Holyoke Health Center, Inc.

Independent Auditor's Reports and Consolidated Financial Statements

June 30, 2019 and 2018

Holyoke Health Center, Inc.

June 30, 2019 and 2018

Contents

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Independent Auditor's Report

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

Report on the 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, 2019 and 2018, 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 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free 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 consolidated financial position of Holyoke Health Center, Inc. as of June 30, 2019 and 2018, and the results of its operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in *Note 16* to the consolidated financial statements, in 2019, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* 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 also have issued our report dated November 14, 2019, on our consideration of Holyoke Health Center, Inc.'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 solely 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 effectiveness of Holyoke Health Center, Inc.'s 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 14, 2019

Holyoke Health Center, Inc.
Consolidated Balance Sheets
June 30, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash and cash equivalents	$ 3,398,685	$ 4,005,780
Patient accounts receivable, net of allowance; 2019 – $406,236, 2018 – $409,545	2,832,680	2,806,885
Grants and other receivables	753,859	965,683
Contributions receivable	9,351	66,113
Cost pool receivable	110,664	266,832
Pharmacy inventory	517,802	509,769
Prepaid expenses and other	191,035	199,268
Total current assets	7,814,076	8,820,330
Assets Limited As To Use		
Externally restricted by lenders	320,000	320,000
Note Receivable	-	100,000
Property and Equipment, At Cost		
Land	187,660	187,660
Buildings and leasehold improvements	15,682,422	15,136,299
Equipment	6,279,010	6,064,360
Furniture and fixtures	721,405	721,405
Construction in progress	341,436	81,446
	23,211,933	22,191,170
Less accumulated depreciation	9,935,428	8,966,828
	13,276,505	13,224,342
Other Assets		
Intangible asset	120,000	120,000
Other	88,001	31,573
	208,001	151,573
Total assets	$ 21,618,582	$ 22,616,245

See Notes to Consolidated Financial Statements

Liabilities and Net Assets

	2019	2018
Current Liabilities		
Note payable to bank	$ 296,322	$ -
Current maturities of long-term debt	492,450	473,898
Accounts payable	1,788,522	1,426,883
Accrued expenses	2,596,458	2,664,415
Deferred revenue	211,519	532,899
Total current liabilities	5,385,271	5,098,095
Long-Term Debt	9,895,066	10,387,514
Total liabilities	15,280,337	15,485,609
Net Assets		
Without donor restrictions	6,162,148	6,886,065
With donor restrictions	176,097	244,571
Total net assets	6,338,245	7,130,636
Total liabilities and net assets	$ 21,618,582	$ 22,616,245

Holyoke Health Center, Inc.
Consolidated Statements of Operations
Years Ended June 30, 2019 and 2018

	2019	2018
Revenues, Gains and Other Support Without Donor Restrictions		
Patient service revenue (net of contractual discounts and allowances)	$ 34,706,768	$ 33,527,217
Provision for uncollectible accounts	121,255	260,127
Net patient service revenue less provision for uncollectible accounts	34,585,513	33,267,090
Grant and contribution revenue	6,997,897	7,707,436
Delivery System Reform Incentive Payment Program revenue	1,214,793	863,632
Other	303,910	619,358
Net assets released from restrictions used for operations	78,870	110,106
Total revenues, gains and other support without donor restrictions	43,180,983	42,567,622
Expenses and Losses		
Salaries and wages	20,537,960	20,144,715
Employee benefits	3,533,630	3,217,776
Purchased services and professional fees	2,333,892	2,645,857
Supplies and other	3,847,763	4,083,317
Pharmacy expenses	12,030,591	11,105,275
Rent	208,115	299,970
Depreciation and amortization	1,092,707	1,158,534
Interest	437,472	452,719
Gain on disposal of property and equipment	(61,365)	-
Total expenses and losses	43,960,765	43,108,163
Operating Loss	(779,782)	(540,541)
Other Income		
Investment return, net	5,865	2,595
Deficiency of Revenues Over Expenses	(773,917)	(537,946)
Net assets released from restriction used for purchase of property and equipment	50,000	-
Decrease in Net Assets Without Donor Restrictions	$ (723,917)	$ (537,946)

Holyoke Health Center, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2019 and 2018

	2019	2018
Net Assets Without Donor Restrictions		
Deficiency of revenues over expenses	$ (773,917)	$ (537,946)
Contributions for acquisition of property and equipment	50,000	-
Decrease in net assets without donor restrictions	(723,917)	(537,946)
Net Assets With Donor Restrictions		
Contributions	60,396	116,198
Net assets released from restriction	(128,870)	(110,106)
Increase (decrease) in net assets with donor restrictions	(68,474)	6,092
Change in Net Assets	(792,391)	(531,854)
Net Assets, Beginning of Year	7,130,636	7,662,490
Net Assets, End of Year	$ 6,338,245	$ 7,130,636

Holyoke Health Center, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	$ (792,391)	$ (531,854)
Items not requiring (providing) operating cash flow		
Gain on disposal of property and equipment	(61,365)	-
Depreciation and amortization	1,092,707	1,158,534
Contributions for acquisition of property and equipment	(50,000)	-
Changes in		
Patient accounts receivable, net	(25,795)	70,479
Grants receivable	211,824	84,204
Contributions receivable	56,762	(58,294)
Cost pool savings receivable	156,168	(232,085)
Prepaid assets	8,233	(81,097)
Inventory and supplies	(8,033)	14,554
Accounts payable and accrued expenses	293,682	2,202
Deferred revenue	(321,380)	489,380
Other current assets and liabilities	(56,428)	3,400
Net cash provided by operating activities	503,984	919,423
Investing Activities		
Proceeds on note receivable	100,000	-
Purchase of property and equipment	(1,083,505)	(313,737)
Net cash used in investing activities	(983,505)	(313,737)
Financing Activities		
Principal payments on long-term debt	(473,896)	(454,979)
Proceeds from issuance of note payable to bank	296,322	-
Proceeds from contributions for acquisition of property and equipment	50,000	-
Net cash used in financing activities	(127,574)	(454,979)
Increase (Decrease) in Cash and Cash Equivalents	(607,095)	150,707
Cash and Cash Equivalents, Beginning of Year	4,005,780	3,855,073
Cash and Cash Equivalents, End of Year	$ 3,398,685	$ 4,005,780
Supplemental Cash Flows Information		
Interest paid	$ 437,472	$ 453,422
Accounts payable and accrued expenses incurred for property and equipment	$ 297,657	$ -

Holyoke Health Center, Inc.
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

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. CHCCF/HHC Development, LLC (CHCCF/HHC) is a limited liability corporation and was created to develop property.

Principles of Consolidation

The consolidated financial statements include the activity of the Health Center and its majority owned subsidiaries (collectively, the "Organization"). At June 30, 2019 and 2018, the subsidiaries include its 79 percent-owned subsidiary HHC Developer and its 98 percent-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 and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be equivalents. At June 30, 2019 and 2018, cash equivalents consisted primarily of securities purchased under agreements to resell. The amounts advanced under these agreements are book-entry securities and are subject to a written custodial agreement that explicitly recognizes the Organization's interest in the securities. Securities purchased under agreements to resell amount to $1,337,000 and $0 at June 30, 2019 and 2018, respectively. At June 30, 2019, the Organization's cash accounts exceeded federally insured limits by approximately $2,356,000.

Investments and Investment Return

Investments in certificates of deposit are carried at amortized cost. Investment return is primarily comprised of interest income from deposit accounts and is reported in the consolidated statements of operations as a component of net assets without donor restrictions.

Assets Limited As To Use

Assets limited as to use include cash held on behalf of lender for future payments of principal and interest under debt agreements.

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 decreased from 94 percent of self-pay accounts receivable at June 30, 2018, to 88 percent of self-pay accounts receivable at June 30, 2019. The Organization's write-offs decreased from approximately $226,000 for the year ended June 30, 2018, to approximately $125,000 for the year ended June 30, 2019.

Pharmacy Inventory

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

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.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and leasehold improvements	7–40 years
Equipment	3–10 years
Furniture and fixtures	5–10 years

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions 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 net assets without donor restrictions 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, 2019 and 2018.

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.

Indefinite-lived intangible assets are evaluated annually for impairment or more frequently if impairment indicators are present. 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 indefinite-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 indefinite-lived intangible asset is tested further for impairment. If the implied fair value of the indefinite-lived intangible asset is lower than its carrying amount, an impairment is indicated and the indefinite-lived intangible asset is written down to its implied fair value. Subsequent increases in indefinite-lived intangible asset values are not recognized in the consolidated financial statements. No impairment loss was recorded during the years ended June 30, 2019 and 2018.

Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by the Organization has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Organization in perpetuity.

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.

Massachusetts Delivery System Reform Incentive Payment Program

The Massachusetts' Delivery System Reform Incentive Payment Program (DSRIP) provides an opportunity for the State to emphasize value, integrated and coordinated care, and moderation of cost trends through funding three initiatives: Accountable Care Organizations (ACO), Community Partners/Community Service Agencies and Statewide Investments. The Health Center elected to participate in an ACO (see *Note 13*) in which DSRIP funds are paid out to the individual health centers that participate in the ACO. Beginning in December 2016, the Health Center participated in the DSRIP pilot program which ended on February 28, 2018. Effective March 1, 2018, the Health Center participated in year 1 of the DSRIP program. The Health Center is paid a quarterly amount to fund various sub-initiatives within the DSRIP program. DSRIP revenue is recognized as corresponding program expenditures, consisting of salary, benefits, and other expenditures, are incurred during the year. DSRIP revenue for 2019 and 2018 was $1,214,793 and $863,632, respectively. Amounts received but not yet expended for approved DSRIP program expenditures totaled $200,456 and $532,899 at June 30, 2019 and 2018, respectively, and are included in deferred revenue on the consolidated balance sheets.

Pharmacy Revenue

Pharmacy revenue is recognized as pharmaceuticals are dispensed. 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 Discount 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.

	2019	2018
340B gross receipts	$ 9,500,063	$ 9,776,088
Drug replenishment costs	3,816,858	3,835,901
	$ 5,683,205	$ 5,940,187

The 340B gross receipts are a component of pharmacy revenue, which is included in net patient service revenue on the consolidated statements of operations. The drug replenishment costs are included in pharmacy expenses on the consolidated statements 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 approximately $312,000 for the year ended June 30, 2018. During 2019, the Organization updated its estimates related to calendar year 2017 cost pool savings based on updated data received from CCA. Cost pool savings for the year ended June 30, 2019, were reduced by approximately $156,000 due to changes in estimates related to annual experience prior to July 1, 2018. There are no estimated cost pool savings for calendar year 2018 or January 1, 2019 through June 30, 2019. Cost pool savings are included in net patient service revenue on the consolidated statements of operations.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

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.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional. Donor-restricted conditional gifts in which the condition and restriction is met in the period the gift is received are reported as revenue and net assets without donor restrictions.

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.

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 2016.

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 $221,000 for the year ended June 30, 2018, which is included in other revenue in the consolidated statement of operations. During 2019, the Organization decreased other revenue by approximately $64,000 due to adjustments related to the final audits completed by the fiscal intermediary for attestations submitted for 2018.

Deficiency of Revenues Over Expenses

The consolidated statements of operations include deficiency of revenues over expenses. Changes in net assets without donor restrictions which are excluded from deficiency 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 were to be used for the purpose of acquiring such assets).

Subsequent Events

Subsequent events have been evaluated through November 14, 2019, which is the date the financial statements were available to be issued.

Note 2: Grant Revenue

The Health Center is the recipient of Health Center Program (HCP) 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 Health Center's operations based on an approved budget.

Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended June 30, 2019 and 2018, the Health Center recognized $4,469,833 and $4,632,577,

respectively, in HCP grant funds. The Health Center has been authorized for funding in the amount of $5,931,285 for the period February 1, 2019, through January 31, 2020.

In addition to the above grants, the Health Center 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.

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 is paid on a prospective payment system (PPS). Medicare payment under the FQHC PPS will be 80 percent of the lesser of the Health Center's actual charge or the applicable PPS rate (patient coinsurance will be 20 percent of the lesser of the Health Center's actual charge or the applicable PPS rate). Accordingly, to the extent the Health Center's charge is below the applicable PPS rate, Medicare FQHC reimbursement will be limited.

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, 2019 and 2018, was approximately:

	2019	2018
Medicaid	$ 20,303,117	$ 19,065,534
Medicare	7,665,003	5,294,117
Self-pay	712,856	874,844
Other third-party payers	6,025,792	8,292,722
Total	$ 34,706,768	$ 33,527,217

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, 2019 and 2018, is:

	2019	2018
Medicaid	79%	72%
Medicare	12%	7%
Other third-party payers	7%	19%
Self-pay	2%	2%
	100%	100%

Note 5: Note Payable to Bank

The Organization has a due on demand note payable that allows borrowings up to $800,000. The note is collateralized by substantially all of the Organization's assets. Interest varies with the bank's prime rate, which was 5.25 percent and 4.00 percent on June 30, 2019 and 2018, respectively, 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 of 1.2 measured annually at June 30 each year. At June 30, 2019 and 2018, there was $296,322 and $0 borrowed against this line, respectively.

The Organization was not in compliance with the debt service coverage ratio requirement at June 30, 2019, and the bank has waived this requirement for this reporting period.

Note 6: Long-Term Debt

Long-term debt at June 30, 2019 and 2018, consisted of the following:

	2019	2018
Note payable, bank (A)	$ 2,339,085	$ 2,451,434
Note payable, bank (B)	8,048,431	8,409,978
	10,387,516	10,861,412
Less current maturities	492,450	473,898
	$ 9,895,066	$ 10,387,514

(A) Due May 28, 2034; payable $17,445 monthly, including interest at 4.01 percent through May 28, 2021, at which time the interest rate changes to 2.00 percent above the five year Federal Home Loan Bank of Boston rate and is recalculated every sixtieth month, with a floor of 2.50 percent; can be prepaid in whole or part and has a prepayment penalty equal to 5.00 percent year 1, 4.00 percent year 2, 3.00 percent year 3, 2.00 percent year 4 and 1.00 percent year 5; secured by certain real property; requires the Organization to comply with certain restrictive covenants, including maintaining a debt service coverage ratio of 1.2 measured annually at June 30 each year. The Organization was not in compliance with the debt service coverage ratio requirement at June 30, 2019, and the bank has waived this requirement for this reporting period.

(B) Due January 13, 2035; payable $58,253 monthly, including interest at 4.03 percent through January 13, 2021, at which time the interest rate changes to 2.00 percent above the five year Federal Home Loan Bank of Boston Classic Advance Rate and is recalculated every sixtieth month, with no floor; secured by first mortgage and assignment of leases and rents on the building complex at 230 Maple Street, Holyoke, Massachusetts, and all assets of the Health Center. The note requires the Organization to comply with certain restrictive covenants, including maintaining a debt service coverage ratio of 1.2 measured annually at June 30 each year. The Organization was not in compliance with the debt service coverage ratio requirement at June 30, 2019, and the bank has waived this requirement for this reporting period. The United States Department of Health and Human Services, Health Resources and Services Administration (HRSA) have guaranteed eighty percent (80 percent) of the maximum principal amount of the loan.

Aggregate annual maturities of long-term debt at June 30, 2019, are:

2020	$ 492,450
2021	513,908
2022	535,287
2023	557,557
2024	580,554
Thereafter	7,707,760
	$ 10,387,516

Note 7: 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 percent 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 percent of the Organization's prior year state revenues. If an organization has a surplus in excess of the 5 percent and 20 percent 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 percent and 20 percent rules are included within unrestricted net assets on the Organization's consolidated balance sheets. Any amount in excess of these rules is a liability to the Commonwealth. There was no liability recorded at June 30, 2019 and 2018.

Note 8: 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, 2019 and 2018. 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 9: Net Assets With Donor Restrictions

Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purpose:

	2019	2018
Health care services		
Holyoke food and fitness project	$ 5,498	$ 13,017
Capital expansion – eye care service	-	50,000
General health care services	170,599	181,554
	$ 176,097	$ 244,571

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors.

	2019	2018
Purpose restrictions accomplished		
Holyoke food and fitness project	$ 7,518	$ 7,721
Capital expansion – eye care service	50,000	-
General health care services	71,352	102,385
	$ 128,870	$ 110,106

Note 10: Liquidity and Availability

The Organization's financial assets available within one year of the balance sheet date for general expenditures are:

	2019	2018
Financial assets at year end available to meet general expenditures over the next 12 months		
Cash and cash equivalents	$ 3,398,685	$ 4,005,780
Patient accounts receivable, net	2,832,680	2,806,885
Grants and other receivables	753,859	965,683
Contributions receivable – current	9,351	66,113
Cost pool receivable	110,664	266,832
Financial assets available to meet general expenditures within one year	$ 7,105,239	$ 8,111,293

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. To help manage unanticipated liquidity needs, the Organization has a committed line of credit of $800,000 (see *Note 5*), which it could draw upon.

Note 11: Functional Expenses

The Organization provides health care services to residents within its service area. Certain costs attributable to more than one function have been allocated among the medical and other, dental, pharmacy and general and administrative functional expense classifications based on direct assignment, salary allocation and other methods. The following schedule presents the natural classification of expenses by function as follows:

	2019					
	Health Care Services				Support Services	
	Medical and Other	Dental	Pharmacy	Total Program Expense	General and Administrative	Total
Salaries and wages	$ 10,113,990	$ 4,236,206	$ 2,299,385	$ 16,649,581	$ 3,888,379	$ 20,537,960
Employee benefits	1,755,003	734,003	364,855	2,853,861	679,769	3,533,630
Purchased services and professional fees	1,456,940	213,554	82,679	1,753,173	580,719	2,333,892
Supplies and other	1,026,278	1,075,173	(115,983)	1,985,468	1,862,295	3,847,763
Pharmacy expenses	2,030,340	-	10,000,251	12,030,591	-	12,030,591
Rent	79,662	16,483	102,513	198,658	9,457	208,115
Depreciation	272,854	323,725	118,812	715,391	377,316	1,092,707
Interest	224,332	92,366	54,649	371,347	66,125	437,472
Gain on disposal of property and equipment	-	(61,365)	-	(61,365)	-	(61,365)
Total expenses	$ 16,959,399	$ 6,630,145	$ 12,907,161	$ 36,496,705	$ 7,464,060	$ 43,960,765

For 2018, the Organization had $36,787,844 of health care services and $6,320,319 in general and administrative expenses.

Note 12: 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. The Organization did not have any retirement plan expense for the years ended June 30, 2019 and 2018.

Note 13: Accountable Care Organization Relationship

On October 26, 2016, Community Care Cooperative, Inc. (C3) entered into an unsecured promissory note with the Health Center in the amount of $100,000. Interest accrued on the outstanding balance at a rate of 0.66 percent until the principal was paid in full. All principal and interest was paid in full during the year ended June 30, 2019.

On February 2, 2017, the Health Center entered into a participating center agreement with C3, a not-for-profit 501(c)(3) Organization organized for the purpose of arranging for the provision of health services by federally qualified health centers to MassHealth beneficiaries. The participating center agreement is a value-based payment arrangement in which the rewards and risks of performance with respect to the payor's goals for cost and quality are shared. The initial performance year was January 1, 2018 through December 31, 2018.

Total cost of care benchmarks and performance criteria will be calculated by C3 as defined in the participating center agreement. The Health Center elects one of three risk tiers annually and will share in cost savings or losses in accordance with the specific criteria in the participating center agreement. C3 may require certain dues and assessments to be paid by participating Organizations as consideration for services provided. No such payments were made in 2019 and 2018. An estimate of additional cost savings or losses of $0 was determined for 2019 and 2018 based on data performance year data.

Note 14: Construction in Progress

The Organization was in the process of renovating certain locations as of June 30, 2019. The largest project related to the Chicopee dental location of which completed costs incurred and included in construction in progress were approximately $294,000. Additional costs of approximately $245,000 were incurred for completion of the project in September 2019, for a total project cost of approximately $539,000. The project was funded with operating cash flow, debt and grants.

Note 15: 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 8.*

340B Drug Pricing Program

The Organization participates in the 340B Drug Discount Pricing Program (340B Program) enabling the Organization to receive discounted prices from the drug manufacturers on outpatient pharmaceutical purchase. This program is overseen by the Health Resources and Services Administrative (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to the financial statement amount related to the 340B Program could occur in the near term.

Note 16: Change in Accounting Principle

In 2019, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Balance Sheet

- The balance sheet distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Statement of Operations

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flow available to meet operating expenses for one year from the date of the balance sheet.

- Expenses are reported by both nature and function in one location.

This change had no impact on previously reported total changes in net assets.

Note 17: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning July 1, 2019. The Organization is in the process of evaluating the impact the amendment will have on the financial statements.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. A Board decision was reached by the FASB at its October 16, 2019, meeting to delay the effective date by one year which is expected to be finalized with the issuance of an ASU later in 2019. The Organization is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Supplementary Information

Holyoke Health Center, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Health and Human Services/Consolidated Health Centers/Health Center Program Cluster	93.224	N/A	$ -	$ 1,517,829
U.S. Department of Health and Human Services/Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program/ Health Center Program Cluster	93.527	N/A	-	3,122,289
U.S. Department of Health and Human Services/Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program/ Health Center Program Cluster/ Massachusetts League of Community Health Centers/Connecticut River Valley Farmworker Health Program in Health Centers	93.527	None	-	55,808
Total Health Center Program Cluster			-	4,695,926
U.S. Department of Health and Human Services/Maternal and Child Health Federal Consolidated Programs	93.110	N/A	-	38,573
U.S. Department of Health and Human Services/Commonwealth of Massachusetts/Family Planning Services	93.217	INTF3323MM3W-18096074 INTF3323MM3W-19146087 INTF3323MM3W-19101077	-	150,684
U.S. Department of Health and Human Services/Commonwealth of Massachusetts/HIV Prevention Activities – Health Department Based	93.940	INTF4944MM31-81926025	-	81,080
U.S. Department of Health and Human Services/Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	544,791	862,494
Total forward			544,791	5,828,757

The accompanying notes are in integral part of the Schedule.

Holyoke Health Center, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Total forward			$ 544,791	$ 5,828,757
U.S. Department of Health and Human Services/Boston University/Ryan White HIV/AIDS Dental Reimbursement and Community Based Dental Partnership Grants	93.924	4500002923	-	187,593
U.S. Department of Health and Human Services/Commonwealth of Massachusetts/HIV Care Formula Grants	93.917	INTF4944MM31-81926025	-	159,534
U.S. Department of Health and Human Services/Commonwealth of Massachusetts/Block Grants for Prevention and Treatment of Substance Abuse	93.959	INTF2351M03183626-043	-	17,108
U.S. Department of Health and Human Services/Commonwealth of Massachusetts/Affordable Care Act (ACA) Childhood Obesity Research Demonstration	93.535	INTF4123MM3W160-71044	-	104,993
Total federal expenditures			$ 544,791	$ 6,297,985

The accompanying notes are in integral part of the Schedule.

Holyoke Health Center, Inc.

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Holyoke Health Center, Inc., under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Holyoke Health Center, Inc., it is not intended to and does not present the financial position, results of operations, changes in net assets, or cash flows of Holyoke Health Center, Inc.

2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Holyoke Health Center, Inc. has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. Holyoke Health Center, Inc. did not have any federal loan programs during the year ended June 30, 2019.

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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*

Independent Auditor's Report

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, 2019, 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 14, 2019, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principle.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Holyoke Health Center, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Holyoke Health Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Holyoke Health Center, Inc.'s internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Holyoke Health Center, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Holyoke Health Center, Inc.'s financial statements are free from 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*.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
November 14, 2019

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Report on Compliance for Each Major Federal 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 Holyoke Health Center, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Holyoke Health Center, Inc.'s major federal programs for the year ended June 30, 2019. Holyoke Health Center, Inc.'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 federal statutes, regulations and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Holyoke Health Center, Inc.'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 Holyoke Health Center, Inc.'s compliance.

Board of Directors
Holyoke Health Center, Inc.

Opinion on Each Major Federal Program

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 major federal programs for the year ended June 30, 2019.

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 Holyoke Health Center, Inc.'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 an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Holyoke Health Center, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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 or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
November 14, 2019

Holyoke Health Center, Inc.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)?	☐ Yes	☒ None reported
Material weakness(es)?	☐ Yes	☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

Significant deficiency(ies)?	☐ Yes	☒ None reported
Material weakness(es)?	☐ Yes	☒ No

5. The opinion expressed in the independent auditor's report on compliance for major federal awards programs were:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? ☐ Yes ☒ No

Holyoke Health Center, Inc.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

7. The Organization's major programs were:

Cluster/Program	CFDA Number
Health Center Program Cluster	93.224 and 93.527
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 was $750,000.

9. The Organization qualified as a low-risk auditee? ☒ Yes ☐ No

Holyoke Health Center, Inc.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding

No matters are reportable.

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding

No matters are reportable.

Holyoke Health Center, Inc.

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2019

Reference Number	Summary of Finding	Status

No matters are reportable.