

**EAST BOSTON NEIGHBORHOOD HEALTH CENTER
CORPORATION AND AFFILIATES**

A-133 FINANCIAL STATEMENTS

SEPTEMBER 30, 2014



EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

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Feeley & Driscoll, P.C.

Certified Public Accountants / Business Consultants

To the Board of Directors
East Boston Neighborhood Health Center Corporation and Affiliates
East Boston, Massachusetts

Independent Auditor's Report

Report on Financial Statements

We have audited the accompanying consolidated financial statements of East Boston Neighborhood Health Center Corporation and Affiliates (a nonprofit organizations), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the 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.

Independent Auditor's Report - Continued

Opinion

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

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information, as described in the Table of Contents, is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities, and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is also not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, on our consideration of East Boston Neighborhood Health Center Corporation and Affiliates' 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* in considering East Boston Neighborhood Health Center Corporation and Affiliates' internal control over financial reporting and compliance.

Boston, Massachusetts
December 19, 2014

Feeley, E. Driscoll, P.C.



EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Consolidated Balance Sheets

September 30, 2014 and 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>	<u>Liabilities and Net Assets</u>	<u>2014</u>	<u>2013</u>
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 20,263,781	\$ 11,865,416	Current portion of long-term debt	\$ 745,921	\$ 717,819
Patient accounts receivable, net	4,676,814	4,265,837	Accounts payable and accrued expenses	8,299,874	4,728,401
Grants and contracts receivable	348,469	311,441	Accrued salaries and wages	8,064,142	6,385,255
Other accounts receivable	646,236	1,163,068	Deferred revenue	89,449	81,845
Prepaid expenses and other current assets	2,104,874	1,594,380	Due to third parties	6,148,433	3,895,816
Inventory	873,248	956,866	Other current liabilities	154,466	157,473
Current portion of assets whose use is limited or restricted	-	79,823	Total current liabilities	<u>23,502,285</u>	<u>15,966,609</u>
Total current assets	<u>28,913,422</u>	<u>20,236,831</u>			
Assets whose use is limited or restricted:			Long-term liabilities:		
Program deposits	110,722	110,333	Long-term debt, net of current portion	37,465,939	38,226,862
Donor restricted funds	682,887	617,501	Due to third parties, net of current portion	469,942	319,942
Trustee held funds	610,400	602,067	Interest rate swap	561,306	684,958
Total assets whose use is limited or restricted	<u>1,404,009</u>	<u>1,329,901</u>	Post retirement benefit obligations	742,706	280,000
Property and equipment, net	<u>37,295,685</u>	<u>35,119,712</u>	Total long-term liabilities	<u>39,239,893</u>	<u>39,511,762</u>
Other assets:					
Deferred financing costs, net of accumulated amortization of \$178,550 and \$287,353	1,359,336	1,537,885	Total liabilities	<u>62,742,178</u>	<u>55,478,371</u>
Cash surrender value	1,263,098	1,137,827	Commitments and contingencies		
Note receivable, related party	-	148,681	Net Assets:		
Note receivable, investment fund	15,990,392	15,990,392	Unrestricted net assets	22,800,877	19,577,540
Investment in Sturgis Street	-	252,006	Temporarily restricted net assets	682,887	697,324
Total other assets	<u>18,612,826</u>	<u>19,066,791</u>	Total net assets	<u>23,483,764</u>	<u>20,274,864</u>
Total assets	<u>\$ 86,225,942</u>	<u>\$ 75,753,235</u>	Total liabilities and net assets	<u>\$ 86,225,942</u>	<u>\$ 75,753,235</u>

See accompanying notes to consolidated financial statements.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Consolidated Statements of Operations

For the years ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenue and other support:		
Patient service revenue, net of contractals	\$ 65,730,490	\$ 57,530,634
Provision for bad debts	(3,992,816)	(3,902,177)
Net patient service revenue	<u>61,737,674</u>	<u>53,628,457</u>
Premium revenue	4,428,142	2,478,839
ESP premium revenue	33,298,047	29,989,739
Grant and contract revenue	13,853,440	13,903,381
Other revenue	4,009,696	3,494,011
Net assets released from restrictions used in operations	170,243	105,123
Total revenue and other support	<u>117,497,242</u>	<u>103,599,550</u>
Expenses:		
Salaries and wages	55,147,919	50,635,187
Employee benefits	14,369,186	12,738,374
Purchased services	6,844,839	5,683,007
Medical expenses	9,405,021	7,789,604
Occupancy, repairs and maintenance	6,478,786	6,056,814
Institutional	8,070,086	7,232,972
Administrative and general supplies and expense	7,890,356	7,143,283
Depreciation and amortization	3,551,832	3,384,393
Transportation	1,068,306	987,865
Insurance	542,395	548,084
Interest expense	826,844	841,281
Total expenses	<u>114,195,570</u>	<u>103,040,864</u>
Income from operations	<u>3,301,672</u>	<u>558,686</u>
Non-operating gains (losses):		
Interest	7,485	8,104
Loss on sale of property and equipment	(50,525)	(631,498)
Loss on acquisition	(500,935)	-
Investment income	241,988	245,591
Total non-operating gains (losses)	<u>(301,987)</u>	<u>(377,803)</u>
Excess of revenue, other support and gains over expenses and losses	<u>2,999,685</u>	<u>180,883</u>
Gain on interest rate swap	123,652	314,358
Forgiveness of note payable for capital expenditures	<u>100,000</u>	<u>100,000</u>
Change in unrestricted net assets	<u>\$ 3,223,337</u>	<u>\$ 595,241</u>

See accompanying notes to consolidated financial statements.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Consolidated Statements of Changes in Net Assets

For the years ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Unrestricted net assets:		
Excess of revenue, other support and gains over expenses and losses	\$ 2,999,685	\$ 180,883
Gain on interest rate swap	123,652	314,358
Forgiveness of note payable for capital expenditures	<u>100,000</u>	<u>100,000</u>
Change in unrestricted net assets	<u>3,223,337</u>	<u>595,241</u>
Temporarily restricted net assets:		
Contributions and grants	155,806	291,632
Net assets released from restrictions used in operations	<u>(170,243)</u>	<u>(105,123)</u>
Change in temporarily restricted net assets	<u>(14,437)</u>	<u>186,509</u>
Change in net assets	3,208,900	781,750
Net assets, beginning of year	<u>20,274,864</u>	<u>19,493,114</u>
Net assets, end of year	<u>\$ 23,483,764</u>	<u>\$ 20,274,864</u>

See accompanying notes to consolidated financial statements.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Consolidated Statements of Cash Flows

For the years ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 3,208,900	\$ 781,750
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Donor restricted funds	(155,806)	(291,632)
Depreciation and amortization	3,551,832	3,384,393
Provision for uncollectible accounts	3,992,816	3,902,177
Equity earnings in joint venture	(45,157)	(39,393)
Increase in cash surrender value of life insurance	(125,271)	(138,044)
Loss on acquisition	500,935	-
Forgiveness of note payable for capital expenditures	(100,000)	(100,000)
Loss on sale of property and equipment	50,525	631,498
Gain on interest rate swap	(123,652)	(314,358)
Increase (decrease) in cash resulting from a change in:		
Patient accounts receivable	(4,403,793)	(4,376,706)
Grants and contracts receivable	(37,028)	101,438
Other accounts receivable	516,832	1,930,500
Prepaid expenses and other current assets	(510,494)	(135,838)
Inventory	83,618	(278,720)
Accounts payable and accrued expenses	3,571,473	(1,316,424)
Deferred revenue	7,604	(252,441)
Accrued salaries and wages	1,678,887	1,055,141
Due to third parties	2,402,617	3,434,309
Other current liabilities	(3,007)	-
Post retirement benefit obligations	462,706	-
Net cash provided by operating activities	<u>14,524,537</u>	<u>7,977,650</u>
Cash flows from investing activities:		
Purchases of property and equipment	(5,479,798)	(1,518,134)
Proceeds from sale of equipment	-	238,721
Proceeds from (funding of) assets whose use is limited or restricted	5,715	(178,133)
Payment on note receivable, related party	148,681	13,335
Proceeds from deposits	-	6,250
Payment on acquisition	(323,756)	-
Net cash used in investing activities	<u>(5,649,158)</u>	<u>(1,437,961)</u>
Cash flows from financing activities:		
Payment of deferred financing costs	-	(35,634)
Payments on long-term debt	(632,820)	(637,724)
Donor restricted funds	155,806	291,632
Net cash used in financing activities	<u>(477,014)</u>	<u>(381,726)</u>
Net increase in cash and cash equivalents	8,398,365	6,157,963
Cash and cash equivalents, beginning of year	<u>11,865,416</u>	<u>5,707,453</u>
Cash and cash equivalents, end of year	<u>\$ 20,263,781</u>	<u>\$ 11,865,416</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 826,844</u>	<u>\$ 841,281</u>
Acquisition of property and equipment accrued in accounts payable or through notes payable	<u>\$ -</u>	<u>\$ 1,000,000</u>

See accompanying notes to consolidated financial statements.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Note 1 - Organization

East Boston Neighborhood Health Center Corporation and Affiliates (the “Organization”) is a not-for-profit corporation organized in September 1974. The Organization’s mission is to safely and effectively provide easily accessible, personalized, high quality, affordable care that is sensitive to the needs of each individual who lives or works in the East Boston, Massachusetts community regardless of the ability to pay.

East Boston Neighborhood Health Center (the “Center”) provides medical, radiological and laboratory services in a community setting, and develops and promotes research programs aimed at the prevention, detection and treatment of common chronic medical conditions. Reimbursements for services to patients are covered by Medicare, Medicaid, and contracted insurance programs. The Center is also the recipient of federal, state and private grants in support of its services. The Center also participates in a Program of All-inclusive Care for the Elderly (“PACE”), commonly referred to as the Elder Service Plan (“ESP”), which is dually administered by the Medicare and Medicaid programs.

Twenty Maverick Square Corporation (“TMS”) became an affiliate of the Center as part of the New Market Tax Credit financing. TMS is a property holding company for the Center. Refer to Note 11 for further detail of the transaction.

On September 3, 2014, Twenty-Six Sturgis Street Corporation (“Sturgis Street”) became an affiliate of the Center as part of the acquisition of the remaining fifty (50%) ownership interests in Sturgis Street. Refer to Note 25 for further detail of the transaction.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The consolidated financial statements include the accounts of the above-named entities. Significant intercompany balances and transactions have been eliminated.

The Organization’s accounts are maintained on the accrual basis of accounting. Net assets are classified into restricted and unrestricted net assets, when appropriate, to properly disclose the nature and amount of significant resources that have been restricted in accordance with specified donor objectives. The Organization has unrestricted net assets, which are available to be used by the Board of Directors for the general purpose of the Organization, and temporarily restricted net assets which are donor or grantor restricted.

Estimates - The preparation of consolidated financial statements in accordance 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, the 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.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies - Continued

Fair Value of Financial Instruments - The Organization determines the fair value of financial instruments and includes such information in the notes to the financial statements when the fair value is materially different than the carrying amount of these financial instruments.

Cash and Cash Equivalents - Cash and cash equivalents include all highly liquid investments with a maturity of ninety (90) days or less.

Allowance for Doubtful Accounts - Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for debts, if necessary. For receivables associated with self-pay patients, the Center records a provision for bad debts in the period of service 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 and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Inventory - Inventory, including medical and pharmaceutical supplies, is stated at lower of cost or market and is determined based on the first in, first out method.

Assets Whose Use is Limited or Restricted - Assets whose use is limited or restricted includes assets set aside by the board of directors over which the board retains control and may, at its discretion, use for various purposes, assets set aside in accordance with loan agreements and program agreements and assets specified by donors or grantors for specific purposes.

Property and Equipment - Property and equipment are recorded at cost or, if donated, at the fair market value at the date of receipt. Depreciation and amortization are provided using the straight-line method over the estimated useful asset lives.

Deferred Financing Costs - The direct costs incurred in the placement of the Massachusetts Development Finance Agency Revenue Bonds have been capitalized and are being amortized on a straight-line basis, which approximates the effective interest method, over the term of the related bonds.

Investments - The Center had an interest in a joint venture with Sturgis Street. The Center's interest in the joint venture was recorded using the equity method through September 3, 2014. The Center acquired the remaining fifty-percent (50%) share during the year and, accordingly, has included the operations of Sturgis Street in the consolidated financial statements.

Deferred Revenue - Deferred revenue consists of revenue that was received in advanced of being earned and is recorded at the net realizable amount.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies - Continued

Derivative Instruments - As discussed in Note 12, the Center entered into an interest rate swap agreement to ensure consistent cash outflows over the life of the agreement. Generally accepted accounting principles require that derivative instruments be reported at fair value. The change in the fair value of the Center's swap agreement is reported as another change in net assets in the statement of operations.

Consolidated Statement of Operations - For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care and related services are reported as revenue and expenses. Peripheral or incidental transactions are reported as non-operating gains and losses.

Net Patient Service Revenue - The Center recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Under the terms of various agreements, regulations and statutes, certain elements of third-party reimbursements to the Center are subject to negotiation, audit and/or final determination by third-party payors. Retroactive adjustments are accrued on an estimated basis in the period related services are rendered and adjusted in future periods as final settlements are determined. For uninsured patients that do not qualify for charity care, the Center recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Center records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Premium Revenue - The Center has agreements with various payers whereby the Center receives monthly capitation payments based on the number of participants, regardless of the services actually performed by the Center. This includes payments related to the State's Patient Centered Medical Home Initiative (PCMHI), a contract with BMC HealthNet Plan established as an alternative to the PCMHI payment arrangement and revenue related to the Commonwealth of Massachusetts Primary Care Payment Reform Initiative ("PCPRI"). Settlements related to the Senior Care Options (SCO) program are also included here. All revenues are recorded when earned.

ESP Premium Revenue - The Center has agreements with the Centers for Medicare and Medicaid Services ("CMS") and the Commonwealth of Massachusetts (the "Commonwealth") (under Medicaid) to provide medical services to members of the ESP program. Through these agreements, the Center receives monthly capitation payments based on the number of participants enrolled in the program. All healthcare needs of program participants are the responsibility of the Center. Participation in the program is limited to those frail and elderly in the community deemed eligible for nursing home placement. All revenues are recorded when earned.

Grant and Contract Revenue - Grant and contract revenue are reported in accordance with the provisions of the applicable contract or grant agreement. The majority of the grants and contracts received by the Center are subject to possible audit by the grantor agency or governmental regulatory agency overseeing the contract award.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies - Continued

Charity Care - The Center provides charity care to patients who meet certain criteria under its charity care policy, without charge, or at amounts less than its established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Therefore, net patient service revenue in the accompanying consolidated financial statements is recorded net of its reimbursement from the Massachusetts Health Safety Net Trust (“HSN”).

Gifts, Bequests and Contributions - The Center recognizes contributions as revenue in the period received at fair value. Gifts of cash or other support are reported as restricted if they are received with donor stipulations that limit the use of the donated assets. Contributions in the form of property are recorded at the fair market value on the date the property is received. The property is shown as unrestricted support unless explicit donor stipulations specify how the donated property must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the Center reports expirations of donor restrictions when the donated asset or acquired long-lived assets are placed in service.

Excess of Revenue, Other Support and Gains Over Expenses and Losses - The consolidated statement of operations includes the excess of revenue, other support and gains over expenses and losses. Changes in unrestricted net assets which are excluded from the excess of revenue, other support and gains over expenses and losses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purpose of acquiring such assets) and changes in the fair value of the interest rate swap.

Tax Status - The Organization is incorporated under Section 501(c)(3) of the Internal Revenue Code (the “Code”) and, accordingly, is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Organization is classified as a public charity. In accordance with generally accepted accounting principles, the Organization annually evaluates its tax status and tax positions taken with respect to its operations and financial position. Tax years from 2010 through the current year remain open for examination by Federal and state tax authorities.

Reclassifications - Certain amounts reported in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Subsequent Events - The Organization has evaluated subsequent events through December 19, 2014, which is the date the financial statements were available for issuance.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 3 - Concentration of Credit Risk

The Organization has a potential concentration of credit risk in that it maintains deposits with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The maximum deposit insurance amount is \$250,000, which is applied per depositor, per insured bank for each account ownership category. As of September 30, 2014 and 2013, the Organization had \$21,627,348 and \$12,693,290, respectively in excess of FDIC limits.

The Center grants credit, without collateral, to its patients, many of whom are local residents and are insured under third-party payor agreements. The mix of accounts receivable, net of contractual allowances, from patients and third-party payors was as follows as of September 30:

	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>
Self-pay	\$ 2,750,618	35%	\$ 2,747,170	37%
Other	2,532,049	32%	2,239,920	30%
Medicaid	1,834,534	23%	1,576,794	21%
Medicare	476,379	6%	532,238	8%
Blue Cross	312,011	4%	275,804	4%
Net accounts receivable	<u>7,905,591</u>	<u>100%</u>	<u>7,371,926</u>	<u>100%</u>
Less allowance for doubtful accounts	<u>3,228,777</u>		<u>3,106,089</u>	
Patient accounts receivable, net of allowance	<u>\$ 4,676,814</u>		<u>\$ 4,265,837</u>	

A significant portion of the accounts receivable from other providers is derived from BMC HealthNet, Neighborhood Health Plan and Tufts Health Plan. Although management expects the amounts recorded as net accounts receivable at September 30, 2014 to be collectible, this concentration of credit risk is expected to continue in the near term.

The methodology and assumptions utilized by management to estimate the allowance for doubtful accounts have not significantly changed from the prior year.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 4 - Net Patient Service Revenue

Net patient service revenue consisted of the following for the years ended September 30:

	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>
<u>Gross patient service revenue:</u>				
Medicaid	\$ 42,656,576	39%	\$ 36,588,389	37%
Self-pay and Health Safety Net	33,684,372	31%	33,011,100	33%
Other	20,741,317	19%	16,271,623	16%
Medicare	5,172,287	5%	5,271,613	5%
Blue Cross	4,734,391	4%	4,558,515	5%
Tufts	1,970,438	1%	1,816,645	2%
Harvard Pilgrim	1,447,988	1%	1,574,141	2%
Total gross patient service revenue	<u>110,407,369</u>	<u>100%</u>	<u>99,092,026</u>	<u>100%</u>
Less provision for bad debts	<u>3,992,816</u>	<u>4%</u>	<u>3,902,177</u>	<u>4%</u>
Patient service revenue, net of the provision	<u>106,414,553</u>	<u>96%</u>	<u>95,189,849</u>	<u>96%</u>
<u>Less contractual and free care adjustments:</u>				
Contractual adjustments	33,478,160	30%	30,347,714	31%
Free care adjustments	26,848,448	24%	24,358,329	25%
Free care reimbursements	<u>(15,649,729)</u>	<u>(14%)</u>	<u>(13,144,651)</u>	<u>(13%)</u>
Total contractual and free care adjustments	<u>44,676,879</u>	<u>40%</u>	<u>41,561,392</u>	<u>43%</u>
Net patient service revenue	<u>\$ 61,737,674</u>	<u>56%</u>	<u>\$ 53,628,457</u>	<u>53%</u>

Included in contractual adjustments for the years ended September 30, 2014 and 2013, were adjustments resulting from a change in estimate relative to the Center's prior year third-party payor settlements. Such changes reduced contractual allowances at September 30, 2014 and 2013 by \$-0- and \$1,597,000, respectively.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized for the years ended September 30, 2014 and 2013 is as follows for uninsured patients who do not qualify for charity care and patients who have third-party coverage.

	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total</u>
Patient service revenue, net of contractual allowance and discounts: September 30, 2014	<u>\$ 59,682,476</u>	<u>\$ 6,048,014</u>	<u>\$ 65,730,490</u>
September 30, 2013	<u>\$ 51,068,431</u>	<u>\$ 6,462,203</u>	<u>\$ 57,530,634</u>

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 5 - Third-Party Reimbursement

The Center maintains agreements with the Centers for Medicare and Medicaid Services (“CMS”) and the Commonwealth of Massachusetts (the “Commonwealth”) (under the Medicaid program) and various commercial insurance carriers, health maintenance organizations and provider organizations. These agreements govern payment to the Center for services rendered to subscribers and beneficiaries covered by these programs.

As a hospital-based Community Health Center, the Center is reimbursed by Medicare under the Outpatient Prospective Payment System (“OPPS”), which establishes payments based on Ambulatory Payment Classification (“APC”), and the Medicare standard physician fee schedule for physician services only. This OPPS system establishes rates of payment based on the services provided to outpatients using acuity codes known as Current Procedural Terminology (“CPT”) codes.

The Commonwealth’s Medicaid program reimburses for outpatient services on a payment amount per episode (“PAPE”) and the Medicaid standard physician fee schedule for physician services only. This system establishes rates of payment based on the services provided to outpatients using acuity codes known as CPT codes.

The Commonwealth’s Center for Health Information and Analysis (the “Division”) operates the Health Safety Net (“HSN”) to reimburse hospitals and hospital-based providers for the cost of uncompensated care. The Center’s status as a provider-based facility also enables it to access the Commonwealth’s HSN. Each provider’s allowed charges are adjusted to reflect statewide uncompensated care experience. Amounts are paid to HSN based on an estimated percentage of each hospital’s net private sector payor charges.

Amounts are withdrawn from the HSN based upon a prospectively determined allowance for uncompensated care based on historical experience of approved free care claims submitted by the Center and the level of funding available in the HSN, based on the number of free care claims submitted and approved for reimbursement by HSN. The Center considered these calculations and accounted for both components of HSN reimbursement accordingly. All other payments, including those for managed care, commercial indemnity and capitated insurance products are negotiated by the Center on an individual basis.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 6 - Charity Care

As a community provider of health care services, the Center maintains programs to promote the overall well-being of the community in which it serves. These programs include human service programs, health clinics, the operation of an emergency department, and the provision of outpatient health center services. These services are available to all individuals regardless of their ability to pay for such services. Those unable to pay for the care they receive are eligible to benefit from the Center's free care policy.

In accordance with the HSN guidelines, the Center maintains records to identify and monitor the volume of patients to whom it provides free care. These records include complete applications for eligible patients and the dates and amounts for all charges furnished under the Center's free care policies.

The Center is the single largest provider of free care services in the Commonwealth's community health center system. The following information identifies the level of charity care provided during the fiscal years ended September 30:

	<u>2014</u>	<u>2013</u>
Charity care charges based on established rates	<u>\$ 26,903,121</u>	<u>\$ 24,358,000</u>
Estimated costs and expenses incurred to provide charity care	<u>\$ 20,803,635</u>	<u>\$ 20,508,000</u>
Equivalent percentage of charity care patients to all patients served	<u>24%</u>	<u>26%</u>

Amounts were paid to, or withdrawn from, HSN based on the relationship between the Center's private sector (i.e., non-governmental) charges and those charges identified as free care. The following detail identifies the total amount due from the HSN along with the amount received as reimbursement for providing free care services during the years ended September 30:

	<u>2014</u>	<u>2013</u>
Health Safety Net care cost recognized	\$ 15,650,000	\$ 13,144,000
Health Safety Net assessment	<u>(364,000)</u>	<u>(354,000)</u>
Net amount received or receivable from the HSN	<u>\$ 15,286,000</u>	<u>\$ 12,790,000</u>

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 7 - Surplus Revenue Retention

The Operational Services Division of the Commonwealth of Massachusetts has promulgated regulations requiring that all not-for-profit entities engaged in the provision of health and social service programs by contract with state agencies be subject to a revenue retention policy. Under this policy, any surplus generated from contracts with the Commonwealth of Massachusetts which exceeds five percent (5%) of the current year's Commonwealth revenues or on a cumulative basis, exceeds twenty percent (20%) of prior year Commonwealth revenues, becomes a liability to the Commonwealth. Additionally, the Commonwealth requires that providers take steps to segregate state attributed surpluses which fall below five percent (5%) as a segregated account which is presented in unrestricted net assets.

As of September 30, 2014, the Organization is not subject to any recoupment under the provisions of the Commonwealth's Surplus Revenue Retention regulations.

Note 8 - Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted was primarily comprised of donor restricted contributions, which are recorded at fair value, and trustee held funds relating to fee reserves for the New Market Tax Credit financing.

The Center received contributions from third-party contributors, a HealthCare system and the Commonwealth of Massachusetts. Funds from the Healthcare system are restricted for property renovations. Reserve funds held for the New Market Tax Credit financing transaction are restricted for management and administrative costs incurred over the duration of the transaction, and contributions from third-party contributors are restricted for other various purposes. Assets whose use is limited was \$1,404,009 and \$1,409,724 at September 30, 2014 and 2013, respectively.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 9 - Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three (3) levels of the fair value hierarchy under Financial Accounting Standards Board *Accounting Standards Codification* are described as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
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Level 2	Inputs to the valuation methodology include:
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- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3	Valuations using unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.
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The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

Interest rate swap: Valued using pricing models based on the net present value of estimated future cash flows. The valuation models require inputs including contractual terms, market prices, yield curves and measures of volatility.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 9 - Fair Value Measurements - Continued

The following table sets forth by level, within the fair value hierarchy, the Organization's interest rate swap at fair value as of September 30, 2014:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	September 30, 2014
Interest Rate Swap	\$ -	\$ 561,306	\$ -	\$ 561,306

The following table sets forth by level, within the fair value hierarchy, the Organization's interest rate swap at fair value as of September 30, 2013:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	September 30, 2013
Interest Rate Swap	\$ -	\$ 684,958	\$ -	\$ 684,958

Note 10 - Property and Equipment

Property and equipment was as follows at September 30:

	<u>2014</u>	<u>2013</u>
Buildings and improvements	\$ 36,881,559	\$ 34,714,145
Major movable equipment	17,210,296	15,638,857
Furniture and equipment	5,450,535	5,029,637
Land and improvements	3,349,664	2,814,664
Construction-in-progress	546,977	137,762
	<u>63,439,031</u>	<u>58,335,065</u>
Less accumulated depreciation and amortization	<u>26,143,346</u>	<u>23,215,353</u>
	<u>\$ 37,295,685</u>	<u>\$ 35,119,712</u>

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 11 - Note Receivable, Investment Fund

During 2012, the Center, in connection with TMS, entered into a series of transactions to accommodate its participation in the New Market Tax Credit program for the development and financing of a new building. The Center loaned the proceeds of its new bonds (see Note 12) to East Boston Neighborhood Health Center Investment Fund, LLC. ("Investment Fund"). The Investment Fund then invested in the Qualified Low Income Community Investments CDE #1-#4, LLC ("CDE"). The CDE used the investment to provide financing to the TMS in five (5) separate loans, totaling \$22,376,000 (Note 12), for the construction of the new health center building.

The note receivable with the Investment Fund is to be repaid, including interest at two and three-quarters percent (2.75%) per annum, through June 2037. The loan is interest only for the first seven (7) years and then amortizes until maturity, at which time all unpaid principal and interest are due. The balance at September 30, 2014 and 2013 was \$15,990,392, respectively. The permanent financing amount for the development of the new health center building is effectively the difference between the Center bonds, TMS notes payable and the Center's note receivable from the East Boston Neighborhood Health Center Investment Fund, LLC ("Investment Fund").

Note 12 - Long-term Debt

Long-term debt consisted of the following at September 30:

	<u>2014</u>	<u>2013</u>
Series 2012 Bonds	\$ 9,773,660	\$ 10,087,481
QLICI Loan-USB	6,000,000	6,000,000
Series 2006 Bonds	5,262,200	5,581,200
QLICI Loan-A1	5,526,000	5,526,000
QLICI Loan-MHIC	4,850,000	4,850,000
QLICI Loan-UA 1	4,400,000	4,400,000
QLICI Loan-UA 2	1,600,000	1,600,000
BMC Forgivable Loan	800,000	900,000
Total long-term debt	<u>38,211,860</u>	<u>38,944,681</u>
Less current portion	<u>745,921</u>	<u>717,819</u>
Long-term debt, net of current portion	<u>\$ 37,465,939</u>	<u>\$ 38,226,862</u>

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 12 - Long-term Debt - Continued

In October of 2013, The Center entered into a ten (10) year forgivable loan agreement with Boston Medical Center (“BMC”) for \$1,000,000 to support capital improvements to the Center’s facilities. The loan bears interest equal to the prime rate plus two percent (2%). The principal and interest balance shall be forgiven yearly over the life of the loan. The balance outstanding was \$800,000 and \$900,000 at September 30, 2014 and 2013, respectively.

In September of 2012, the Center entered into an agreement with the Massachusetts Development Finance Agency (“MDFA”) to issue \$10,400,000 of MDFA Revenue Bonds (“Series 2012 Bonds”), East Boston Neighborhood Health Center Issue, Series 2012, that will mature on September 1, 2037. The bonds were issued to finance the construction of a new health center building. Under the terms of a loan and trust agreement (the “Agreement”) between the Center, MDFA and TD Bank North, as trustee, the Center is required to make monthly payments to the trustee in amounts sufficient to pay the scheduled principal and interest requirements of the Series 2012 Bonds through maturity on September 1, 2037. The annual interest rate on the outstanding Series 2012 Bonds is two and four-tenths percent (2.4%). Collateral for the Series 2012 Bonds consists of the Center’s accounts receivable. The Agreement also contains various financial and reporting covenants.

The Center loaned the proceeds of its new bonds to East Boston Neighborhood Health Center Investment Fund, LLC. The Investment Fund then invested in the Qualified Low Income Community Investments CDE #1-#4, LLC. The CDE used the investment to provide financing to TMS in five (5) separate loans, totaling \$22,376,000, for the construction of the new health center. Payments on the loans are interest only at one and forty-two hundredths percent (1.42%) until September of 2019, at which point principal becomes due in full.

In February of 2006, the Center entered into an agreement with the Massachusetts Development Finance Agency (“MDFA”) to issue \$7,564,000 of MDFA Revenue Bonds (“Series 2006 Bonds”), East Boston Neighborhood Health Center Issue, Series 2006, that will mature on July 1, 2026. The bonds were issued to advance refund the Center’s outstanding MIFA Series 1996 Revenue Bonds. Under the terms of a loan and trust agreement between the Center, MDFA and TD Bank North, as trustee, the Center is required to make monthly payments to the trustee in amounts sufficient to pay the scheduled principal and interest requirements of the Series 2006 Bonds through maturity on July 1, 2026. The annual interest rate on the outstanding Series 2006 Bonds is the LIBOR rate times sixty nine percent (69%), plus one and two hundred seventy-eight thousandths percent (1.278%). The interest rate was one and thirty-eight hundredths percent (1.38%) and one and forty-five hundredths percent (1.45%) at September 30, 2014 and 2013, respectively. Collateral for the Series 2006 Bonds consists of the Center’s accounts receivable. The Agreement also contains various financial and reporting covenants.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 12 - Long-term Debt - Continued

Concurrent with the Center's loan and trust agreement, the Center entered into a fifteen (15) year interest rate swap agreement (the "Swap") with TD Bank North modifying the interest rate under the variable rate instrument to a fixed rate in order to avoid the risk of rising interest rates and to make its borrowing costs more predictable. The interest rate swap is designed as a cash flow hedge and the activity is reported in other changes in net assets. The notional amount is \$6,448,600 with a maturity date of February 1, 2021. The fixed rate is four and eight hundred twenty-five thousandths percent (4.825%) and the floating rate is one and thirty-eight hundredths percent (1.38%). Interest expense is recorded at the fixed rate. The swap is outstanding through February 1, 2021, while the debt is outstanding until 2026. The interest rate swap was recorded at fair value as a liability of \$561,306 and \$684,958 as of September 30, 2014 and 2013, respectively.

The swap agreement is exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with the interest rate swap and the level of uncertainty related to changes in the value of the interest rate swap, it is at least reasonably possible that changes in the value of the interest rate swap will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheet.

Aggregate annual maturities of long-term debt are as follows over the next five (5) years:

2015	\$	745,921
2016		778,119
2017		807,223
2018		830,027
2019		856,635
Thereafter		<u>34,193,935</u>
	\$	<u><u>38,211,860</u></u>

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 13 - Line of Credit

The Center has a working capital line of credit with a bank, expiring February 28, 2015, under which the Center is permitted to borrow up to \$2,000,000. Outstanding amounts on the line bear interest at a rate of prime plus one percent (1%), which was four and one-quarter percent (4.25%) as of September 30, 2014 and 2013, respectively. The note is collateralized by a security interest in the Center's property. No amounts were outstanding on the line of credit at September 30, 2014 and 2013. The agreement is also subject to the same financial and reporting covenants as the Center's bonds.

Note 14 - Cash Surrender Value

The Center has two (2) Keyman life insurance policies on members of management. Upon mortality, the Center is entitled to the face value of the policies. The cash surrender value at September 30, 2014 and 2013 relating to these policies was \$1,263,098 and \$1,137,827, respectively. The premium is recorded as life insurance expense and is grouped with employee benefits on the statement of operations.

Note 15 - Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at September 30:

	<u>2014</u>	<u>2013</u>
Construction renovations	\$ 513,555	\$ 509,437
Community Outreach	169,332	108,064
Healthcare IT infrastructure	<u>-</u>	<u>79,823</u>
Total temporarily restricted net assets	<u>\$ 682,887</u>	<u>\$ 697,324</u>

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 16 - Grant and Contract Revenue

Grant and contract revenue consisted of the following for the year ended September 30:

	<u>2014</u>	<u>2013</u>
<u>Federal Awards:</u>		
U.S. Department of Health and Human Services:		
Community Health Centers Program (Section 330)	\$ 2,912,133	\$ 2,852,482
Hi-tech Meaningful Use Grant	698,250	483,062
Early Intervention Services with respect to HIV Disease	356,904	293,223
HRSA Enrollment & Outreach	299,241	-
HIV Education and Prevention	124,004	116,992
Workforce Investment Act Grant	71,868	75,324
Creating Healthier Communities	-	12,500
	<u>4,462,400</u>	<u>3,833,583</u>
<u>Commonwealth of Massachusetts:</u>		
Department of Public Health:		
Women, Infants and Children Program	822,824	768,155
HIV Counseling	181,717	211,603
Emergency Preparedness Grant	5,000	5,000
Boston Public Health Commission:		
Primary Care Services	395,117	410,708
Community Based Prevention	110,580	113,285
Strategic Alliance for Health	3,908	6,754
Office of the Attorney General - Health Disparities	-	42,674
	<u>1,519,146</u>	<u>1,558,179</u>
Other:		
BMC/Support Grant	5,926,620	6,626,620
Partners Healthcare System	1,400,000	1,400,000
Boston HealthNet	330,000	330,000
Health Corp Grant	137,000	154,999
HIV/AIDS Grant	59,836	-
CVS Caremark Grant	18,438	-
	<u>7,871,894</u>	<u>8,511,619</u>
Total grant and contract revenue	<u>\$ 13,853,440</u>	<u>\$ 13,903,381</u>

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 16 - Grant and Contract Revenue - Continued

In fiscal year 2014, the Special Supplemental Food Program for women, infants and children issued \$1,928,593 in vouchers to program participants to be used at local grocery stores. These federal funds are not received directly by the Center.

Note 17 - Other Revenue

Other revenue was comprised of the following for the years ended September 30:

	<u>2014</u>	<u>2013</u>
Quest - Staffing revenue	\$ 1,553,303	\$ 1,478,084
Rental income	484,602	375,422
DSH Settlement	319,982	-
Other miscellaneous	219,949	172,470
Donations	214,451	233,787
Interest Income	213,340	209,109
Quest Courier Contract	184,961	177,838
BMC enrollment support	174,000	174,000
Epic support	155,000	27,800
Residency training income	122,204	99,034
Payer Incentive	93,502	84,378
BMC physician reimbursement	91,956	95,593
Quest - Additional services	73,500	70,800
Partnership for Community Health	40,452	70,177
Medical records	31,946	36,225
Peer Psychosocial Support	24,173	25,319
Harvard Pilgrim Health Care Pay for Performance	6,375	18,842
Project Bread	6,000	4,000
William L Boyan Award	-	50,000
Tufts Risk Settlement	-	46,175
TB Clinic	-	27,000
Coffee shop revenue	-	12,414
Tufts Pay for Performance	-	5,544
	<hr/>	<hr/>
Total other revenue	<u>\$ 4,009,696</u>	<u>\$ 3,494,011</u>

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 18 - Premium Revenue

Premium Revenue was comprised of the following for the years ended September 30:

	<u>2014</u>	<u>2013</u>
SCO Cap Settlement	\$ 2,441,828	\$ 1,614,466
MassHealth PCPR	1,544,062	-
Health Safety Net - PCMH	135,657	244,547
BMCHP Risk Sharing	110,841	149,692
Neighborhood Health Plan - PCMH	72,411	151,341
MassHealth - PCMH	71,169	198,577
BMC Healthnet Plan - PCMH	34,833	74,366
Other - PCMH	17,341	29,133
Blue Cross Blue Shield of MA - PCMH	-	16,717
	<hr/>	<hr/>
Total Health Center Premium Revenue	<u>\$ 4,428,142</u>	<u>\$ 2,478,839</u>

Note 19 - Operating Leases

The Center leases various properties under non-cancelable operating leases expiring at different times through August 31, 2019. During the years ended September 30, 2014 and 2013, the Center incurred rent expense of \$1,215,386 and \$1,205,041, respectively. The following are the minimum future lease payments due at September 30:

Years ending September 30:

2015	\$ 476,543
2016	437,539
2017	284,491
2018	284,491
2019	284,491
	<hr/>
	<u>\$ 1,767,555</u>

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 20 - Functional Expenses

The Center provides health care services to residents of its geographical area. Expenses related to providing these services were as follows for the years ended September 30:

	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>
Health Center services	\$ 60,229,918	53%	\$ 54,372,984	53%
Elder services	29,688,310	26%	26,820,645	26%
General and administrative	24,140,277	20%	21,847,235	21%
Fundraising	137,065	1%	-	-%
	<u>100%</u>		<u>100%</u>	
	<u>\$ 114,195,570</u>		<u>\$ 103,040,864</u>	

Note 21 - Retirement Plan

The Center maintains a qualified defined contribution retirement plan under which all full time and certain part-time employees are eligible to participate at the beginning of the quarter that follows their initial start date. The Center provides a matching contribution of sixty-five cents (\$0.65) for every dollar, up to four percent (4%) of eligible employees' salary, as outlined in the plan document. Contributions made by the Center to the plan for the years ended September 30, 2014 and 2013 were \$1,056,462 and \$867,612, respectively.

The Center entered into individual post retirement benefit agreements with certain officers of the Center in 2011. The agreements stipulate that upon retirement, the Center will provide a post retirement life insurance benefit, funded by an existing policy (Note 4) owned by the Center. The agreements stipulate that the Center will maintain the life insurance policies until the Center's cash surrender value lapses. An estimate has been accrued to record the net present value of the estimated annual cost of insurance, with certain key assumptions, such as estimated retirement dates, discount rates, accretion of cash surrender value of the Center's life insurance policies and life expectancy. The accrual at September 30, 2014 and 2013 was \$280,000 and is reported as a long-term liability entitled post retirement benefit obligations on the consolidated balance sheet.

Additionally, the Center entered into individual post retirement health benefit agreements with certain retired employees. The accrual at September 30, 2014 was \$462,706 and was also reported as a long-term liability entitled post retirement obligation on the consolidated balance sheet.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 22 - Medical Malpractice Insurance

The Center is insured for professional liability coverage through the Federal Bureau of Primary Health Care in accordance with the Public Health Service Act. This coverage is provided to the Center through its Section 330 Community Health Center Grant administered by the Health Resources Services Administration of the Department of Health and Human Services. The coverage afforded the Center is comparable to an occurrence-based policy without a monetary cap. The coverage is applicable to the Center, its officers, board members, employees, contracted physicians and other licensed or certified health care practitioners.

Note 23 - Commitments and Contingencies

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretations, as well as regulatory actions unknown or unasserted at this time.

Claims and legal actions are brought against the Center during the normal course of business. Management has taken the necessary steps to mitigate potential losses by obtaining insurance coverage and engaging legal counsel. In the opinion of management, no claims or legal actions have been asserted against the Center which, individually or in the aggregate, will be in excess of its insurance coverage.

Note 24 - Related Party Transactions

The Center is affiliated with Boston Medical Center (“BMC”) as a licensed, hospital-based community health center. Thus, the Center is reimbursed as an outpatient department of BMC for Medicare, Medicaid and HSN. The Center’s Medicare and Health Safety Net reimbursement is paid through BMC. As of September 30, 2014 and 2013, BMC owed the Center \$4,459 and \$120,108, respectively, which was included in other accounts receivable on the balance sheet.

The Center contracts with BMC for provider services in the Center’s Obstetrics and Gynecology (“Ob/Gyn”) department and its Family Medicine department. For the years ended September 30, 2014 and 2013, the Center paid BMC \$364,218 and \$438,991, respectively, for OB/GYN services rendered, and owed BMC \$21,294 and \$33,449 as of September 30, 2014 and 2013, respectively, which was included in accounts payable and accrued expenses on the balance sheet.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 24 - Related Party Transactions - Continued

For the years ended September 30, 2014 and 2013, the Center paid Boston University Family Medicine (an affiliate of BMC) \$1,367,691 and \$1,143,661, respectively, for family medicine provider services. At September 30, 2014 and 2013, the Center owed BMC \$114,785 and \$85,030, respectively, which was included in accounts payable and accrued expenses on the balance sheet. The Center bills and collects directly for outpatient services performed by BMC contracted providers.

The Center has had a long-standing joint hire program with BMC in which selected adult medicine physicians at the Center work at BMC for a specified percentage of time to see patients and provide training to residents. BMC reimburses the Center for the time spent by these physicians. For the years ended September 30, 2014 and 2013, the Center received \$91,956 and \$95,593, respectively, from BMC for this program.

The Center's Elder Service Plan also contracts with BMC for inpatient and outpatient medical services for its participants. For the years ended September 30, 2014 and 2013, the Center incurred expenses from BMC in the amount of \$1,903,610 and \$1,680,563, respectively. At September 30, 2014 and 2013, the Center owed BMC \$220,046 and \$216,959, respectively, which was included in accounts payable and accrued expenses on the balance sheet.

The Center contracts with Evans Medical Foundation ("Evans"), an affiliate of BMC, which provides cardiology services for the Center. For the years ended September 30, 2014 and 2013, the Center paid Evans \$296,607 and \$258,383, respectively, for services rendered. At September 30, 2014 and 2013, the Center owed Evans \$27,378 and \$21,074, respectively, which was included in accounts payable and accrued expenses on the balance sheet.

The Center contracts with Child Health Foundation of Boston, Inc. ("Child Health"), an affiliate of BMC, which provides pediatric services for the Center. For the years ended September 30, 2014 and 2013, the Center paid Child Health \$70,351 and \$59,363, respectively, for services rendered. At September 30, 2014 and 2013, the Center owed Child Health \$5,124 and \$5,694, respectively, which was included in accounts payable and accrued expenses on the balance sheet.

The Center has contracts with various Boston University Medical School (an affiliate of BMC) physicians for specialty services to be performed at the Center. For the years ended September 30, 2014 and 2013, the Center paid \$524,756 and \$439,487, respectively, for services rendered. At September 30, 2014 and 2013, the Center owed \$28,006 and \$50,912, respectively, which was included in accounts payable and accrued expenses on the balance sheet.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 24 - Related Party Transactions - Continued

The Center and East Boston Community Development Corporation (“EBCDC”) are members of Sturgis Street. The Center owns fifty percent (50%) of Sturgis Street. Sturgis Street provides housing for ESP patients of the Center. The Center’s interest (membership) in Sturgis Street is accounted for under the equity method. The Center has entered into a rental agreement to occupy the land and entire building located at 26 Sturgis Street, Winthrop, Massachusetts, at an annual rent of \$399,000. Additionally, the Center shares equally with EBCDC any net income/loss generated by Sturgis Street. This income/(loss) is included in investment income on the statement of operations. A summary of Sturgis Street’s assets, liabilities, net assets and results of operations is as follows as of and for the year ended September 30:

	<u>2013</u>
Total assets	\$ 2,657,210
Less liabilities	<u>2,153,198</u>
Net assets	<u>\$ 504,012</u>
Revenue	<u>\$ 399,000</u>
Net income	<u>\$ 78,786</u>
Center’s interest:	
Share of net income	\$ 39,393
Equity at beginning of year	<u>212,613</u>
Equity at end of year	<u>\$ 252,006</u>

On September 3, 2014, the Center acquired the remaining fifty percent (50%) interest of Sturgis Street. Through September 3, 2014, the Center’s share of net income was \$45,157. See Note 25 for further explanation of the Sturgis Street acquisition.

In addition, the Center provided a twenty (20)-year term loan to Sturgis Street in the amount of \$1,351,084, with interest at six percent (6%), that was due on January 2022. During 2014 and 2013, the Center earned \$7,940 and \$9,417 of interest income, respectively. At September 3, 2014 and September 30, 2013, Sturgis Street owed the Center \$138,511 and \$148,681, respectively, for the outstanding loan receivable. This amount was eliminated as part of the acquisition. Refer to Note 25 for further detail.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

September 30, 2014 and 2013

Note 25 - Sturgis Street Acquisition

On September 3, 2014, the Center acquired the remaining fifty percent (50%) interest of Sturgis Street. The following table summarizes the consideration paid for Sturgis Street and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

Consideration	\$ 2,432,253
Recognized amounts of identifiable assets acquired and liabilities assumed	<u>1,931,318</u>
Loss on Acquisition	<u>\$ 500,935</u>

On the statement of operations, the inherent loss on acquisition is comprised of the deficit of the fair value of net assets acquired compared to the consideration paid in acquisition of Sturgis Street and decreases unrestricted assets.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATE

Schedule of Expenditures of Federal Awards

For the year ended September 30, 2014

Federal Grantor	Federal CFDA #	Federal Pass Through Number	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>			
Health Resources Services Administration,			
Bureau of Primary Health Care:			
Community Health Centers Program	93.224	N/A	\$ 2,912,133
Early Intervention Services with respect to HIV	93.918	N/A	356,904
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	N/A	299,241
Passed Through the Boston Public Health Commission - HIV Emergency Relief Projects	93.914	N/A	124,004
Passed Through the Commonwealth of Massachusetts - HIV Care Formula Grants	93.917	45139037	38,533
			3,730,815
<u>Corporation for National and Community Service</u>			
Passed Through the National Association of Community Health Centers, Inc. - AmeriCorps - Community Health Corps	94.006	N/A	137,000
<u>U.S. Department of Labor</u>			
Passed Through the City of Boston - WIA Youth Activities	17.259	N/A	71,868
<u>U.S. Department of Agriculture</u>			
Passed Through the Commonwealth of Massachusetts - Department of Public Health - Special Supplemental Food Program	10.557	45139007	2,498,430
Total Expenditures of Federal Awards			\$ 6,438,113

See accompanying notes to the schedule of expenditures of federal awards.

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Notes to the Schedule of Expenditures of Federal Awards

For the year ended September 30, 2014

Note 1 - Basis of Presentation

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

Note 2 - Special Supplemental Food Program

In fiscal year 2014, the Special Supplemental Food Program for women, infants and children issued \$1,928,593 in vouchers to program participants to be used at local grocery stores. These federal funds, which are not received directly by the Center, are included on the schedule of expenditures of federal awards.



Feeley & Driscoll, P.C.

Certified Public Accountants / Business Consultants

To the Board of Directors
East Boston Neighborhood Health Center Corporation and Affiliates
East Boston, Massachusetts

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*

We have audited, in accordance with the 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 financial statements of East Boston Neighborhood Health Center Corporation and Affiliates (a nonprofit organization), which comprise the consolidated balance sheet as of September 30, 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered East Boston Neighborhood Health Center Corporation and Affiliates' 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of East Boston Neighborhood Health Center Corporation and Affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of East Boston Neighborhood Health Center Corporation and Affiliates' 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether East Boston Neighborhood Health Center Corporation and Affiliates' consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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.

Boston, Massachusetts
December 19, 2014

Feeley & Driscoll, P.C.



Feeley & Driscoll, P.C.

Certified Public Accountants / Business Consultants

To the Board of Directors
East Boston Neighborhood Health Center Corporation and Affiliates
East Boston, Massachusetts

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Report on Compliance for Each Major Federal Program

We have audited East Boston Neighborhood Health Center Corporation and Affiliates' compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of East Boston Neighborhood Health Center Corporation and Affiliates' major federal programs for the year ended September 30, 2014. East Boston Neighborhood Health Center Corporation and Affiliates' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of East Boston Neighborhood Health Center Corporation and Affiliates' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about East Boston Neighborhood Health Center Corporation and Affiliates' 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 East Boston Neighborhood Health Center Corporation and Affiliates' compliance.

Opinion on Each Major Federal Program

In our opinion, East Boston Neighborhood Health Center Corporation and Affiliates 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 September 30, 2014.

Report on Internal Control over Compliance

Management of East Boston Neighborhood Health Center Corporation and Affiliates 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 East Boston Neighborhood Health Center Corporation and Affiliates' 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 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 East Boston Neighborhood Health Center Corporation and Affiliates' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Boston, Massachusetts
December 19, 2014

Feeley & Driscoll, P.C.



EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Schedule of Findings and Questioned Costs

For the year ended September 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of independent auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? No

Non-compliance material to financial statements noted? No

Federal Awards

Internal Control over major programs:

- Material weaknesses identified? No
- Significant deficiencies identified that are not considered to be material weaknesses? No

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

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

Identification of major programs:

<u>CFDA #</u>	<u>Name of Program</u>
10.557	Special Supplemental Nutrition Program for Women, Infant and Children
93.527	Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes

East Boston Neighborhood Health Center Corporation AND AFFILIATES

Schedule of Findings and Questioned Costs - Continued

For the year ended September 30, 2014

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

Section IV - Follow Up of Prior Year Findings

None.

SUPPLEMENTARY INFORMATION

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Consolidating Balance Sheet

September 30, 2014

<u>Assets:</u>	<u>East Boston Neighborhood Health Center</u>	<u>Twenty Maverick Square</u>	<u>Twenty-Six Sturgis Street</u>	<u>Eliminations</u>	<u>Consolidated Totals</u>
Current assets:					
Cash and cash equivalents	\$ 20,184,947	\$ -	\$ 78,834	\$ -	\$ 20,263,781
Patient accounts receivable, net	4,676,814	-	-	-	4,676,814
Grants and contracts receivable	348,469	-	-	-	348,469
Other accounts receivable	646,236	-	-	-	646,236
Prepaid expenses and other current assets	2,104,874	-	-	-	2,104,874
Inventory	873,248	-	-	-	873,248
Due from related party	79,435	268,566	-	(348,001)	-
Current portion of assets whose use is limited or restricted	-	-	-	-	-
Total current assets	<u>28,914,023</u>	<u>268,566</u>	<u>78,834</u>	<u>(348,001)</u>	<u>28,913,422</u>
Assets whose use is limited or restricted:					
Program deposits	110,722	-	-	-	110,722
Donor restricted funds	682,887	-	-	-	682,887
Trustee held funds	-	610,400	-	-	610,400
Total assets whose use is limited or restricted	<u>793,609</u>	<u>610,400</u>	<u>-</u>	<u>-</u>	<u>1,404,009</u>
Property and equipment, net	<u>35,301,854</u>	<u>-</u>	<u>1,993,831</u>	<u>-</u>	<u>37,295,685</u>
Other assets:					
Deferred financing costs, net of accumulated amortization of \$178,550	802,073	557,263	-	-	1,359,336
Cash surrender value	1,263,098	-	-	-	1,263,098
Note receivable, related party	137,290	-	-	(137,290)	-
Prepaid capitalized rent	-	22,389,635	-	(22,389,635)	-
Note receivable, investment fund	15,990,392	-	-	-	15,990,392
Investment in Twenty Maverick Square Corporation	1,243,886	-	-	(1,243,886)	-
Investment in Sturgis Street	1,922,131	-	-	(1,922,131)	-
Total other assets	<u>21,358,870</u>	<u>22,946,898</u>	<u>-</u>	<u>(25,692,942)</u>	<u>18,612,826</u>
Total assets	<u>\$ 86,368,356</u>	<u>\$ 23,825,864</u>	<u>\$ 2,072,665</u>	<u>\$ (26,040,943)</u>	<u>\$ 86,225,942</u>

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Consolidating Balance Sheet - Continued

September 30, 2014

<u>Liabilities and Net Assets:</u>	<u>East Boston Neighborhood Health Center</u>	<u>Twenty Maverick Square</u>	<u>Twenty-Six Sturgis Street</u>	<u>Eliminations</u>	<u>Consolidated Totals</u>
Current liabilities:					
Current portion of long-term debt	\$ 745,921	\$ -	\$ -	\$ -	\$ 745,921
Accounts payable and accrued expenses	8,160,087	126,543	13,244	-	8,299,874
Accrued salaries and wages	8,064,142	-	-	-	8,064,142
Deferred revenue	89,449	-	-	-	89,449
Due to third parties	6,148,433	-	-	-	6,148,433
Other current liabilities	154,466	-	-	-	154,466
Total current liabilities	<u>23,362,498</u>	<u>126,543</u>	<u>13,244</u>	<u>-</u>	<u>23,502,285</u>
Long-term liabilities:					
Long-term debt, net of current portion	15,089,939	22,376,000	-	-	37,465,939
Due to third parties, net of current portion	469,942	-	-	-	469,942
Interest rate swap	561,306	-	-	-	561,306
Post retirement benefit obligations	742,706	-	-	-	742,706
Due to related party	268,566	79,435	137,290	(485,291)	-
Deferred revenue	22,389,635	-	-	(22,389,635)	-
Total long-term liabilities	<u>39,522,094</u>	<u>22,455,435</u>	<u>137,290</u>	<u>(22,874,926)</u>	<u>39,239,893</u>
Total liabilities	<u>62,884,592</u>	<u>22,581,978</u>	<u>150,534</u>	<u>(22,874,926)</u>	<u>62,742,178</u>
Commitments and contingencies					
Net assets:					
Unrestricted net assets	22,800,877	1,243,886	1,922,131	(3,166,017)	22,800,877
Temporarily restricted net assets	682,887	-	-	-	682,887
Total net assets	<u>23,483,764</u>	<u>1,243,886</u>	<u>1,922,131</u>	<u>(3,166,017)</u>	<u>23,483,764</u>
Total liabilities and net assets	<u>\$ 86,368,356</u>	<u>\$ 23,825,864</u>	<u>\$ 2,072,665</u>	<u>\$ (26,040,943)</u>	<u>\$ 86,225,942</u>

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Consolidating Balance Sheet

September 30, 2013

<u>Assets:</u>	<u>East Boston Neighborhood Health Center</u>	<u>Twenty Maverick Square</u>	<u>Eliminations</u>	<u>Consolidated Totals</u>
Current assets:				
Cash and cash equivalents	\$ 11,865,416	\$ -	\$ -	\$ 11,865,416
Patient accounts receivable, net	4,265,837	-	-	4,265,837
Grants and contracts receivable	311,441	-	-	311,441
Other accounts receivable	1,163,068	-	-	1,163,068
Prepaid expenses and other current assets	1,594,380	-	-	1,594,380
Inventory	956,866	-	-	956,866
Due from related party	318,130	433,333	(751,463)	-
Current portion of assets whose use is limited or restricted	79,823	-	-	79,823
Total current assets	<u>20,554,961</u>	<u>433,333</u>	<u>(751,463)</u>	<u>20,236,831</u>
Assets whose use is limited or restricted:				
Program deposits	110,333	-	-	110,333
Donor restricted funds	617,501	-	-	617,501
Trustee held funds	-	602,067	-	602,067
Total assets whose use is limited or restricted	<u>727,834</u>	<u>602,067</u>	<u>-</u>	<u>1,329,901</u>
Property and equipment, net	<u>35,119,712</u>	<u>-</u>	<u>-</u>	<u>35,119,712</u>
Other assets:				
Deferred financing costs, net of accumulated amortization of \$287,353	872,766	665,119	-	1,537,885
Cash surrender value	1,137,827	-	-	1,137,827
Note receivable, related party	148,681	-	-	148,681
Prepaid capitalized rent	-	23,184,533	(23,184,533)	-
Note receivable, investment fund	15,990,392	-	-	15,990,392
Investment in Twenty Maverick Square Corporation	2,126,585	-	(2,126,585)	-
Investment in Twenty-Six Sturgis Street	252,006	-	-	252,006
Total other assets	<u>20,528,257</u>	<u>23,849,652</u>	<u>(25,311,118)</u>	<u>19,066,791</u>
Total assets	<u>\$ 76,930,764</u>	<u>\$ 24,885,052</u>	<u>\$ (26,062,581)</u>	<u>\$ 75,753,235</u>

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Consolidating Balance Sheet - Continued

September 30, 2013

<u>Liabilities and Net Assets:</u>	East Boston Neighborhood Health Center	Twenty Maverick Square	Eliminations	Consolidated Totals
Current liabilities:				
Current portion of long-term debt	\$ 717,819	\$ -	\$ -	\$ 717,819
Accounts payable and accrued expenses	4,664,064	64,337	-	4,728,401
Accrued salaries and wages	6,385,255	-	-	6,385,255
Deferred revenue	81,845	-	-	81,845
Due to third parties	3,895,816	-	-	3,895,816
Other current liabilities	157,473	-	-	157,473
Total current liabilities	<u>15,902,272</u>	<u>64,337</u>	<u>-</u>	<u>15,966,609</u>
Long-term liabilities:				
Long-term debt, net of current portion	15,850,862	22,376,000	-	38,226,862
Due to third parties, net of current portion	319,942	-	-	319,942
Interest rate swap	684,958	-	-	684,958
Post retirement benefit obligations	280,000	-	-	280,000
Due to related party	433,333	318,130	(751,463)	-
Deferred revenue	23,184,533	-	(23,184,533)	-
Total long-term liabilities	<u>40,753,628</u>	<u>22,694,130</u>	<u>(23,935,996)</u>	<u>39,511,762</u>
Total liabilities	<u>56,655,900</u>	<u>22,758,467</u>	<u>(23,935,996)</u>	<u>55,478,371</u>
Commitments and contingencies				
Net assets:				
Unrestricted net assets	19,577,540	2,126,585	(2,126,585)	19,577,540
Temporarily restricted net assets	697,324	-	-	697,324
Total net assets	<u>20,274,864</u>	<u>2,126,585</u>	<u>(2,126,585)</u>	<u>20,274,864</u>
Total liabilities and net assets	<u>\$ 76,930,764</u>	<u>\$ 24,885,052</u>	<u>\$ (26,062,581)</u>	<u>\$ 75,753,235</u>

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Consolidating Statement of Operations

For the year ended September 30, 2014

	East Boston Neighborhood Health Center	Twenty Maverick Square	Twenty-Six Sturgis Street	Eliminations	Consolidated Totals
Revenue and other support:					
Patient service revenue, net of contractals	\$ 65,730,490	\$ -	\$ -	\$ -	\$ 65,730,490
Provision for bad debts	(3,992,816)	-	-	-	(3,992,816)
Net patient service revenue	61,737,674	-	-	-	61,737,674
Premium revenue	4,428,142	-	-	-	4,428,142
ESP premium revenue	33,298,047	-	-	-	33,298,047
Grant and contract revenue	13,853,440	-	-	-	13,853,440
Other revenue	4,672,111	425,000	-	(1,087,415)	4,009,696
Net assets released from restrictions used in operations	170,243	-	-	-	170,243
Total revenue and other support	118,159,657	425,000	-	(1,087,415)	117,497,242
Expenses:					
Salaries and wages	55,147,919	-	-	-	55,147,919
Employee benefits	14,369,186	-	-	-	14,369,186
Purchased services	6,844,839	-	-	-	6,844,839
Medical expenses	9,405,021	-	-	-	9,405,021
Occupancy, repairs and maintenance	6,771,303	794,898	-	(1,087,415)	6,478,786
Institutional	8,070,086	-	-	-	8,070,086
Administrative and general supplies and expense	7,802,127	87,204	1,025	-	7,890,356
Depreciation and amortization	3,437,806	107,857	6,169	-	3,551,832
Transportation	1,068,306	-	-	-	1,068,306
Insurance	541,978	-	417	-	542,395
Interest expense	507,523	317,740	1,581	-	826,844
Total expenses	113,966,094	1,307,699	9,192	(1,087,415)	114,195,570
Income (loss) from operations	4,193,563	(882,699)	(9,192)	-	3,301,672
Non-operating gains (losses):					
Interest	7,480	-	5	-	7,485
Loss on sale of property and equipment	(50,525)	-	-	-	(50,525)
Loss on acquisition	(500,935)	-	-	-	(500,935)
Investment income	241,988	-	-	-	241,988
Loss on equity investment in subsidiaries	(891,886)	-	-	891,886	-
Total non-operating gains (losses)	(1,193,878)	-	5	891,886	(301,987)
Excess (deficit) of revenue, other support and gains over expenses and losses	2,999,685	(882,699)	(9,187)	891,886	2,999,685
Acquisition of Twenty-Six Sturgis Street	-	-	1,931,318	(1,931,318)	-
Gain on interest rate swap	123,652	-	-	-	123,652
Forgiveness of note payable for capital expenditures	100,000	-	-	-	100,000
Change in unrestricted net assets	\$ 3,223,337	\$ (882,699)	\$ 1,922,131	\$ (1,039,432)	\$ 3,223,337

EAST BOSTON NEIGHBORHOOD HEALTH CENTER CORPORATION AND AFFILIATES

Consolidating Statement of Operations

For the year ended September 30, 2013

	East Boston Neighborhood Health Center	Twenty Maverick Square	Eliminations	Consolidated Totals
Revenue and other support:				
Patient service revenue, net of contractals	\$ 57,530,634	\$ -	\$ -	\$ 57,530,634
Provision for bad debts	(3,902,177)	-	-	(3,902,177)
Net patient service revenue	<u>53,628,457</u>	-	-	<u>53,628,457</u>
Premium revenue	2,478,839	-	-	2,478,839
ESP premium revenue	29,989,739	-	-	29,989,739
Grant and contract revenue	13,903,381	-	-	13,903,381
Other revenue	4,156,426	425,000	(1,087,415)	3,494,011
Net assets released from restrictions used in operations	105,123	-	-	105,123
Total revenue and other support	<u>104,261,965</u>	<u>425,000</u>	<u>(1,087,415)</u>	<u>103,599,550</u>
Expenses:				
Salaries and wages	50,635,187	-	-	50,635,187
Employee benefits	12,738,374	-	-	12,738,374
Purchased services	5,683,007	-	-	5,683,007
Medical expenses	7,789,604	-	-	7,789,604
Occupancy, repairs and maintenance	6,481,814	662,415	(1,087,415)	6,056,814
Institutional	7,232,972	-	-	7,232,972
Administrative and general supplies and expense	7,070,613	72,670	-	7,143,283
Depreciation and amortization	3,294,512	89,881	-	3,384,393
Transportation	987,865	-	-	987,865
Insurance	548,084	-	-	548,084
Interest expense	531,484	309,797	-	841,281
Total expenses	<u>102,993,516</u>	<u>1,134,763</u>	<u>(1,087,415)</u>	<u>103,040,864</u>
Income (loss) from operations	<u>1,268,449</u>	<u>(709,763)</u>	<u>-</u>	<u>558,686</u>
Non-operating gains (losses):				
Interest	8,104	-	-	8,104
Loss on sale of property and equipment	(631,498)	-	-	(631,498)
Loss on acquisition	-	-	-	-
Investment income	245,591	-	-	245,591
Loss on equity investment in subsidiaries	(709,763)	-	709,763	-
Total non-operating gains (losses)	<u>(1,087,566)</u>	<u>-</u>	<u>709,763</u>	<u>(377,803)</u>
Excess (deficit) of revenue, other support and gains over expenses and losses	<u>180,883</u>	<u>(709,763)</u>	<u>709,763</u>	<u>180,883</u>
Acquisition of Twenty-Six Sturgis Street	-	-	-	-
Gain on interest rate swap	314,358	-	-	314,358
Forgiveness of note payable for capital expenditures	100,000	-	-	100,000
Change in unrestricted net assets	<u>\$ 595,241</u>	<u>\$ (709,763)</u>	<u>\$ 709,763</u>	<u>\$ 595,241</u>