

**LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER**

FINANCIAL STATEMENTS

JUNE 30, 2012



LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

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Feeley & Driscoll, P.C.

Certified Public Accountants / Business Consultants

To the Board of Directors
Lynn Community Health, Inc. and Subsidiary
Lynn, Massachusetts

Independent Auditors' Report

We have audited the accompanying consolidated balance sheets of Lynn Community Health, Inc. and Subsidiary as of June 30, 2012 and 2011, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lynn Community Health, Inc. and Subsidiary as of June 30, 2012 and 2011, and the results of their operations, changes in net assets and cash flows for the years 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 19, 2012, on our consideration of Lynn Community Health, Inc. and Subsidiary's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information, as described in the table of contents, is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

November 19, 2012

Feeley + Driscoll, P.C.



LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Consolidated Balance Sheets

June 30, 2012 and 2011

<u>Assets</u>	<u>2012</u>	<u>2011</u>	<u>Liabilities and Net Assets</u>	<u>2012</u>	<u>2011</u>
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 1,127,406	\$ 1,938,953	Current portion of long-term debt	\$ 104,915	\$ 76,149
Investments	521,434	519,060	Accounts payable and accrued expenses	1,094,466	4,000,430
Patient accounts receivable, net	4,697,023	5,260,670	Accrued salaries and wages payable	<u>2,606,412</u>	<u>2,088,526</u>
Grants and contracts receivable	1,697,590	949,574	Total current liabilities	3,805,793	6,165,105
Other accounts receivable	1,346,681	1,023,574	Long-term liabilities -		
Prepaid expenses and other current assets	323,231	206,264	Long-term debt, net of current portion	<u>17,713,651</u>	<u>17,808,851</u>
Current portion of assets whose use is limited or restricted	<u>4,514,863</u>	<u>2,660,119</u>	Total liabilities	<u>21,519,444</u>	<u>23,973,956</u>
Total current assets	<u>14,228,228</u>	<u>12,558,214</u>			
Assets whose use is limited or restricted:					
Board designated	580,338	588,822			
Donor restricted	408,441	112,431			
Indenture agreement	<u>434,745</u>	<u>2,008,221</u>			
	<u>1,423,524</u>	<u>2,709,474</u>			
Property and equipment, net	<u>19,907,956</u>	<u>13,224,183</u>			
Other assets:			Commitments and contingencies		
Deferred financing costs	373,610	420,309			
Long-term note receivable	<u>8,804,200</u>	<u>8,804,200</u>			
	<u>9,177,810</u>	<u>9,224,509</u>	Net assets:		
			Unrestricted	19,057,268	12,499,740
			Temporarily restricted	<u>4,160,806</u>	<u>1,242,684</u>
			Total net assets	<u>23,218,074</u>	<u>13,742,424</u>
Total assets	<u>\$ 44,737,518</u>	<u>\$ 37,716,380</u>	Total liabilities and net assets	<u>\$ 44,737,518</u>	<u>\$ 37,716,380</u>

See accompanying notes to consolidated financial statements.

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Consolidated Statements of Operations

For the years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenue and other support:		
Net patient service revenue	\$ 27,474,859	\$ 24,455,368
Grant and contract revenue	12,164,328	10,076,095
Net assets released from restrictions used in operations	1,333,717	1,187,203
Other revenue	374,824	122,904
Total revenue and other support	41,347,728	35,841,570
Expenses:		
Salaries and wages	22,681,960	19,442,154
Employee benefits	5,732,750	5,019,621
Medical expenses	5,898,114	5,239,729
Occupancy	2,752,518	2,039,358
Administrative and general supplies and expense	845,040	712,329
Purchased services	1,481,699	1,397,095
Transportation	83,080	51,576
Depreciation and amortization	896,619	408,786
Interest expense	331,098	14,500
Insurance	206,553	210,086
Provision for uncollectible accounts	545,122	537,038
Total expenses	41,454,553	35,072,272
(Loss) income from operations	(106,825)	769,298
Non-operating gains (losses):		
Investment income	103,882	35,590
Contributions	223,417	30,406
Realized gain on sale of investments	32,092	70,453
Loss on refinancing	-	(79,214)
Gain on sale of asset	-	619,995
Environmental remediation costs	-	(877,470)
Total non-operating gains (losses)	359,391	(200,240)
Excess of revenue, other support and gains over expenses and losses	252,566	569,058
Capital grant	6,298,119	1,309,266
Net assets released from restriction for capital expenditures	65,449	3,000,000
Unrealized (loss) gain on investments	(58,606)	69,146
Increase in unrestricted net assets	\$ 6,557,528	\$ 4,947,470

See accompanying notes to consolidated financial statements.

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Consolidated Statements of Changes in Net Assets

For the years ended June 30, 2012 and 2011

	Unrestricted	Temporarily Restricted	Total
Net assets, June 30, 2010	\$ 7,552,270	\$ 3,624,613	\$ 11,176,883
Excess of revenue, other support and gains over expenses and losses	569,058	-	569,058
Unrealized gain on investments	69,146	-	69,146
Grants and contributions	-	1,805,274	1,805,274
Capital grant	1,309,266	-	1,309,266
Net assets released from restrictions used in operations	-	(1,187,203)	(1,187,203)
Net assets released from restriction for capital expenditures	3,000,000	(3,000,000)	-
Change in net assets	4,947,470	(2,381,929)	2,565,541
Net assets, June 30, 2011	12,499,740	1,242,684	13,742,424
Excess of revenue, other support and gains over expenses and losses	252,566	-	252,566
Unrealized loss on investments	(58,606)	-	(58,606)
Grants and contributions	-	4,317,288	4,317,288
Capital grant	6,298,119	-	6,298,119
Net assets released from restrictions used in operations	-	(1,333,717)	(1,333,717)
Net assets released from restriction for capital expenditures	65,449	(65,449)	-
Change in net assets	6,557,528	2,918,122	9,475,650
Net assets, June 30, 2012	\$ 19,057,268	\$ 4,160,806	\$ 23,218,074

See accompanying notes to consolidated financial statements.

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Consolidated Statements of Cash Flows

For the years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 9,475,650	\$ 2,565,541
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	896,619	408,786
Provision for uncollectible accounts	545,122	537,038
Loss on re-financing	-	79,214
Capital grants	(6,298,119)	(1,309,266)
Restricted grants	(4,317,288)	(1,805,274)
Gain on sale of asset	-	(619,995)
Net realized and unrealized losses (gains) on investments and assets whose use is limited or restricted	26,514	(139,599)
Increase (decrease) in cash resulting from a change in:		
Patient accounts receivable	18,525	(2,060,512)
Grants and contracts receivable	(748,016)	(270,269)
Other receivables, prepaid expenses and other current assets	(440,074)	(279,692)
Accounts payable and accrued expenses	(2,905,964)	297,239
Accrued salaries and wages payable	517,886	354,517
Net cash used in operating activities	<u>(3,229,145)</u>	<u>(2,242,272)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(7,533,693)	(6,506,987)
Proceeds from sales of assets whose use is limited or restricted	826,346	669,006
Proceeds from sale of asset	-	619,995
Payments for note receivable	-	(8,804,200)
Increase in assets whose use is limited or restricted	(1,424,028)	(2,470,544)
Net cash used in investing activities	<u>(8,131,375)</u>	<u>(16,492,730)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	-	17,885,000
Capital grants	6,298,119	1,309,266
Restricted grants	4,317,288	1,805,274
Principal payments on long-term debt	(66,434)	(1,829,184)
Payment of financing costs	-	(506,060)
Net cash provided by financing activities	<u>10,548,973</u>	<u>18,664,296</u>
Net increase (decrease) in cash and cash equivalents	(811,547)	(70,706)
Cash and cash equivalents, beginning of year	<u>1,938,953</u>	<u>2,009,659</u>
Cash and cash equivalents, end of year	<u>\$ 1,127,406</u>	<u>\$ 1,938,953</u>
Supplemental disclosure of cash flow information -		
Cash paid for interest, net of amount capitalized	<u>\$ 331,098</u>	<u>\$ 14,500</u>
Acquisition of property and equipment included in accounts payable	<u>\$ -</u>	<u>\$ 2,535,206</u>

See accompanying notes to consolidated financial statements.

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

Note 1 - Organization

Lynn Community Health, Inc. (the "Health Center" or "Center") is a not-for profit corporation organized in January 1973 to provide comprehensive outpatient health care services to residents of the City of Lynn, Massachusetts and surrounding areas. Substantially all of the Health Center's contract, grant and patient service revenues are funded by federal and state governmental agencies.

Lynn Community Health Center Building Corporation ("Building Corporation") is a not-for profit corporation organized in June 2010 to promote the development and construction of the new health center. The Health Center is the sole member of the Building Corporation.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation - The consolidated financial statements include the accounts of the Health Center and Building Corporation (collectively referred to herein as the "Organization"). All significant intercompany transactions and balances have been eliminated in consolidation.

The accounts of the Organization are maintained on the accrual basis of accounting. Net assets are classified into temporarily restricted and unrestricted net assets, when appropriate, to properly disclose the nature and amount of significant resources that have been restricted in accordance with specified donor objectives. Unrestricted net assets represent amounts not restricted for identified purposes by donors or grantors. These amounts are available to be used by the board of directors for the general purpose of the Organization. Temporarily restricted net assets are those whose use by the Organization has been limited by donors or grantors to a specific period or purpose.

Estimates - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

Investments - The Center records investments in securities at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment income (including realized gains and losses on investments, interest and dividends) is reported as an increase to unrestricted or temporarily restricted net assets depending upon the existence or absence of donor restrictions. Unrealized gains and losses on investments are excluded from the excess of revenue, other support and gains over expenses and losses, and reported as other changes in net assets.

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Notes to Consolidated Financial Statements - Continued

June 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies - Continued

Allowance for Doubtful Accounts - An allowance for doubtful accounts is recorded to report patient accounts receivable at their net realizable value. Estimates for doubtful accounts are based on past collection experience together with a review of the current status of the existing receivables.

Inventory - Inventory (included with prepaid expenses and other current assets) is stated at the lower of cost or market. Inventory consists of medical and central supplies.

Assets Whose Use Is Limited or Restricted - Assets whose use is limited or restricted include assets set aside by the board of directors over which the board retains control and may, at its discretion, use for various purposes, assets specified by donors or grantors for specific purposes and assets held under an indenture agreement.

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

Deferred Financing - Deferred financing costs and original issue costs are amortized over the period the related obligation is outstanding.

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

Net Patient Service Revenue - Net patient service revenue is reported at the estimated net realizable amount from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Grant and Contract Revenue - Grant and contract revenue are reported in accordance with the provisions of the applicable contract or grant agreement. The majority of the grants and contracts received by the Center are subject to possible audit by the grantor agency or governmental regulatory agency overseeing the contract award. These contracts generally provide for payment to the Organization based on cost reimbursement or fixed fee per unit of service.

Charity Care - The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Center includes in revenue its reimbursement from the Massachusetts Health Safety Net Trust ("HSN") for services provided under its charity care policy.

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Notes to Consolidated Financial Statements - Continued

June 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies - Continued

Excess of Revenue, Other Support and Gains Over Expenses and Losses - The statement of operations includes the excess of revenue, other support and gains over expenses and losses. Changes in unrestricted net assets which are excluded from the excess of revenue, other support and gains over expenses and losses, consistent with industry practice, include grants and donations used to purchase long-lived assets and unrealized gains and losses on investments.

Gifts, Bequests and Contributions - The Organization recognizes contributions received, including pledges, as revenues in the period received at their fair value. Gifts of cash or other support are reported as restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same operating period are presented as unrestricted support. Contributions in the form of property are recorded at the fair market value on the date the property is received.

Advertising Costs - Advertising costs are expensed as incurred.

Tax Status - The Center and the Building Corporation are incorporated under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, accordingly, are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Center and the Building Corporation are classified as public charities. The Organization annually evaluates its tax status and tax positions taken with respect to its operations and financial position. Tax years from 2008 through the current year remain open for examination by federal and state taxing authorities.

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

Subsequent Events - The Organization has evaluated subsequent events through November 19, 2012, which is the date the financial statements were available for issuance.

Note 3 - Concentration of Credit Risk

Financial instruments that potentially subject the Organization to a concentration of credit risk are patient accounts receivable, cash and cash equivalents and other interest-bearing investments. The Organization invests all available cash in money market securities of various banks, commercial paper of domestic companies with high credit ratings, equity securities, and securities backed by the United States Government. The Organization, by policy, limits the amount of credit exposure to any one institution.

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Notes to Consolidated Financial Statements - Continued

June 30, 2012 and 2011

Note 3 - Concentration of Credit Risk - Continued

The Center grants credit, without collateral, to its patients, many of whom are insured under third-party payor agreements. The mix of receivables from third-party payors was as follows at June 30:

	<u>2012</u>	<u>2011</u>
Commercial and other	58%	61%
Medicaid	30%	28%
Medicare	11%	10%
Self Pay	1%	1%
	100%	100%
Total	100%	100%

Management monitors and evaluates the allowance for doubtful accounts to ensure that receivables are stated at their net realizable value. Management believes that the receivable balances from various payors do not represent a concentration of credit risk to the Center. For the years ended June 30, 2012 and 2011 the allowance for doubtful accounts amounted to \$991,238 and \$951,872, respectively.

The Organization has a potential concentration of credit risk in that it maintains deposits with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The maximum deposit insurance amount is \$250,000 for interest-bearing accounts, which is applied per depositor, per insured depository institution for each account ownership category. Non-interest bearing transaction deposit accounts are provided unlimited insurance coverage through December 31, 2012. As of June 30, 2012 and 2011, the Organization had \$59,886 and \$0-, respectively, of deposits in excess of amounts insured by the FDIC.

Note 4 - Notes Receivable

During 2011, the Center, in connection with the Building Corporation, entered into a series of transactions to accommodate its participation in the New Market Tax Credit program for the development and financing of a new health center. The Center loaned the proceeds of its bonds (see Note 12), along with the proceeds of a private grant (\$8,804,200 in total) to the Lynn CHC Investment Fund, LLC ("Investment Fund"). The Investment Fund then invested in the MassDevelopment CDE #6, LLC ("CDE"). The CDE used the investment to provide financing to the Building Corporation in three separate loans, totaling \$11,385,000, for the construction of the new health center. The notes receivable with the Investment Fund are to be repaid, including interest at 1% per annum, through July 2020. The loan is interest only for the first seven years and then amortizes until maturity, at which time all unpaid principal and interest are due. The balance at June 30, 2012 is \$8,804,200. The permanent financing amount for the development of the new health center is effectively the difference between the Health Center bonds, the Building Corporation notes payable and the Health Center's note receivable from the Investment Fund. The Center earned and received \$88,042 in interest during 2012.

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
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Notes to Consolidated Financial Statements - Continued

June 30, 2012 and 2011

Note 5 - Charity Care

As a community provider of health care services, the Center maintains programs to promote the overall well being of the community in which it serves. These include community outreach programs, health clinics, and the provision of primary care services. These services are available to all individuals regardless of their ability to pay. Those unable to pay for the care they receive are eligible to benefit from the Center's free care policy. Such individuals complete a standard form to request the granting of free care based upon their inability to pay for services.

The Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and patient service statistics. Total charity care charges for the years ended June 30, 2012 and 2011 amounted to \$6,400,000 and \$5,760,000, respectively.

The cost to provide the charity care was approximately \$5,800,000 and \$5,400,000 for the years ended June 30, 2012 and 2011, respectively. The cost to provide charity care is determined using a ratio of cost to charges.

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

The Health Safety Net Trust ("HSN") reimburses providers according to a claims methodology, based on an established rate per visit. Such amounts received from the HSN are included in net patient service revenue and totaled \$3,400,000 and \$5,200,000 for the years ended June 30, 2012 and 2011, respectively.

Note 6 - Surplus Revenue Retention

The Operational Services Division of the Commonwealth of Massachusetts ("the Commonwealth") has promulgated regulations requiring that all not-for-profit entities engaged in the provision of health and social service programs by contract with state agencies be subject to a revenue retention policy. Under this policy, any surplus generated from contracts with the Commonwealth of Massachusetts which exceeds five percent (5%) of the current year's Commonwealth revenues or twenty percent (20%) of total Commonwealth revenues on a cumulative basis becomes a liability to the Commonwealth. Additionally, the Commonwealth requires that providers take steps to segregate state attributed surpluses which fall below five percent (5%) as a segregated account which is presented in unrestricted net assets. As of June 30, 2012, there are no amounts subject to recoupment.

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Notes to Consolidated Financial Statements - Continued

June 30, 2012 and 2011

Note 7 - Property and Equipment

Property and equipment were as follows at June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 253,000	\$ 253,000
Buildings and improvements	20,396,201	4,739,917
Equipment	3,480,762	1,904,959
Motor vehicles	14,780	14,780
Construction in progress	176,107	9,874,501
	24,320,850	16,787,157
Less accumulated depreciation	4,412,894	3,562,974
	\$ 19,907,956	\$ 13,224,183

In connection with the site development for the new building, the Organization incurred \$877,470 in environmental remediation costs, which are reported as a non-operating loss in the Organization's statement of operations for the year ended June 30, 2011.

Note 8 - Investments and Assets Whose Use is Limited or Restricted

Investments and assets whose use is limited or restricted consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 5,175,373	\$ 4,551,758
Equity securities	571,101	598,601
Fixed income securities	487,346	473,942
Pledges receivable, net	182,676	229,013
Money market funds	43,325	35,339
	\$ 6,459,821	\$ 5,888,653

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Notes to Consolidated Financial Statements - Continued

June 30, 2012 and 2011

Note 8 - Investments and Assets Whose Use is Limited or Restricted - Continued

Investments and assets whose use is limited or restricted, as reported in the consolidated balance sheet, consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Board-designated	\$ 580,338	\$ 588,822
Bond sinking fund	434,745	422,278
Donor restricted, net of current portion	408,441	112,431
Assets whose use is limited under indenture agreement, net of current portion - project fund	-	1,585,943
	<u>1,423,524</u>	<u>2,709,474</u>
Short term investments	521,434	519,060
Current portion of assets whose use is limited under indenture agreement - project fund	762,498	2,535,206
Donor restricted, current portion	3,752,365	124,913
	<u>5,036,297</u>	<u>3,179,179</u>
	<u>\$ 6,459,821</u>	<u>\$ 5,888,653</u>

Note 9 - Investments

Investments are recorded at fair value and consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Equity securities	\$ 571,101	\$ 598,601
Fixed income securities	487,346	473,942
Money market	43,325	35,339
	<u>1,101,772</u>	<u>1,107,882</u>
Total	<u>\$ 1,101,772</u>	<u>\$ 1,107,882</u>

Investments are reported on the balance sheet as follows:

Assets whose use is limited - board designated Investments	\$ 580,338	\$ 588,822
	<u>521,434</u>	<u>519,060</u>
Total	<u>\$ 1,101,772</u>	<u>\$ 1,107,882</u>

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Notes to Consolidated Financial Statements - Continued

June 30, 2012 and 2011

Note 9 - Investments - Continued

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

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
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Level 2	Inputs to the valuation methodology include: <ul style="list-style-type: none">• quoted prices for similar assets or liabilities in active markets;• quoted prices for identical or similar assets or liabilities in inactive markets;• inputs other than quoted prices that are observable for the asset or liability;• inputs that are derived principally from or corroborated by observable market data by correlation or other means.
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If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.
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The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Money Market funds: Valued at the net asset value (NAV) of shares held by the Organization at year end.

Equity Securities and Fixed Income securities: Valued at the closing price reported in the active market in which the individual security is traded.

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

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Notes to Consolidated Financial Statements - Continued

June 30, 2012 and 2011

Note 9 - Investments - Continued

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2012:

	June 30, 2012	Level 1	Level 2	Level 3
Investments included in:				
Money market funds	\$ 43,325	\$ 43,325	\$ -	\$ -
Equity securities				
Financials	107,553	107,553	-	-
Consumer	101,039	101,039	-	-
Miscellaneous	86,833	86,833	-	-
Information technology	83,807	83,807	-	-
Health Care	65,764	65,764	-	-
Industrials	54,568	54,568	-	-
Energy	39,795	39,795	-	-
Utilities	17,372	17,372	-	-
Materials	14,370	14,370	-	-
Total equity securities	571,101	571,101	-	-
Fixed income	487,346	487,346	-	-
	<u>\$ 1,101,772</u>	<u>\$ 1,101,772</u>	<u>\$ -</u>	<u>\$ -</u>

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Notes to Consolidated Financial Statements - Continued

June 30, 2012 and 2011

Note 9 - Investments - Continued

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2011:

	June 30, 2011	Level 1	Level 2	Level 3
Investments included in:				
Money market funds	\$ 35,339	\$ 35,339	\$ -	\$ -
Equity securities				
Financials	134,878	134,878	-	-
Miscellaneous	125,720	125,720	-	-
Consumer	77,831	77,831	-	-
Information technology	73,107	73,107	-	-
Energy	61,515	61,515	-	-
Health Care	50,407	50,407	-	-
Industrials	47,342	47,342	-	-
Materials	21,247	21,247	-	-
Utilities	6,554	6,554	-	-
Total equity securities	<u>598,601</u>	<u>598,601</u>	-	-
Fixed income	<u>473,942</u>	<u>473,942</u>	-	-
	<u>\$ 1,107,882</u>	<u>\$ 1,107,882</u>	<u>\$ -</u>	<u>\$ -</u>

Unrealized losses at June 30, 2012 are shown below. None of the losses are considered other than temporary.

	Time Period in Loss Position				Total	
	Less than 12 months		Greater than 12 months		Fair Value	Unrealized Loss
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss		
Equity Securities	<u>\$ 259,272</u>	<u>\$ 56,290</u>	<u>\$ 70,709</u>	<u>\$ 2,316</u>	<u>\$ 329,981</u>	<u>\$ 58,606</u>

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Notes to Consolidated Financial Statements - Continued

June 30, 2012 and 2011

Note 9 - Investments - Continued

Unrealized losses at June 30, 2011 are shown below. None of the losses are considered other than temporary.

	Time Period in Loss Position				Total	
	Less than 12 months		Greater than 12 months		Fair Value	Unrealized Loss
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss		
Equity Securities	<u>\$ 92,492</u>	<u>\$ 7,774</u>	<u>\$ 86,820</u>	<u>\$ 5,359</u>	<u>\$ 179,312</u>	<u>\$ 13,133</u>

Note 10 - Endowments

The Organization's endowment includes funds designated by the board of directors to function as endowments. As required by Generally Accepting Accounting Principles ("GAAP"), net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

To satisfy its long-term rate of return objectives, the Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Under the policy of the Organization, the endowment assets are invested to maximize the return on assets, while avoiding undue risk. The Organization invests in money market funds, equity securities and fixed income securities to achieve its long-term return objectives within limited risk constraints. Actual returns in any year may vary from budgeted amounts due to market fluctuations.

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Notes to Consolidated Financial Statements - Continued

June 30, 2012 and 2011

Note 10 - Endowments - Continued

Changes in board designated endowment assets were as follows for the year ended June 30:

	<u>2012</u>	<u>2011</u>
Endowment assets - beginning of year	\$ 588,822	\$ 484,361
Investment return:		
Investment income	14,836	15,238
Realized and unrealized (losses) gains on investments, net	(18,009)	94,159
Fees	(5,311)	(4,936)
Total investment return	<u>(8,484)</u>	<u>104,461</u>
Endowment assets - end of year	<u>\$ 580,338</u>	<u>\$ 588,822</u>

Note 11 - Pledges Receivable

Pledges receivable are expected to be realized in the following periods:

	<u>2012</u>
In less than one (1) year	\$ 102,875
Between one (1) year and five (5) years	98,555
Total pledges receivable	<u>201,430</u>
Less present value discount (3.25%)	8,682
Less reserve for doubtful pledges	<u>10,072</u>
Pledges receivable, net	<u>\$ 182,676</u>

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Notes to Consolidated Financial Statements - Continued

June 30, 2012 and 2011

Note 12 - Long-term Debt

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

	<u>2012</u>	<u>2011</u>
Massachusetts Development Finance Agency (MDFA) Series 2010 Bonds	\$ 6,433,566	\$ 6,500,000
MassDevelopment New Markets CDE #6, LLC A Loan	5,804,200	5,804,200
MassDevelopment New Markets CDE #6, LLC B Loan	3,000,000	3,000,000
MassDevelopment New Markets CDE #6, LLC C Loan	<u>2,580,800</u>	<u>2,580,800</u>
	17,818,566	17,885,000
Less current portion	<u>104,915</u>	<u>76,149</u>
Long-term debt	<u>\$ 17,713,651</u>	<u>\$ 17,808,851</u>

In July 2010, the Center entered into an agreement with Cambridge Savings Bank and the Massachusetts Development Finance Agency (“MDFA”) to issue \$6,500,000 of Massachusetts Development Finance Agency Revenue Bonds, Lynn Community Health Center, Series 2010 (“Series 2010 Bonds”) to refinance its existing 2005 Series A & B MDFA bonds and to fund the loan to the Investment Fund in connection with the New Market Tax Credit financing structure (see Note 4). The Investment Fund invested in the MassDevelopment New Markets CDE #6, LLC (“CDE”). The CDE used the investment to loan the funds to the Lynn Community Health Center Building Corporation in order to provide financing for the construction of the new health center. Under the terms of a loan and trust agreement (the “Agreement”) between the Center, MDFA, and Cambridge Savings Bank, as trustee, the Center is required to make monthly payments to the trustee in amounts sufficient to pay the scheduled principal and interest through maturity in 2018. The bonds bear interest at a rate of 4.63% per annum. The agreement also contains various financial and reporting covenants which management believes will not adversely affect operations.

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Notes to Consolidated Financial Statements - Continued

June 30, 2012 and 2011

Note 12 - Long-term Debt - Continued

The CDE made three (3) loans to the Building Corporation totaling \$11,385,000. (Loan A, Loan B and Loan C). These loans bear interest at 1.47% per annum. Loan A matures in July 2020 and Loans B and C mature in July 2040. All three loans are secured by a mortgage on property known as 269 Union Street, Lynn, Massachusetts. The loans are interest only for the first seven years and then amortized until maturity, at which time all unpaid principal and interest are due. The permanent financing amount for the development of the new health center is effectively the difference between the Health Center bonds, the Building Corporation notes payable and the Health Center's note receivable from the Investment Fund.

Aggregate annual maturities of long-term debt are as follows at June 30:

2013	\$	104,915
2014		109,949
2015		115,333
2016		120,748
2017		126,540
Thereafter		<u>17,241,081</u>
	\$	<u>17,818,566</u>

Concurrent with the New Markets Tax Credit transaction, the Building Corporation entered into a lease agreement with the Health Center pursuant to which the Health Center will lease the new health center for thirty (30) years and pay a monthly rent to the Building Corporation, which will be used by the Building Corporation to pay the debt service on the CDE loans.

The Health Center receives monthly interest on the loan to the Investment Fund at an annual rate of one percent (1%). Amounts received from the Investment Fund will be used by the Health Center to make lease payments to the Building Corporation.

Note 13 - Note Payable, Line of Credit

The Center maintains a \$1,200,000 line of credit agreement with Cambridge Savings Bank. Borrowings under the agreement are due on demand, and interest is payable monthly at the bank's prime rate, which was four percent (4%) at June 30, 2012. The line of credit is secured by assignment of the Center's contracts and is outstanding through January 31, 2013. As of June 30, 2012, no borrowings were outstanding under this agreement. The agreement also contains various financial and reporting covenants which management believes will not adversely affect operations.

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Notes to Consolidated Financial Statements - Continued

June 30, 2012 and 2011

Note 14 - Net Patient Service Revenue

Net patient service revenue consisted of the following as of June 30:

	<u>2012</u>	<u>2011</u>
Gross patient service revenue	\$ 40,340,815	\$ 35,974,922
Less contractual allowances and rate adjustments	<u>12,865,956</u>	<u>11,519,554</u>
Net patient service revenue	<u>\$ 27,474,859</u>	<u>\$ 24,455,368</u>

Note 15 - Third Party Reimbursement

The Center maintains agreements with the Centers for Medicare and Medicaid Services (CMS) (under the Medicare program) and the Commonwealth of Massachusetts (under the Medicaid program) and various commercial insurance carriers, health maintenance organizations and provider organizations. These agreements govern payment for services rendered to subscribers and beneficiaries covered by these programs. Certain of these agreements require the Center to file annual cost reports that summarize actual and allowable cost and charge data.

The Medicare program of the CMS pays the Center under the payment guidelines established for Federally Qualified Health Centers ("FQHC's"). Under this methodology, the Center is paid the lesser of its allowable cost per visit or a payment limit per visit that is established annually by CMS.

The Medicaid program of the Commonwealth of Massachusetts reimburses the Center on a fee-for-service basis for routine services provided. For the majority of services it provides, the Center is reimbursed the lesser of its actual charges or the fee-schedule amounts for such services.

In general, the Center is reimbursed from other third-party payors based on negotiated rates, procedural fee schedules and discounted charges.

Note 16 - Temporarily Restricted Net Assets

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

	<u>2012</u>	<u>2011</u>
Program services	\$ 2,974,649	\$ 470,984
Capital acquisitions	<u>1,186,157</u>	<u>771,700</u>
	<u>\$ 4,160,806</u>	<u>\$ 1,242,684</u>

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Notes to Consolidated Financial Statements - Continued

June 30, 2012 and 2011

Note 17 - Related Party Transactions

The by-laws of the Elder Service Plan of the North Shore, Inc. ("ESP"), a nonprofit organization affiliated with the Health Center, require the executive director and three (3) board members of the Health Center to be board members of ESP. This represents fifty percent (50%) of ESP's board, a non-controlling interest. The Health Center acts as payroll agent for ESP. The Health Center disbursed \$15,948,624 and \$13,367,621 for the years ended June 30, 2012 and 2011, respectively, on behalf of ESP. Included in grants, contracts and other receivables is approximately \$1,943,312 and \$1,367,151 due from ESP at June 30, 2012 and 2011, respectively, for salary reimbursement.

Note 18 - Affiliation Agreements

The Health Center entered into an affiliation agreement with a not-for-profit health care organization in September 2002. The Health Center and the other organization collaborate in certain activities to increase access to primary care services in the West Lynn area and to improve the clinical integration of services offered by the Health Center and affiliates. As a part of this agreement, the Health Center is receiving a grant of up to \$5,024,000 over a five (5) year period. The grant consists of up to \$1,179,000 for space support as defined by the agreement and \$3,845,000 for program support. Additional space support grants will be made available for a second five (5) year period subject to certain conditions. During fiscal year 2011, the agreement was extended through September 2013 for a total grant of \$10,334,000.

For the years ended June 30, 2012 and 2011, the Health Center has cumulatively received and expended \$9,102,680 and \$8,183,522, respectively. The remaining balance of the grant is conditional upon the Health Center achieving certain milestones and is, therefore, not reflected in the accompanying financial statements at June 30, 2012 and 2011.

In addition, the Health Center received a \$3,000,000 capital grant from the organization to help finance the new health center building project in fiscal year 2011.

Note 19 - Retirement Plan

The Health Center offers all employees the opportunity to participate in a 403B plan through either Putnam or Fidelity investments. This is an employee only contribution, and investments are controlled by the individual participant.

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Notes to Consolidated Financial Statements - Continued

June 30, 2012 and 2011

Note 20 - Medical Malpractice Insurance

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

Note 21 - Commitments and Contingencies

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

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

Note 22 - Functional Expenses

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

	<u>2012</u>	<u>%</u>	<u>2011</u>	<u>%</u>
Program services	\$ 34,903,931	84%	\$ 30,077,196	86%
General and administrative	6,549,393	16%	4,995,076	14%
Fundraising	1,229	-	-	-
	<u>41,454,553</u>	<u>100%</u>	<u>35,072,272</u>	<u>100%</u>
	<u>\$ 41,454,553</u>		<u>\$ 35,072,272</u>	

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Notes to Consolidated Financial Statements - Continued

June 30, 2012 and 2011

Note 23 - Operating Leases

The Center leases various property under non-cancelable operating leases expiring at different times through 2017, with monthly payments ranging from \$766 to \$19,373. During the years ended June 30, 2012 and 2011, the Center incurred rent expense of \$347,906 and \$408,209, respectively. The following are the minimum future lease payments due at June 30:

Year ending June 30:

2013	\$	250,287
2014		261,508
2015		251,900
2016		236,753
2017		<u>161,115</u>
	\$	<u>1,161,563</u>

Included in the lease expense total above is the value of property provided to the Center as in-kind contributions. The Health Center recognizes contribution revenue for certain goods and services received at the fair value of those goods and services. The value of the in-kind contributions was \$120,770 for each of the years ended June 30, 2012 and 2011 and is included in the other revenue on the statement of operations.

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2012

<u>Federal Grantor/Pass-through Grantor</u>	<u>Federal CFDA #</u>	<u>Pass-through Identification Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services:			
Direct Awards:			
Capital Development Grants	93.526		\$ 6,213,019
Community Health Center Program	92.224		2,510,223
HIV Relief Project Grant	93.918		297,351
Passed through Boston Public Health Commission			
HIV Relief Project Grant	93.918		370,456
Total HIV Relief Project Grant			<u>667,807</u>
Passed through HealthQuarters, Inc.			
Family Planning Grant	93.217		107,254
Passed through the Commonwealth of Massachusetts			
Department of Public Health:			
Refugee and Entrance Assistance	93.566	4003-0806	143,083
Prevention and Treatment of Substance Abuse	93.959	4512-9069	21,057
HIV/AIDS Prevention	93.943	4513-9024	20,000
HIV Prevention Activities	93.940	4513-9018	20,000
Bioterrorism Preparedness Grant	93.889	4512-0103	5,000
			<u>9,707,443</u>
U.S. Department of Agriculture:			
Passed through the Commonwealth of Massachusetts			
Department of Public Health:			
Women, Infants and Children Program	10.557	4513-9007	5,897,220
Total expenditures of federal awards			<u>\$ 15,604,663</u>

The accompanying notes are an integral part of this schedule.

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

Note 1 - Basis of Presentation

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

Note 2 - Women, Infants and Children (WIC) Program

In fiscal year 2012, the WIC Program issued \$5,055,481 in vouchers to program participants to be used at local grocery stores. These funds, which are not received directly by the Organization, are included on the schedule of expenditures of federal awards.



Feeley & Driscoll, P.C.
Certified Public Accountants / Business Consultants

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

To the Board of Directors
Lynn Community Health, Inc. and Subsidiary
Lynn, Massachusetts

We have audited the consolidated financial statements of Lynn Community Health, Inc. and Subsidiary as of and for the year ended June 30, 2012, and have issued our report thereon dated November 19, 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

Management of Lynn Community Health, Inc. and Subsidiary is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Lynn Community Health, Inc. and Subsidiary's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lynn Community Health, Inc. and Subsidiary's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lynn Community Health, Inc. and Subsidiary'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 entity's consolidated 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 material weaknesses, as defined previously.

To the Board of Directors
Lynn Community Health, Inc. and Subsidiary

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the consolidated financial statements of Lynn Community Health, Inc. and Subsidiary 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, the Commonwealth of Massachusetts Executive Office for Administration and Finance Operational Services Division, and the 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.

November 19, 2012

Feeley + Driscoll, P.C.





Feeley & Driscoll, P.C.

Certified Public Accountants / Business Consultants

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

To the Board of Directors
Lynn Community Health, Inc. and Subsidiary
Lynn, Massachusetts

Compliance

We have audited the compliance of Lynn Community Health, Inc. and Subsidiary with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Lynn Community Health, Inc. and Subsidiary's major federal programs for the year ended June 30, 2012. Lynn Community Health, Inc. and Subsidiary's major federal programs are identified in the summary of auditors' 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 Lynn Community Health, Inc. and Subsidiary's management. Our responsibility is to express an opinion on Lynn Community Health, Inc. and Subsidiary'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 Lynn Community Health, Inc. and Subsidiary'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 Lynn Community Health, Inc. and Subsidiary's compliance with those requirements.

In our opinion, Lynn Community Health, Inc. and Subsidiary 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.

To the Board of Directors
Lynn Community Health, Inc. and Subsidiary

Internal Control Over Compliance

The management of Lynn Community Health, Inc. and Subsidiary 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 Lynn Community Health, Inc. and Subsidiary's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our 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 Lynn Community Health, Inc. and Subsidiary'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.

Our consideration of the 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 the board of directors, management, the Commonwealth of Massachusetts Executive Office for Administration and Finance Operational Services Division, and the 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.

November 19, 2012

Feeley & Driscoll, P.C.



**Lynn Community Health, Inc. and Subsidiary
D/B/A Lynn Community Health Center**

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012**

Section I - Summary of Auditors' Results

Financial Statements

Type of independent auditors' report issued: Unqualified

Internal control over financial reporting:

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

Non-compliance material to financial statements noted? No

Federal Awards

Internal Control over major programs:

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

Type of auditors' report issued on compliance for major programs: Unqualified

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

Identification of major programs:

<u>CFDA #</u>	<u>Name of Program</u>
93.224	Community Health Center Program
93.526	Capital Development Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$468,000

Auditee qualified as low-risk auditee? Yes

**Lynn Community Health, Inc. and Subsidiary
D/B/A Lynn Community Health Center**

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012
(Continued)**

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

Section IV - Follow Up of Prior Year Findings

2011-1 Accounts Receivable

The Lynn Community Health Center acknowledges the difficulties with the reporting capabilities of the NextGen patient accounting system as identified during the 2011 audit. The upgrade to the 5.6 NextGen version (completed October 15, 2011) facilitated the ability to produce accurate accounts receivable aging by payor reporting, and we will no longer require extensive manual reconciliation.

2011-2 Pledge Recognition

The Lynn Community Health Center has implemented a reliable system of valuation and recording of pledges during fiscal year 2012.

ADDITIONAL INFORMATION

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Consolidating Balance Sheet

June 30, 2012

<u>ASSETS</u>	<u>Lynn Community Health, Inc.</u>	<u>Lynn Community Health Center Building Corporation</u>	<u>Eliminations and Reclassifications</u>	<u>Consolidated Totals</u>
Current assets:				
Cash and cash equivalents	\$ 1,122,583	\$ 4,823	\$ -	\$ 1,127,406
Investments	521,434	-	-	521,434
Patient accounts receivable, net	4,697,023	-	-	4,697,023
Grants and contracts receivable	1,697,590	-	-	1,697,590
Other accounts receivable	1,346,681	-	-	1,346,681
Prepaid expenses and other current assets	323,231	-	-	323,231
Current portion of assets whose use is limited	3,752,365	762,498	-	4,514,863
Total current assets	<u>13,460,907</u>	<u>767,321</u>	<u>-</u>	<u>14,228,228</u>
Assets whose use is limited or restricted:				
Board designated	580,338	-	-	580,338
Donor restricted	408,441	-	-	408,441
Indenture agreement	434,745	-	-	434,745
	<u>1,423,524</u>	<u>-</u>	<u>-</u>	<u>1,423,524</u>
Property and equipment, net	<u>3,367,483</u>	<u>16,540,473</u>	<u>-</u>	<u>19,907,956</u>
Other assets:				
Deferred financing costs	32,500	341,110	-	373,610
Long-term note receivable	8,804,200	-	-	8,804,200
	<u>8,836,700</u>	<u>341,110</u>	<u>-</u>	<u>9,177,810</u>
	<u>\$ 27,088,614</u>	<u>\$ 17,648,904</u>	<u>\$ -</u>	<u>\$ 44,737,518</u>

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Consolidating Balance Sheet - Continued

June 30, 2012

<u>LIABILITIES AND NET ASSETS</u>	<u>Lynn Community Health, Inc.</u>	<u>Lynn Community Health Center Building Corporation</u>	<u>Eliminations and Reclassifications</u>	<u>Consolidated Totals</u>
Current liabilities:				
Current portion of long-term debt	\$ 104,915	\$ -	\$ -	\$ 104,915
Accounts payable and accrued expenses	1,094,466	-	-	1,094,466
Accrued salaries and wages payable	<u>2,606,412</u>	<u>-</u>	<u>-</u>	<u>2,606,412</u>
Total current liabilities	3,805,793	-	-	3,805,793
Long-term liabilities -				
Long-term debt, net of current portion	<u>6,328,651</u>	<u>11,385,000</u>	<u>-</u>	<u>17,713,651</u>
Total liabilities	<u>10,134,444</u>	<u>11,385,000</u>	<u>-</u>	<u>21,519,444</u>
Commitments and contingencies				
Net assets:				
Unrestricted	12,793,364	6,263,904	-	19,057,268
Temporarily restricted	<u>4,160,806</u>	<u>-</u>	<u>-</u>	<u>4,160,806</u>
Total net assets	<u>16,954,170</u>	<u>6,263,904</u>	<u>-</u>	<u>23,218,074</u>
Total liabilities and net assets	<u>\$ 27,088,614</u>	<u>\$ 17,648,904</u>	<u>\$ -</u>	<u>\$ 44,737,518</u>

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Consolidating Balance Sheet

June 30, 2011

<u>ASSETS</u>	<u>Lynn Community Health, Inc.</u>	<u>Lynn Community Health Center Building Corporation</u>	<u>Eliminations and Reclassifications</u>	<u>Consolidated Totals</u>
Current assets:				
Cash and cash equivalents	\$ 1,929,543	\$ 9,410	\$ -	\$ 1,938,953
Investments	519,060	-	-	519,060
Patient accounts receivable, net	5,260,670	-	-	5,260,670
Grants and contracts receivable	949,574	-	-	949,574
Other accounts receivable	1,023,574	-	-	1,023,574
Prepaid expenses and other current assets	206,264	-	-	206,264
Current portion of assets whose use is limited	124,913	2,535,206	-	2,660,119
Total current assets	<u>10,013,598</u>	<u>2,544,616</u>	<u>-</u>	<u>12,558,214</u>
Assets whose use is limited or restricted:				
Board designated	588,822	-	-	588,822
Donor restricted	112,431	-	-	112,431
Indenture agreement	422,278	1,585,943	-	2,008,221
	<u>1,123,531</u>	<u>1,585,943</u>	<u>-</u>	<u>2,709,474</u>
Property and equipment, net	<u>3,349,682</u>	<u>9,874,501</u>	<u>-</u>	<u>13,224,183</u>
Other assets:				
Deferred financing costs	32,500	387,809	-	420,309
Long-term note receivable	8,804,200	-	-	8,804,200
	<u>8,836,700</u>	<u>387,809</u>	<u>-</u>	<u>9,224,509</u>
	<u>\$ 23,323,511</u>	<u>\$ 14,392,869</u>	<u>\$ -</u>	<u>\$ 37,716,380</u>

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Consolidating Balance Sheet - Continued

June 30, 2011

<u>LIABILITIES AND NET ASSETS</u>	<u>Lynn Community Health, Inc.</u>	<u>Lynn Community Health Center Building Corporation</u>	<u>Eliminations and Reclassifications</u>	<u>Consolidated Totals</u>
Current liabilities:				
Current portion of long-term debt	\$ 76,149	\$ -	\$ -	\$ 76,149
Accounts payable and accrued expenses	1,465,224	2,535,206	-	4,000,430
Accrued salaries and wages payable	<u>2,088,526</u>	<u>-</u>	<u>-</u>	<u>2,088,526</u>
Total current liabilities	3,629,899	2,535,206	-	6,165,105
Long-term liabilities -				
Long-term debt, net of current portion	<u>6,423,851</u>	<u>11,385,000</u>	<u>-</u>	<u>17,808,851</u>
Total liabilities	<u>10,053,750</u>	<u>13,920,206</u>	<u>-</u>	<u>23,973,956</u>
Commitments and contingencies				
Net assets:				
Unrestricted	12,027,077	472,663	-	12,499,740
Temporarily restricted	<u>1,242,684</u>	<u>-</u>	<u>-</u>	<u>1,242,684</u>
Total net assets	<u>13,269,761</u>	<u>472,663</u>	<u>-</u>	<u>13,742,424</u>
Total liabilities and net assets	<u>\$ 23,323,511</u>	<u>\$ 14,392,869</u>	<u>\$ -</u>	<u>\$ 37,716,380</u>

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Consolidating Statement of Operations

For the year ended June 30, 2012

	Lynn Community Health, Inc.	Lynn Community Health Center Building Corporation	Eliminations and Reclassifications	Consolidated Totals
Revenue and other support:				
Net patient service revenue	\$ 27,474,859	\$ -	\$ -	\$ 27,474,859
Grant and contract revenue	12,164,328	-	-	12,164,328
Net assets released from restrictions used in operations	1,333,717	-	-	1,333,717
Other revenue	249,251	125,573	-	374,824
Total revenue and other support	<u>41,222,155</u>	<u>125,573</u>	<u>-</u>	<u>41,347,728</u>
Expenses:				
Salaries and wages	22,681,960	-	-	22,681,960
Employee benefits	5,732,750	-	-	5,732,750
Medical expenses	5,898,114	-	-	5,898,114
Occupancy	2,752,518	-	-	2,752,518
Administrative and general supplies and expense	832,354	12,686	-	845,040
Purchased services	1,481,699	-	-	1,481,699
Transportation	83,080	-	-	83,080
Depreciation and amortization	513,696	382,923	-	896,619
Interest expense	205,578	125,520	-	331,098
Insurance	206,553	-	-	206,553
Provision for uncollectible accounts	545,122	-	-	545,122
Total expenses	<u>40,933,424</u>	<u>521,129</u>	<u>-</u>	<u>41,454,553</u>
(Loss) income from operations	<u>288,731</u>	<u>(395,556)</u>	<u>-</u>	<u>(106,825)</u>
Non-operating gains:				
Investment income	103,882	-	-	103,882
Contributions	223,417	-	-	223,417
Realized gain on sale of investments	32,092	-	-	32,092
Total non-operating gains	<u>359,391</u>	<u>-</u>	<u>-</u>	<u>359,391</u>
Excess (deficit) of revenue, other support and gains over expenses	648,122	(395,556)	-	252,566
Capital grant	6,298,119	-	-	6,298,119
Net assets released from restriction for capital expenditures	65,449	-	-	65,449
Unrealized loss on investments	(58,606)	-	-	(58,606)
Transfer (to) from affiliate	(6,186,797)	6,186,797	-	-
Increase in unrestricted net assets	<u>\$ 766,287</u>	<u>\$ 5,791,241</u>	<u>\$ -</u>	<u>\$ 6,557,528</u>

LYNN COMMUNITY HEALTH, INC. AND SUBSIDIARY
D/B/A LYNN COMMUNITY HEALTH CENTER

Consolidating Statement of Operations

For the year ended June 30, 2011

	Lynn Community Health, Inc.	Lynn Community Health Center Building Corporation	Eliminations and Reclassifications	Consolidated Totals
Revenue and other support:				
Net patient service revenue	\$ 24,455,368	\$ -	\$ -	\$ 24,455,368
Grant and contract revenue	10,076,095	-	-	10,076,095
Net assets released from restrictions used in operations	1,187,203	-	-	1,187,203
Other revenue	122,904	-	-	122,904
Total revenue and other support	<u>35,841,570</u>	<u>-</u>	<u>-</u>	<u>35,841,570</u>
Expenses:				
Salaries and wages	19,442,154	-	-	19,442,154
Employee benefits	5,019,621	-	-	5,019,621
Medical expenses	5,239,729	-	-	5,239,729
Occupancy	2,039,358	-	-	2,039,358
Administrative and general supplies and expense	711,911	418	-	712,329
Purchased services	1,397,095	-	-	1,397,095
Transportation	51,576	-	-	51,576
Depreciation and amortization	362,086	46,700	-	408,786
Interest expense	14,500	-	-	14,500
Insurance	210,086	-	-	210,086
Provision for uncollectible accounts	537,038	-	-	537,038
Total expenses	<u>35,025,154</u>	<u>47,118</u>	<u>-</u>	<u>35,072,272</u>
Income (loss) from operations	<u>816,416</u>	<u>(47,118)</u>	<u>-</u>	<u>769,298</u>
Non-operating (losses) gains:				
Investment income	35,590	-	-	35,590
Contributions	30,406	-	-	30,406
Realized gain on sale of investments	70,453	-	-	70,453
Loss on refinancing	(79,214)	-	-	(79,214)
Gain on sale of asset	619,995	-	-	619,995
Environmental remediation costs	(877,470)	-	-	(877,470)
Total non-operating (losses) gains	<u>(200,240)</u>	<u>-</u>	<u>-</u>	<u>(200,240)</u>
Excess (deficit) of revenue, other support and gains over expenses and losses	616,176	(47,118)	-	569,058
Capital grant	1,309,266	-	-	1,309,266
Net assets released from restriction for capital expenditures	3,000,000	-	-	3,000,000
Unrealized gain on investments	69,146	-	-	69,146
Transfer (to) from affiliate	(519,781)	519,781	-	-
Increase in unrestricted net assets	<u>\$ 4,474,807</u>	<u>\$ 472,663</u>	<u>\$ -</u>	<u>\$ 4,947,470</u>