1,935,001 at June 30, 2012 and 2011, respectively. Each year HHC Developer reports its share of Holyoke HC, LLC's profit separately on the statement of activities. Following is a summary of Holyoke HC, LLC at December 31, 2011:

| | |
|---|---|
| Total assets | $20,647,334 |
| Total liabilities | $16,109,084 |
| Total equity | $ 4,538,250 |
| Net loss for year | $ 641,301 |

15. Related Party Activity:

HHC Developer and Holyoke Health Center, Inc. own .01% of Holyoke HC, LLC and HHC Developer Inc. is the managing member of that limited liability corporation. Holyoke HC, LLC was established to own and provide financing for development of property located on 230 Maple Street in Holyoke, Massachusetts. This property is the primary site for the Center's operations in Holyoke with the balance of the property being rented to other organizations. Operation of this property is governed by a management agreement and agreements with the investor limited partner and lenders. Holyoke HC, LLC purchased the property from the Center in December, 2005 by assumption of the existing debt at that time plus a note payable to the Center of $866,365. CHCCF/HHC received a development fee of $2,796,176 to oversee the development of this property. Of the total developer fee, $667,387 was in cash and $2,128,789 is an accrued developer fee. During fiscal 2012 and 2011, the Center received payments of $46,048 and $89,191, respectively, on this developer fee. The balance is due December 31, 2015 with no interest. During fiscal 2012 and 2011, Holyoke Health Center, Inc. paid annual rent to HHC, LLC totaling $937,300. The Center provides management services to HHC, LLC for which it received a management fee of $107,155 and $103,506 for fiscal years 2012 and 2011, respectively, based on 7% of rents collected. As part of the management agreement, the property is maintained by employees of the Center at the Center's cost for those positions. These maintenance services totaled $19,144 and $18,574 for fiscal 2012 and 2011, respectively. At June 30, 2012 and 2011, HHC, LLC owed the Center the following amounts:

| | June 30, 2012 | June 30, 2011 |
|---|---|---|
| Services and pass through costs | $ 10,697 | $ 10,369 |
| Developer fee | $1,993,550 | $2,039,598 |
| Purchase money note (see Note 11) | $ 866,365 | $ 866,365 |
| Accrued interest on purchase of money note (see Note 11) | $ 310,542 | $ 256,610 |

The investor member of Holyoke HC, LLC is MHIC New Market Fund II, LLC (MNMF). As part of the development agreements, Holyoke Health Center, Inc. loaned MNMF the amount discussed in Note 11.

Members of the Board of Directors of Holyoke Health Center, Inc. were officers with banks in which the Center maintains certain bank accounts. The total in these accounts was $10,985 at June 30, 2011. Interest income received from these banks was $5 in fiscal 2011. The executive director of Holyoke Health Center, Inc. is a member of the Board of Directors for a health provider from which the Holyoke Health Center, Inc. receives grants and contracts. During the years ended June 30, 2012 and 2011, grant and contract revenue from this provider was $843,144 and $879,797, respectively. At June 30, 2012 and 2011, accounts receivable from this provider were $245,643 and $80,932, respectively. The executive director of the Holyoke Health Center, Inc. is on the Board of Directors of the Massachusetts League of Community Health Centers (The League). The Center received contracts from The League during fiscal 2012 totaling $28,900. The League also donated a van to the Center during fiscal 2012 with a value of $27,325. The executive director of the Holyoke Health Center, Inc. is on the Board of Directors of another nonprofit organization to which the Holyoke Health Center, Inc. entered into a subcontract agreement. Payments to this subcontractor were $100 and $2,303 during fiscal 2012 and 2011, respectively. Accounts payable to this subcontractor were $-0- at June 30, 2012 and 2011.

The finance director of the Holyoke Health Center, Inc. is on the Board of Directors of a non-profit organization in which the Center entered into a subcontract agreement. Payments to this subcontractor were $66,730 and $59,063 during fiscal 2012 and 2011, respectively. The finance director of the Holyoke Health Center is also on the Board of Directors of another nonprofit organization in which the Holyoke Health Center, Inc. entered into a subgrantee agreement. Payments to this subgrantee were $3,250 during fiscal 2012.

16. Restricted Cash and Sinking Fund:

Restricted cash is required to be held in separate accounts and includes funds required for payment to certain participants under a contract totaling $2,486 at June 30, 2012 and 2011. Sinking fund for NCBDC notes is required under the loan agreements and can only be used for future payment of principal and interest on the notes. The balance in the sinking fund account was $346,588 and $246,096 at June 30, 2012 and 2011, respectively.

17. Intangible Assets:

As part of the purchase of the pharmacy operations in fiscal 2007 Holyoke Health Center, Inc. paid $120,000 to acquire the license and related intangible assets. These intangible assets are not subject to amortization.

18. Temporarily Restricted Net Assets:

Temporarily restricted net assets are restricted to the following purposes:

| | 2012 | 2011 |
|---|---|---|
| Food and fitness | $178,960 | $292,343 |
| Radiology | | 182,206 |
| Diabetes | 100,942 | |
| Breast cancer | 9,930 | 8,865 |
| Teen pregnancy | 7,510 | |
| LaLinda Manita Project | 5,070 | 25,000 |
| Westfield REACH | 13,986 | |
| Healthy Future Project | 10,000 | |
| Dental equipment | 10,042 | 21,107 |
| Holyoke Fuert | | 10,000 |
| Other | 40,126 | 33,587 |
| Total | $376,566 | $573,108 |

19. Net Assets Released from Restriction:

Net assets were released from restriction by satisfying the purpose during the year ended June 30, 2012:

| | |
|---|---|
| Food and fitness | $513,382 |
| Radiology | 182,206 |
| Diabetes | 24,058 |
| Breast cancer | 38,935 |
| Teen pregnancy | 7,490 |
| LaLinda Matina Project | 39,930 |
| Westfield REACH | 41,014 |
| Dental equipment | 11,065 |
| Holyoke Fuert | 10,000 |
| Early childhood dental | 30,000 |
| Viviendo Saludable Project | 8,501 |
| Kindergarten Initiative | 8,375 |
| Emergency preparedness | 10,000 |
| Other | 33,101 |
| | $958,057 |

20. Reclassification:

The 2011 consolidated financial statements have been reclassified to conform with the current year presentation. The reclassifications have no effect on the previously reported change in net assets for the year ended June 30, 2011.

21. Future Expansion:

In May, 2012, the Center received two contracts from The U.S. Department of Health and Human Services, Health Services and Resources Administration. The first contract is for $413,943 to update the dental suite and the second is for $2,872,350 for pediatric dental expansion. These projects will take place in fiscal 2013.

22. Prior Period Adjustment:

In previous years, the Center received certain grants from private foundations and other not for profit organizations. These grants were originally reported as deferred revenue. Given the nature of the agreements, these grants should have been reported as temporarily restricted net assets. Prior year statements have been restated to correct for this error. Following is a summary of the effect of this change on previously issued financial statements:

Cumulative Effect on Net Assets at June 30, 2010:

| | Unrestricted | Temporarily Restricted | Members' Equity | Non-Controlling Interest | Total |
|---|---|---|---|---|---|
| Net assets at June 30, 2010 as previously reported | $6,914,041 | $ 0 | $2,074,017 | $ 41,145 | $9,029,203 |
| Adjustment to record temporarily restricted grants as revenue | | 698,352 | | | 698,352 |
| Net assets at June 30, 2010 as restated | $6,914,041 | $698,352 | $2,074,017 | $ 41,145 | $9,727,555 |

The above adjustment reduced deferred revenue and increased temporarily restricted net assets at June 30, 2010 by $698,352.

The effect of this adjustment for the year ended June 30, 2011 was as follows:

| | |
|---|---|
| Reduction in deferred revenue at June 30, 2011 | $573,108 |
| Increase in temporarily restricted and total net assets at June 30, 2011 | $573,108 |
| Increase in temporarily restricted contracts and grant revenue for the year ended June 30, 2011 | $494,092 |
| Increase in temporarily restricted net assets released from restriction for the year ended June 30, 2011 | $619,336 |
| Reduction in the change in temporarily restricted and total net assets for the year ended June 30, 2011 | $125,244 |

# HOLYOKE HEALTH CENTER, INC. AND SUBSIDIARIES
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE YEAR ENDED JUNE 30, 2012

| Federal Agency/Pass-Through Entity/Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Award Expended | Payments to Subrecipients |
|---|---|---|---|---|
| Department of Health and Human Services/Consolidated Health Centers | 93.224 | N/A | $3,011,618 | |
| Department of Health and Human Services/Pass-Through Massachusetts League of Community Health Centers/Consolidated Health Centers | 93.224 | N/A | 280 | |
| | | | 3,011,898 | |
| Department of Health and Human Services/Pass-Through Noble Hospital, Inc./Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program | 93.527 | N/A | 41,014 | |
| Department of Health and Human Services/ARRA/Pass-Through Massachusetts League of Community Health Centers/Grants to Health Center Programs | 93.703 | N/A | 27,325 | |
| Department of Health and Human Services/ARRA/Pass-Through Massachusetts League of Community Health Centers/Grants to Health Center Programs | 93.703 | N/A | 5,009 | |
| | | | 32,334 | |
| Department of Health and Human Services/Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease | 93.918 | N/A | 872,064 | $539,498 |
| Department of Health and Human Services/Pass-Through Boston University/Ryan White HIV/Aids Dental Reimbursements/Community Based Dental Partnership | 93.924 | H65-HA00003-01 | 182,296 | |

HOLYOKE HEALTH CENTER, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

| Federal Agency/Pass-Through Entity/Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Award Expended | Payments to Subrecipients |
|---|---|---|---|---|
| Department of Health and Human Services/Pass-Through Massachusetts Department of Public Health/Special Project of National Significance | 93.928 | INTF4943MM3200120021 | 4,188 | |
| Department of Health and Human Services/Pass-Through Massachusetts Department of Public Health/HIV Prevention Activities - Health Department Based | 93.940 | INTF4942MM3100119027 | 160,000 | |
| Department of Health and Human Services/Pass-Through Massachusetts Department of Public Health/ Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups | 93.943 | INTF4942MM3100119027 | 20,000 | |
| Department of Health and Human Services/Pass-Through Massachusetts Department of Public Health/Block Grant for Prevention and Treatment of Substance Abuse | 93.959 | INTF2351MM3802114004 | 15,206 | |
| Total Expenditures of Federal Awards | | | $4,339,000 | $539,498 |

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

# HOLYOKE HEALTH CENTER, INC. AND SUBSIDIARIES
## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE YEAR ENDED JUNE 30, 2012

1. Basis of Presentation:

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

2. Subrecipients:

   Holyoke Health Center, Inc. and Subsidiaries provided federal awards to subrecipients as shown in the Schedule of Expenditures of Federal Awards.

3. Pass-Through State Agencies:

   Expenditures of federal awards for funds passed through state agencies are based on information provided by the Commonwealth of Massachusetts Operational Services Division.

4. Donated Van:

   The $27,325 from The Massachusetts League of Community Health Centers (MLCHC) is the cost of the van purchased by MLCHC with funds under CFDA Number 93.703 and donated to Holyoke Health Center, Inc. with the permission of HRSA.

*Lester Halpern & Company P.C.*
Certified Public Accountants

Thomas A. Terry CPA ♦ Betty Jane Bourdon CPA ♦ Mary-Anne S. Stearns CPA ♦ Robert B. McKay CPA ♦ Lester L. Halpern CPA Retired

# 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*

October 17, 2012

To The Officers and Directors
Holyoke Health Center, Inc. and Subsidiaries
230 Maple Street
Holyoke, Massachusetts 01040

We have audited the consolidated financial statements of Holyoke Health Center, Inc. and Subsidiaries as of and for the year ended June 30, 2012, and have issued our report thereon dated October 17, 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 Holyoke Health Center, Inc. and Subsidiaries is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Holyoke Health Center, Inc. and Subsidiaries' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Holyoke Health Center, Inc. and Subsidiaries' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organizations' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organizations' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organizations' consolidated financial statements that is more than inconsequential will not be prevented or detected by the organizations' internal control. We consider the deficiency described in the accompanying schedule of findings and responses as item 2012-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the consolidated financial statements will not be prevented or detected by the organizations' internal control.



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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency 2012-1 described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Holyoke Health Center, Inc. and Subsidiaries' consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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*.

We noted certain matters that we reported to management of Holyoke Health Center, Inc. and Subsidiaries in a separate letter dated October 17, 2012.

Holyoke Health Center, Inc. and Subsidiaries' response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Holyoke Health Center, Inc. and Subsidiaries' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, board of directors, management, the Commonwealth of Massachusetts Operational Services Division, 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.

Very truly yours,

Lester Halpern & Company P.C.

Certified Public Accountants

*Lester Halpern & Company P.C.*
Certified Public Accountants

Thomas A. Terry CPA ♦ Betty Jane Bourdon CPA ♦ Mary-Anne S. Stearns CPA ♦ Robert B. McKay CPA ♦ Lester L. Halpern CPA Retired

**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**

October 17, 2012

To The Officers and Directors
Holyoke Health Center, Inc. and Subsidiaries
230 Maple Street
Holyoke, Massachusetts 01040

Compliance

We have audited Holyoke Health Center, Inc. and Subsidiaries' 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 Holyoke Health Center, Inc. and Subsidiaries' major federal program for the year ended June 30, 2012. Holyoke Health Center, Inc. and Subsidiaries' major federal program is 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 their major federal program is the responsibility of Holyoke Health Center, Inc. and Subsidiaries' management. Our responsibility is to express an opinion on Holyoke Health Center, Inc. and Subsidiaries' 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 Holyoke Health Center, Inc. and Subsidiaries' 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 Holyoke Health Center, Inc. and Subsidiaries' compliance with those requirements.

In our opinion, Holyoke Health Center, Inc. and Subsidiaries complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on their major federal program for the year ended June 30, 2012.



14 Bobala Road ♦ Holyoke, Massachusetts 01040 ♦ www.halperncpa.com ♦ Telephone 413-536-3970 ♦ Fax 413-532-8285

Internal Control Over Compliance

Management of Holyoke Health Center, Inc. and Subsidiaries 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 Holyoke Health Center, Inc. and Subsidiaries' internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our 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 Holyoke Health Center, Inc. and Subsidiaries' 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.

This report is intended solely for the information and use of the management, audit committee, board of directors, others within the entity, the Commonwealth of Massachusetts Operational Services Division, 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.

Very truly yours,

Lester Halpern & Company P.C.

Certified Public Accountants

HOLYOKE HEALTH CENTER, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Section I - Summary of Auditor's Result

Consolidated Financial Statements:

| | |
|---|---|
| Type of auditor's report issued: | Unqualified |
| Internal control over financial reporting: | |
| Material weaknesses identified? | Yes |
| Significant deficiencies identified not considered to be material weaknesses? | None Reported |
| Noncompliance material to consolidated financial statements noted? | No |

Federal Awards:

| | |
|---|---|
| Internal control over major programs: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified not considered to be material weaknesses? | None Reported |
| Type of auditor's report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? | No |

Identification of Major Programs:

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| 93.224, 93.527 | Health Centers Cluster |

| | |
|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $300,000 |
| Auditee qualified as low-risk auditee? | Yes |

HOLYOKE HEALTH CENTER, INC. AND SUBSIDIARIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Section II - Financial Statement Findings

2012-1 Recognition of Temporarily Restricted Grants:

**Criteria**: Generally Accepted Accounting Principles requires not for profit organizations to report temporarily restricted grants as revenue in the year that the Organization receives the grant award.

**Condition**: In reviewing grant awards for the year ended June 30, 2012, management determined that certain grant awards had more of the attributes of promises to give than fee for services (nonreciprocal agreements as opposed to reciprocal agreements). Similar grants were then identified in previous years. In those previous years, these grants were reported as deferred revenue until the Center billed the funding source under the terms of the grant when the amount billed was recorded as earned revenue. Management has determined that these particular grants should have been recorded as temporarily restricted revenue fully in the year of the award and later shown as temporarily restricted net assets released from restriction when the purpose restriction was met.

**Effect**: As a result of this determination, the Center has restated its financial statements as follows:

Cumulative Effect on Net Assets at June 30, 2010:

| | Unrestricted | Temporarily Restricted | Members' Equity | Non-Controlling Interest | Total |
|---|---|---|---|---|---|
| Net assets at June 30, 2010 as previously reported | $6,914,041 | $ 0 | $2,074,017 | $ 41,145 | $9,029,203 |
| Adjustment to record temporarily restricted grants as revenue | | 698,352 | | | 698,352 |
| Net assets at June 30, 2010 as restated | $6,914,041 | $698,352 | $2,074,017 | $ 41,145 | $9,727,555 |

The above adjustment reduced deferred revenue and increased temporarily restricted net assets at June 30, 2010 by $698,352.

The effect of this adjustment for the year ended June 30, 2011 was as follows:

| | |
|---|---|
| Reduction in deferred revenue at June 30, 2011 | $573,108 |
| Increase in temporarily restricted and total net assets at June 30, 2011 | $573,108 |
| Increase in temporarily restricted contracts and grant revenue for the year ended June 30, 2011 | $494,092 |
| Increase in temporarily restricted net assets released from restriction for the year ended June 30, 2011 | $619,336 |
| Reduction in the change in temporarily restricted and total net assets for the year ended June 30, 2011 | $125,244 |

**Cause**: Management had not considered all of the attributes of certain grant awards and reported those grants as reciprocal agreements similar to other grants through June 30, 2011.

**Recommendation**: When we discussed this issue with management during fiscal 2012, we recommended that management review each of the grants that it included in deferred revenue including those that were received in fiscal 2012 as well as any that were reported as deferred revenue in preceding years in light of current accounting standards.

**Management Response**: Management reviewed each of the current year grants and those in recent years. Using the attributes of reciprocal and nonreciprocal agreements under current standards, management determined that certain grants should be reported as temporarily restricted net assets in the year of the award. Management then determined the prior period adjustment needed to correct this issue and adjusted previous year and current year financial statements accordingly.

Section III - Federal Award Findings and Questioned Costs

None

HOLYOKE HEALTH CENTER, INC. AND SUBSIDIARIES
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012

There were no findings or questioned costs disclosed for the year ended June 30, 2011.