

**FENWAY COMMUNITY HEALTH CENTER, INC.
AND AFFILIATE**

**COMBINED FINANCIAL STATEMENTS IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133
JUNE 30, 2012
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

FENWAY COMMUNITY HEALTH CENTER, INC. AND AFFILIATE

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JUNE 30, 2012

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Where Every Client Is A Valued Client

**UNQUALIFIED OPINION ON COMBINED FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS -
NOT-FOR-PROFIT ORGANIZATION**

Independent Auditor's Report

To the Board of Directors of
Fenway Community Health Center, Inc. and Affiliate:

We have audited the accompanying combined statement of financial position of Fenway Community Health Center, Inc. and Affiliate (Massachusetts corporations, not for profit) (collectively, the Center) as of June 30, 2012, and the related combined statements of activities, cash flows, and functional expenses for the year then ended. These combined financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. The prior year summarized comparative information has been derived from the Center's 2011 combined financial statements and, in our report dated November 1, 2011, we expressed an unqualified opinion on those combined financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Fenway Community Health Center, Inc. and Affiliate as of June 30, 2012, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2012, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors of
Fenway Community Health Center, Inc and Affiliate
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Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary schedule of expenditures of federal awards – not-for-profit organization is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of expenditures of federal awards – not-for-profit organization is fairly stated in all material respects in relation to the combined financial statements as a whole.

Alexander, Aronson, Jennings & Co., P.C.
Wellesley, Massachusetts
November 6, 2012

ORGANIZATION : Fenway Community Health Center, Inc. and Affiliate

FEIN: 042510564

STATEMENT OF FINANCIAL POSITION AS OF
(BALANCE SHEET)

06/30/2012

WITH COMPARATIVE TOTALS AS OF

6/30/2011

	CURRENT OPERATIONS	PLANT	ENDOWMENT	CUSTODIAN	TOTAL THIS YEAR	TOTAL LAST YEAR
ASSETS						
1	Cash and Cash Equivalents	11,407,699			11,407,699	6,938,358
2	Accounts Receivable, Program Services	9,019,623			9,019,623	6,353,821
3	Allowance for Doubtful Accounts	(3,144,282)			(3,144,282)	(1,445,000)
4	Net Accounts Receivable, Program Services	5,875,341			5,875,341	4,908,821
5	Contributions Receivable					574,964
6	Notes Receivable					
7	Prepaid Expenses	303,918			303,918	343,718
8	Other Accounts Receivable					
9	Other Current Assets	1,037,149			1,037,149	632,112
10	Short-Term Investments	61,337			61,337	2,010,403
11	TOTAL CURRENT ASSETS	18,685,444			18,685,444	15,408,376
12	Land, Buildings, and Equipment		57,852,161		58,194,630	57,032,488
13	Accumulated Depreciation		(6,622,929)		(6,965,398)	(4,991,693)
14	Net Land, Buildings and Equipment		51,229,232		51,229,232	52,040,795
15	Long-Term Investments	1,558,100		302,385	1,860,485	4,026,626
16	Other Assets	199,748	2,282,861		2,482,609	838,092
17	Due From Other Funds					
18	TOTAL ASSETS	20,443,292	53,512,093	302,385	74,257,770	72,313,889
LIABILITIES AND NET ASSETS						
19	Accounts Payable	540,884			540,884	519,690
20	Subcontract Payable					
21	Accrued Expenses	3,805,937			3,805,937	3,133,837
22	Current Notes Payable					
23	Current Portion Long-Term Debt		525,000		525,000	495,000
24	Deferred Revenue	202,876			202,876	707,854
25	Other Current Liabilities		177,927		177,927	165,152
26	TOTAL CURRENT LIABILITIES	4,549,697	702,927		5,252,624	5,021,533
27	Long-Term Notes & Mortgage Payable		30,200,000		30,200,000	30,730,000
28	Other Liabilities		593,517		593,517	791,305
29	Due to Other Funds					
30	TOTAL LIABILITIES	4,549,697	31,496,444		36,046,141	36,542,838
NET ASSETS						
31	Unrestricted	14,845,036	22,015,649		36,860,685	33,748,254
32	Temporarily Restricted	1,048,559			1,048,559	1,720,412
33	Permanently Restricted			302,385	302,385	302,385
34	TOTAL NET ASSETS	15,893,595	22,015,649	302,385	38,211,629	35,771,051
35	TOTAL LIABILITIES AND NET ASSETS	20,443,292	53,512,093	302,385	74,257,770	72,313,889

See Accompanying Notes to the Financial Statements

ORGANIZATION : Fenway Community Health Center, Inc.

FEIN: 042510564

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED 06/30/2012 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED

06/30/2011

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL THIS YEAR	TOTAL LAST YEAR
REVENUES, GAINS, AND OTHER SUPPORT					
1 Contributions, Gifts, Legacies, Bequests & Special Events	1,811,287			1,811,287	1,774,994
2 In-Kind Contributions					
3 Grants	6,581,728	201,500		6,783,228	4,275,642
4 Program Service Fees	42,366,575			42,366,575	37,017,062
5 Federated Fundraising Organization Allocation					
6 Investment Revenue	(517,101)	(11,421)		(528,522)	386,946
7 Revenue from Commercial Products & Services					
8 Other	1,176,242			1,176,242	269,278
9 Net Assets Released From Restrictions:					
10 Satisfaction of Program Restrictions	479,244	(479,244)			
11 Satisfaction of Equipment Acquisition Restrictions	382,688	(382,688)			
12 Expiration of Time Restrictions					
13 TOTAL REVENUE, GAINS, AND OTHER SUPPORT	52,280,663	(671,853)		51,608,810	43,723,922
EXPENSES AND LOSSES					
14 Administration (Management & General)	5,824,057			5,824,057	5,027,091
15 Fundraising	1,138,770			1,138,770	932,358
16 Total Program Services	42,205,405			42,205,405	35,821,217
17 TOTAL EXPENSES	49,168,232			49,168,232	41,780,666
18 Losses					
19 TOTAL EXPENSES AND LOSSES	49,168,232			49,168,232	41,780,666
CHANGES IN NET ASSETS:					
20 Property & Equipment Acquisitions from Unrestricted Funds					
21 Transfer of Realized Endowment Fund Appreciation					
22 Return to Donor					
23 Other Increases (Decreases)					
24 TOTAL CHANGES IN NET ASSETS	3,112,431	(671,853)		2,440,578	1,943,256
25 NET ASSETS AT BEGINNING OF YEAR	33,748,254	1,720,412	302,385	35,771,051	33,827,795
26 NET ASSETS AT END OF YEAR	36,860,685	1,048,559	302,385	38,211,629	35,771,051

See Accompanying Notes to Financial Statements

ORGANIZATION : Fenway Community Health Center, IncFEIN: 042510564

STATEMENT OF CASH FLOWS for the YEAR ENDED

06/30/2012

INDIRECT METHOD

	TOTAL
Cash Flows from Operating Activities:	
1 Changes in Net Assets	<u>2,440,578</u>
Adjustments to Reconcile Change In Net Assets to Net	
Cash provided by/(used in) Operating Activities:	
2 Depreciation	<u>1,987,070</u>
3 Losses	
4 Increase/Decrease in Net Accounts Receivable	<u>(966,520)</u>
5 Increase/Decrease in Prepaid Expenses	<u>39,800</u>
6 Increase/Decrease in Contributions Receivable	
7 Increase/Decrease in Accounts Payable	<u>21,194</u>
8 Increase/Decrease in Accrued Expenses	<u>672,100</u>
9 Increase/Decrease in Deferred Revenue	<u>(504,978)</u>
10 Increase/Decrease in Subcontract Payable	
11 Contributions Restricted for Long-Term Investment	
12 Net Unrealized and Realized Gains on Long-Term Investments	
13 Other Cash Used in/Provided by Operating Activities	<u>1,076,772</u>
14 Net Cash Provided by/(used in) Operating Activities	<u>4,766,016</u>
Cash Flows from Investing Activities:	
15 Insurance Proceeds	
16 Purchase(s) of Capital Assets (Land, Bldgs. & Equip.)	<u>(1,162,142)</u>
17 Proceeds from Sale(s) of Investments	<u>3,072,966</u>
18 Purchase(s) of Investments	<u>(1,159,889)</u>
19 Purchase(s) of Assets Restricted To Long-Term Investment	
20 Other Investing Activities	<u>43,409</u>
21 Net Cash Provided by/(used in) Investing Activities	<u>794,344</u>
Cash from Financing Activities:	
Proceeds from Contributions Restricted For:	
22 Investment in Endowment	
23 Investment in Term Endowment	
24 Investment in Plant (Land Bldgs. & Equip.)	
Other Financing Activities:	
25 Contributions Restricted for Long-Term Investment	
26 Interest and Dividends Restricted for Reinvestment	
27 Payments on Notes Payable	
28 Payments on Long-Term Debt	<u>(500,000)</u>
29 Other Finance Payments/Receipts	<u>(591,019)</u>
30 Net Cash Provided by/(used in) Financing Activities	<u>(1,091,019)</u>

See Accompanying Notes to the Financial Statements

ORGANIZATION : Fenway Community Health Center, IncFEIN: 042510564

STATEMENT OF CASH FLOWS for the YEAR ENDED

06/30/2012

INDIRECT METHOD

31	Net Increase/(Decrease) in Cash and Cash Equivalents	<u>4,469,341</u>
32	Cash and Cash Equivalents at Beginning of Year	<u>6,938,358</u>
33	Cash and Cash Equivalents at End of Year	<u><u>11,407,699</u></u>

Supplemental Disclosure of Cash Flow Information:

34	Cash Paid During the Year for Interest	<u>1,223,457</u>
35	Cash Paid During the Year for Taxes/Other	<u> </u>

Supplemental Data for Noncash Investing and Financing Activities:

36	Gifts of Equipment	<u> </u>
37	Other Noncash Investing and Financing Activities	<u> </u>
38	Unrealized loss on investments	<u>(120,261)</u>
39	Unrealized gain on carrying value of interest rate swap contract	<u>(16,684)</u>
40		<u> </u>

See Accompanying Notes to the Financial Statements

ORGANIZATION : Fenway Community Health Center, Inc. and Affiliate FEIN: 042510564

Statement of Functional Expenses for the Year Ended: 06/30/2012

	TOTALS	SUPPORTING SERVICES		PROGRAM SERVICES
		ADMINISTRATION (MNGT. & GEN.)	FUND RAISING	TOTAL ALL PROGRAMS
1. Employee Compensation & Related Expenses	25,100,349	3,809,846	822,729	20,467,774
2. Occupancy	3,435,535	276,551	45,802	3,113,182
3. Other Program / Operating Expense	15,749,156	325,323	28,823	15,395,010
4. Subcontract Expense				
5. Direct Administrative Expense	2,740,801	1,088,103	201,497	1,451,201
6. Other Expenses	168,686	106,341		62,345
7. Depreciation of Buildings and Equipment	1,973,705	217,893	39,919	1,715,893
8. TOTAL EXPENSES	49,168,232	5,824,057	1,138,770	42,205,405

See Accompanying Notes to Financial Statements

*

ORGANIZATION : Fenway Community Health Center, Inc. and Affiliate FEIN: 042510564

Statement of Functional Expenses for the Year Ended: 06/30/12

	PROGRAM #	PROGRAM #	PROGRAM #	PROGRAM #	PROGRAM #
	<u>15</u>	<u>17</u>	<u>08</u>	<u>27</u>	
1. Employee Compensation & Related Expenses	<u>19,860,710</u>	<u>75,762</u>	<u>137,839</u>	<u>393,463</u>	
2. Occupancy	<u>3,113,182</u>				
3. Other Program / Operating Expense	<u>15,332,072</u>	<u>617</u>	<u>3,314</u>	<u>59,007</u>	
4. Subcontract Expense					
5. Direct Administrative Expense	<u>1,371,938</u>	<u>5,409</u>	<u>1,158</u>	<u>72,696</u>	
6. Other Expenses	<u>62,345</u>				
7. Depreciation of Buildings and Equipment	<u>1,715,893</u>				
8. TOTAL EXPENSES	<u>41,456,140</u>	<u>81,788</u>	<u>142,311</u>	<u>525,166</u>	

See Accompanying Notes to Financial Statements

**FENWAY COMMUNITY HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012**

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS

Fenway Community Health Center, Inc. (FCHC) is a nonprofit organization that provides quality affordable health care services to greater Boston's lesbian, gay, bi-sexual, and transgender community and to residents of Greater Boston, including the Fenway neighborhood. FCHC is the Commonwealth of Massachusetts' largest community-based provider of medical and mental health services to people living with AIDS. Additionally, FCHC is a leader in community based research.

Fenway Community Realty Corporation (the Realty) is a nonprofit organization that was formed to acquire real estate that is leased to FCHC. The Board of the Realty is appointed by the Board of FCHC.

NONPROFIT STATUS

FCHC and the Realty are exempt from Federal income taxes as organizations (not private foundations) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. FCHC and the Realty are also exempt from state income taxes. Donors may deduct contributions made to FCHC and the Realty within the Internal Revenue Code regulations.

SIGNIFICANT ACCOUNTING POLICIES

FCHC and the Realty (collectively, the Center) prepare their financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these footnotes are to the FASB Accounting Standards Codification.

Principles of Combination

The combined financial statements include the net assets of FCHC and the Realty. All significant balances between classes of net assets and intercompany balances and transactions have been eliminated in the accompanying combined financial statements.

Cash and Cash Equivalents

Except for cash and cash equivalents included in short term investment, the Center considers all other highly liquid investments, including certificates of deposit, issued with a maturity of three months or less, to be cash and cash equivalents for purposes of the combined statement of cash flows.

Allowance for Uncollectible Accounts

The Center records patient service receivables, net of allowances for uncollectible accounts and contractual allowances. These allowances are recorded based upon reimbursement rates from third party payors, historical collections on third party receivables, as well as other factors.

**FENWAY COMMUNITY HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)**

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

This inventory is accounted for at the lower of cost (as determined by the first-in, first-out (FIFO) method) or market. Total inventory related reserves were \$152,000 at June 30, 2012. Inventory consists of the following as of June 30, 2012, and is included in other current assets:

Pharmaceuticals	\$1,229,350
Eyeglasses	<u>35,640</u>
	1,264,990
Less – reserve	<u>227,841</u>
Inventory, net	<u>\$1,037,149</u>

Property and Equipment and Depreciation

Property and equipment are recorded at cost, if purchased, or at estimated fair market value, if donated. Increases in the valuation of property and equipment are not recognized until said assets are disposed. Depreciation is computed using the straight-line method over the following estimated useful lives:

Building and improvements	40 years
Furniture, fixtures and equipment	5 - 10 years
Leasehold improvements	Term of Lease

As of June 30, 2012, the Center has approximately \$800,000 of equipment which was funded through capital lease obligations (see Note 4).

Furniture, fixtures and equipment of approximately \$342,500 have been acquired with funds received from the Commonwealth of Massachusetts and the Federal government. The applicable funding sources retain a reversionary interest in these assets.

Financing Fees and Amortization

Financing fees consist of closing costs and other fees related to the issuance of the bonds payable and are included in other assets (see Note 6). These costs are being amortized over the duration of the bonds (thirty years). Amortization expense was \$13,365 for the year ended June 30, 2012.

Financing fees	\$199,326
Less - accumulated amortization	<u>34,073</u>
Financing fees, net	<u>\$165,253</u>

**FENWAY COMMUNITY HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)**

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable

Pledges receivable consist of operating support and contributions committed to a capital campaign. Pledges are recorded at their net present value when unconditionally committed (see Note 2). Any allowance is recorded based on management's analysis of specific pledges and their estimate of amounts that may become uncollectible. Pledges are written off against the allowance when they are determined to be uncollectible. No allowance was deemed necessary as of June 30, 2012.

Fair Value

The Center values its qualifying assets and liabilities under a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 – Inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly, including inputs from markets that are not considered to be active.
- Level 3 – Inputs that are unobservable.

A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Investments

Investments are recorded at fair market value using Level 1 inputs. Investment income on the investment portfolio consists of interest and dividends. Interest income is recorded when earned. Dividend income is recorded on the ex-dividend date. Realized gains and losses on investment transactions are recorded on the basis of specific shares' historical cost. Unrealized gains and losses are recognized based on market value changes during the period (see Note 3).

Revenue Recognition

Unrestricted contributions are recorded as unrestricted revenue and net assets upon receipt or when unconditionally committed by the donor. Contracts and unrestricted grants are recorded as unrestricted revenue and net assets over the period the services are performed and the costs are incurred. Contract and unrestricted grant funding and rent payments received in advance of services provided are recorded as deferred revenue.

**FENWAY COMMUNITY HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)**

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Donor restricted grants, contributions and pledges (i.e. donations with time or purpose restrictions) are recognized as temporarily restricted revenues and net assets when received or unconditionally pledged. Pledges to be collected over more than one year are discounted to their present values. Transfers are made to unrestricted revenues and net assets when a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished and are shown as net assets released from restrictions in the accompanying combined statement of activities. Donor restricted grants and contributions received and satisfied in the same period are included in unrestricted net assets.

Contributions and pledges received with permanent donor restrictions, that is, donor stipulations that only income from a contribution may be spent, are recognized as permanently restricted revenues and net assets when received or unconditionally pledged.

The Center records patient service revenue as services are provided at the full value of those services as assigned by the Center. Net patient service revenue reflects the amounts to be collected after provision for contractual allowances and free care.

Contractual allowances are accrued on an estimated basis in the period the related services are rendered. These contractual allowances and net patient service revenue are adjusted as required based on final settlements. Net patient service revenue is net of contractual allowances of approximately \$7,685,000 for the year ended June 30, 2012.

During fiscal year 2012, the Center adopted the accounting standard related to *Measuring Charity Care for Disclosure* under U.S. GAAP. The Center has a policy of providing free care services to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient prior to services being rendered. The Center provided \$640,060 of free care during the year ended June 30, 2012. The cost of providing these services was \$477,371 for the year ended June 30, 2012. The cost of providing free care was calculated by multiplying the percentage of gross free care charges to gross patient charges by the total cost of providing patient services. Since the Center does not expect full payment, estimated charges for free care are not included in net patient service revenue.

The Center also provides subsidized health services for programs that respond to identified community needs, including Medical, Behavioral Health and Substance Abuse. The cost of these community benefits, including charity care, amounted to approximately \$195,140 for the year ended June 30, 2012.

Fundraising revenue and expenses from annual events are recorded as unrestricted revenues and expenses when revenues are received and expenses are incurred. Revenues and expenses from one-time fundraising events are recorded net in the accompanying combined financial statements.

All other revenue is recorded when earned.

**FENWAY COMMUNITY HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)**

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Funding

The Center received approximately \$11,915,000 of its total operating revenue and support during fiscal year 2012, directly and indirectly through sub-contracts from the U.S. Department of Health and Human Services.

Charges made to most third party payors for patient services are periodically reviewed and adjusted based upon the submission of cost reports and possible subsequent audits. In the opinion of management, the effect of such cost determinations or adjustments, if any, will not have a material effect on the combined financial position of the Center as of June 30, 2012, or on their changes in net assets for the year then ended.

The Center has been awarded contracts and grants through a competitive process and expends them according to their specified terms and conditions. These contracts and grants are subject to possible final audit determination by certain governmental agencies.

During fiscal year 2012, the Center was awarded a \$3.75 million grant from the U.S. Department of Health and Human Services under the Patient Protection and Affordable Care Act to expand the Center's main facility. The Health Center has not drawn any funds under this grant as of June 30, 2012.

Net Assets

Unrestricted Net Assets

Unrestricted net assets represent resources which bear no external donor restrictions and are available to carry out the Center's programs. Unrestricted net assets have been categorized as follows:

Operating - Represents funds available to carry on the operations of the Center.

Property and Equipment - Reflects and accounts for the Center's investment in property and equipment, net of related debt.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent contributions received or pledged that have not yet been expended for their designated purpose or satisfied their time restriction. Temporarily restricted net assets also consist of unrealized and realized gains on permanently restricted net assets in accordance with *Accounting for Certain Investments Held by Not-for-Profit Organizations* and Massachusetts state law.

**FENWAY COMMUNITY HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)**

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Temporarily Restricted Net Assets (Continued)

Temporarily restricted net assets are available for future periods and donor-specified program support and are as follows:

	<u>Balance at June 30, 2011</u>	<u>Investment Income and Grants</u>	<u>Net Assets Released From Restrictions</u>	<u>Balance at June 30, 2012</u>
Capital campaign	\$ 570,332	\$ -	\$(382,688)	\$ 187,644
Program restricted	680,735	201,500	(479,244)	402,991
Time restricted	147,440	-	-	147,440
Appreciation (depreciation) on permanently restricted net assets	<u>321,905</u>	<u>(11,421)</u>	<u>-</u>	<u>310,484</u>
	<u>\$1,720,412</u>	<u>\$190,079</u>	<u>\$(861,932)</u>	<u>\$1,048,559</u>

Permanently Restricted Net Assets

Permanently restricted net assets represent donor-restricted contributions for which the principal must be held in perpetuity.

Massachusetts adopted the Uniform Prudent Management of Institutional Funds Act, effective June 30, 2009. Subject to the intent of a donor, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. The assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution. The Center has not yet adopted a policy for appropriating earnings on endowment funds (see Note 3).

**FENWAY COMMUNITY HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)**

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

The Center expenses advertising costs as they are incurred, which are shown as advertising expense in the accompanying combined statement of functional expenses.

Expense Allocation

Expenses related directly to a function are distributed to that function, while other expenses are allocated based upon management's estimate of the percentage attributable to each function.

Estimates

The preparation of combined financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Donated Goods and Services

Goods and services are contributed to the Center in support of special events held during the year. These goods and services are included in special events in the accompanying combined financial statements.

Uncertainty in Income Taxes

The Center follows the *Accounting for Uncertainty in Income Taxes* standard which requires the Center to report uncertain tax positions, related interest and penalties, and to adjust its assets and liabilities related to unrecognized tax benefits and accrued interest and penalties accordingly. As of June 30, 2012, the Center determined that there are no material unrecognized tax benefits to report.

Information returns filed for years ended before June 30, 2009, are no longer subject to examination by the Internal Revenue Service and Massachusetts. The Center does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months.

Subsequent Events

Subsequent events have been evaluated through November 6, 2012, which is the date the combined financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the combined financial statements.

**FENWAY COMMUNITY HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)**

(2) PLEDGES RECEIVABLE

Pledges receivable are expected to be received as follows at June 30, 2012:

Due within one year	\$377,912
Due within two years	52,981
Due within three years	10,000
Due within four years	5,084
Due within five years	-
	<u>445,977</u>
Less - discount	15,757
Less - current portion	<u>377,912</u>
Non-current pledges receivable	<u>\$ 52,308</u>

The pledges have been discounted using a 4% rate to state pledges at their net present values.

At June 30, 2012, pledges receivable included a pledge from one organization totaling approximately \$258,000.

(3) INVESTMENTS

Investments are comprised of the following as of June 30, 2012:

	<u>Market Value</u>	<u>Cost</u>	<u>Unrealized Appreciation</u>
Cash and cash equivalents	\$ 61,337	\$ 61,337	\$ -
Fixed income:			
Government securities	322,039	305,151	16,888
Corporate bonds	66,380	57,503	8,877
Equities:			
International	187,280	178,720	8,560
Domestic	<u>1,284,786</u>	<u>1,234,869</u>	<u>49,917</u>
	<u>\$1,921,822</u>	<u>\$1,837,580</u>	84,242
Unrealized appreciation as of June 30, 2011			<u>204,503</u>
Unrealized loss on investments			(120,261)
Net realized gain on investments			<u>38,710</u>
Net losses on investments			<u>\$ (81,551)</u>

**FENWAY COMMUNITY HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)**

(3) INVESTMENTS (Continued)

Cash and cash equivalents are shown as short-term investments on the accompanying combined statement of financial position. Other investments are reported as long-term in the accompanying combined statement of financial position due to management's intention to hold the assets for long-term purposes.

Investments are not insured and are subject to on-going market fluctuations.

Investment and other income consist of interest and dividends totaling \$40,438 and earned on cash and cash equivalents for the year ended June 30, 2012. All interest, dividends and realized and unrealized gains and losses on the Center's investment portfolio are included in other revenue (expenses) in the accompanying combined statement of activities.

The Center's investment objectives are to seek significant appreciation of the invested assets of the endowment funds (see below). These funds are invested with a time horizon of greater than ten years, and there is no expectation that any portion of the endowment will be needed for operating purposes within the foreseeable future.

A reconciliation of endowment activity for fiscal year 2012 is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Endowment net assets, June 30, 2011	\$321,905	\$302,385	\$624,290
Investment return:			
Net unrealized loss	(48,594)	-	(48,594)
Net realized gain	<u>37,173</u>	<u>-</u>	<u>37,173</u>
Endowment net assets, June 30, 2012	<u>\$310,484</u>	<u>\$302,385</u>	<u>\$612,869</u>

**FENWAY COMMUNITY HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)**

(4) CAPITAL LEASE OBLIGATIONS

The Center leases certain equipment with an aggregate cost of \$800,000 at June 30, 2012, under capital lease agreements. Interest rates under these agreements range between 7.29% and 8.33%. The obligations mature on various dates through December, 2013. Future minimum lease payments under these agreements are as follows for the years ended June 30:

2013	\$192,246
2014	<u>96,023</u>
Total future minimum payments	288,269
Less - amounts representing interest	<u>19,457</u>
Present value of future minimum lease Payments	268,812
Less - current portion	<u>177,927</u>
	<u>\$ 90,885</u>

For the year ended June 30, 2012, depreciation expense on equipment purchased under capital leases was approximately \$160,000. At June 30, 2012, accumulated depreciation on equipment purchased under capital leases was approximately \$560,000.

(5) BEQUESTS AND SPLIT-INTEREST AGREEMENT

Bequests

The Center is and may be named beneficiary of various trusts and wills. The amounts to be received, if any, cannot be determined and are therefore not reflected in the accompanying combined financial statements until received.

Split-Interest Agreement

The Center has been named the sole beneficiary of an irrevocable charitable remainder unitrust. Under this arrangement, the donor has established and funded a trust and is entitled to specified distributions to be made over the trust's term. Upon termination of the trust, the Center receives any remaining assets.

As of June 30, 2012, the investments of the trust consist of equity securities, fixed income securities, and cash and short-term investments, and are shown as assets held under split-interest agreement in the accompanying combined financial statements, net of the estimated present value of future payments to the donor. The recurring fair value measurement of these assets has Level 3 inputs (see Note 1) and is based on the market value of the underlying trust assets, less the present value of future cash flows.

The split-interest agreement has been included in temporarily restricted net assets and will be transferred to unrestricted net assets when the Center has the immediate right to use the assets (upon death of the beneficiary) (see Note 1).

**FENWAY COMMUNITY HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)**

(6) LONG-TERM DEBT

Bonds Payable

On December 20, 2006, the Center entered into bond purchase agreements with UBS Securities LLC, MassDevelopment New Markets Tax Credit Fund #2, LLC and MHIC New Markets Fund III, LLC. The aggregate amount of the bonds is \$36,360,000, which funded the construction of one of the Center's facilities. The bonds bear interest at a variable rate (.25% at June 30, 2012) and mature in June, 2036. The bond proceeds were deposited with a trustee, who loaned the proceeds to the Center, subject to an irrevocable letter of credit agreement. The letter of credit is secured by certain real estate of the Center. During fiscal year 2012, the Center paid letter of credit fees of approximately \$356,000, which are included in occupancy in the accompanying combined statement of functional expenses. The bond proceeds were used to finance the new facility for the Center. As of June 30, 2012, the balance of the bonds payable was \$24,945,000.

The bond agreements contains certain financial covenants concerning debt service coverage, maintenance of cash balances, and other matters, all of which the Center was in compliance with as of June 30, 2012.

Future minimum principal payments on the bonds payable for the next five years are as follows:

2013	\$525,000
2014	\$555,000
2015	\$585,000
2016	\$615,000
2017	\$650,000

Notes Payable

During fiscal year 2007, the Realty entered into two notes payable totaling \$5,780,000 with a limited liability company. The notes bear interest at 3.15% and 3.635%, beginning in April, 2011, with interest-only payments due monthly. No principal payments are due under these agreements as long as the Center continues to operate as a business, as defined in the agreement. These notes are due in December, 2014, at which time the Realty expects they will be forgiven or refinanced. The notes are secured by the Realty's land and building. Interest expense under these agreements was approximately \$191,000, for the year ended June 30, 2012, and is included in occupancy in the accompanying combined statement of functional expenses.

**FENWAY COMMUNITY HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)**

(6) LONG-TERM DEBT (Continued)

Debt Service Reserve Funds

The Center is required to maintain certain debt service reserve funds on deposit with the trustee pursuant to the agreements covering its bond issues (see above). These funds are invested in fixed income securities or money market funds and are valued using Level 1 inputs. The balance of the funds consists of the following at June 30, 2012:

Debt Service Reserve Fund	\$1,929,980
Construction Fund	<u>187,628</u>
	<u>\$2,117,608</u>

Interest Rate Swap Contract

To hedge against potential interest rate exposure under the floating rate bond, the Center entered into interest rate swap agreements. In June, 2010, the Center entered into an interest rate swap contract with the following terms which effectively fixed interest rates on the bond proceeds:

Fixed Rate Assumed by the Center	2.835%
Basis for Variable Rate Assumed by Counterparty	LIBOR – BBA
Term	9 years and 8 months
Effective Date	June 1, 2010
Counterparty	International Swap Dealers Association

During 2012, the Center entered into a new interest rate swap agreement to replace the existing agreement. The terms of this new rate swap contract are as follow:

Notational Amount	\$25,445,000
Fixed Rate Assumed by the Center	1.9%
Basis for Variable Rate Assumed by Counterparty	LIBOR – BBA
Term	9 years and 11 months
Effective Date	November 1, 2011
Counterparty	International Swap Dealers Association

The notional amount of the swap contracts are to decline according to a pre-determined schedule such that the proportion of the amortizing note originally swapped would have remained approximately the same throughout the term of the agreements as the underlying debt amortizes. The notational amount of the swap contract was \$24,945,000 as of June 30 2012.

**FENWAY COMMUNITY HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)**

(6) LONG-TERM DEBT (Continued)

Interest Rate Swap Contract (Continued)

The swap contracts are reported at fair value in the accompanying combined statement of financial position as of June 30, 2012. Fair value is derived using Level 2 inputs (see Note 1), including prevailing credit spreads, market liquidity, assumed transaction and hedging costs, and other factors.

Gains or losses in the value of the swap contracts are recorded in changes in unrestricted net assets. For the year ended June 30, 2012, the Center recorded unrealized gains (losses) of approximately \$16,000, on the swap contracts, which are included in unrealized loss on carrying value of interest rate swap contract in the accompanying combined statement of activities. In addition, in 2012, the Center incurred interest rate swap cancellation fees of \$500,000 to cancel their previous swap agreement and enter into the new agreement.

(7) LEASE AGREEMENTS

Facility

The Center has entered into leases for administrative and program space. The leases expire on various dates through September 30, 2017. Under these agreements, the Center pays utilities and a portion of the building operating expenses based on the Consumer Price Index. Total rent for the year ended June 30, 2012, was approximately \$393,000, which is included in occupancy in the accompanying combined statement of functional expenses. The Center has options to renew these leases with prior written notice.

Equipment

The Center also leases equipment under operating lease agreements that expire on various dates through July, 2015.

Future minimum lease payments under these agreements due in next five years are as follows:

	<u>Equipment</u>	<u>Facility</u>
2013	\$51,123	\$535,496
2014	\$12,712	\$305,664
2015	\$ 5,928	\$308,321
2016	\$ 394	\$309,466
2017	\$ -	\$270,150

**FENWAY COMMUNITY HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)**

(8) RELATED PARTY TRANSACTIONS

The Center has a forty year operating lease with the Realty for the use of the building. Monthly payments under this agreement are the greater of either \$100,000 or the debt payments made by the Realty. Total rent expense under this operating lease was approximately \$793,000 for the year ended June 30, 2012, and is included in the accompanying combined statement of functional expenses. These amounts are eliminated on the accompanying combined financial statements.

Two members of the Board of Directors are partners at two law firms that provided legal services for the Center. During fiscal year 2012, the Center paid approximately \$8,500 to these two law firms.

(9) BENEFIT PLANS

The Center maintains a tax sheltered annuity plan (TSA) covered under section 403(b) of the Internal Revenue Code. The Center also maintains a profit sharing plan (PSP) covered under section 401(a) of the Internal Revenue Code.

All employees over 21 years old are eligible for the TSA. Participants of the TSA may elect to defer a percentage of their salary as defined by the TSA. The Center may make a discretionary matching contribution based on the participant percentage, up to two percent of salary. One year of service is required to be eligible for matching contributions. For the year ended June 30, 2012, the Center contributed 2% of participants' salaries to the TSA. All contributions to the TSA are fully vested immediately.

The PSP allows all employees with one or more years of service to participate in the PSP. The Center may make a discretionary contribution based on the participants' salaries, as defined by the PSP. For the year ended June 30, 2012, the Center contributed 2% of participants' salaries to the PSP. All contributions to the PSP become fully vested after four years of service.

During fiscal year 2012, the Center made all required deposits and contributions to the TSA and PSP plans.

The Center also offers a plan under Internal Revenue Code Section 457 to certain employees. Employer contributions to this plan are discretionary. Plan participants vest in account balances under the plan subject to certain forfeiture requirements. The vested balance totaled approximately \$11,055 as of June 30, 2012.

The Center contributed \$774,142 to the above benefit plans for the year ended June 30, 2012, which is included in payroll taxes and benefits in the accompanying combined financial statements.

**FENWAY COMMUNITY HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2012
(Continued)**

(10) CONCENTRATION OF CREDIT RISK

The Center maintains its cash balances in several banks located in the Boston, Massachusetts area. The balances in each bank are insured by the Federal Deposit Insurance Corporation. At various times during the year, the cash balances exceed the insured amount. Management monitors the financial condition of the banking institutions on a regular basis, along with their balances in the cash accounts, and tries to keep this potential risk to a minimum.

(11) SURPLUS REVENUE RETENTION (DEFICIT)

A nonprofit provider is allowed to retain an annual net surplus of up to 5% of gross unit rate revenues derived from delivering services to clients of the Commonwealth of Massachusetts, beginning with the fiscal year ended June 30, 1993. The cumulative amount retained may not exceed 20% of the prior year's gross revenues from Commonwealth of Massachusetts purchasing agencies, and must be segregated as surplus revenue retention net assets. A current year surplus which exceeds the 5% level or a cumulative surplus exceeding the 20% amount may be: 1) reinvested in program services as stipulated by the purchasing agencies; 2) recouped or; 3) used by the Commonwealth to reduce the price of future contracts.

The following are the surplus revenue (deficit) amounts as of June 30, 2012:

Surplus revenue (deficit), June 30, 2011	\$ (4,215,765)
Plus - current year surplus revenue	<u>(63,510)</u>
Surplus revenue (deficit), June 30, 2012	<u>\$ (4,279,275)</u>

FENWAY COMMUNITY HEALTH CENTER, INC. AND AFFILIATE
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS -
NOT-FOR-PROFIT ORGANIZATION
FOR THE YEAR ENDED JUNE 30, 2012

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>AGENCY OR PASS-THROUGH NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
U.S. Department of Justice:			
Passed-through Commonwealth of Massachusetts/ Victim Witness Assistance Board:			
Crime Victim Assistance	16.575	VOCA2012FEN	\$ 142,311
U.S. Department of Housing and Urban Development:			
Passed-through City of Boston:			
CDBG Entitlement Grants Cluster -			
Community Development Block Grants/ Entitlement Grants	14.218	N/A	19,996
U.S. Department of Health and Human Services:			
Direct:			
Allergy, Immunology and Transplantation Research	93.855(A)	N/A	2,607,422
Child Health and Human Development Extramural Research	93.865(!)	N/A	1,024,210
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	834,405
Health Centers Cluster -			
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224(~)(C)	N/A	778,509
ARRA - Community Health Applied Research Network	93.420	N/A	624,216
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	N/A	566,587

FENWAY COMMUNITY HEALTH CENTER, INC. AND AFFILIATE
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS -
NOT-FOR-PROFIT ORGANIZATION
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>AGENCY OR PASS-THROUGH NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
U.S. Department of Health and Human Services: (Continued)			
Direct (Continued):			
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	N/A	399,135
Mental Health Research Cluster -			
Mental Health Research Grants	93.242(^)(B)	N/A	370,848
ARRA - Trans-NIH Recovery Act Research Support	93.701(#)	N/A	266,724
Technical and Non-Financial Assistance to Health Centers	93.129	N/A	215,008
Drug Abuse and Addiction Research Programs	93.279(*)	N/A	138,426
Passed-through Commonwealth of Massachusetts, Department of Public Health:			
HIV Prevention Activities - Health Department Based	93.940	4942MM31001	289,292
Block Grants for Prevention and Treatment of Substance Abuse	93.959	23015358087	10,520
Passed-through Non-Profit Organizations:			
Microbiology and Infectious Diseases Research	93.856(A)	N/A	853,960
Mental Health Research Cluster -			
Mental Health Research Grants	93.242(^)(B)	N/A	605,146
HIV Emergency Relief Project Grants	93.914	N/A	577,962
Child Health and Human Development Extramural Research	93.865(!)	N/A	420,188
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153	N/A	277,356
Alcohol Research Programs	93.273	N/A	273,039

FENWAY COMMUNITY HEALTH CENTER, INC. AND AFFILIATE
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS -
NOT-FOR-PROFIT ORGANIZATION
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>AGENCY OR PASS-THROUGH NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
U.S. Department of Health and Human Services: (Continued)			
Passed-through Non-Profit Organizations (Continued):			
Drug Abuse and Addiction Research Programs	93.279(*)	N/A	193,503
ARRA Grants for Training in Primary Care Medicine and Dentistry Training and Enhancement	93.403	N/A	157,255
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	N/A	123,743
Family Planning Services	93.217	N/A	91,338
National Institutes of Health Acquired Immunodeficiency Syndrome Research Loan Repayment Program	93.936	N/A	88,627
AIDS Education and Training Centers	93.145	N/A	40,696
Health Centers Cluster -			
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224(~)(C)	N/A	37,247
HIV Demonstration, Research, Public and Professional Education Projects	93.941	N/A	26,350
National Center for Research Resources	93.390	N/A	13,342
Injury Prevention and Control Research and State and Community Based Programs	93.166	N/A	5,652
ARRA - Trans-NIH Recovery Act Research Support	93.701(#)	N/A	<u>4,554</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$12,077,567</u>

FENWAY COMMUNITY HEALTH CENTER, INC. AND AFFILIATE

**SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS -
NOT-FOR-PROFIT ORGANIZATION
FOR THE YEAR ENDED JUNE 30, 2012**

(Continued)

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards Not-For-Profit organization includes the Federal assistance activity of the Center 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*.

NOTE 2. SUBRECIPIENTS

Of the federal expenditures presented in the above schedule, the Agency provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Subrecipient Organization</u>	<u>Amount Provided to Subrecipient</u>
93.420	ARRA - Community Health Applied Research Network	University of Washington Chase Brexton Beaufort Jasper	\$182,956 103,861 <u>31,758</u>
		Total	<u>318,575</u>
93.943	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	Multi Cultural AIDS Coalition	<u>170,668</u>
93.855	Allergy, Immunology and Transplantation Research	Beth Israel Deaconess Medical Center Multi Cultural AIDS Coalition	62,541 <u>51,598</u>
		Total	<u>114,139</u>
93.865	Child Health and Human Development Extramural Research	Boston University Regents of University of Michigan Miriam Hospital Northwestern University	48,478 36,223 16,597 <u>11,421</u>
		Total	<u>112,729</u>
93.279	Drug Abuse and Addiction Research Programs	Miriam Hospital	<u>10,264</u>
	TOTAL PASSTHROUGH		<u>\$726,375</u>

FENWAY COMMUNITY HEALTH CENTER, INC. AND AFFILIATE
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS -
NOT-FOR-PROFIT ORGANIZATION
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)

Total for the Following CFDA's

93.865 (!)	\$1,444,398
93.242(^)	\$ 975,994
93.224(~)	\$ 815,756
93.279(*)	\$ 331,929
93.701(#)	\$ 271,278

Total for Clusters

Immunology Research Cluster (A)	\$3,461,382
Mental Health Research Cluster (B)	\$ 975,994
Health Centers Cluster (C)	\$ 815,756

Where Every Client Is A Valued Client

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMBINED
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Fenway Community Health Center, Inc. and Affiliate:

We have audited the combined financial statements of Fenway Community Health Center, Inc. and Affiliate (collectively, the Center) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Alexander, Aronson, Fenning & Co., P.C.,
Wellesley, Massachusetts
November 6, 2012

Where Every Client Is A Valued Client

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Independent Auditor's Report

To the Board of Directors of
Fenway Community Health Center, Inc. and Affiliate:

Compliance

We have audited Fenway Community Health Center, Inc. and Affiliate's (collectively, the Center) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major Federal programs for the year ended June 30, 2012. The Center's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

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

Internal Control Over Compliance

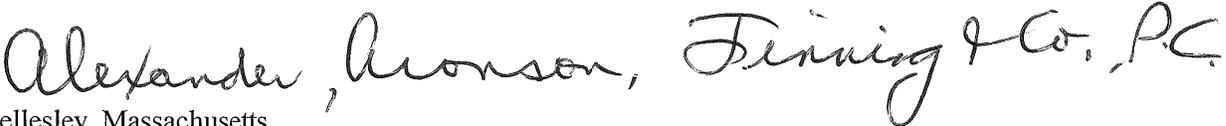
Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the Center's internal control over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

Internal Control Over Compliance (Continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

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

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


Wellesley, Massachusetts
November 6, 2012

FENWAY COMMUNITY HEALTH CENTER INC. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

An unqualified opinion was issued on the combined financial statements of the auditee.

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

An unqualified opinion was issued on compliance for major programs.

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

Identification of major programs:

<u>Program or Cluster Title</u>	<u>Federal CFDA Number</u>
Technical and Non-Financial Assistance to Health Centers	93.129
Mental Health Research Grants	93.242
Alcohol Research Programs	93.273
ARRA – Community Health Applied Research Network	93.420
Child Health and Human Development Extramural Research	93.865
HIV Emergency Relief Project Grants	93.914
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918
HIV Prevention Activities – Health Department Based	93.940

The dollar threshold used to distinguish between Type A and Type B programs was \$362,327.

Auditee qualified as low-risk auditee? X Yes No

FENWAY COMMUNITY HEALTH CENTER INC. AND AFFILIATE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2012

(Continued)

II. FINANCIAL STATEMENT FINDINGS IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

None

III. FINDINGS AND QUESTIONS COSTS FOR FEDERAL AWARDS

None