Morris Heights Health Center, Inc. and Subsidiaries

Consolidated Financial Statements,
Schedule of Expenditures of Federal Awards, Internal Control and Compliance (With Supplementary Information) and Independent Auditor's Report

June 30, 2012

Morris Heights Health Center, Inc. and Subsidiaries

Index

Independent Auditor's Report

To the Board of Directors
Morris Heights Health Center, Inc.

We have audited the accompanying consolidated statement of financial position of Morris Heights Health Center, Inc. and Subsidiaries (the "Company") as of June 30, 2012, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2012, and the changes in its net assets and 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 March 29, 2013 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements 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 schedule of expenditures of Federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CohnReznick LLP

March 29, 2013
New York, New York

Morris Heights Health Center, Inc. and Subsidiaries

Consolidated Statement of Financial Position
June 30, 2012

Assets	
Current assets:	
Cash and cash equivalents	$ 5,206,566
Cash and cash equivalents designated for programs	1,262,339
Total cash and cash equivalents	6,468,905
Patient services receivable, net	7,353,933
DHHS grants receivable	100,403
Contracts receivable, current portion	1,873,811
Meaningful use incentives receivable	807,500
Due from related party	225,592
Investments	1,345,149
Certificates of deposit, at cost	6,001,778
Inventory	161,696
Prepaid expenses and other current assets	257,467
Total current assets	24,596,234
Security deposits	137,441
Contracts receivable, net of current portion	21,650,000
NMTC escrow reserve	854,479
Investment in Harrison Circle, LP	1,662,858
Developer's fee receivable	1,518,865
Purchase money mortgage receivable - related party	615,000
Purchase money mortgage receivable - interest receivable	72,750
Loan receivable	16,410,160
Property and equipment, net	29,234,511
Total	$ 96,752,298
Liabilities and Net Assets and Equity	
Current liabilities:	
Line of credit	$ 698,863
Accounts payable and accrued expenses	4,640,823
Accrued compensation	4,098,295
Due to related party	144,142
Total current liabilities	9,582,123
Long-term debt	22,054,000
Total liabilities	31,636,123
Commitments and contingencies	
Unrestricted net assets:	
Undesignated	59,969,743
Board-designated reserve for capital projects	3,780,093
Total unrestricted net assets	63,749,836
Equity	240,644
Total unrestricted net assets and equity	63,990,480
Noncontrolling interest in subsidiary held by MHHC Foundation, Inc.	1,125,695
Total net assets and equity	65,116,175
Total	$ 96,752,298

See Notes to Consolidated Financial Statements.

Morris Heights Health Center, Inc. and Subsidiaries

Consolidated Statement of Activities and Changes in Net Assets and Equity
June 30, 2012

Unrestricted revenue:	
DHHS grants	$ 5,306,051
Patient services, net	31,596,652
Contract services	6,114,188
In-kind contributions - donated vaccines	1,270,145
Meaningful use incentives	807,500
Interest and dividend income	218,721
Other income	463,799
Total unrestricted revenue	45,777,056
Expenses:	
Salaries and benefits	30,525,741
Other than personnel services	11,120,797
Interest expense	298,855
Realized and unrealized loss on investments	57,274
Provision for bad debts	1,500,002
Total expenses	43,502,669
Operating income prior to depreciation and amortization and nonoperating revenue	2,274,387
Depreciation and amortization	1,399,987
Operating income prior to nonoperating revenue	874,400
Nonoperating revenue:	
DHHS grants	1,241,902
Contract services	315,917
Total nonoperating revenue	1,557,819
Increase in consolidated net assets	2,432,219
Less: increase in consolidated net assets attributable to noncontrolling interest	(11,422)
Increase in consolidated net assets attributable to Morris Heights Health Center, Inc. and Subsidiaries	$ 2,420,797
Net assets and equity:	
Beginning of year	$ 61,569,683
Increase in consolidated net assets attributable to Morris Heights Health Center, Inc. and Subsidiaries	2,420,797
Noncontrolling interest in subsidiary held by MHHC Foundation, Inc.	1,125,695
Net assets and equity, end of year	$ 65,116,175

See Notes to Consolidated Financial Statements.

Morris Heights Health Center, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses
June 30, 2012

	Program Services	General and Administrative	Total
Salaries and wages	$ 22,375,000	$ 2,740,287	$ 25,115,287
Fringe benefits	4,502,284	908,170	5,410,454
Laboratory	662,395	-	662,395
Professional and contractual services	500,170	1,132,540	1,632,710
Travel, conferences and meetings	192,990	78,985	271,975
Occupancy	1,132,493	81,146	1,213,639
Security	203,278	-	203,278
Telephone	419,803	490,338	910,141
Insurance	176,302	61,467	237,769
Consumable supplies	2,339,926	450,281	2,790,207
Repairs and maintenance	414,748	283,585	698,333
Equipment rental	204,570	551,425	755,995
Publications, subscriptions and membership fees	116,690	177,620	294,310
Recruitment costs	12,500	24,871	37,371
Postage and messengers	34,160	64,386	98,546
Interest	-	298,855	298,855
Donated vaccines	1,270,145	-	1,270,145
Provision for bad debts	1,500,002	-	1,500,002
Other	13,659	87,598	101,257
Totals	36,071,115	7,431,554	43,502,669
Depreciation and amortization	1,096,977	303,010	1,399,987
Total functional expenses	$ 37,168,092	$ 7,734,564	$ 44,902,656

See Notes to Consolidated Financial Statements.

Morris Heights Health Center, Inc. and Subsidiaries

Consolidated Statement of Cash Flows
June 30, 2012

Cash flows from operating activities:	
Cash received from DHHS grants	$ 5,370,020
Cash received from patient services	26,105,647
Cash received from contract services	6,083,797
Cash received from interest income	218,721
Cash received from other income	323,799
Cash paid to employees	(29,485,053)
Cash paid to vendors	(9,796,194)
Cash paid for interest	(298,855)
Net cash used in operating activities	(1,478,118)
Cash flows from investing activities:	
Purchase of property and equipment	(2,324,372)
Cash paid for investments	(200,000)
Sale of investments	44,275
Cash paid for certificates of deposit	(2,203,898)
Redemption of certificates of deposit	1,514,123
Net cash used in investing activities	(3,169,872)
Cash flows from financing activities:	
Cash received from line of credit	700,000
Payments for line of credit	(451,137)
Cash paid for security deposits	(15,000)
Payments from NMTC escrow reserve	90,480
Receipt of nonoperating DHHS grants	1,241,902
Receipt of nonoperating contract services	315,917
Net cash provided by financing activities	1,882,162
Net decrease in cash and cash equivalents	(2,765,828)
Cash and cash equivalents:	
Beginning of year	9,234,733
End of year	$ 6,468,905
Reconciliation of increase in consolidated net assets to net cash used in operating activities:	
Increase in consolidated net assets	$ 2,432,219
Adjustments to reconcile increase in consolidated net assets to net cash used in operating activities:	
Depreciation and amortization	1,399,987
Realized and unrealized loss on investments	57,274
Provision for bad debts	1,500,002
Nonoperating DHHS grants	(1,241,902)
Nonoperating contract services	(315,917)
Changes in operating assets and liabilities:	
Patient services receivable	(5,491,005)
DHHS grants receivable	63,969
Contracts receivable	(30,391)
Meaningful use incentives receivable	(807,500)
Due from related party	99,175
Inventory	(35,148)
Prepaid expenses and other current assets	143,589
Accounts payable and accrued expenses	(348,773)
Accrued compensation	1,040,688
Due to related party	55,615
Net cash used in operating activities	$ (1,478,118)

See Notes to Consolidated Financial Statements.

Note 1 - Organization and summary of significant accounting policies:

Organization:

Morris Heights Health Center, Inc. (the "Center") received its incorporation documents under the Not-For-Profit Corporation Law of New York State in November 1984. The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code") and is organized under Article 28 of the New York Public Health Law.

The Center operates an ambulatory health care facility that provides comprehensive health care services to the residents of the southwest Bronx, New York. The Center is funded primarily through government grants, program services contracts and Health Maintenance Organization ("HMO") contracts.

MHHC Developers, LLC ("Developers") is a limited liability company formed under Section 203 of the Limited Liability Company Law of the State of New York on October 8, 2009. The members of Developers are the Center, whose membership interest equals 90%, and the MHHC Foundation, Inc. (the "Foundation") with a 10% membership interest. The Center is the managing member of Developers.

Morris Heights Senior Housing Development Fund Company, Inc. ("HDFC") was formed under Section 402 of the Not-For-Profit Corporation Law and Article XI of the Private Housing Finance Law on October 25, 2005. HDFC was organized exclusively for the purpose of providing housing accommodations for persons and families of low income. The Center is the sole member of HDFC. HDFC is exempt from income tax under Section 501(c)(3) of the Code.

Harrison Circle Development Corp. ("HCDC") is a C corporation and HDFC is the sole shareholder. HCDC is the General Partner of Harrison Circle Limited Partnership, a limited partnership under the Revised Uniform Limited Partnership Act of the State of New York and was formed on July 16, 2006. Under the terms of the Limited Partnership Agreement, HCDC has a .01% ownership interest and the Limited Partner is EHP XV Investor, L.P., which has a 99.99% ownership interest.

The U.S. Department of Health and Human Services (the "DHHS") provides substantial support to the Center. The Center is obligated under the terms of the DHHS grants to comply with specified conditions and program requirements set forth by the grantor.

Basis of presentation:

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

The consolidated financial statements include the accounts of the Center, Developers, HDFC and HCDC (collectively, the "Company"). All significant intercompany transactions and account 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Classification of net assets:

Unrestricted net assets are not externally restricted for identified purposes by donors or grantors. Unrestricted net assets include resources that the governing board may use for any designated purpose and resources which include funds whose use is limited by agreement between the Company and an outside party other than a donor or grantor.

From time to time the Board designates unrestricted net assets for special projects.

Temporarily restricted net assets are those whose use by the Company has been limited by donors to a specific purpose. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are recorded as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the financial statements.

Permanently restricted net assets are assets which are not expendable. Only income and appreciation from the investment of these assets are expendable.

There are no temporarily or permanently restricted net assets at June 30, 2012.

Cash and cash equivalents:

The Company maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed Federally insured limits. The Company has not experienced any losses in such accounts. At June 30, 2012, the Company's cash and cash equivalents balance exceeds Federally-insured limits by approximately $5,956,000. Cash and cash equivalents, whose use is not limited, include highly liquid investments with maturities of three months or less when acquired, except for cash equivalents held in the custody of the investment safekeeping agent, which are included in investments.

Restricted cash and cash equivalents designated for programs:

The Company has restricted cash and cash equivalents whose use has been limited by the Board of Directors to support the goals and activities of the Company.

Patient services receivable and concentration of credit risk:

The collection of receivables from third-party payors and patients is the Center's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient receivables from third-party payors are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under the Center's charity care policy, less amounts covered by third-party payors and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Center considers accounts past due when they are outstanding beyond 60 days with no payment. The Center generally does not charge interest on past due accounts. Patient receivables are written off against the allowance for doubtful accounts when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Grants and contracts receivable:

Grants and contracts receivable consists of costs under the grant and contract agreements which were incurred prior to year-end for which payment has not been received. Grants and contracts receivable credit risk is limited due to the nature of the grants and contracts. The Center regularly monitors its grants and contracts receivable by investigating delayed payments and differences when payments do not conform to the amount billed. The Center considers all grants and contracts as collectible.

Investments:

Investments are recorded in the accompanying consolidated financial statements at fair value, which have been determined using quoted market prices. Realized and unrealized gains are reflected in revenue and realized and unrealized losses are reflected in expenses in the consolidated statement of activities and changes in net assets and equity.

Inventory:

Inventory, consisting of supplies and drugs, is stated at the lower of cost (first-in, first-out basis) or market.

Property and equipment:

The Company records property and equipment at cost net of accumulated depreciation and amortization. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 40 years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvements or the term of the lease, whichever is less. The Company capitalizes all purchases of property and equipment in excess of $1,500.

Construction-in-progress is recorded at cost. The Center capitalizes construction, insurance, interest and other costs during the period of construction. Depreciation is recorded when construction has been substantially complete and the assets are placed in service.

Impairment of long-lived assets:

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Company compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the asset carrying values giving consideration to recent operating performance and pricing trends. The Company does not believe that any material impairment currently exists related to its long-lived assets.

In-kind contributions:

The Company records donated items at fair value. During 2012, the Company received $1,270,145 of vaccines which are recorded in the statement of activities and changes in net assets and equity as both revenue and expense.

Meaningful use incentives:

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under the Medicare and Medicaid programs for certain professionals that: (1) meaningfully use certified EHR technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of health care and (3) use the certified EHR technology to submit clinical and quality measures. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health ("HITECH") Act. The criteria for meaningful use incentives will be staged in three steps over the course of the next four years and be paid out based on a transitional schedule. The Center's providers have met the criteria for Stage 1 and have earned $807,500 from the Medicaid incentive program for the year ended June 30, 2012.

Contributions:

Contributions are recorded as either temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated asset. Contributions received with no donor stipulations are recorded as unrestricted revenue. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the statement of activities and changes in net assets and equity as net assets released from restriction. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue. For the year ended June 30, 2012, there were no restricted contributions.

Grants and contracts:

Revenue from government grants and contracts designated for use in specified activities is recognized in the period when expenditures have been incurred in compliance with the grantor's requirements. Grant and contract awards for the acquisition of long-lived assets are reported as unrestricted nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances. At June 30, 2012, the Company has received conditional grants and contracts from governmental entities in the aggregate amount of $6,072,164 that have not been recorded in these consolidated financial statements as they have not been earned. These grants and contracts require the Company to provide certain health care services during specified periods. If such services are not provided during the specified periods, the governmental entities are not obligated to expend the funds allotted under the grants and contracts.

Patient services revenue:

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Service fees are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administrating agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined.

The Center provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Self-pay revenue is recorded at published charges with charitable allowances based on a sliding fee scale deducted to arrive at net self-pay revenue.

Interest earned on Federal funds:

Interest earned on Federal funds is recorded as a payable to the Public Health Services ("PHS") in compliance with U.S. Office of Management and Budget Circular A-110.

Functional expenses:

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

Tax status:

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

Developers files annual Federal, state and local information returns and, accordingly, pays no income tax. Income and deductions are passed to the members for tax purposes.

HCDC is a C Corporation subject to Federal, state and local income taxes.

The Company has no unrecognized tax benefits at June 30, 2012. The Company's Federal and state income tax returns prior to fiscal year 2009 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

The Center recognizes interest and penalties associated with tax matters as operating expenses and includes accrued interest and penalties with accrued expenses in the consolidated statement of financial position.

Subsequent events:

The Center has evaluated subsequent events through March 29, 2013, which is the date the consolidated financial statements were available to be issued.

Note 2 - Patient services receivable, net:

Patient services receivable, net, consist of the following:

Medicaid and managed care plans	$ 9,862,365
Medicare	286,419
Other third-party payors	408,985
Self-pay	418,909
Total	10,976,678
Less allowance for doubtful accounts and contractual allowance	5,364,016
Total	5,612,662
New York State uncompensated care	1,741,271
Total	$ 7,353,933

Note 3 - Contracts receivable:

Contracts receivable consist of the following:

New York State Department of Health:	
School-Based Health Center Program	$ 265,686
Family Planning Program	117,550
Facilitated Enrollment Program	299,864
Women, Infants and Children (WIC)	182,318
Community Health Worker	67,141
Doctors Across New York	29,766
New York State Office of Children and Family Services:	
Healthy Families New York	260,311
MIECHV	77,588
Dormitory Authority State of New York:	
New York State Capital Assistance Program	9,000,000*
New York City Economic Development Corporation	12,650,000*
New York City Department of Health and Mental Hygiene:	
School Health Programs	138,102
Primary Care Development Corporation:	
CHC Capital Grant Program	280,000
Other	155,485
Total	$23,523,811

*Represents amounts to be received and used for capital projects and are included in noncurrent assets.

Note 4 - Investments and fair value measurements:

A summary of investments for the Center as of June 30, 2012 is as follows:

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Mutual funds	$1,328,256	$ 15,606	$ -	$ 1,343,862
Money market funds	1,287	-	-	1,287
Totals	$1,329,543	$ 15,606	$ -	$ 1,345,149

Realized and unrealized gains (losses) on investments for the year ended June 30, 2012 were as follows:

Realized loss	$ (72,880)
Unrealized gains	15,606
Total	$ (57,274)

Interest and dividend income earned on investments for the year ended June 30, 2012 was $55,971.

The Center values its financial assets on a recurring basis based on the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Center utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. The following is a description of the valuation methodology used for investments at fair value.

Investments in money market funds and mutual funds are designated as Level 1 and are valued using market prices on active markets and valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

The preceding method may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 5 - Loan receivable:

Developers (the "Lender") and Chase NMTC MHHC Investment Fund, LLC (the "Borrower" or "Investment Fund") entered into a loan agreement and promissory note on December 15, 2009 for the amount of $16,410,160. The loan receivable balance at June 30, 2012 is $16,410,160 with interest due annually at 0.695% and a maturity date of December 2039. Principal payments in an amount equal to Borrower's net cash flow through the end of the immediately preceding quarter, shall commence on March 10, 2017 (Note 14).

Note 6 - Property and equipment, net:

Property and equipment, net, consists of the following:

Land and land improvements	$ 1,039,609
Building and improvements	32,792,370
Leasehold improvements	1,870,886
Equipment and furniture	10,665,984
Total	46,368,849
Less accumulated depreciation and amortization	17,244,213
	29,124,636
Construction-in-progress	109,875
Total	$29,234,511

In the event the DHHS grants are terminated, the DHHS reserves the right to transfer all assets purchased with grant funds to the PHS or third parties.

Note 7 - Line of credit:

The Center has a $2,000,000 revolving line of credit secured by the Center's accounts receivable which is due to expire on March 31, 2013. The line of credit bears a variable interest rate which is calculated at 2.5% over one month LIBOR resulting in an interest rate of 3.25% as of June 30, 2012. The Center had a balance of $698,863 outstanding for the year ended June 30, 2012.

Note 8 - Long-term debt:

The Center entered into a loan agreement in the aggregate amount of $22,054,000 (Note 14). The loan is evidenced by four promissory notes, which contain the following terms:

Promissory Note A –The Center entered into a promissory note in the amount of $7,193,500 with a maturity date of December 15, 2039 and interest at 0.5% per annum. During the period commencing on December 15, 2016 and ending on the maturity date, accrued and unpaid interest and principal shall be payable in successive quarterly installments on the first day of each March, June, September and December in the amount of $82,788.

Promissory Note B –The Center entered into a promissory note in the amount of $2,806,500 with a maturity date of December 15, 2039 and interest at 0.5% per annum. During the period commencing on December 15, 2016 and ending on the maturity date, accrued and unpaid interest and principal shall be payable in successive quarterly installments on the first day of each March, June, September and December in the amount of $32,299.

Promissory Note C –The Center entered into a promissory note in the amount of $9,216,660 with a maturity date of December 15, 2039 and interest at 1.30715% per annum. During the period commencing on December 15, 2016 and ending on the maturity date, accrued and unpaid interest and principal shall be payable in successive quarterly installments on the first day of each March, June, September and December in the amount of $116,048.

Promissory Note D –The Center entered into a promissory note in the amount of $2,837,340 with a maturity date of December 15, 2039 and interest at 1.30715% per annum. During the period commencing on December 15, 2016 and ending on the maturity date, accrued and unpaid interest and principal shall be payable in successive quarterly installments on the first day of each March, June, September and December in the amount of $35,725.

The Center is required to comply with certain covenants under its long-term debt.

Note 9 - DHHS grants:

For the year ended June 30, 2012, the Center recognized grant revenue from the DHHS as follows:

Grant Number	Grant Period	Total Grant	Revenue Recognized
2H80CS000472-10-00	06/01/11-05/31/12	$3,650,333	$3,346,143
6H80CS000472-10-01	06/01/11-05/31/12	35,000	35,000
5H80CS000472-11-00	06/01/12-05/31/12	3,650,333	277,324
4C81CS14046-01-03	06/29/09-12/31/11	1,687,730	1,039,100*
1TP1AH000074-01-00	09/01/10-08/31/11	791,715	306,353
1TP1AH000074-02-00	09/01/11-08/31/12	791,715	675,048
5H76HA00061-20-00	07/01/11-06/30/12	559,406	559,406
5H76HA00061-20-01	07/01/11-06/30/12	186,469	70,333
1C12CS21915-01-00	07/01/11-06/30/13	449,880	202,802*
1H97HA19501-01-00	09/01/10-08/31/11	100,000	36,444
Total			$6,547,953

*Represents nonoperating grant for capital expenditures.

Note 10- Patient services revenue, net:

The following is a summary of patient services by payor class for the year ended June 30, 2012:

	Net Revenue
Medicaid and Medicaid managed care plans	$17,585,478
Medicare	214,839
Other third-party	875,810
Self-pay	239,998
New York State Uncompensated Care	2,654,284
New York State Medicaid Managed Care Wraparound	8,853,322
Medicaid managed care incentives	1,172,921
	$31,596,652

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

Based on the cost of patient services, charity care and community benefit (nonreimbursed services) amounted to $1,527,313 and $7,106,876, respectively for the year ended June 30, 2012.

Note 11- Contract services:

For the year ended June 30, 2012, contract services revenue consists of the following:

New York State Department of Health:	
School-Based Health Center Program	$ 967,679
Family Planning Program	640,787
Facilitated Enrollment Program	624,416
Women, Infants and Children (WIC)	1,788,040
Heal 6	119,693*
Community Health Worker	215,498
Doctors Across New York	36,709
New York State Office of Children and Family Services:	
Healthy Families New York	602,093
MIECHV	77,588
New York City Department of Health and Mental Hygiene:	
School Health Programs	678,036
Family Health International	110,486
Primary Care Development Corporation:	
CHC Capital Grant Program	280,000**
Public Health Solutions	78,085
Other	210,995
Total	$6,430,105

* Includes $35,917 which represents nonoperating contract services revenue for capital expenditures

** Represents nonoperating contract services revenue for capital expenditures.

Note 12- Pension plan:

The Center maintains a profit-sharing plan covering substantially all employees meeting certain eligibility requirements. The amount contributed to the plan is at the Center's discretion. Pension expense amounted to $1,012,558 for the year ended June 30, 2012.

The Center also established a 457(b) supplemental executive employee retirement plan ("SERP") for a select member of management. The plan is an unfunded deferred compensation plan under which the participant becomes vested upon reaching normal retirement date. There was no contribution to the SERP for the year ended June 30, 2012.

Note 13- Commitments and contingencies:

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

The Center maintains its Medical malpractice coverage under the Federal Tort Claims Act ("FTCA"). FTCA provides malpractice coverage to eligible PHS-supported programs and applies to the Center and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage.

The general contractor for the Harrison Circle, LP Project (Note 14) filed for bankruptcy at which time approximately $2,042,000 of contract costs were unpaid by the Center and remain unpaid at June 30, 2012. The amount owed is included in accounts payable and accrued expenses in the consolidated statement of financial position. Subcontractors, who were not paid by the contractor, have filed mechanic's liens on the property. On July 26, 2012, the Center entered into a partial settlement agreement with the general contractor; the agreement stipulated the manner of payment of the amount owed by the Center to the general contractor.

The Company is involved in other claims and legal actions in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters would not have a material adverse impact on the Company's consolidated financial position, results of operations or cash flows.

The Center has four facilities under noncancelable operating leases with terms from five to ten years. Rent expense for the year ended June 30, 2012 was $ 609,476. In addition, the Center leases various equipment under five-year lease terms. The leases require future minimum payments as follows:

Year Ending June 30,	Amount
2013	$ 801,620
2014	667,625
2015	449,688
2016	385,997
2017	250,226
Thereafter	83,200
Total	$2,638,356

Note 14- Transactions with subsidiary, affiliates and related parties:

MHHC Foundation, Inc.

The Center has a month-to-month leasing arrangement for two vans and two parking lots with the Foundation, an affiliate related through a common board member. For the year ended June 30, 2012, the amount due to the Foundation for rent expense under this arrangement was $134,868. The Foundation has a non-controlling interest in Developers of 10% in the amount of $1,125,695 as of June 30, 2012.

Investment in Harrison Circle, LP:

HCDC is the general partner of the Partnership and has a .01% ownership interest. The required capital contribution for HCDC is $2,606,238. The balance remaining payable as of June 30, 2012 is $943,380 and the net investment in the Partnership is $1,662,858.

Harrison Circle Project:

A-Low Income Housing Tax Credit:

The Center, in conjunction with the Mount Hope Housing Company, Inc. ("Mount Hope"), is the sponsor of a low-income housing project as required by the U.S. Department of Housing and Urban Development's Section 202 Program ("HUD"). In a January 30, 2008 agreement, the Center received a Capital advance of $7,800,000 from HUD and has loaned the Capital Advance Fund to the Partnership as evidenced by the promissory note from the Partnership to the Center and secured by a mortgage from HDFC and the Partnership. The Center has assigned its interest in the mortgage and note to the United States of America acting by and through the Secretary of Housing and Urban Development. Under the assignment, also dated January 30, 2008, HUD agrees to look solely to the mortgaged property and its rents, issues and profits to satisfy any indebtedness under the Capital Advance agreement.

The Center and HCDC have entered into a Guaranty Agreement and an Unconditional Construction Completion Guaranty Agreement as well as a Development Service Agreement with the Partnership. The Center and HCDC have guaranteed the Partnership to complete the construction of the project and to make payments necessary to complete the work and discharge all liens. All amounts due and payable would be on demand by the Partnership. There were no development fees earned for the year ended June 30, 2012; however, a receivable balance for development fees earned in prior years was outstanding as of June 30, 2012 for $1,518,865.

As sponsor to the Partnership, the Center has made various advances to the Partnership for operating costs. As of June 30, 2012, the Partnership owes the Center $218,696 in connection with advances made for operating costs.

Sale of Condominium Unit Lot 1001:
On January 30, 2008, the Center transferred property known as Section 11, Block 3206, Lot 1001 to HDFC as nominee for the Partnership. The unit, valued at $1,728,000 was then transferred to HCDC, the general partner of the Partnership. HCDC then made a capital contribution in the form of the unit to the Partnership. The property is subject to a purchase money mortgage by the Partnership to the Center for $615,000 at an interest rate of 4.72% per annum and matures on January 1, 2050, and a purchase money mortgage by HCDC to the Center for $1,113,000. The $1,113,000 has been eliminated on the consolidated statement of financial position. In connection with the purchase money mortgage, the Center is due $72,750 for interest earned.

The purchase money mortgage is subordinate to HUD's capital advance/building loan agreements.

B-New Markets Tax Credit:
In order to facilitate the construction of the Partnership, the development of medical and commercial condominium units, on December 15, 2009, the Center closed a New Markets Tax Credit transaction ("NMTC"). A NMTC program permits taxpayers, who have made qualified equity investments in designated community development entities ("CDEs"), to receive a credit against their Federal income taxes.

The credit provided to the investors totals 39% of the cost of the investment and is claimed over a seven-year credit allowance period. This NMTC transaction utilizes four Qualified Low Income Community Investment ("QLICI") loans totaling $22,054,000 (Note 8) to the Center to be used to support its portion of business, the medical and commercial portions of the Partnership. The loan funds are made available through the formation of an investment fund consisting of the Chase NMTC MHHC Investment Fund, LLC that invests in the two Community Development Entities, MHHC/NCF Sub-CDE, LLC and ESIC New Marker Partners XL Limited Partnership. The CDEs in turn, fund the direct loans to the Center. Interest on these loans range from .5% to 1.30715% per annum paid quarterly over a 30-year period.

This structure will stay in effect for a period of 7 years, until December 15, 2016 when the new market tax credit period expires. Built within the agreements are put and call options for the Company to acquire 100% of the investment fund at a purchase price in an amount equal to the sum of $1,000, any transfer taxes or other closing costs paid or payable by the investment fund attributable to the exercise of the put option and/or sale of the investment funds' interest and any amounts then due and owing from the Company to the investment fund.

The Center established a New Market Tax Credit Reserve account to be used solely for the purpose of paying interest due and payable pursuant to the notes listed in Note 8. The NMTC escrow reserve balance was $854,479 as of June 30, 2012.

To accomplish the above, Developers acts as the Leverage Lender in the NMTC transaction. In connection with the NMTC transaction, in its capacity as the Leverage Lender, Developers made a loan to Chase NMTC MHHC Investment Fund, LLC in the principal amount of $16,410,160 (Note 5). This loan to Chase NMTC MHHC Investment Fund, LLC, in addition to JPMorgan Chase's equity investment of $7,192,000 in the fund, forms the basis of the NMTC transaction model referred to above.

Report of Independent Public Accountants on Supplementary Information

To the Board of Directors
Morris Heights Health Center, Inc.

We have audited the basic consolidated financial statements of Morris Heights Health Center, Inc. and Subsidiaries as of and for the year ended June 30, 2012, and our report thereon dated March 29, 2013 which contained an unqualified opinion on those financial statements appears on page 2. Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The accompanying consolidating information on pages 23 and 24 is presented for purposes of additional analysis of the consolidated financial statements, rather than to present the financial position, results of operations and cash flows of the individual entities and is not a required part of the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CohnReznick LLP

New York, New York
March 29, 2013

Morris Heights Health Center, Inc. and Subsidiaries

Consolidating Statement of Financial Position
June 30, 2012

	Morris Heights Health Center, Inc.	MHHC Developers, LLC	Morris Heights Senior Housing Development Fund Company, Inc.	Harrison Circle Development Corporation	Eliminations	Total
Assets						
Current assets:						
Cash and cash equivalents	$ 4,942,964	$ 252,827	$ 10,775	$ -	$ -	$ 5,206,566
Cash and cash equivalents designated for programs	1,262,339					1,262,339
Total cash and cash equivalents	6,205,303	252,827	10,775			6,468,905
Patient services receivable, net	7,353,933					7,353,933
DHHS grants receivable	100,403					100,403
Contracts receivable	1,873,811					1,873,811
Meaningful use incentives receivable	807,500					807,500
Due from related party	225,592					225,592
Investments	1,345,149					1,345,149
Certificate of deposits, at cost	6,001,778					6,001,778
Inventory	161,696					161,696
Prepaid expenses and other current assets	228,945	28,512		10		257,467
Total current assets	24,304,110	281,339	10,775	10		24,596,234
Security deposits	137,441					137,441
Contracts receivable	21,650,000					21,650,000
NMTC escrow reserves	854,479					854,479
Investment in MHHC Developers, Inc.	15,325,160				(15,325,160)	
Investment in Harrison Circle, LP				1,662,858		1,662,858
Developer's fee receivable	1,518,865					1,518,865
Purchase money mortgage receivable - related party	1,728,000				(1,113,000)	615,000
Purchase money mortgage receivable - interest receivable	72,750					72,750
Loan receivable		16,410,160				16,410,160
Property and equipment, net	29,234,511					29,234,511
Totals	$ 94,825,316	$ 16,691,499	$ 10,775	$ 1,662,868	$ (16,438,160)	$ 96,752,298
Liabilities and Net Assets and Equity						
Current liabilities:						
Line of credit	$ 698,863	$ -	$ -	$ -	$ -	$ 698,863
Purchase money mortgage payable - related party				1,113,000	(1,113,000)	-
Accounts payable and accrued expenses	4,640,823			-	-	4,640,823
Accrued compensation	4,098,295			-	-	4,098,295
Due to related party	134,868			9,274	-	144,142
Total current liabilites	9,572,849			1,122,274	(1,113,000)	9,582,123
Long-term liabilities - Long-term debt	22,054,000			-	-	22,054,000
				-		
Total liabilities	31,626,849			1,122,274	(1,113,000)	31,636,123
Net assets:						
Unrestricted:						
Undesignated	59,418,374		10,775		540,594	59,969,743
Board-designated reserve for capital projects	3,780,093					3,780,093
Common stock				10	(10)	
Additional-paid-in capital				549,920	(549,920)	
Accumulated deficit				(9,336)	9,336	
	63,198,467		10,775	540,594		63,749,836
Equity		15,565,804			(15,325,160)	240,644
Total unrestricted net assets and equity	63,198,467	15,565,804	10,775	540,594	(15,325,160)	63,990,480
Noncontrolling interest in subsidiary held by MHHC Foundation, Inc.		1,125,695				1,125,695
Total net assets and equity	63,198,467	16,691,499	10,775	540,594	(15,325,160)	65,116,175
Totals	$ 94,825,316	$ 16,691,499	$ 10,775	$ 1,662,868	$ (16,438,160)	$ 96,752,298

See Report of Independent of Independent Public Accountants on Supplementary Information.

Morris Heights Health Center, Inc. and Subsidiaries

Consolidating Statement of Activities and Changes in Net Assets and Equity
Year Ended June 30, 2012

	Morris Heights Health Center, Inc.	MHHC Developers, LLC	Morris Heights Senior Housing Development Fund Company, Inc.	Harrison Circle Development Corporation	Eliminations	Total
Unrestricted revenue:						
DHHS grants	$ 5,306,051	$ -	$ -	$ -	$ -	$ 5,306,051
Patient services, net	31,596,652	-	-	-	-	31,596,652
Contract services	6,114,188	-	-	-	-	6,114,188
In-kind contributions and donated vaccines	1,270,145	-	-	-	-	1,270,145
Meaningful use incentives	807,500	-	-	-	-	807,500
Interest and dividend income	104,349	114,329	43	-	-	218,721
Other income	463,799	-	-	-	-	463,799
						-
Total unrestricted revenue	45,662,684	114,329	43	-	-	45,777,056
Expenses:						
Salaries and benefits	30,525,741	-	-	-	-	30,525,741
Other than personnel services	11,116,019	-	-	4,778	-	11,120,797
Interest expense	298,661	114	-	80	-	298,855
Realized and unrealized loss on investments	57,187	-	-	87	-	57,274
Provision for bad debts	1,500,002	-	-	-	-	1,500,002
Total expenses	43,497,610	114	-	4,945	-	43,502,669
Operating income prior to depreciation and amortization and nonoperating revenue	2,165,074	114,215	43	(4,945)	-	2,274,387
Depreciation and amortization	1,399,987	-	-	-	-	1,399,987
Operating income (loss) prior to nonoperating revenue	765,087	114,215	43	(4,945)	-	874,400
Nonoperating revenue:						
DHHS grants	1,241,902	-	-	-	-	1,241,902
Contract services	315,917	-	-	-	-	315,917
Total nonoperating revenue	1,557,819	-	-	-	-	1,557,819
Increase (decrease) in consolidated net assets	2,322,906	114,215	43	(4,945)	-	2,432,219
Less: increase in net assets attributable to noncontrolling interest	-	(11,422)	-	-	-	(11,422)
Increase (decrease) in net assets attributable to Morris Heights Health Center, Inc. and Subsidiaries	$ 2,322,906	$ 102,793	$ 43	$ (4,945)	$ -	$ 2,420,797
Net assets and equity:						
Beginning of year	$ 60,875,561	$ 137,851	$ 10,732	$ 545,539	$ -	$ 61,569,683
Increase (decrease) in net assets attributable to Morris Heights Health Center, Inc. and Subsidiaries	2,322,906	102,793	43	(4,945)	-	2,420,797
Total Morris Heights Health Center, Inc. and Subsidiaries	63,198,467	240,644	10,775	540,594	-	63,990,480
Partner's capital from MHHC, Inc.	-	15,325,160	-	-	(15,325,160)	-
Noncontrolling interest in subsidiary held by MHHC Foundation, Inc.	-	1,125,695	-	-	-	1,125,695
Totals	$ 63,198,467	$ 16,691,499	$ 10,775	$ 540,594	$ (15,325,160)	$ 65,116,175

See Report of Independent Public Accountants on Supplementary Information.

Morris Heights Health Center, Inc. and Subsidiaries

Schedule of Expenditures of Federal Awards
June 30, 2012

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Total Expenditures
U.S. Department of Health and Human Services:			
Direct programs:			
Consolidated Health Centers Cluster:			
Consolidated Health Center Program	93.224	N/A	$ 2,204,925
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	N/A	1,453,542
Sub-total Consolidated Health Centers Cluster			3,658,467
ARRA - Grants to Health Center Programs:			
ARRA - Capital Improvement Program	93.703	N/A	1,039,100
Teenage Pregnancy Prevention Program	93.297	N/A	981,401
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Diseases	93.918	N/A	629,739
Special Projects of National Significance	93.928	N/A	36,444
Affordable Care Act (ACA) Grants for School-Based Health Centers Capital Expenditures	93.501	N/A	202,802
Total direct programs			6,547,953
Passed through New York State Department of Health:			
Medical Assistance Program	93.778	C-021692/C-021365	264,016
Children's Health Insurance Program	93.767	C-021692 and Project 2082	186,623
Maternal and Child Health Services Block Grant to the States	93.994	C-027030 / C-022463	118,208
Family Planning Services	93.217	C-027030	128,158
Passed through New York City Department of Health and Mental Hygiene:			
Immunization Grants	93.268	N/A	1,270,145
Passed through New York State Office of Children and Family Servies:			
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	C-026445	77,588
Passed through Center for the Study of Asian American Health:			
Minority Health and Health Disparities Research	93.307	Not Available	14,000
Passed through Public Health Solutions:			
HIV Emergency Relief Grants	93.914	Not Available	78,085
Passed through Family Health International:			
National Institutes of Health Acquired Immunodeficiency Syndrome Research Loan Repayment Program	93.936	Not Available	110,486
Total U.S. Department of Health and Human Services			8,795,262
U.S. Department of Agriculture:			
Passed through New York State Department of Health:			
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	C-025765	7,979,552
Total U.S. Department of Agriculture			7,979,552
Total Federal awards			$ 16,774,814

See Notes to Schedule of Expenditures of Federal Awards.

Morris Heights Health Center, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 - General information:

The accompanying schedule of expenditures of Federal awards presents the activities in all Federal awards of Morris Heights Health Center, Inc. (the "Center"). All financial assistance received directly from Federal agencies as well as financial assistance passed through other governmental agencies or nonprofit organizations is included on the schedule.

Note 2 - Basis of accounting:

The accompanying schedule of expenditures of Federal awards is presented using the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. The amounts reported in the schedule as expenditures may differ from certain financial reports submitted to Federal funding agencies due to those reports being submitted on either a cash or modified accrual basis of accounting.

Note 3 - Relationship to basic consolidated financial statements:

Federal expenditures are reported on the consolidated statement of functional expenses as program services. In certain programs, the expenditures reported in the basic consolidated financial statements may differ from the expenditures reported in the schedule of expenditures of Federal awards due to program expenditures exceeding grant or contract budget limitations or agency-matching or in-kind contributions which are not included in the statement of activities and changes in net assets and equity.

Note 4 - Subrecipients:

Of the Federal expenditures presented in this schedule, the Center had Federal expenditures of $53,228 for sub-recipients passed through 93.778 and 93.767 for the year ended June 30, 2012.

Note 5 - Nonmonetary assistance:

Nonmonetary assistance is reported in the schedule of expenditures of Federal awards at the fair value of the women, infants and children ("WIC") checks and vaccinations received. The total Federal share of the food instruments distributed by the Center amounted to $6,478,492, and is included in the schedule of expenditures of Federal awards. The total Federal share of the vaccinations distributed by the Center amounted to $1,270,145. These amounts are included in the schedule of expenditures of Federal awards.

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Independent Auditor's 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

To the Board of Directors
Morris Heights Health Center, Inc.

We have audited the consolidated financial statements of Morris Heights Health Center, Inc. and Subsidiaries, collectively referred to as the "Company", as of and for the year ended June 30, 2012, and have issued our report thereon dated March 29, 2013. 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 the Company is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 12-1 through 12-3.

We noted certain matters that we reported to management of the Company in a separate letter dated March 29, 2013.

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

CohnReznick LLP

New York, New York
March 29, 2013

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

To the Board of Directors
Morris Heights Health Center, Inc.

Compliance

We have audited Morris Heights Health Center, Inc.'s (the "Company") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget ("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, 2012. The Company's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Company's compliance with those requirements.

As described in Items 12-1, 12-2 and 12-3, in the accompanying schedule of findings and questioned costs, the Company did not comply with requirements regarding drawdown of grant funds, sliding fee discounts and time and effort reporting. Compliance with such requirements is necessary, in our opinion, for the Company to comply with the requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Company complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Items 12-1, 12-2 and 12-3 to be significant deficiencies.

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

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the Company's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the Company's compliance but not to provide an opinion on the effectiveness of the Company's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

CohnReznick LLP

New York, New York
March 29, 2013

Morris Heights Health Center, Inc. and Subsidiaries

Schedule of Findings and Questioned Costs
June 30, 2012

Section I - Summary of Auditor's Results:

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ___ yes ✓ no
- Significant deficiency(ies) identified? ___ yes ✓ none reported

Noncompliance material to financial statements noted? ___ yes ✓ no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? ___ yes ✓ no
- Significant deficiency(ies) identified? ✓ yes ___ none reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ✓ yes __ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program
	U.S. Department of Health and Human Services:
	Consolidated Health Center Cluster:
93.224	Consolidated Health Centers Program
93.527	Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program
93.703	ARRA-Capital Improvement Program

CFDA Number(s)	Name of Federal Program
93.297	Teenage Pregnancy Prevention Program
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Diseases
93.778	Medical Assistance Program
93.268	Immunization Grants
10.557	Special Supplemental Nutrition Program for Women, Infants and Children

Dollar threshold used to distinguish between type A and B programs: $503,244

Auditee qualified as low-risk auditee? ___ yes _✓_ no

Section II and III Financial Statement and Federal Award Findings and Questioned Costs:

Item 12-1 Sliding Fee Discounts: **U.S. Department of Health and Human Services, Consolidated Health Center Cluster: Consolidated Health Center Program (CFDA 93.224) and Affordable Care ACT (ACA) Grants for New and Expanded Services and in the Health Care Program (CFDA 93.527), Grants to Provide Outpatient Early Intervention Services with Respect to HIV Diseases (CFDA 93.918)**

Criteria:
Health centers are required to have a corresponding schedule of discounts applied and adjusted on the basis of the patients' ability to pay and their eligibility. A patient's eligibility to pay is determined on the basis of the official poverty guideline, as revised by HHS (42 CFR Sections 51c. 107(b)(5), 56.108(b)(5) and 56.303(f)). The Center should be implementing and monitoring procedures to properly determine, calculate and review sliding fee discounts issued to patients in accordance with the Center's sliding fee scale.

Statement of Condition:
The Center did not properly determine the sliding fee discount category given to 47 of the 60 patients selected for testing based on the sliding fee scale in effect for the fiscal year ended June 30, 2012. In addition, the Center did not maintain the proof of income or self attestation of 37 out of 60 patients selected for testing.

Questioned Costs:
None

Effect:
The Center did not comply with the determination of sliding fee discounts based on the Federal poverty guidelines in effect for the fiscal year 2012. In addition, the Center may not have properly calculated the sliding fee or discount given to the patients and the discount given, if any, may not have been based on the patient's ability to pay.

Cause:
The Center's billing system was not upgraded until October 2011 and, prior to that, the Center was unable to update the sliding fee discounts module to reflect the proper discounts to be given to the patients based on their sliding fee category.

Recommendation:
We recommend that proper training be given to employees at registration and that sliding fee discounts be monitored and reviewed by a supervisor on a periodic basis to ensure compliance with the sliding fee scale. In addition, we recommend that the Center update their billing system to properly reflect the discounts to be given to patients based on their sliding fee category. We also recommend that the Center improve the implementation of their policy regarding keeping and maintaining the patients' proof of income or self-attestation regarding their income.

Management Response:
Management recognizes the need to have the sliding fee scale calculated automatically in the Centricity Practice Management System. The front desk staff currently processes the sliding fee scale using the most recently published Federal Poverty Guidelines to ensure that the patient pays the appropriate fees. MHHC has implemented a process to ensure that proof of income is gathered and uploaded to the system at time of registration.

Item 12-2 Drawdown of Grant Funds: **U.S. Department of Health and Human Services, Consolidated Health Center Cluster: Consolidated Health Center Program (CFDA 93.224) and Affordable Care ACT (ACA) Grants for New and Expanded Services and in the Health Care Program (CFDA 93.527), ARRA-Grants to Health Center Programs (CFDA 93.703), Grants to Provide Outpatient Early Intervention Services with Respect to HIV Diseases (CFDA 93.918), and Teenage Pregnancy Prevention Program (CFDA 93.297)**

Criteria:
In accordance with OMB Circular A-110, organizations which receive Federal funds must deposit those funds into an interest-bearing account.

Statement of Condition:
During the year, the Center made draw-downs of Federal funds which were not deposited into an interest-bearing account in accordance with OMB Circular A-110.

Questioned Costs:
None

Effect:
The Center was not in compliance with OMB Circular A-110 guidelines.

Cause:
The Center transitioned all operating accounts to noninterest-bearing accounts to afford them FDIC protection.

Recommendation:
The Center should ensure that all Federal funds are deposited into an interest-bearing account in accordance with the grant requirements and OMB Circular A-110. Interest earned on Federal grant advances are required to be remitted to the Federal government on a timely basis, if in excess of $250.

Management's Response:
Management opened the interest-bearing account for Federal monies on July 2, 2012 with the first drawdown of funds into the account occurring in August 2012. All draw-downs of Federal funds were to reimburse MHHC for expenses already incurred and no funds were received in advance.

Item 12-3 Time and Effort Reporting: **U.S. Department of Health and Human Services, Consolidated Health Center Cluster: Consolidated Health Center Program (CFDA 93.224) and Affordable Care ACT (ACA) Grants for New and Expanded Services and in the Health Care Program (CFDA 93.527), Grants to Provide Outpatient Early Intervention Services with Respect to HIV Diseases (CFDA 93.918), and Teenage Pregnancy Prevention Program (CFDA 93.297), Medical Assistance Program (93.778) and Special Supplemental Nutrition Program for Women, Infants and Children (10.557)**

Criteria:
OMB Circular A-122 requires that the distribution of salaries and wages to awards must be supported by timesheets or personnel activity reports (time and effort report). The said report is required to meet certain standards, two of which are that the timesheet must be signed and dated by the individual employee or responsible supervisory official having first-hand knowledge that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered and that the timesheet must be prepared at least monthly and must coincide with one or more pay periods.

Statement of Condition:
The Center's time and effort report for fiscal year 2012 was not prepared timely.

Questioned Costs:
None

Effect:
The Center did not comply with requirement in relation to timely and proper completion of the time and effort report.

Cause:
The Center utilized the time sheets completed for purposes of processing payroll and also the schedules supporting vouchers as basis for time and effort spent on programs.

Recommendation:
We recommend that the Center implement a more timely completion of time and effort reports to be reviewed by the employees' direct supervisor.

Management's Response:
Management concurs with this finding and recognizes the requirement to have a Time and Effort Reporting System to document the work of employees on the various funding sources. MHHC will implement the necessary procedures to ensure that this is done on a timely basis.

Morris Heights Health Center, Inc. and Subsidiaries

Schedule of Prior Year's Findings
June 30, 2012

Item 11-1 – *Internal Controls over General Ledger Preparation*	Corrected
Item 11-2 – *Drawdown of Grant Funds*	Not Corrected. See 12-1
Item 11-3 – *Sliding Fee Discounts*	Not Corrected. See 12-2
Item 11-3 – *Reporting*	Corrected