

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

**COMBINING FINANCIAL STATEMENTS IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133
JUNE 30, 2014 AND 2013
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

FENWAY COMMUNITY HEALTH CENTER, INC. AND AFFILIATES

**CONTENTS
JUNE 30, 2014 AND 2013**

	<u>PAGES</u>
UNMODIFIED OPINION ON COMBINING FINANCIAL STATEMENTS ACCOMPANIED BY OTHER INFORMATION – NOT-FOR-PROFIT ENTITY	1 - 1A
COMBINING FINANCIAL STATEMENTS:	
Combining Statements of Financial Position	2
Combining Statements of Activities and Changes in Net Assets	3
Combining Statements of Cash Flows	4
Combining Statement of Functional Expenses	5 - 6
Notes to Combining Financial Statements	7 - 22
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	23 - 24
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMBINING FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	25 - 26
REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	27 - 28
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	29 - 30

Where Every Client is a Valued Client

**UNMODIFIED OPINION ON COMBINING FINANCIAL STATEMENTS ACCOMPANIED BY
OTHER INFORMATION – NOT-FOR-PROFIT ENTITY**

Independent Auditor's Report

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

Report on the Combining financial statements

We have audited the accompanying combining financial statements of Fenway Community Health Center, Inc. and Affiliates (Massachusetts corporations, not for profit) (collectively, the Center) which comprise the combining statements of financial position as of June 30, 2014 and 2013, and the related combining statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the combining financial statements.

Management's Responsibility for the Combining financial statements

Management is responsible for the preparation and fair presentation of these combining 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 combining 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 combining 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 combining financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combining 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 combining 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 combining financial statements.

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

Opinion

In our opinion, the combining financial statements referred to on page 1 present fairly, in all material respects, the combining financial position of Fenway Community Health Center, Inc. and Affiliates as of June 30, 2014 and 2013, and the 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

As described in Note 1, Fenway Community Health Center, Inc. entered into a collaboration agreement, effective October 1, 2013 (the collaboration date), with Aids Action Committee of Massachusetts, Inc. (AAC). The combining financial statements include the accounts and activity of AAC as of and for the period from the collaboration date through June 30, 2014.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combining financial statements as a whole. The Schedule of Expenditures of Federal Awards for the year ended June 30, 2014, 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 not a required part of the combining 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 combining financial statements. The information has been subjected to the auditing procedures applied in the audit of the combining financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combining financial statements or to the combining 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 combining financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2014 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 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 the Center's internal control over financial reporting and compliance.



Boston, Massachusetts
November 4, 2014

FENWAY COMMUNITY HEALTH CENTER, INC. AND AFFILIATES

COMBINING STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

ASSETS	2014						2013						
	FENWAY COMMUNITY HEALTH CENTER, INC.			FENWAY COMMUNITY REALTY CORPORATION	AIDS ACTION COMMITTEE	COMBINING TOTAL	FENWAY COMMUNITY HEALTH CENTER, INC.			FENWAY COMMUNITY REALTY CORPORATION	COMBINING TOTAL		
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	UNRESTRICTED	UNRESTRICTED		UNRESTRICTED	RESTRICTED	RESTRICTED	UNRESTRICTED			
CURRENT ASSETS:													
Cash and cash equivalents	\$ 11,373,516	\$ 194,284	\$ -	\$ 11,567,800	\$ 11,523	\$ 1,901,489	\$ 13,480,812	\$ 9,646,751	\$ 294,502	\$ -	\$ 9,941,253	\$ 55,271	\$ 9,996,524
Short-term investments	-	-	-	-	-	-	-	4,926	-	-	4,926	-	4,926
Contract and other receivables	2,644,724	-	-	2,644,724	-	1,091,687	3,736,411	2,202,403	-	-	2,202,403	-	2,202,403
Patient service receivables, net of allowance for uncollectible accounts of approximately \$648,000 and \$837,000 as of June 30, 2014 and 2013, respectively	2,958,649	-	-	2,958,649	-	-	2,958,649	2,636,329	-	-	2,636,329	-	2,636,329
Accounts receivable - pharmacy, net of allowance for uncollectible accounts of approximately \$758,000 and \$1,043,000 as of June 30, 2014 and 2013, respectively	2,227,295	-	-	2,227,295	-	-	2,227,295	1,531,605	-	-	1,531,605	-	1,531,605
Current portion of pledges receivable	3,012	250,000	-	253,012	-	-	253,012	41,675	250,000	-	291,675	-	291,675
Inventory, net	1,169,797	-	-	1,169,797	-	840,459	2,010,256	1,100,717	-	-	1,100,717	-	1,100,717
Prepaid expenses and deposits	690,325	-	-	690,325	-	209,533	899,858	538,010	-	-	538,010	-	538,010
Total current assets	21,067,318	444,284	-	21,511,602	11,523	4,043,168	25,566,293	17,702,416	544,502	-	18,246,918	55,271	18,302,189
OTHER ASSETS:													
Pledges receivable, net of current portion and discount	5,000	249,235	-	254,235	-	-	254,235	15,084	497,554	-	512,638	-	512,638
Investments	2,955,132	565,413	302,385	3,822,930	-	-	3,822,930	2,057,301	418,149	302,385	2,777,835	-	2,777,835
Due (to) from	1,485,917	-	-	1,485,917	(1,463,943)	(21,974)	-	2,377,472	-	-	2,377,472	(2,377,472)	-
Debt service reserve funds	-	-	-	-	-	-	-	610,704	-	-	610,704	1,415,977	2,026,681
Assets held under split-interest agreement	-	147,440	-	147,440	-	-	147,440	-	147,440	-	147,440	-	147,440
Financing fees, net	138,523	-	-	138,523	-	-	138,523	151,888	-	-	151,888	-	151,888
Total other assets	4,584,572	962,088	302,385	5,849,045	(1,463,943)	(21,974)	4,363,128	5,212,449	1,063,143	302,385	6,577,977	(961,495)	5,616,482
PROPERTY AND EQUIPMENT:													
Land, building and improvements	24,936,515	-	-	24,936,515	30,729,667	-	55,666,182	24,536,583	-	-	24,536,583	30,729,667	55,266,250
Furniture, fixtures and equipment	6,842,608	-	-	6,842,608	-	2,316,338	9,158,946	6,585,385	-	-	6,585,385	-	6,585,385
Leasehold improvements	1,175,385	-	-	1,175,385	-	229,555	1,404,940	1,175,385	-	-	1,175,385	-	1,175,385
	32,954,508	-	-	32,954,508	30,729,667	2,545,893	66,230,068	32,297,353	-	-	32,297,353	30,729,667	63,027,020
Less - accumulated depreciation	9,050,672	-	-	9,050,672	2,501,209	2,144,005	13,695,886	7,157,154	-	-	7,157,154	2,021,323	9,178,477
Net property and equipment	23,903,836	-	-	23,903,836	28,228,458	401,888	52,534,182	25,140,199	-	-	25,140,199	28,708,344	53,848,543
Total assets	\$ 49,555,726	\$ 1,406,372	\$ 302,385	\$ 51,264,483	\$ 26,776,038	\$ 4,423,082	\$ 82,463,603	\$ 48,055,064	\$ 1,607,645	\$ 302,385	\$ 49,965,094	\$ 27,802,120	\$ 77,767,214
LIABILITIES AND NET ASSETS													
CURRENT LIABILITIES:													
Current portion of long-term debt	\$ 146,776	\$ -	\$ -	\$ 146,776	\$ 438,224	\$ -	\$ 585,000	\$ 15,000	\$ -	\$ -	\$ 15,000	\$ 540,000	\$ 555,000
Current portion of capital lease obligations	-	-	-	-	-	38,531	38,531	93,962	-	-	93,962	-	93,962
Accounts payable, subcontractors payable and accrued expenses	4,254,630	-	-	4,254,630	58,512	928,517	5,241,659	4,248,135	-	-	4,248,135	34,243	4,282,378
Deferred revenue	879,940	-	-	879,940	-	186,640	1,066,580	1,425,903	-	-	1,425,903	-	1,425,903
Total current liabilities	5,281,346	-	-	5,281,346	496,736	1,153,688	6,931,770	5,783,000	-	-	5,783,000	574,243	6,357,243
LONG-TERM DEBT, net of current portion	-	-	-	-	23,281,776	-	23,281,776	690,000	-	-	690,000	28,960,000	29,650,000
CAPITAL LEASE OBLIGATIONS, net of current portion	-	-	-	-	-	67,470	67,470	-	-	-	-	-	-
INTEREST RATE SWAP CONTRACT IN LOSS POSITION	502,108	-	-	502,108	-	-	502,108	294,885	-	-	294,885	-	294,885
Total liabilities	5,783,454	-	-	5,783,454	23,778,512	1,221,158	30,783,124	6,767,885	-	-	6,767,885	29,534,243	36,302,128
NET ASSETS:													
Unrestricted:													
Operating	18,892,880	-	-	18,892,880	(46,989)	2,928,011	21,773,902	14,100,763	-	-	14,100,763	21,028	14,121,791
Property and equipment	24,879,392	-	-	24,879,392	3,044,515	273,913	28,197,820	27,186,416	-	-	27,186,416	(1,753,151)	25,433,265
Total unrestricted	43,772,272	-	-	43,772,272	2,997,526	3,201,924	49,971,722	41,287,179	-	-	41,287,179	(1,732,123)	39,555,056
Temporarily restricted	-	1,406,372	-	1,406,372	-	-	1,406,372	-	1,607,645	-	1,607,645	-	1,607,645
Permanently restricted	-	-	302,385	302,385	-	-	302,385	-	-	302,385	302,385	-	302,385
Total net assets	43,772,272	1,406,372	302,385	45,481,029	2,997,526	3,201,924	51,680,479	41,287,179	1,607,645	302,385	43,197,209	(1,732,123)	41,465,086
Total liabilities and net assets	\$ 49,555,726	\$ 1,406,372	\$ 302,385	\$ 51,264,483	\$ 26,776,038	\$ 4,423,082	\$ 82,463,603	\$ 48,055,064	\$ 1,607,645	\$ 302,385	\$ 49,965,094	\$ 27,802,120	\$ 77,767,214

The accompanying notes are an integral part of these combining statements.

FENWAY COMMUNITY HEALTH CENTER, INC. AND AFFILIATES
 COMBINING STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
 FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014							2013							
	FENWAY COMMUNITY HEALTH CENTER, INC.				FENWAY COMMUNITY REALTY CORPORATION	AIDS ACTION COMMITTEE	COMBINED TOTAL	FENWAY COMMUNITY HEALTH CENTER, INC.				FENWAY COMMUNITY REALTY CORPORATION	COMBINED TOTAL		
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	UNRESTRICTED		ELIMINATIONS	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL		UNRESTRICTED	ELIMINATIONS
OPERATING REVENUE AND SUPPORT:															
Net patient service revenue	\$ 47,131,357	\$ -	\$ -	\$ 47,131,357	\$ -	\$ -	\$ -	\$ 47,131,357	\$ 41,149,618	\$ -	\$ -	\$ 41,149,618	\$ -	\$ -	\$ 41,149,618
Contracts and grants	13,279,453	125,000	-	13,404,453	-	6,094,424	-	19,498,877	12,942,047	1,125,000	-	14,067,047	-	-	14,067,047
Special events, net of direct costs of approximately \$734,000 and \$363,000 in 2014 and 2013, respectively	762,019	-	-	762,019	-	1,976,872	-	2,738,891	600,855	-	-	600,855	-	-	600,855
Retail store sales	-	-	-	-	-	2,290,973	-	2,290,973	-	-	-	-	-	-	-
Contributions	1,503,219	-	-	1,503,219	-	714,981	-	2,218,200	1,455,110	-	-	1,455,110	-	-	1,455,110
Investment and other income	818,760	-	-	818,760	-	15,696	-	834,456	304,504	-	-	304,504	-	-	304,504
Rental income	-	-	-	-	831,918	-	(831,918)	-	-	-	-	-	909,553	(909,553)	-
Net assets released from purpose restrictions	473,537	(473,537)	-	-	-	-	-	-	485,935	(485,935)	-	-	-	-	-
Total operating revenue and support	63,968,345	(348,537)	-	63,619,808	831,918	11,092,946	(831,918)	74,712,754	56,938,069	639,065	-	57,577,134	909,553	(909,553)	57,577,134
OPERATING EXPENSES:															
Program services:															
Medical Services	18,184,165	-	-	18,184,165	-	-	(373,246)	17,810,919	14,442,851	-	-	14,442,851	-	(379,845)	14,063,006
Pharmacy	19,044,206	-	-	19,044,206	-	-	(50,113)	18,994,093	17,445,454	-	-	17,445,454	-	(56,629)	17,388,825
Research	8,720,093	-	-	8,720,093	-	-	(159,115)	8,560,978	9,067,581	-	-	9,067,581	-	(172,582)	8,894,999
Behavioral Health	4,194,582	-	-	4,194,582	-	-	(123,840)	4,070,742	4,202,169	-	-	4,202,169	-	(160,344)	4,041,825
Patient Support	2,144,985	-	-	2,144,985	-	-	(10,586)	2,134,399	1,942,726	-	-	1,942,726	-	(7,289)	1,935,437
AIDS Action Committee	-	-	-	-	-	5,356,098	-	5,356,098	-	-	-	-	-	-	-
Total program services	52,288,031	-	-	52,288,031	-	5,356,098	(716,900)	56,927,229	47,100,781	-	-	47,100,781	-	(776,689)	46,324,092
Supporting services:															
General and Administrative	6,689,704	-	-	6,689,704	-	2,237,872	(78,375)	8,849,201	5,409,521	-	-	5,409,521	-	(90,365)	5,319,156
Facilities	651,841	-	-	651,841	1,313,244	-	(23,033)	1,942,052	558,695	-	-	558,695	1,393,087	(27,119)	1,924,663
Public Relations	878,200	-	-	878,200	-	-	(3,139)	875,061	697,384	-	-	697,384	-	(3,547)	693,837
Fundraising	1,204,505	-	-	1,204,505	-	293,879	(10,471)	1,487,913	1,119,474	-	-	1,119,474	-	(11,833)	1,107,641
Retail	-	-	-	-	-	1,915,594	-	1,915,594	-	-	-	-	-	-	-
Special Events	-	-	-	-	-	868,261	-	868,261	-	-	-	-	-	-	-
Total supporting services	9,424,250	-	-	9,424,250	1,313,244	5,315,606	(115,018)	15,938,082	7,785,074	-	-	7,785,074	1,393,087	(132,864)	9,045,297
Total operating expenses	61,712,281	-	-	61,712,281	1,313,244	10,671,704	(831,918)	72,865,311	54,885,855	-	-	54,885,855	1,393,087	(909,553)	55,369,389
Changes in net assets from operations	2,256,064	(348,537)	-	1,907,527	(481,326)	421,242	-	1,847,443	2,052,214	639,065	-	2,691,279	(483,534)	-	2,207,745
OTHER REVENUE (EXPENSES):															
Forgiveness of debt	-	-	-	-	5,780,000	-	-	5,780,000	-	-	-	-	-	-	-
Net gains on investments	377,220	147,264	-	524,484	-	-	-	524,484	209,169	107,665	-	316,834	-	-	316,834
Non-operating investment income	57,351	-	-	57,351	-	-	-	57,351	507,820	-	-	507,820	-	-	507,820
Capital grants	1,681	-	-	1,681	-	-	-	1,681	3,378,645	-	-	3,378,645	-	-	3,378,645
Expenditures of Federal capital grant	-	-	-	-	-	-	-	-	(3,365,334)	-	-	(3,365,334)	-	-	(3,365,334)
Unrealized gain (loss) on carrying value of interest rate swap contract	(207,223)	-	-	(207,223)	-	-	-	(207,223)	207,747	-	-	207,747	-	-	207,747
Put option fee	-	-	-	-	(569,025)	-	-	(569,025)	-	-	-	-	-	-	-
Net assets released from capital campaign restrictions	-	-	-	-	-	-	-	-	187,644	(187,644)	-	-	-	-	-
Total other revenue (expenses)	229,029	147,264	-	376,293	5,210,975	-	-	5,587,268	1,125,691	(79,979)	-	1,045,712	-	-	1,045,712
Changes in net assets	2,485,093	(201,273)	-	2,283,820	4,729,649	421,242	-	7,434,711	3,177,905	559,086	-	3,736,991	(483,534)	-	3,253,457
TO INCLUDE AAC IN COMBINING FINANCIAL STATEMENTS	-	-	-	-	-	2,780,682	-	2,780,682	-	-	-	-	-	-	-
NET ASSETS, beginning of year	41,287,179	1,607,645	302,385	43,197,209	(1,732,123)	-	-	41,465,086	38,109,274	1,048,559	302,385	39,460,218	(1,248,589)	-	38,211,629
NET ASSETS, end of year	\$ 43,772,272	\$ 1,406,372	\$ 302,385	\$ 45,481,029	\$ 2,997,526	\$ 3,201,924	\$ -	\$ 51,680,479	\$ 41,287,179	\$ 1,607,645	\$ 302,385	\$ 43,197,209	\$ (1,732,123)	\$ -	\$ 41,465,086

The accompanying notes are an integral part of these combining statements.

FENWAY COMMUNITY HEALTH CENTER, INC. AND AFFILIATES

COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014				2013		
	FENWAY COMMUNITY HEALTH CENTER, INC.	FENWAY COMMUNITY REALTY CORPORATION	AIDS ACTION COMMITTEE	TOTAL	FENWAY COMMUNITY HEALTH CENTER, INC.	FENWAY COMMUNITY REALTY CORPORATION	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:							
Changes in net assets	\$ 2,283,820	\$ 4,729,649	\$ 421,242	\$ 7,434,711	\$ 3,736,991	\$ (483,534)	\$ 3,253,457
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:							
Depreciation and amortization	1,906,883	479,886	122,016	2,508,785	1,746,558	479,886	2,226,444
Bad debt	-	-	-	-	190,000	-	190,000
Unrealized (gain) loss on carrying value of interest rate swap contract	207,223	-	-	207,223	(207,747)	-	(207,747)
Net gains on investments	(524,484)	-	-	(524,484)	(316,834)	-	(316,834)
Capital grants	(1,681)	-	-	(1,681)	(3,378,645)	-	(3,378,645)
Expenditures of Federal capital grant	-	-	-	-	3,365,334	-	3,365,334
Forgiveness of debt	-	(5,780,000)	-	(5,780,000)	-	-	-
Put option fee	-	569,025	-	569,025	-	-	-
Changes in operating assets and liabilities:							
Contract and other receivables	(442,321)	-	(89,372)	(531,693)	676,945	-	676,945
Patient service receivables	(322,320)	-	-	(322,320)	(1,343,249)	-	(1,343,249)
Accounts receivable - pharmacy	(695,690)	-	-	(695,690)	(396,604)	-	(396,604)
Pledges receivable	297,066	-	-	297,066	(374,093)	-	(374,093)
Inventory	(69,080)	-	-	(69,080)	(63,568)	-	(63,568)
Prepaid expenses and deposits	(152,315)	-	108,657	(43,658)	(234,092)	-	(234,092)
Accounts payable, subcontractors payable and accrued expenses	6,495	24,269	197,505	228,269	(98,686)	34,243	(64,443)
Due (to) from	891,555	(913,529)	21,974	-	(1,478)	1,478	-
Deferred revenue	(545,963)	-	(288,205)	(834,168)	1,223,027	-	1,223,027
Net cash provided by (used in) operating activities	2,839,188	(890,700)	493,817	2,442,305	4,523,859	32,073	4,555,932
CASH FLOWS FROM INVESTING ACTIVITIES:							
Purchases of property and equipment	(657,155)	-	(66,471)	(723,626)	(4,832,390)	-	(4,832,390)
Expenditures of Federal capital grant	-	-	-	-	(3,365,334)	-	(3,365,334)
Net decrease on debt service reserve funds	610,704	1,415,977	-	2,026,681	90,927	-	90,927
Purchases of investments	(515,685)	-	-	(515,685)	(2,721,601)	-	(2,721,601)
Proceeds from sales of investments	-	-	-	-	2,177,496	-	2,177,496
Net cash provided by (used in) investing activities	(562,136)	1,415,977	(66,471)	787,370	(8,650,902)	-	(8,650,902)
CASH FLOWS FROM FINANCING ACTIVITIES:							
Capital grants collected	1,681	-	-	1,681	3,378,645	-	3,378,645
Put option fee	-	(569,025)	-	(569,025)	-	-	-
Principal payments on line of credit	-	-	(300,000)	(300,000)	-	-	-
Principal payments on long-term debt	(558,224)	-	(18,535)	(576,759)	(520,000)	-	(520,000)
Principal payments on capital lease obligations	(93,962)	-	(8,527)	(102,489)	(174,850)	-	(174,850)
Net cash provided by (used in) financing activities	(650,505)	(569,025)	(327,062)	(1,546,592)	2,683,795	-	2,683,795
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,626,547	(43,748)	100,284	1,683,083	(1,443,248)	32,073	(1,411,175)
AAC CASH AND CASH EQUIVALENTS AT COLLABORATION DATE	-	-	1,801,205	1,801,205	-	-	-
CASH AND CASH EQUIVALENTS, beginning of year	9,941,253	55,271	-	9,996,524	11,384,501	23,198	11,407,699
CASH AND CASH EQUIVALENTS, end of year	\$ 11,567,800	\$ 11,523	\$ 1,901,489	\$ 13,480,812	\$ 9,941,253	\$ 55,271	\$ 9,996,524
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:							
Cash paid for interest	\$ 50,855	\$ 831,918	\$ -	\$ 882,773	\$ 263,525	\$ 911,535	\$ 1,175,060

The accompanying notes are an integral part of these combining statements.

FENWAY COMMUNITY HEALTH CENTER, INC. AND AFFILIATES

COMBINING STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	PROGRAM SERVICES							SUPPORTING SERVICES								TOTAL	FENWAY COMMUNITY REALTY CORPORATION	ELIMINATIONS	TOTAL
	MEDICAL SERVICES	PHARMACY	RESEARCH	BEHAVIORAL HEALTH	PATIENT SUPPORT	AIDS ACTION COMMITTEE	TOTAL PROGRAM SERVICES	GENERAL AND ADMINIS- TRATIVE	FACILITIES	PUBLIC RELATIONS	FUND- RAISING	AIDS ACTION COMMITTEE - GENERAL AND ADMINIS- TRATIVE	AIDS ACTION COMMITTEE - FUNDRAISING	AIDS ACTION COMMITTEE - RETAIL	AIDS ACTION COMMITTEE - SPECIAL EVENTS				
PAYROLL, CONTRACTED SERVICES AND RELATED COSTS:																			
Payroll	\$10,558,644	\$ 1,563,717	\$ 5,300,372	\$ 2,659,868	\$ 1,529,847	\$ 2,859,515	\$ 24,471,963	\$ 3,345,465	\$ 290,401	\$ 469,315	\$ 742,571	\$ 541,484	\$ 159,958	\$ 986,533	\$ 199,039	\$ 31,206,729	\$ -	\$ -	\$ 31,206,729
Payroll taxes and benefits	2,397,022	461,567	1,171,774	711,378	382,723	915,829	6,040,293	974,179	68,100	123,622	196,327	175,270	50,024	198,517	63,310	7,889,642	-	-	7,889,642
Contract services	71,077	93	17,301	1,669	826	280,468	371,434	239,008	20,466	-	-	473	-	-	-	631,381	-	-	631,381
Training	50,635	453	20,311	8,423	1,119	11,503	92,444	4,991	551	410	435	244	505	410	-	99,580	-	-	99,580
GAP insurance	-	-	-	-	-	-	-	70,482	-	-	-	-	-	-	-	70,482	-	-	70,482
Total payroll, contracted services and related costs	13,077,378	2,025,830	6,509,758	3,381,338	1,914,515	4,067,315	30,976,134	4,634,125	379,518	593,347	939,333	717,471	210,487	1,185,050	262,349	39,897,814	-	-	39,897,814
OCCUPANCY:																			
Rent	831,837	111,604	354,648	276,043	23,544	-	1,597,676	174,636	51,353	7,045	23,173	754,825	3,741	310,875	-	2,923,324	-	(831,918)	2,091,406
Repairs and maintenance	619,477	83,113	264,109	205,572	17,534	-	1,189,805	130,053	38,243	5,246	17,256	148,516	-	51,495	-	1,580,614	-	-	1,580,614
Depreciation	277,141	290,249	132,901	63,929	32,691	-	796,911	101,956	9,935	13,384	18,358	122,016	-	-	-	1,062,560	479,886	-	1,542,446
Mortgage interest	22,819	3,061	9,729	7,572	646	-	43,827	4,791	1,409	193	635	-	-	-	-	50,855	831,918	-	882,773
Utilities	264,929	35,544	112,950	87,916	7,499	-	508,838	55,619	16,355	2,244	7,380	98,591	-	140,324	-	829,351	-	-	829,351
Insurance	55,592	7,458	23,701	18,448	1,573	-	106,772	11,671	3,432	471	1,549	56,772	-	31,098	1,886	213,651	-	-	213,651
Property taxes	26,768	3,591	11,412	8,883	758	-	51,412	5,620	1,652	227	745	-	-	-	-	59,656	-	-	59,656
Total occupancy	2,098,563	534,620	909,450	668,363	84,245	-	4,295,241	484,346	122,379	28,810	69,096	1,180,720	3,741	533,792	1,886	6,720,011	1,311,804	(831,918)	7,199,897
OTHER PROGRAM COSTS:																			
Pharmaceuticals	-	15,720,434	-	-	-	-	15,720,434	-	-	-	-	-	-	-	-	15,720,434	-	-	15,720,434
Medical supplies	1,758,073	33,193	68,672	38	-	-	1,859,976	1,014	-	-	-	-	-	-	-	1,860,990	-	-	1,860,990
Outside lab services	425,571	-	191,844	-	-	-	617,415	-	-	-	-	-	-	-	-	617,415	-	-	617,415
Program supplies	18,621	51	132,696	7,948	-	-	237,091	11,037	495	-	-	-	-	-	-	407,939	-	-	407,939
Total other program costs	2,202,265	15,753,678	393,212	7,986	-	-	18,594,232	12,051	495	-	-	-	-	-	-	18,606,778	-	-	18,606,778
OTHER EXPENSES:																			
Client reimbursements	2,007	-	169,550	125	-	855,811	1,027,493	972	-	-	-	-	-	-	-	1,028,465	-	-	1,028,465
Equipment and software depreciation	273,342	297,704	136,040	65,322	33,213	-	805,621	104,566	10,333	13,702	18,752	-	-	-	-	952,974	-	-	952,974
Consultants	53,613	331	101,571	1,769	-	133,421	290,705	58,929	-	40,894	9,025	170,331	26,980	5,000	166,489	768,353	-	-	768,353
Telephone	21,977	12,699	9,216	10,415	5,360	411	60,078	497,406	24,296	101,560	14	62,622	-	7,601	374	753,951	-	-	753,951
Travel and conference	41,580	85,382	253,318	14,859	14,077	19,020	428,236	135,759	2,459	2,662	3,665	6,822	389	12,643	6,679	599,314	-	-	599,314
Printing, postage and copying	29,322	222,423	40,306	3,212	12,894	6,748	314,905	11,776	36,794	27,303	21,698	9,812	13,957	7,783	29,101	473,129	-	-	473,129
Fundraising and events	-	-	-	1,038	-	-	1,038	-	49	-	66,018	-	-	-	-	368,423	435,528	-	435,528
Office supplies	71,571	39,839	43,241	6,293	22,313	1,944	185,201	69,775	44,084	5,582	6,336	25,797	726	37,987	1,322	376,810	-	-	376,810
Miscellaneous	31,477	4,580	58,088	60	31,180	-	125,385	101,364	2,194	18,883	17,660	23,767	859	65,193	2,367	357,672	-	-	357,672
Dues, subscriptions and fees	164,471	5,282	13,519	11,349	1,628	30,827	227,076	66,971	960	901	15,410	1,819	65	-	87	313,289	-	-	313,289
MIS maintenance	80,380	11,868	15,866	-	178	-	108,292	172,805	-	-	465	3,139	-	-	-	284,701	-	-	284,701
Professional fees	-	-	26,524	-	10,376	3,510	40,410	180,616	28,180	-	-	23,835	-	-	-	273,041	-	-	273,041
Bank charges and other interest	20,519	49,945	-	-	14,596	-	85,060	32,898	-	110	34,514	6,669	36,675	55,507	-	251,433	1,440	-	252,873
Advertising	9,860	25	35,696	17,624	160	-	63,365	21,043	100	44,446	530	5,068	-	5,038	29,184	168,774	-	-	168,774
Advocacy	-	-	-	-	-	-	67,366	67,366	-	-	-	-	-	-	-	67,366	-	-	67,366
Staff development	2,572	-	2,809	4,829	250	-	10,460	23,571	-	-	1,989	-	-	-	-	36,020	-	-	36,020
Amortization	-	-	-	-	-	-	-	13,365	-	-	-	-	-	-	-	13,365	-	-	13,365
Transcription	3,268	-	1,929	-	-	-	5,197	-	-	-	-	-	-	-	-	5,197	-	-	5,197
Total other expenses	805,959	730,078	907,673	136,895	146,225	1,051,692	3,778,522	1,559,182	149,449	256,043	196,076	339,681	79,651	196,752	604,026	7,159,382	1,440	-	7,160,822
Total expenses	\$ 18,184,165	\$ 19,044,206	\$ 8,720,093	\$ 4,194,582	\$ 2,144,985	\$ 5,356,098	\$ 57,644,129	\$ 6,689,704	\$ 651,841	\$ 878,200	\$ 1,204,505	\$ 2,237,872	\$ 293,879	\$ 1,915,594	\$ 868,261	\$ 72,383,985	\$ 1,313,244	\$ (831,918)	\$ 72,865,311

The accompanying notes are an integral part of these combining statements.

FENWAY COMMUNITY HEALTH CENTER, INC. AND AFFILIATE

COMBINING STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	PROGRAM SERVICES					SUPPORTING SERVICES					TOTAL	FENWAY COMMUNITY REALTY CORPORATION	ELIMINATIONS	TOTAL	
	MEDICAL SERVICES	PHARMACY	RESEARCH	BEHAVIORAL HEALTH	PATIENT SUPPORT	TOTAL PROGRAM SERVICES	GENERAL AND ADMINIS- TRATIVE	FACILITIES	PUBLIC RELATIONS	FUND- RAISING					
PAYROLL, CONTRACTED SERVICES AND RELATED COSTS:															
Payroll	\$ 8,194,434	\$ 1,423,887	\$ 5,557,786	\$ 2,638,153	\$ 1,393,864	\$ 19,208,124	\$ 2,813,774	\$ 245,471	\$ 382,527	\$ 698,414	\$ 23,348,310	\$ -	\$ -	\$ 23,348,310	
Payroll taxes and benefits	1,900,460	376,615	1,199,454	628,236	354,703	4,459,468	558,135	66,232	106,652	158,396	5,348,883	-	-	5,348,883	
Contract services	91,985	-	61,324	1,501	357	155,167	69,987	12,459	-	19,037	256,650	-	-	256,650	
Training	49,759	95	9,766	11,568	300	71,488	6,945	-	2,595	948	81,976	-	-	81,976	
GAP insurance	-	-	-	-	-	-	129,376	-	-	-	129,376	-	-	129,376	
Total payroll, contracted services and related costs	<u>10,236,638</u>	<u>1,800,597</u>	<u>6,828,330</u>	<u>3,279,458</u>	<u>1,749,224</u>	<u>23,894,247</u>	<u>3,578,217</u>	<u>324,162</u>	<u>491,774</u>	<u>876,795</u>	<u>29,165,195</u>	<u>-</u>	<u>-</u>	<u>29,165,195</u>	
OCCUPANCY:															
Rent	659,261	98,352	299,477	278,323	12,630	1,348,043	156,922	47,045	6,157	20,523	1,578,690	-	(909,553)	669,137	
Repairs and maintenance	528,150	78,793	239,919	222,972	10,117	1,079,951	125,714	37,689	4,932	16,443	1,264,729	-	-	1,264,729	
Depreciation	206,622	249,578	129,723	60,117	27,793	673,833	77,390	7,993	9,977	16,015	785,208	479,886	-	1,265,094	
Mortgage interest	110,048	16,418	49,991	46,459	2,108	225,024	26,194	7,853	1,028	3,426	263,525	911,535	-	1,175,060	
Utilities	191,501	28,569	86,992	80,847	3,669	391,578	45,582	13,666	1,788	5,961	458,575	-	-	458,575	
Insurance	31,792	4,743	14,442	13,422	609	65,008	7,567	2,269	297	990	76,131	-	-	76,131	
Property taxes	23,492	3,505	10,672	9,918	450	48,037	5,592	1,676	219	731	56,255	-	-	56,255	
Total occupancy	<u>1,750,866</u>	<u>479,958</u>	<u>831,216</u>	<u>712,058</u>	<u>57,376</u>	<u>3,831,474</u>	<u>444,961</u>	<u>118,191</u>	<u>24,398</u>	<u>64,089</u>	<u>4,483,113</u>	<u>1,391,421</u>	<u>(909,553)</u>	<u>4,964,981</u>	
OTHER PROGRAM COSTS:															
Pharmaceuticals	-	14,466,460	-	-	-	14,466,460	-	-	-	-	14,466,460	-	-	14,466,460	
Medical supplies	1,533,549	566	58,914	622	-	1,593,651	9,969	-	-	-	1,603,620	-	-	1,603,620	
Outside lab services	218,882	-	218,776	-	-	437,658	-	-	-	-	437,658	-	-	437,658	
Program supplies	32,772	-	109,095	7,210	-	149,077	-	-	-	-	149,077	-	-	149,077	
Total other program costs	<u>1,785,203</u>	<u>14,467,026</u>	<u>386,785</u>	<u>7,832</u>	<u>-</u>	<u>16,646,846</u>	<u>9,969</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,656,815</u>	<u>-</u>	<u>-</u>	<u>16,656,815</u>	
OTHER EXPENSES:															
Client reimbursements	-	-	191,781	189	-	191,970	1,014	-	-	-	192,984	-	-	192,984	
Equipment and software depreciation	258,061	287,163	157,993	78,126	32,037	813,380	93,490	10,739	11,558	18,818	947,985	-	-	947,985	
Consultants	51,215	2,500	39,474	2,900	-	96,089	23,537	1,225	19,115	1,535	141,501	-	-	141,501	
Telephone	21,070	13,273	11,048	10,236	3,731	59,358	402,179	21,240	32,563	-	515,340	-	-	515,340	
Travel and conference	30,875	67,811	340,877	10,527	18,955	469,045	93,548	5,736	4,132	4,937	577,398	-	-	577,398	
Printing, postage and copying	14,262	231,183	37,573	3,361	7,504	293,883	11,236	36,697	42,955	28,402	413,173	-	-	413,173	
Fundraising and events	290	-	-	-	-	290	-	-	-	45,157	45,447	-	-	45,447	
Office supplies	48,711	20,187	55,194	8,124	15,715	147,931	40,196	35,467	1,688	2,973	228,255	-	-	228,255	
Miscellaneous	12,225	707	54,022	250	21,059	88,263	88,908	3,264	18,626	18,329	217,390	-	-	217,390	
Dues, subscriptions and fees	64,871	2,490	30,685	17,092	1,910	117,048	49,541	1,861	1,477	14,912	184,839	37	-	184,876	
MIS maintenance	19,522	21,482	37,057	533	178	78,772	57,609	-	1,027	438	137,846	-	-	137,846	
Professional fees	5,734	-	11,352	-	10,430	27,516	236,466	113	825	-	264,920	-	-	264,920	
Bank charges and other interest	13,567	51,052	40	-	23,351	88,010	163,840	-	-	41,419	293,269	1,629	-	294,898	
Advertising	9,267	25	32,672	6,481	842	49,287	16,761	-	47,246	862	114,156	-	-	114,156	
Advocacy	-	-	-	-	-	-	81,848	-	-	-	81,848	-	-	81,848	
Staff development	1,419	-	7,422	6,128	414	15,383	2,836	-	-	808	19,027	-	-	19,027	
Amortization	-	-	-	-	-	-	13,365	-	-	-	13,365	-	-	13,365	
Transcription	1,635	-	-	354	-	1,989	-	-	-	-	1,989	-	-	1,989	
Bad debt	117,420	-	14,060	58,520	-	190,000	-	-	-	-	190,000	-	-	190,000	
Total other expenses	<u>670,144</u>	<u>697,873</u>	<u>1,021,250</u>	<u>202,821</u>	<u>136,126</u>	<u>2,728,214</u>	<u>1,376,374</u>	<u>116,342</u>	<u>181,212</u>	<u>178,590</u>	<u>4,580,732</u>	<u>1,666</u>	<u>-</u>	<u>4,582,398</u>	
Total expenses	<u>\$ 14,442,851</u>	<u>\$ 17,445,454</u>	<u>\$ 9,067,581</u>	<u>\$ 4,202,169</u>	<u>\$ 1,942,726</u>	<u>\$ 47,100,781</u>	<u>\$ 5,409,521</u>	<u>\$ 558,695</u>	<u>\$ 697,384</u>	<u>\$ 1,119,474</u>	<u>\$ 54,885,855</u>	<u>\$ 1,393,087</u>	<u>\$ (909,553)</u>	<u>\$ 55,369,389</u>	

The accompanying notes are an integral part of these combining statements.

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

**NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

(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 the 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 and HIV. 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.

Effective October 1, 2013 (the collaboration date), FCHC and Aids Action Committee of Massachusetts Inc. (AAC) entered into a collaboration agreement. In accordance with the agreement, AAC's Articles of Organization were amended and restated and FCHC became the sole member of AAC and FCHC's Board of Directors became the Board of Directors of AAC. The corporate entity of AAC continues to exist, however, the financial operations of AAC have been combined with those of FCHC effective from the collaboration date forward. As of the collaboration date AAC had net assets of \$2,780,682 and cash and cash equivalents of \$1,801,205.

AAC is a nonprofit organization committed to combating the epidemic of AIDS and HIV disease, as well as addressing the needs of those affected through service, education, advocacy, and outreach. Through a cooperative effort between professional staff and a strong volunteer force, AAC seeks to serve people of all cultures affected by AIDS and HIV disease, as well as those at risk of infection. AAC operates in partnership with a wide range of community organizations, as well as with government agencies at the local, state and national levels.

NONPROFIT STATUS

FCHC, the Realty and AAC 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 (IRC). FCHC, the Realty and AAC are also exempt from state income taxes. Donors may deduct contributions made to FCHC, the Realty and AAC within the IRC regulations.

SIGNIFICANT ACCOUNTING POLICIES

FCHC, the Realty and AAC (collectively, the Center) prepare their combining 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 notes are to the FASB Accounting Standards Codification (ASC).

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

**NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Principles of Combination

The combining financial statements include the net assets of FCHC, the Realty and AAC. The accompanying combining financial statements include the balances and activity of AAC from the collaboration date through June 30, 2014. All significant balances between classes of net assets and intercompany balances and transactions have been eliminated in the accompanying combining financial statements.

Cash and Cash Equivalents

Except for cash and cash equivalents included in short-term investments, 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 combining statements of cash flows.

Allowance for Uncollectible Accounts

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

Inventory

FCHC's 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 \$57,000 and \$152,000 at June 30, 2014 and 2013, respectively. FCHC's inventory consists of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Pharmaceuticals	\$1,169,884	\$1,216,652
Eyeglasses	<u>56,913</u>	<u>36,065</u>
	1,226,797	1,252,717
Less – reserve	<u>57,000</u>	<u>152,000</u>
Inventory, net	<u>\$1,169,797</u>	<u>\$1,100,717</u>

AAC's inventory consists of clothes, furniture and other items that have been donated to AAC for resale in thrift stores. AAC's inventory is carried at fair value as estimated at the time of receipt by AAC. Inventory is adjusted periodically by AAC based on observable markets for second hand goods.

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

**NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation

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

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

As of June 30, 2014 and 2013, the Center had approximately \$182,000 and \$800,000, respectively, of equipment which was funded through capital lease obligations. Capital lease obligations expire at various dates through February, 2018 (see Note 4).

The Center has acquired building improvements and furniture, fixtures and equipment that 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 (see Note 6). These costs are being amortized over the duration of the bonds (thirty years). Amortization expense was \$13,365 in each of the years ended June 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Financing fees	\$199,326	\$199,326
Less - accumulated amortization	<u>60,803</u>	<u>47,438</u>
Financing fees, net	<u>\$138,523</u>	<u>\$151,888</u>

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, 2014 or 2013.

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

**NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

ASC Topic, *Fair Value Measurements*, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standards establish 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. Instruments which are generally included in this category include equity and debt securities publicly traded on an exchange.
- Level 2 – Inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 – Inputs that are unobservable and which require significant judgment or estimation.

An 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 are recorded as unrestricted revenue and net assets over the period the services are performed and the costs are incurred. Contract and conditional grant funding and rent payments received in advance of services provided are recorded as deferred revenue.

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 combining statements of activities and changes in net assets. Donor restricted grants and contributions received and satisfied in the same period are included in unrestricted net assets.

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

**NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

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 \$12,619,000 and \$9,375,000 for the years ended June 30, 2014 and 2013, respectively.

Retail store sales include sales of furniture, clothing and other second hand items donated to AAC. Store sales revenue is reported net of estimated returns and allowances, and are recognized when the related goods are delivered or the sale has taken place.

The Center follows 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 \$951,189 and \$677,140 of free care during the years ended June 30, 2014 and 2013, respectively. The cost of providing these services was \$923,607 and \$566,571 for the years ended June 30, 2014 and 2013, respectively. 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 received partial reimbursement from a third-party payor for free care services of approximately \$228,000 and \$227,000 during the years ended June 30, 2014 and 2013, respectively.

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, totaled approximately \$28,000 and \$111,000 for the years ended June 30, 2014 and 2013, respectively.

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 combining financial statements.

All other revenue is recorded when earned.

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

**NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Funding

The Center received approximately \$12,364,000 and \$14,672,000 of its total revenue and support during fiscal years 2014 and 2013, respectively, 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 combining financial position of the Center as of June 30, 2014 and 2013, or on their changes in net assets for the years 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. In the opinion of management, such determinations, if any, will not have a material effect on the combining financial position of the Center as of June 30, 2014 and 2013, or on their changes in net assets for the years then ended.

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. As of June 30, 2013, FCHC had drawn approximately \$3.37 million of funds under this grant, which are included in capital grants in the accompanying 2013 combining statement of activities and changes in net assets. Costs incurred under this grant are presented as expenditures of federal capital grant in the accompanying 2013 combining statement of activities and changes in net assets. There were no additional funds drawn on this grant during fiscal year 2014.

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 AFFILIATES**

**NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(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, 2013</u>	<u>Investment Income and Grants</u>	<u>Net Assets Released From Restrictions</u>	<u>Balance at June 30, 2014</u>
Program restricted	\$1,042,056	\$ 125,000	\$(473,537)	\$ 693,519
Time restricted	147,440	-	-	147,440
Appreciation on permanently restricted net assets	<u>418,149</u>	<u>147,264</u>	<u>-</u>	<u>565,413</u>
	<u>\$1,607,645</u>	<u>\$ 272,264</u>	<u>\$(473,537)</u>	<u>\$1,406,372</u>
	<u>Balance at June 30, 2012</u>	<u>Investment Income and Grants</u>	<u>Net Assets Released From Restrictions</u>	<u>Balance at June 30, 2013</u>
Capital campaign	\$ 187,644	\$ -	\$(187,644)	\$ -
Program restricted	402,991	1,125,000	(485,935)	1,042,056
Time restricted	147,440	-	-	147,440
Appreciation on permanently restricted net assets	<u>310,484</u>	<u>107,665</u>	<u>-</u>	<u>418,149</u>
	<u>\$1,048,559</u>	<u>\$1,232,665</u>	<u>\$(673,579)</u>	<u>\$1,607,645</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 AFFILIATES**

**NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(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 combining statements 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 combining 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 combining 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 combining financial statements.

Uncertainty in Income Taxes

The Center accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the combining financial statements regarding a tax position taken or expected to be taken in a tax return. The Center has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the combining financial statements at June 30, 2014 and 2013. The Center's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

Subsequent Events

Subsequent events have been evaluated through November 4, 2014, which is the date the combining financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the combining financial statements.

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

**NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

(2) PLEDGES RECEIVABLE

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

	<u>2014</u>	<u>2013</u>
Due within one year	\$253,012	\$291,675
Due within two years	255,000	260,000
Due within three years	-	<u>255,084</u>
	<u>508,012</u>	806,759
Less - discount	765	2,446
Less - current portion	<u>253,012</u>	<u>291,675</u>
Non-current pledges receivable	<u>\$254,235</u>	<u>\$512,638</u>

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

At June 30, 2014 and 2013, pledges receivable included a pledge from one organization totaling \$500,000 and \$750,000, respectively.

(3) INVESTMENTS

Investments are comprised of the following as of June 30, 2014:

	<u>Market Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
Mutual Funds:			
Stock index fund	\$2,892,695	\$2,128,543	\$764,152
Bond index fund	<u>930,235</u>	<u>936,546</u>	<u>(6,311)</u>
	<u>\$3,822,930</u>	<u>\$3,065,089</u>	757,841
Unrealized appreciation as of June 30, 2013			<u>233,357</u>
Net gains on investments			<u>\$524,484</u>

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

**NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

(3) INVESTMENTS (Continued)

Investments are comprised of the following as of June 30, 2013:

	<u>Market Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
Cash and cash equivalents	\$ 4,926	\$ 4,926	\$ -
Mutual Funds:			
Stock index fund	2,169,130	1,912,426	256,704
Bond index fund	<u>608,705</u>	<u>632,052</u>	<u>(23,347)</u>
	<u>\$2,782,761</u>	<u>\$2,549,404</u>	233,357
Unrealized appreciation as of June 30, 2012			<u>84,242</u>
Unrealized gain on investments			149,115
Net realized gains on investments			<u>167,719</u>
Net gains on investments			<u>\$316,834</u>

Cash and cash equivalents are shown as short-term investments on the accompanying combining statements of financial position. Other investments are reported as long-term in the accompanying combining statements 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 consists of interest and dividends totaling \$57,351 and \$72,726 earned on cash and cash equivalents for the years ended June 30, 2014 and 2013, respectively. 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 combining statements of activities and changes in net assets.

The Center's investment objectives are to seek significant appreciation of the invested assets of the endowment funds (see page 17). 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.

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

**NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

(3) INVESTMENTS (Continued)

A reconciliation of endowment activity for fiscal years 2014 and 2013 is as follows:

	Temporarily Restricted	Permanently Restricted	Total Endowment
Endowment net assets, June 30, 2012	\$310,484	\$302,385	\$612,869
Investment return:			
Net unrealized gain	57,869	-	57,869
Net realized gain	49,796	-	49,796
Endowment net assets, June 30, 2013	418,149	302,385	720,534
Investment return:			
Net unrealized gain	147,264	-	147,264
Endowment net assets, June 30, 2014	<u>\$565,413</u>	<u>\$302,385</u>	<u>\$867,798</u>

(4) CAPITAL LEASE OBLIGATIONS

The Center leases certain equipment with an aggregate cost of \$182,000 and \$800,000 at June 30, 2014 and 2013, respectively, under capital lease agreements. Interest rates under these agreements range between 4.26% and 15%. The obligations mature on various dates through February, 2018.

For the years ended June 30, 2014 and 2013, depreciation expense on equipment purchased under capital leases was approximately \$124,000 and \$160,000, respectively. At June 30, 2014 and 2013, accumulated depreciation on equipment purchased under capital leases was approximately \$74,000 and \$720,000, respectively.

Future minimum lease payments under these agreements are as follows for the years ended June 30:

2015	\$ 43,191
2016	30,841
2017	24,288
2018	16,192
	114,512
Less - amounts representing interest	8,511
Less - current portion	38,531
Non-current capital lease obligations	<u>\$ 67,470</u>

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

**NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

(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 combining 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, 2014 and 2013, 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 combining 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).

(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 (MassDevelopment) and MHIC New Markets Fund III, LLC (MHIC). The aggregate amount of the bonds is \$36,360,000, which funded the construction of one of the Center's facilities. During December, 2013, and February, 2014, MassDevelopment and MHIC, respectively, in conjunction with the expiration of the seven-year compliance period associated with related New Market Tax Credits, assigned their rights in the loan and trust agreement associated with the bonds to a bank. The bonds bear interest at a variable rate (1.29% and .25% at June 30, 2014 and 2013, respectively) 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 was secured by certain real estate of the Center. During fiscal year 2013, the Center paid letter of credit fees of approximately \$204,000, which are included in mortgage interest in the accompanying 2013 combining statement of functional expenses. During fiscal year 2013, the letter of credit expired and was not renewed. The bonds are now secured by the Center's real estate. As of June 30, 2014 and 2013, the balance of the bonds payable was \$23,866,776 and \$24,425,000, respectively. In order to hedge against potential interest rate fluctuations on the bonds payable, the Center has entered into swap agreements on the bonds payable (see page 20).

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

**NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

(6) LONG-TERM DEBT (Continued)

Bonds Payable (Continued)

The bond agreements contain 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, 2014 and 2013.

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

2015	\$585,000
2016	\$615,000
2017	\$650,000
2018	\$685,000
2019	\$725,000

Notes Payable

During fiscal year 2007, the Realty entered into two notes payable totaling \$5,780,000 with MassDevelopment and MHIC. The notes bore interest at 3.15% and 3.635%, beginning in April, 2011, with interest-only payments due monthly. No principal payments were due under these agreements as long as the Center continued to operate as a business, as defined in the agreement. These notes were due in December, 2013 and February, 2014, and were secured by the Realty's land and building. Interest expense under these agreements was approximately \$98,000 and \$191,000 for the years ended June 30, 2014 and 2013, respectively, and is included in mortgage interest in the accompanying combining statements of functional expenses. During fiscal year 2014, the Center exercised its rights under certain put option agreements and made payments totaling \$569,025 to purchase MassDevelopment's and MHIC's rights in the notes payable. The execution of the put options effectively forgave the outstanding principal balances of the notes payable. Accordingly, the Center has recorded \$5,780,000 of forgiveness of debt during fiscal year 2014.

Debt Service Reserve Funds

The Center was required to maintain certain debt service reserve funds on deposit with the trustee pursuant to the agreements covering its bond issues (see page 18). These funds were invested in fixed income securities or money market funds and are valued using Level 1 inputs. During fiscal year 2014, in accordance with the restructuring of the bonds (see page 18), these reserves were released. The balance of the funds consists of the following at June 30, 2013:

Debt Service Reserve Fund	\$1,839,053
Construction Fund	<u>187,628</u>
	<u>\$2,026,681</u>

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

**NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

(6) LONG-TERM DEBT (Continued)

Interest Rate Swap Contract

To hedge against potential interest rate exposure under the variable rate bonds, the Center entered into an interest rate swap agreement. The terms of the swap contract are as follow:

Notational Amount	\$23,870,000
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 is 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 \$24,425,000 as of both June 30, 2014 and 2013.

The swap contracts are reported at fair value in the accompanying combining statement of financial position as of June 30, 2014. 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 years ended June 30, 2014 and 2013, the Center recorded unrealized gain (loss) of approximately \$(207,000) and \$208,000, respectively, on the swap contracts, which are shown as unrealized gain on carrying value of interest rate swap contract in the accompanying combining statements of activities and changes in net assets.

(7) LEASE AGREEMENTS

Facility

The Center has entered into leases for administrative and program space. The leases expire on various dates through June 30, 2023. 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 years ended June 30, 2014 and 2013, was approximately \$1,839,000 and \$584,000, respectively, which is included in rent expense in the accompanying combining statements of functional expenses. The Center has options to renew these leases with prior written notice.

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

**NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

(7) LEASE AGREEMENTS (Continued)

Equipment

The Center also leases equipment under operating lease agreements that expire on various dates through February, 2019. Equipment lease expense was approximately \$77,000 and \$51,000 for the years ended June 30, 2014 and 2013, respectively, and is included in rent in the accompanying combining statements of functional expenses.

Future minimum lease payments under these agreements are as follows:

	<u>Equipment</u>	<u>Facility</u>	
2015	\$ 78,184	\$ 2,041,923	
2016	35,041	1,875,425	
2017	20,938	1,642,811	
2018	13,692	1,375,894	
2019	9,128	1,252,222	
Thereafter	-	2,046,742	
Total	<u>\$156,983</u>	<u>\$10,235,017</u>	

(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 lesser of either \$100,000 or the debt payments made by the Realty. Total rent expense under this operating lease was approximately \$832,000 and \$910,000 for the years ended June 30, 2014 and 2013, respectively, and is included in the accompanying combining statements of functional expenses. These amounts are eliminated on the accompanying combining financial statements.

(9) BENEFIT PLANS

The Center maintains a tax sheltered annuity plan (TSA) covered under Section 403(b) of the IRC. The Center also maintains a profit sharing plan (PSP) covered under Section 401(a) of the IRC (collectively, the Plan).

The Plan is a defined contribution plan covering substantially all employees of FCHC who work twenty or more hours per week. Participants may elect to contribute a percentage up to 100% of pre-tax annual compensation subject to annual limits.

Employees become eligible for any FCHC discretionary matching contributions approved annually by management and the Board of Directors of the FCHC beginning the month after their employment. The Board of Directors approved a FCHC match of 50% of employee deferrals not to exceed 2% of compensation for the years ended June 30, 2014 and 2013.

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

**NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

(9) BENEFIT PLANS (Continued)

The Plan also has a discretionary contribution provision subject to management and the Board of Directors' approval for those employees of FCHC that have rendered 1,000 hours of service during the Plan year and worked one year of service unless the 1,000 hours were not attained due to employee death or the employee became disabled or retired on or after the normal retirement date during the Plan year. The Board of Directors approved a 3% of compensation profit sharing contribution for the years ended June 30, 2014 and 2013.

AAC has a defined contribution 403(b) plan for the benefit of eligible employees. Employees with 1,000 or more hours of service during any twelve month period commencing with the date of employment, or anniversary date, are eligible to participate in the Plan.

During fiscal years 2014 and 2013, the Center made all required deposits and contributions to the TSA and PSP plans.

The Center also offers a plan under IRC 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 \$11,000 as of June 30, 2014 and 2013.

The Center contributed \$1,080,690 and \$883,453 to the above benefit plans for the years ended June 30, 2014 and 2013, respectively, which are included in payroll taxes and benefits in the accompanying combining financial statements.

(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 exceeded 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) MEDICAL MALPRACTICE INSURANCE

The Center is insured for professional liability coverage through the Federal Bureau of Primary Health Care, known as the Federal Tort Claims Act (FTCA), in accordance with the Public Health Services Act. This coverage is provided to the Center through its Section 330 Community Health Center grant administered by HRSA. 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, its Board members, its employees, and its contractors who are physicians or other licensed or certified health care practitioners.

(12) RECLASSIFICATIONS

Certain amounts in the June 30, 2013 combining financial statements have been reclassified to conform with the June 30, 2014 presentation.

FENWAY COMMUNITY HEALTH CENTER, INC. AND AFFILIATE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>	<u>EXPENDITURES TO SUBRECIPIENTS</u>
<u>U.S. Department of Justice:</u>				
Direct -				
Corrections_Training and Staff Development	16.601	N/A	\$ 10,000	\$ -
Passed through Commonwealth of Massachusetts Victim Witness Assistance Board:				
Crime Victim Assistance	16.575	VOCA2013FENW	<u>143,600</u>	<u>-</u>
Total U.S. Department of Justice			<u>153,600</u>	<u>-</u>
<u>U.S. Department of Health and Human Services:</u>				
Direct:				
Allergy, Immunology and Transplantation Resesarch	93.855	N/A	2,571,609	-
Child Health and Human Development Extramural Research	93.865(1)	N/A	646,696	52,967
ARRA - Community Health Applied Research Network	93.420	N/A	228,094	153,363
Drug Abuse and Addiction Research Programs	93.279(*)	N/A	350,952	-
Health Centers Cluster:				
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	N/A	1,044,978	-
AIDS Education and Training Centers	93.145(%)	N/A	52,000	-
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	N/A	472,486	132,855
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	N/A	35,417	-
Mental Health Research Cluster:				
Mental Health Research Grants	93.242	N/A	902,193	-
Technical and Non-Financial Assistance to Health Centers	93.129	N/A	300,533	-
Special Projects of National Significance	93.928	N/A	79,068	-
Minority Health and Health Disparities Research	93.307	N/A	406,086	89,684
Mental Health Research Career/Scientist Development Awards	93.281	N/A	<u>31,874</u>	<u>-</u>
Total Direct			7,121,986	428,869
Passed-through Commonwealth of Massachusetts, Department of Public Health:				
HIV Prevention Activities - Health Department Based	93.940	4942MM31001	426,589	-
HIV Care Formula Grants	93.917	4942MM31001	175,528	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	23015358087	10,000	-

FENWAY COMMUNITY HEALTH CENTER, INC. AND AFFILIATE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS-THROUGH ENTITY IDENTIFYING NUMBER</u>	<u>FEDERAL EXPENDITURES</u>	<u>EXPENDITURES TO SUBRECIPIENTS</u>
<u>U.S. Department of Health and Human Services:</u>				
(Continued)				
Passed-through Non-Profit Organizations:				
HIV Emergency Relief Project Grants	93.914	N/A	857,733	-
Child Health and Human Development Extramural Research	93.865(!)	N/A	1,003,831	-
Alcohol Research Programs	93.273	N/A	375,018	-
Drug Abuse and Addiction Research Programs	93.279(*)	N/A	90,507	-
ARRA - Grants for Training in Primary Care Medicine and Dentistry Training and Enhancement	93.403	N/A	230,932	-
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	N/A	145,664	-
Family Planning Services	93.217	N/A	62,043	-
National Institutes of Health Acquired Immunodeficiency Syndrome Research Loan Repayment Program	93.936	N/A	61,742	-
National Family Caregiver Support, Title III, Part E	93.052	N/A	20,634	-
Cancer Treatment Research	93.395	N/A	7,625	-
AIDS Education and Training Centers	93.145(%)	N/A	13,562	-
HIV Demonstration, Research, Public and Professional Education Projects	93.941	N/A	22,060	-
Total U.S. Department of Health and Human Services			<u>10,625,454</u>	<u>428,869</u>
<u>U.S. Department of Housing and Urban Development</u>				
Housing Opportunities for Persons with AIDS	14.241			
Passed through the City of Boston - Neighborhood Development		N/A	731,507	-
Passed through the City of Lowell		N/A	126,040	-
Passed through the City of Providence		N/A	30,998	-
Total CFDA #14.241			888,545	
Passed through the City of Cambridge:				
Emergency Solutions Grant Program	14.231	N/A	9,750	-
Supportive Housing Program	14.235	N/A	44,529	-
Total U.S. Department of Housing and Urban Development			<u>942,824</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$11,721,878</u>	<u>\$ 428,869</u>
<u>Totals for the Following CFDA's</u>				
93.865(!)		\$	1,650,527	
93.145(%)		\$	65,562	
93.279(*)		\$	441,459	

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards 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*.

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
COMBINING FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

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

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 combining financial statements of Fenway Community Health Center, Inc. and Affiliates (collectively, the Center), which comprise the combining statement of financial position as of June 30, 2014, and the related combining statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the combining financial statements, and have issued our report thereon dated November 4, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center's combining 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 the Center's combining financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of combining 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 Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Boston, Massachusetts
November 4, 2014

Where Every Client is a Valued Client

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited Fenway Community Health Center, Inc. and Affiliates' (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, 2014. 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.

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

Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2014.

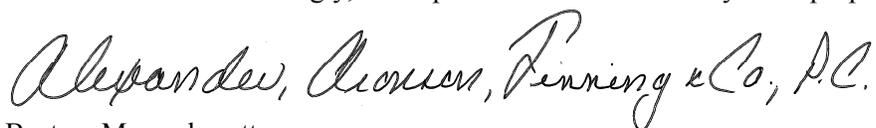
Report on Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with 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.

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
November 4, 2014

FENWAY COMMUNITY HEALTH CENTER, INC. AND AFFILIATES

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014**

I. SUMMARY OF AUDITOR’S RESULTS

Combining Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes **X** No
- Significant deficiency(ies) identified? Yes **X** None reported
- Noncompliance material to combining 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

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 OMB Circular A-133? Yes **X** No

Identification of major programs:

<u>Program or Cluster Title</u>	<u>Federal CFDA Number</u>
Drug Abuse and Addiction Research Programs	93.279
Health Centers Cluster: Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224
Minority Health and Health Disparities Research	93.307
Child Health and Human Development Extramural Research	93.865

FENWAY COMMUNITY HEALTH CENTER, INC. AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2014

(Continued)

I. **SUMMARY OF AUDITOR'S RESULTS** (Continued)

Identification of major programs (Continued):

<u>Program or Cluster Title</u>	<u>Federal CFDA Number</u>
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943
HIV Prevention Activities – Health Department Based	93.940

Dollar threshold used to distinguish between Type A and Type B programs: \$351,656.

Auditee qualified as low-risk auditee? X Yes No

II. **COMBINING FINANCIAL STATEMENT FINDINGS**

None

III. **FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None