

Holyoke Health Center, Inc.

Independent Auditor's Reports and Consolidated Financial Statements

June 30, 2014 and 2013

Holyoke Health Center, Inc.
June 30, 2014 and 2013

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Independent Auditor's Report

Board of Directors
Holyoke Health Center, Inc.
Holyoke, Massachusetts

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Holyoke Health Center, Inc. (the "Organization"), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Holyoke Health Center, Inc. as of June 30, 2014 and 2013, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2014, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Holyoke Health Center, Inc.'s internal control over financial reporting and compliance.

BKD, LLP

Springfield, Missouri
November 13, 2014

Holyoke Health Center, Inc.
Consolidated Balance Sheets
June 30, 2014 and 2013

Assets

	<u>2014</u>	<u>2013</u>
Current Assets		
Cash	\$ 2,584,586	\$ 1,742,378
Assets limited as to use - current	-	448,783
Certificates of deposit	320,174	-
Patient accounts receivable, net of allowance; 2014 - \$75,000, 2013 - \$103,287	2,276,780	2,546,550
Grants and other receivables	588,991	1,344,143
Contribution receivable - current	11,550	63,713
Cost pool receivable	515,000	-
Due from related party	802,402	61,288
Pharmacy inventory	344,609	226,523
Prepaid expenses and other	143,969	95,174
Total current assets	<u>7,588,061</u>	<u>6,528,552</u>
Assets Limited As To Use		
Externally restricted by lenders	-	448,783
Less amount required to meet current obligations	-	448,783
	<u>-</u>	<u>-</u>
Investments		
Investment in and advances to equity investee	<u>1,935,000</u>	<u>1,935,000</u>
Property and Equipment, At Cost		
Land and land improvements	110,000	110,000
Buildings and leasehold improvements	6,724,689	4,811,242
Equipment	5,756,906	4,523,136
Furniture and fixtures	705,598	693,180
Construction in progress	267,312	1,355,674
	<u>13,564,505</u>	<u>11,493,232</u>
Less accumulated depreciation	<u>5,205,524</u>	<u>4,294,168</u>
	<u>8,358,981</u>	<u>7,199,064</u>
Other Assets		
Contributions receivable	-	378,631
Due from related party	4,427,210	5,407,170
Intangible asset	120,000	120,000
Other	33,998	3,400
	<u>4,581,208</u>	<u>5,909,201</u>
Total assets	<u>\$ 22,463,250</u>	<u>\$ 21,571,817</u>

Liabilities and Net Assets

	<u>2014</u>	<u>2013</u>
Current Liabilities		
Accounts payable	\$ 1,406,512	\$ 1,790,948
Accrued expenses	1,760,718	1,653,948
Deferred grant revenue	212,468	727
Short-term note payable	566,828	525,000
Current maturities of long-term debt	<u>213,242</u>	<u>3,525,256</u>
Total current liabilities	4,159,768	7,495,879
Long-Term Debt	<u>2,837,845</u>	<u>1,242,961</u>
Total liabilities	<u>6,997,613</u>	<u>8,738,840</u>
Net Assets		
Unrestricted	15,156,989	11,768,463
Temporarily restricted	<u>308,648</u>	<u>1,064,514</u>
Total net assets	<u>15,465,637</u>	<u>12,832,977</u>
Total liabilities and net assets	<u>\$ 22,463,250</u>	<u>\$ 21,571,817</u>

Holyoke Health Center, Inc.
Consolidated Statements of Operations
Years Ended June 30, 2014 and 2013

	2014	2013
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	\$ 27,076,660	\$ 25,227,732
Provision for uncollectible accounts	1,166,186	1,078,180
Net patient service revenue less provision for uncollectible accounts	25,910,474	24,149,552
Grant revenue	5,759,061	5,789,898
Contributions	2,045	2,582
Other	424,604	321,396
Net assets released from restrictions used for operations	634,448	794,021
Total unrestricted revenues, gains and other support	32,730,632	31,057,449
Expenses and Losses		
Salaries and wages	15,395,727	15,440,523
Employee benefits	2,622,135	2,933,275
Purchased services and professional fees	1,999,118	1,817,003
Supplies and other	3,139,898	2,869,840
Pharmacy expenses	6,439,504	4,791,638
Rent	1,643,474	1,209,673
Depreciation and amortization	935,022	790,698
Interest	287,902	338,038
Loss on sale of property and equipment	3,434	-
Total expenses and losses	32,466,214	30,190,688
Operating Income	264,418	866,761
Other Income		
Investment return	86,110	101,967
Extinguishment of long-term debt	1,058,301	-
Total other income	1,144,411	101,967
Excess of Revenues Over Expenses	1,408,829	968,728
Grants for acquisition of property and equipment	1,979,697	1,161,101
Increase in Unrestricted Net Assets	\$ 3,388,526	\$ 2,129,829

Holyoke Health Center, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2014 and 2013

	2014	2013
Unrestricted Net Assets		
Excess of revenues over expenses	\$ 1,408,829	\$ 968,728
Grants for acquisition of property and equipment	1,979,697	1,161,101
Increase in unrestricted net assets	3,388,526	2,129,829
Temporarily Restricted Net Assets		
Contributions	278,582	1,481,969
Allowance for uncollectible contributions	(400,000)	-
Net assets released from restriction	(634,448)	(794,021)
Increase (decrease) in temporarily restricted net assets	(755,866)	687,948
Change in Net Assets	2,632,660	2,817,777
Net Assets, Beginning of Year	12,832,977	10,015,200
Net Assets, End of Year	\$ 15,465,637	\$ 12,832,977

Holyoke Health Center, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Activities		
Change in net assets	\$ 2,632,660	\$ 2,817,777
Items not requiring (providing) cash		
Loss on sale of property and equipment	3,434	-
Depreciation and amortization	935,022	790,698
Extinguishment of long-term debt	(1,059,301)	-
Grants for acquisition of property and equipment	(1,979,697)	(1,161,101)
Changes in		
Patient accounts receivable, net	269,770	542,406
Grants receivable	755,152	(1,160,307)
Contributions receivable	430,794	(399,353)
Cost pool savings receivable	(515,000)	-
Notes receivable	238,846	(150,840)
Prepaid assets	(48,795)	(39,463)
Inventory and supplies	(118,086)	(46,157)
Accounts payable and accrued expenses	694,835	(215,579)
Deferred revenue	211,741	(19,737)
Other current assets and liabilities	(30,598)	2,077
Net cash provided by operating activities	2,420,777	960,421
Investing Activities		
Purchase of certificate of deposit	(320,174)	-
Purchase of assets limited as to use	-	(102,195)
Proceeds from disposition of assets limited as to use	448,783	-
Purchase of property and equipment	(3,070,874)	(652,482)
Net cash used in investing activities	(2,942,265)	(754,677)
Financing Activities		
Proceeds from grants for acquisition of property and equipment	1,979,697	1,161,101
Proceeds from issuance of long-term debt	2,880,000	-
Principal payments on long-term debt	(3,537,829)	(323,622)
Proceeds from issuance of notes payable to bank	566,828	-
Principal payments on notes payable to bank	(525,000)	-
Net cash provided by financing activities	1,363,696	837,479
Increase in Cash	842,208	1,043,223
Cash, Beginning of Year	1,742,378	699,155
Cash, End of Year	\$ 2,584,586	\$ 1,742,378
Supplemental Cash Flows Information		
Interest paid	\$ 305,860	\$ 340,124
Accounts payable and accrued expenses incurred for property and equipment	\$ -	\$ 972,501

Holyoke Health Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Holyoke Health Center, Inc., (Health Center) is a federally qualified health center which provides health care and education services to patients. The Health Center primarily earns revenues by providing physician and related health care services and dental services through clinics located in Holyoke and Chicopee, Massachusetts.

HHC Developer, Inc. (HHC Developer) is a Subchapter C corporation established to be a .01% owner and the managing member of Holyoke HC, LLC, (HHC, LLC) a related real estate limited liability company. CHCCF/HHC Development, LLC (CHCCF/HHC) is a limited liability corporation and was created to develop property owned by HHC, LLC.

Principles of Consolidation

The consolidated financial statements include the activity of the Health Center and its majority owned subsidiaries (collectively, the "Organization"). The subsidiaries include its 79%-owned subsidiary HHC Developer and its 98%-owned subsidiary CHCCF/HHC. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

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

Cash

At June 30, 2014, the Organization's cash accounts exceeded federally insured limits by approximately \$2,449,000.

Investments and Investment Return

The investment in equity investee is reported on the equity method of accounting. Investments in certificates of deposit are carried at amortized cost.

Investment return is primarily comprised of interest income from related party notes receivable (see *Note 15*) and is reported in the statement of operations as a component of unrestricted net assets.

Holyoke Health Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Assets Limited As To Use

Assets limited as to use include cash held in a sinking fund. These amounts were restricted by notes payable for future payments of principal and interest on the notes. Amounts required to meet current liabilities of the Organization are included in current assets.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for uncollectible accounts in the period of services on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by the sliding fee or other policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Organization's allowance for uncollectible accounts for self-pay patients increased from 96% of self-pay accounts receivable at June 30, 2013, to 99% of self-pay accounts receivable at June 30, 2014. In addition, the Organization's write-offs decreased from approximately \$1,900,000 for the year ended June 30, 2013, to approximately \$1,200,000 for the year ended June 30, 2014.

Pharmacy Inventory

The Organization states pharmacy inventories at the lower of cost, determined using the first-in, first-out method, or market.

Holyoke Health Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Certain property and equipment have been purchased with grant funds received from various federal agencies. Such items may be reclaimed by the federal government if not used to further the grant's objectives.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2014 and 2013.

Intangible Assets

In 2007, the Health Center paid \$120,000 as part of the purchase of pharmacy operations to acquire the pharmacy license and related intangible assets. These assets are not subject to amortization.

Long-lived intangible assets are evaluated annually for impairment. A qualitative assessment is performed to determine whether the existence of events or circumstances leads to a determination that it is more likely than not the fair value of the long-lived intangible asset is less than the carrying amount. If, based on the evaluation, it is determined to be more likely than not that the fair value is less than the carrying value, then the long-lived intangible asset is tested further for impairment. If the implied fair value of long-lived intangible asset is lower than its carrying amount, an impairment is indicated and the long-lived intangible asset is written down to its implied fair value. Subsequent increases in long-lived intangible asset values are not recognized in the financial statements. No impairment loss was recorded during the years ended June 30, 2014 and 2013.

Holyoke Health Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose.

Net Patient Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods, as adjustments become known.

Capitation Revenue

On March 1, 2014, the Commonwealth of Massachusetts began a payment reform initiative in which providers could voluntarily participate. Each provider is paid on a per member per month basis using historical information. The Organization has approximately 2,500 members between both of its sites. In the first year there is only upside risk sharing that will change in future years. Member months are adjusted by the Commonwealth each month for disenrollment or enrollments. The Organization received approximately \$180,000 each month from MassHealth to cover primary care services for the 2,500 members which is included in net patient service revenue on the statement of operations.

Pharmacy Revenue

Pharmacy revenue is recognized as pharmaceuticals are dispensed and was \$12,325,570 and \$10,390,635 for the years ended June 30, 2014 and June 30, 2013, respectively. Pharmacy revenue is included in net patient service revenue on the statement of operation. The Health Center has two in-house pharmacies and participates in the 340B “Drug Discount Program” which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Pricing Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Health Center earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. Reported 340B revenue consists of the pharmacy reimbursements, net of the initial purchase price of the drugs.

	2014	2013
340B gross receipts	\$ 8,469,978	\$ 8,479,440
Drug replenishment costs	2,766,688	2,910,044
	\$ 5,703,290	\$ 5,569,396

Holyoke Health Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

The 340B gross receipts are a component of pharmacy revenue, which is included in net patient service revenue on the statement of operations. The drug replenishment costs are included in pharmacy expenses on the statement of operations. The net 340B pharmacy revenue from this program is used in furtherance of the Organization's mission.

Government Grants

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Cost Pool Savings

The Organization participates in a cost pool savings arrangement with the Commonwealth Care Alliance (CCA) in which CCA distributes any cost pool savings or charges additional costs to its member organizations based on the annual experience of the Organization and other member organizations. Cost pool savings or additional costs are estimated by the Organization using information received from CCA. Cost pool savings were \$593,415 and \$0 for the years ended June 30, 2014 and 2013, respectively, and are included in net patient service revenue on the statement of operations. The Organization updated the estimate for the 2012 and 2013 cost pool savings during 2014 which resulted in approximately \$270,000 of additional cost pool savings.

Contributions

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Income Taxes

The Health Center has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Health Center is subject to federal income tax on any unrelated business taxable income.

Holyoke Health Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

HHC Developer and CHCCF/HHC are for-profit entities and subject to federal and state income tax.

The Health Center, HHC Developer and CHCCF/HHC file tax returns in the U.S. federal jurisdiction. With a few exceptions, the Health Center, HHC Developer and CHCCF/HHC are no longer subject to U.S. federal examinations by taxing authorities for the years before 2011.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible organizations that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to six years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Organization continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Organization recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

The Organization recorded revenue of approximately \$535,500 for the year ended June 30, 2013, which is included in grant revenue in the statement of operations. The Organization did not recognize any revenue related to the program for the year ended June 30, 2014.

Excess of Revenues Over Expenses

The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions and grants of long-lived assets including assets acquired using contributions or grants which by donor or granting agency restriction are to be used for the purpose of acquiring such assets.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on the change in net assets.

Holyoke Health Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Note 2: Grant Revenue

The Organization is the recipient of Consolidated Health Centers (CHC) grants from the U.S. Department of Health and Human Services. The general purpose of the grants is to provide expanded primary health care service delivery for residents of Massachusetts. Terms of the grants generally provide for funding of the Organization's operations based on an approved budget. During the years ended June 30, 2014 and 2013, the Organization received \$3,092,422 and \$3,065,099, respectively, in CHC grant funds. The Organization has been authorized for funding in the amount of \$3,022,557 for the period February 1, 2014, through January 31, 2015.

The Organization is the recipient of Affordable Care Act (ACA) Grants for Capital Development in Health Centers from the U.S. Department of Health and Human Services. The general purpose of the grants is to make immediate facility improvements and expand building capacity. The Organization was awarded two ACA grants totaling \$3,286,293. During the years ended June 30, 2014 and 2013, the Organization received \$2,086,221 and \$1,161,101, respectively, in ACA grant funds.

In addition to the above grants, the Organization receives additional financial support from other federal, state and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis.

Note 3: Net Patient Service Revenue

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for the sliding fee program, the Organization recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Organization's uninsured patients who do not qualify for the sliding fee program will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for uncollectible accounts related to uninsured patients who do not qualify for the sliding fee program in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of net patient service revenue.

Holyoke Health Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

The Organization is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Organization and audit thereof by the Medicare fiscal intermediary. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medicaid. Covered FQHC services rendered to Medicaid program beneficiaries are paid on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for all services under the plan. Services not covered under the FQHC benefit are paid based on established fee schedules.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per unit of service and discounts from established charges.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended June 30, 2014 and 2013, was approximately:

	2014	2013
Medicaid	\$ 16,918,350	\$ 15,973,235
Medicare	4,845,167	4,447,283
Self-pay	475,293	617,776
Other third-party payers	4,837,850	4,189,438
	<hr/>	<hr/>
Total	<u>\$ 27,076,660</u>	<u>\$ 25,227,732</u>

Holyoke Health Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note 4: Concentrations of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2014 and 2013, is:

	2014	2013
Medicaid	56%	62%
Medicare	12%	18%
Other third-party payers	30%	20%
Self-pay	2%	0%
	<u>100%</u>	<u>100%</u>

Note 5: Contributions Receivable

Contributions receivable consisted of the following:

	2014	2013
Due within one year	\$ 11,550	\$ 63,713
Due in one to five years	-	400,000
	<u>11,550</u>	<u>463,713</u>
Less unamortized discount	-	21,369
	<u>\$ 11,550</u>	<u>\$ 442,344</u>

A discount rate of 3% was used for 2013.

Holyoke Health Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note 6: Investments in Equity Investee

The Health Center and HHC Developer have a .01% investment in HHC, LLC. The Health Center made capital contributions to HHC, LLC totaling \$1,935,000 which equals their equity in the net assets of HHC, LLC. As the managing member of HHC, LLC, HHC Developer accounts for this investment under the equity method. Financial position and results of operations of the investee for the years ending December 31, 2013 and December 31, 2012, are summarized below:

	<u>2013</u>	<u>2012</u>
Total assets	\$ 19,260,829	\$ 19,956,932
Total liabilities	15,878,968	15,969,567
Investor member	1,446,861	2,052,365
SC partner	1,935,000	1,935,000
Total equity	<u>\$ 3,381,861</u>	<u>\$ 3,987,365</u>
Expenses	\$ 2,155,383	\$ 2,034,062
Net loss	\$ 605,504	\$ 550,885

Note 7: Note Payable to Bank

The Organization had a due on demand note payable that allowed borrowings up to \$800,000. At June 30, 2013, there was \$525,000 borrowed against this note. The note was collateralized by substantially all of the Organization's assets. Interest varied with the bank's prime rate, which was 3.25% on June 30, 2013, and was payable monthly. The note was required to be paid in full for a minimum of 30 days during each fiscal year and was paid in full and terminated during 2014.

The Organization has a due on demand note payable that allows borrowings up to \$800,000. At June 30, 2014, there was \$566,828 borrowed against this note. The note is collateralized by substantially all of the Organization's assets. Interest varied with the bank's prime rate, which was 3.25% on June 30, 2014, and is payable monthly. The note must be paid in full for a minimum of 30 days during each fiscal year. The note requires the Organization to comply with certain restrictive covenants including a debt service coverage ratio.

Holyoke Health Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note 8: Long-Term Debt

Long-term debt at June 30, 2014 and 2013, consisted of the following:

	2014	2013
Note payable, bank (A)	\$ -	\$ 3,383,362
Note payable, bank (B)	-	1,059,301
Note payable, bank (C)	2,870,687	-
US Bank capital lease obligations (D)	-	36,369
Parata capital lease obligations (E)	100,145	140,949
Cisco capital lease obligations (F)	-	7,789
HG&E capital lease obligations (G)	80,255	140,447
	<u>3,051,087</u>	<u>4,768,217</u>
Less current maturities	<u>213,242</u>	<u>3,525,256</u>
	<u>\$ 2,837,845</u>	<u>\$ 1,242,961</u>

- (A) This note payable was due to NCBDE CDE 20, LLC and was secured by Chicopee real estate, rents, personal property, deposit accounts and leases. Interest of 6.693% was paid monthly. All principal was paid in full in May 2014 with proceeds from a new note payable and cash from operations.
- (B) This note payable was due to NCBDE CDE 20, LLC and was secured by Chicopee real estate, rents, personal property, deposit accounts and leases. Interest of 6.693% was paid monthly, and all principal is due at the maturity date of January 30, 2037. At the option of the lender, there was a put option which allowed the Organization to purchase this note from the holder for \$1,000. During February 2014, the Organization exercised the put option and purchased the note from the lender and recognized a \$1,058,301 gain on the extinguishment of debt.
- (C) Due May 28, 2034; payable \$15,313 monthly, including interest at 2.50% through May 28, 2015, at which time the interest rate changes to 2.00% above the five year Federal Home Loan Bank of Boston rate and is recalculated every sixtieth month, with a floor of 2.50%; can be prepaid in whole or part and has a prepayment penalty equal to 5.00% year 1, 4.00% year 2, 3.00% year 3, 2.00% year 4 and 1.00% year 5; secured by certain real property; requires the Organization to comply with certain restrictive covenants.
- (D) At imputed interest of 7.3%, paid in full during August 2013; collateralized by equipment.
- (E) At imputed interest of 7.6%, due through November 2016; collateralized by equipment.

Holyoke Health Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

(F) At imputed interest of 8.7%, paid in full during March 2014; collateralized by equipment.

(G) At imputed interest of 0%, due through November 2016; collateralized by equipment.

Property and equipment included the following equipment under capital leases:

	2014	2013
Equipment	\$ 409,480	\$ 851,869
Less accumulated depreciation	<u>143,615</u>	<u>400,236</u>
	<u><u>\$ 265,865</u></u>	<u><u>\$ 451,633</u></u>

Aggregate annual maturities of long-term debt and payments on capital lease obligations at June 30, 2014, are:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2015	\$ 113,286	\$ 107,168
2016	116,150	67,041
2017	119,088	16,315
2018	122,099	-
2019	125,187	-
Thereafter	<u>2,274,877</u>	<u>-</u>
	<u><u>\$ 2,870,687</u></u>	190,524
Less amount representing interest		10,124
Present value of future minimum lease payments		<u>180,400</u>
Less current maturities		<u>99,956</u>
Noncurrent portion		<u><u>\$ 80,444</u></u>

Holyoke Health Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note 9: 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% and 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 within unrestricted net assets on the Organization's balance sheet. Any amount in excess of these rules is a liability to the Commonwealth. There was no liability recorded at June 30, 2014 and 2013.

Note 10: Medical Malpractice Claims

The U.S. Department of Health and Human Services has deemed the Organization and its participating physicians and other licensed or certified health care practitioners, covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

Claim liabilities are determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon the Organization's claim experience, no accrual has been made for the Organization's medical malpractice costs for the years ended June 30, 2014 and 2013. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

Note 11: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purpose:

	2014	2013
Health care services		
Holyoke food and fitness project	\$ 165,166	\$ 784,328
General health care services	143,482	280,186
	\$ 308,648	\$ 1,064,514

During June 30, 2014 and 2013, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of the Holyoke food and fitness project and general health care services in the amounts of \$634,448 and \$794,021, respectively.

Holyoke Health Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note 12: Functional Expenses

The Organization provides health care services to residents within its service area. Expenses related to providing these services are as follows:

	2014	2013
Health care services	\$ 27,410,236	\$ 25,425,473
General and administrative	5,055,978	4,765,215
	\$ 32,466,214	\$ 30,190,688

Note 13: Operating Leases

Noncancellable operating leases for primary care outpatient offices expire in various years through 2019. These leases generally require the Organization to pay all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at June 30, 2014, were:

2015	\$ 1,232,670
2016	1,189,488
2017	1,189,488
2018	1,180,139
2019	1,077,300
Thereafter	538,650
Future minimum lease payments	\$ 6,407,735

Note 14: Retirement Plan

The Organization has a defined contribution pension plan covering substantially all employees. The Board of Directors annually determines the amount, if any, of the Organization's contributions to the plan. Retirement plan expense was \$75,000 and \$141,000 for 2014 and 2013, respectively.

Holyoke Health Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note 15: Related Party Transactions

HHC Developer and the Health Center own .01% of HHC, LLP and HHC Developer is the managing member of HHC, LLP. HHC, LLP 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 Health 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. HHC, LLP purchased the property from the Organization in December 2005 by assumption of the existing debt at that time plus a note payable to the Health Center of \$866,365. During 2014, \$793,000 was collected on the note receivable principal balance. The note receivable balance at June 30, 2014 and 2013, was \$73,365 and \$866,365, respectively. Interest on the note is accrued at a rate of 4.7%. All principal and interest is due at maturity on April 1, 2035. During fiscal 2014 and 2013, the Health Center paid annual rent to HHC, LLP totaling \$1,349,300 and \$937,300, respectively.

The Health Center provides management services to HHC, LLP for which it received a management fee of \$90,955 and \$107,689, respectively, for the years ended June 30, 2014 and 2013, based on 7% of rents collected. As part of the management agreement, the property is maintained by employees of the Health Center at the Health Center's cost for those positions.

The investor member of HHC, LLP is MHIC New Market Fund II, LLC (MNMF). As part of the development agreements, the Health Center loaned MNMF \$1,868,486. During 2014, \$272,000 was collected on the note receivable principal balance. The note receivable balance at June 30, 2014 and 2013, was \$1,596,486 and \$1,868,486, respectively. Interest is accrued at a rate of 2.0%. All principal and interest is due at maturity on April 1, 2035.

CHCCF/HHC received a development fee of \$2,796,176 to oversee the development of this property. Of the total developer fee, \$667,397 was in cash and \$2,128,789 is an accrued developer fee. During the years ended June 30, 2014 and 2013, there were no payments received on this developer fee. The balance is due December 31, 2015, with no interest.

At June 30, 2014 and 2013, the Organization was owed the following amounts:

	2014	2013
Accounts receivable due from HHC, LLC	\$ 9,402	\$ 61,288
Accounts receivable from MNMF	793,000	-
Developer fee due from HHC, LLC	1,993,550	1,993,550
Note receivable from MNMF	1,596,486	1,868,486
Accrued interest on MNMF note receivable	356,328	311,706
Note receivable from HHC, LLC	73,365	866,365
Accrued interest on HHC, LLC note receivable	407,481	367,063
	<u>5,229,612</u>	<u>5,468,458</u>
Less current portion	802,402	61,288
	<u>\$ 4,427,210</u>	<u>\$ 5,407,170</u>

Holyoke Health Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note 16: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerability due to certain concentrations. Those matters include the following:

Grant Revenues

A concentration of revenues related to grant awards and other support is described in *Note 2*.

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1 and 3*.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 10*.

Litigation

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance; for example, allegations regarding employment practices, performance of contracts or medical malpractice claims not covered under FTCA (*Note 10*). The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Current Economic Conditions

The current economic environment presents community health centers with difficult circumstances and challenges. As employers make adjustments to health insurance plans or more patients become unemployed, certain patients may find it difficult to pay for services rendered. The upcoming implementation of the *Affordable Care Act*, including the health insurance exchanges and the decision by the state regarding Medicaid expansion, will directly impact community health centers' net revenues. Further, the effect of economic conditions on federal and state budgets could adversely impact the grant revenues available to community health centers and the programs they administer. Each of these factors could have an adverse impact on the Organization's future operating results.

Supplementary Information

Holyoke Health Center, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	6 H80CS 00803-13-03	\$ 1,580,394
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	U.S. Department of Health and Human Services	93.527	6 H80CS 00803-13-03	<u>1,512,028</u>
Total Health Centers Cluster				<u>3,092,422</u>
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	U.S. Department of Health and Human Services	93.526	1 C8ACS 23726-01-00	1,735,257
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	U.S. Department of Health and Human Services	93.526	1 C8BCS 23868-01-00	<u>342,519</u>
Total Affordable Care Act Cluster				<u>2,077,776</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	U.S. Department of Health and Human Services	93.918	6 H76HA 00201-17-01	<u>738,641</u>
Ryan White HIV/AIDS Dental Reimbursement and Community Based Dental Partnership Grants	U.S. Department of Health and Human Services/ Boston University	93.924	5H65HA 05503-09-00	<u>191,031</u>
Special Projects of National Significance	U.S. Department of Health and Human Services/ Commonwealth of Massachusetts	93.928	INTF4943MM 3200120021	<u>69,241</u>
Total forward				6,169,111

Holyoke Health Center, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Total forward				\$ 6,169,111
Block Grants for Prevention and Treatment of Substance Abuse	U.S. Department of Health and Human Services/ Commonwealth of Massachusetts	93.959	INTF2351MM 3802114004	4,403
HIV Prevention Activities, Health Department Based	U.S. Department of Health and Human Services/ Commonwealth of Massachusetts	93.940	INTF4942MM 3100119027	<u>98,692</u>
Total expenditures of federal awards				<u><u>\$ 6,272,206</u></u>

Notes to Schedule

1. This schedule includes the federal awards activity of Holyoke Health Center, Inc. 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.
2. Of the federal expenditures presented in this schedule Holyoke Health Center, Inc. provided federal awards to subrecipients as follows:

Program	CFDA Number	Subrecipient	Amount Provided
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	Caring Health Center, Inc.	\$ 63,123
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	Baystate Health Systems	<u>393,745</u>
			<u><u>\$ 456,868</u></u>

**Independent Auditor’s Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an Audit of
the Financial Statements Performed in Accordance with
Government Auditing Standards**

Board of Directors
Holyoke Health Center, Inc.
Holyoke, Massachusetts

We have audited, 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, the consolidated financial statements of Holyoke Health Center, Inc. (the “Organization”), which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 13, 2014.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Organization’s internal control to determine the audit procedures that are appropriate in the circumstances 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 the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, there can be no assurance that all material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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 Organization’s consolidated financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a material weakness.

Board of Directors
Holyoke Health Center, Inc.

Compliance and Other Matters

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

The Organization's Response to Findings

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Holyoke Health Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

BKD, LLP

Springfield, Missouri
November 13, 2014

Report on Compliance for Each Major Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Directors
Holyoke Health Center, Inc.
Holyoke, Massachusetts

Report on Compliance for Each Major Federal Program

We have audited the compliance of Holyoke Health Center, Inc. (the "Organization"), 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 its major federal programs for the year ended June 30, 2014. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Holyoke Health Center, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above.

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

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

Board of Directors
Holyoke Health Center, Inc.

Basis for Qualified Opinion on Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease Program

As described in items 2014-002 and 2014-003 in the accompanying schedule of findings and questioned costs, Holyoke Health Center, Inc. did not comply with requirements regarding subrecipient monitoring and reporting for its Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease program. Compliance with such requirements is necessary, in our opinion, for Holyoke Health Center, Inc. to comply with requirements applicable to that program.

Qualified Opinion on Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Holyoke Health Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease program for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Programs

In our opinion, Holyoke Health Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures also disclosed an other instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-004. Our opinion on each major federal program is not modified with respect to these matters.

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

Board of Directors
Holyoke Health Center, Inc.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses and therefore, material weaknesses may exist that were not identified. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-002, 2014-003 and 2014-004 to be material weaknesses.

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

BKD, LLP

Springfield, Missouri
November 13, 2014

Holyoke Health Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

7. The Organization's major programs were:

Cluster/Program	CFDA Number
Consolidated Health Centers Program	93.224 and 93.527
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

Holyoke Health Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Cost
2014-001	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The Organization’s financial statements required adjustments to be in conformity with generally accepted accounting principles. Areas in which adjustments were proposed, including those which management recorded, include:</p> <ul style="list-style-type: none"> • Accounts payable, accrued expenses and related expense accounts • Contribution receivable, deferred grant revenue and temporarily restricted net assets • Cost pool receivable and cost pool savings <p>Context – The Organization’s financial statements should be presented in conformity with generally accepted accounting principles. Timely and thorough review of balance sheet accounts, including estimates, is necessary to identify necessary adjustments.</p> <p>Effect – Adjusting journal entries were proposed during the financial statement audit.</p> <p>Cause – All month-end account reconciliations were not prepared and/or reviewed. The Organization did not identify certain necessary adjustments required to present the financial statements in accordance with generally accepted accounting principles or identify the needed adjustments on a timely basis.</p> <p>Recommendation – Management should modify month-end closing procedures to ensure controls in place are sufficient to assure financial statements are prepared in accordance with generally accepted accounting principles.</p> <p>Views of Responsible Officials and Planned Corrective Action – The Health Center understands the importance of properly prepared financial statements and will modify the month-end closing process to assure accuracy. Specifically, all journal entries will be reviewed by the preparer’s supervisor. This will also occur for all reconciliations.</p>	None

Holyoke Health Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Cost
2014-002	<p style="text-align: center;">Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease CFDA No. 93.918</p> <p style="text-align: center;">U.S. Department of Health and Human Services Award No. 6 H76HA00201-17-01 Program Year 2014</p>	None

Criteria or Specific Requirement – Subrecipient Monitoring

Condition – The Organization is required to appropriately monitor federal grant funds passed through the Organization to other entities.

Context – During the year ended June 30, 2014, the Organization passed Ryan White grant funds through to Baystate Health Systems and Caring Health Center, Inc. in the total amount of \$456,868. The Organization did not have executed contracts with the subrecipient.

Effect – The Organization and its subrecipients were operating without an executed subrecipient contract from January 2013 to November 2013 and January 2014 to March 2014.

Cause – The Organization did not follow their established policies and procedures for monitoring subrecipient grantees.

Recommendation – The Organization should identify the employee(s) who are responsible to ensure the policies and procedures of the Organization are followed including having an executed subrecipient contract in place at the beginning of each grant period.

Views of Responsible Officials and Planned Corrective Action – During 2014, the contracts were forwarded to the subrecipient organizations. The Health Center will review its policies on monitoring of subrecipient grantees and ensure that they are followed.

Holyoke Health Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Cost
2014-003	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease CFDA No. 93.918 U.S. Department of Health and Human Services Award No. 6 H76HA00201-17-01 Program Year 2014	None

Criteria or Specific Requirement – Reporting

Condition – The Organization is required to prepare certain reports as a recipient of the Ryan White Grant. These reports are to be prepared using accurate financial information and filed by specific due dates.

Context – During the year ended June 30, 2014, the Organization was required to prepare and submit three reports for the Ryan White Grant. All three of the reports were filed after the due date and one was filed inaccurately.

Effect – The Organization was not in compliance with reporting requirements.

Cause – The Organization’s policies and procedures were not sufficient to insure all required reports were submitted timely and accurately.

Recommendation – Policies and procedures over federal grant reporting should be modified to ensure required reports are identified, tracked and filed timely using correct information.

Views of Responsible Officials and Planned Corrective Action – The Health Center will establish policies and procedures over reporting of federal grants.

Holyoke Health Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Cost
2014-004	<p style="text-align: center;">CFDA No. 93.526, Affordable Care Act (ACA) Grants for Capital Development in Health Centers</p> <p style="text-align: center;">U.S. Department of Health and Human Services Award No. 1C8BCS23868-01-00 Program Year 2014</p>	\$47,416

Criteria or Specific Requirement – Cash Management

Condition – The Organization is required to prepare and maintain written procedures and policies to minimize the time elapsing between the transfer of funds to the Organization from the U.S. Treasury and the issuance of payments for program purposes by the Organization. These policies should include a reasonable consistent methodology to support request for these funds and ensure that funds are drawn as allowable costs are incurred.

Context – The Organization was awarded the Capital Development (CD) grant in the 2012 fiscal period and began drawing on the funds in the 2013 and 2014 fiscal periods as expenses were incurred. During 2014, the Organization drew down grant funds in excess of their expenditures incurred.

Effect – Grant funds were drawn in advance of qualifying expenditures. At June 30, 2014, grant funds totaling \$47,716 were drawn in advance and were returned subsequent to year end.

Cause – The Organization did not follow written cash management policies in place to ensure expenditures were incurred prior to drawing funds on the CD grant.

Recommendation – The Organization should review the applicable cash management policies and make necessary changes to help avoid drawing grant funds in advance of allowable expenditures.

Views of Responsible Officials and Planned Corrective Actions – The incident that resulted in this finding occurred without the knowledge of the CFO. As soon as it was brought to the CFO’s attention, immediate action was taken and measures were put in place to return the funds and prevent it from occurring again.

Holyoke Health Center, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014

Reference Number	Finding	Status
2013-003	<p>Consolidated Health Centers CFDA Nos. 93.224 and 93.527</p> <p>U.S. Department of Health and Human Services Award No. 6 H80CS00803-12-03 Program Year 2013</p> <p>Criteria or Specific Requirement – Reporting</p> <p>Condition – The Organization is required to prepare certain reports as a recipient of the Consolidated Health Centers grant funds. These reports are to be prepared using accurate financial information and filed by specific due dates.</p> <p>Context – During the year ended June 30, 2013, the Organization was required to prepare and submit a total of six reports for the Consolidated Health Centers grant. A sample of three reports submitted during the fiscal year was selected for testing. Of these three reports, errors were noted on two of the reports selected for testing and one of the reports was not filed timely.</p> <p>Effect – Certain information presented on the 2012 annual Uniform Data System (UDS) report and the annual Federal Financial Report (FFR) for the year ended January 31, 2013, was not consistent with the information recorded on the general ledger and practice management system. In addition, the FFR was not filed timely.</p> <p>Cause – The processes in place for the Organization to reconcile the information on the general ledger to the information included on the grant reports and to ensure that the required reports were filed timely were not sufficient.</p>	Resolved

Holyoke Health Center, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014

Reference Number	Finding	Status
2013-004	<p>Ryan White CFDA No. 93.918</p> <p>U.S. Department of Health and Human Services Award No. 6 H76HA00201-16-03 Program Year 2013</p> <p>Criteria or Specific Requirement – Subrecipient Monitoring</p> <p>Condition – The Organization is required to appropriately monitor federal grant funds passed through the Organization to other entities.</p> <p>Context – During the year ended June 30, 2013, the Organization passed Ryan White grant funds through to Baystate Health Systems and Caring Health Center, Inc. in the total amount of \$485,682. The Organization did not perform formal monitoring to ensure that the subrecipient organizations were following federal grant guidelines.</p> <p>Effect – The subrecipients for this program were not appropriately monitored during the fiscal year. The Organization and its subrecipients were operating without an executed subrecipient contract beginning January 2013. The Organization has also not properly monitored that its subrecipients have received the required audits and for those subrecipients whom an audit of the program is not required, there are no controls in place to properly monitor the activities of the subrecipient. The subrecipients submit monthly invoices to the Organization; however, there is no review or monitoring on the Organization’s part to ensure that the expenditures submitted by the subrecipient are in compliance with the approved grant budget and purpose.</p> <p>Cause – The Organization did not follow their established policies and procedures for monitoring subrecipient grantees.</p>	Unresolved. See Finding 2014-002.

Holyoke Health Center, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014

Reference Number	Finding	Status
2013-005	Ryan White CFDA No. 93.918 U.S. Department of Health and Human Services Award No. 6 H76HA00201-16-03 Program Year 2013	Partially Resolved. See Finding 2014-003.

Criteria or Specific Requirement – Reporting

Condition – The Organization is required to prepare certain reports as a recipient of the Ryan White Grant. These reports are to be prepared using accurate financial information and filed by specific due dates. The Organization is also required to comply with the Federal Funding Accountability and Transparency Act (FFATA).

Context – During the year ended June 30, 2013, the Organization was required to prepare and submit three reports for the Ryan White Grant. Of these three reports, two of the reports were filed after the due date. In addition, the Organization was required to report subcontracts under federally awarded contracts and orders valued at greater than or equal to \$25,000. The Organization had two subcontracts greater than \$25,000 that were not properly reported.

Effect – The Organization was not in compliance with reporting or FFATA requirements.

Cause – The Organization’s policies and procedures were not sufficient to insure all required reports were submitted timely or that FFATA requirements were followed.

Holyoke Health Center, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014

Reference Number	Finding	Status
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2013-006

Affordable Care Act (ACA) Grants for Capital
 Development in Health Centers
 CFDA No. 93.526

Resolved

U.S. Department of Health and Human Services
 Award Nos. 1C8ACS23726-01-00 and 1 C8BCS23868-01-00
 Program Year 2013

Criteria or Specific Requirement – Reporting

Condition – The Organization is required to prepare certain reports as a recipient of the Affordable Care Act (ACA) Capital Development grant. These reports are to be prepared using accurate financial information and filed by specific due dates.

Context – During the year ended June 30, 2013, the Organization was required to prepare and submit a total of thirteen reports for each ACA Capital Development grant. A sample of three reports submitted during the fiscal year was selected for testing. All of the reports selected for testing were filed after the due date.

Effect – The Organization was not in compliance with reporting requirements.

Cause – The Organization’s policies and procedures were not sufficient to insure all required reports were submitted timely.



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Corrective Action Plans:

Finding 2014-001-

Views of Responsible Officials and Planned Corrective Action – The Health Center understands the importance of properly prepared financial statements and will modify the month-end closing process to assure accuracy. Specifically, all journal entries will be reviewed by the preparer’s supervisor. This will also occur for all reconciliations.

Finding 2014-002-

Views of Responsible Officials and Planned Corrective Action – During 2014, the contracts were forwarded to the subrecipient organizations. The Health Center will review its policies on monitoring of subrecipient grantees and ensure that they are followed.

Finding 2014-003-

Views of Responsible Officials and Planned Corrective Action – The Health Center will establish policies and procedures over reporting of federal grants.

Finding 2014-004-

Views of Responsible Officials and Planned Corrective Actions – The incident that resulted in this finding occurred without the knowledge of the CFO. As soon as it was brought to the CFO’s attention, immediate action was taken and measures were put in place to return the funds and prevent it from occurring again.

A handwritten signature in blue ink that reads "Michael Germani". The signature is written in a cursive style and is positioned above a horizontal line.

Michael Germani, Chief Financial Officer