

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

FINANCIAL STATEMENTS

JUNE 30, 2014



FEELEY & DRISCOLL, P.C.

Certified Public Accountants/Business Consultants

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

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Consolidated Balance Sheets June 30, 2014 and 2013	3
Consolidated Statements of Operations For the years ended June 30, 2014 and 2013	4
Consolidated Statements of Changes in Net Assets For the years ended June 30, 2014 and 2013	5
Consolidated Statements of Cash Flows For the years ended June 30, 2014 and 2013	6
Notes to Consolidated Financial Statements June 30, 2014 and 2013	7
Schedule of Expenditures of Federal Awards For the year ended June 30, 2014	28
Notes to the Schedule of Expenditures of Federal Awards For the year ended June 30, 2014	29
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on An Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	30
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	32
Schedule of Findings and Questioned Costs For the year ended June 30, 2014	34
Additional Information -	
Consolidating Balance Sheet June 30, 2014	36
Consolidating Balance Sheet June 30, 2013	38
Consolidating Statement of Operations For the year ended June 30, 2014	40
Consolidating Statement of Operations For the year ended June 30, 2013	41





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To the Board of Directors
Lynn Community Health, Inc. and Subsidiary
d/b/a Lynn Community Health Center
Lynn, Massachusetts

Independent Auditor's Report

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Lynn Community Health, Inc. and Subsidiary d/b/a Lynn Community Health Center (a nonprofit organization), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent Auditor's Report - Continued

Opinion

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

Other Matters

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2014 on our consideration of Lynn Community Health Center, Inc. and Subsidiary'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 Lynn Community Health Center, Inc. and Subsidiary's internal control over financial reporting and compliance.

Boston, Massachusetts
November 7, 2014

Feeley & Driscoll, P.C.



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

Consolidated Balance Sheets

June 30, 2014 and 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>	<u>Liabilities and Net Assets</u>	<u>2014</u>	<u>2013</u>
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 2,046,408	\$ 407,053	Current portion of long-term debt	\$ 115,221	\$ 109,947
Investments	610,565	555,485	Accounts payable and accrued expenses	981,116	1,129,938
Patient accounts receivable, net	6,741,408	6,655,441	Accrued salaries and wages payable	3,826,284	2,980,340
Grants and contracts receivable	1,588,167	1,522,341	Total current liabilities	<u>4,922,621</u>	<u>4,220,225</u>
Other accounts receivable	1,672,830	1,203,570	Long-term liabilities -		
Prepaid expenses and other current assets	390,868	538,431	Long-term debt, net of current portion	<u>17,489,398</u>	<u>17,604,150</u>
Current portion of assets whose use is limited or restricted	<u>3,968,203</u>	<u>2,576,391</u>			
Total current assets	<u>17,018,449</u>	<u>13,458,712</u>	Total liabilities	<u>22,412,019</u>	<u>21,824,375</u>
Assets whose use is limited or restricted:					
Board designated	750,616	653,747			
Donor restricted	423,046	1,305,026			
Indenture agreement	447,651	437,076			
	<u>1,621,313</u>	<u>2,395,849</u>			
Property and equipment, net	<u>19,618,703</u>	<u>20,223,258</u>			
Other assets:			Commitments and contingencies		
Deferred financing costs, net	280,212	326,911			
Long-term note receivable	<u>8,804,200</u>	<u>8,804,200</u>			
	<u>9,084,412</u>	<u>9,131,111</u>	Net assets:		
			Unrestricted	20,539,609	19,503,138
			Temporarily restricted	4,391,249	3,881,417
			Total net assets	<u>24,930,858</u>	<u>23,384,555</u>
Total assets	<u>\$ 47,342,877</u>	<u>\$ 45,208,930</u>	Total liabilities and net assets	<u>\$ 47,342,877</u>	<u>\$ 45,208,930</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenue and other support:		
Patient service revenue, net of contractual allowances	\$ 35,332,950	\$ 31,771,621
Provision for uncollectible accounts	(484,918)	(569,989)
Net patient service revenue	<u>34,848,032</u>	<u>31,201,632</u>
PACE personnel reimbursement	21,348,849	18,441,193
Grant and contract revenue	14,961,624	13,500,113
Net assets released from restrictions used in operations	2,987,144	2,102,254
Other revenue	123,433	180,054
Total revenue and other support	<u>74,269,082</u>	<u>65,425,246</u>
Expenses:		
Salaries and wages	47,092,907	41,157,194
Employee benefits	10,645,098	10,090,662
Medical expenses	8,255,890	7,361,611
Occupancy	3,664,850	2,968,134
Administrative and general supplies and expense	1,040,002	935,086
Purchased services	1,130,231	1,494,439
Transportation	77,401	89,041
Depreciation and amortization	1,262,546	1,180,058
Interest expense	462,151	467,159
Insurance	367,218	227,093
Total expenses	<u>73,998,294</u>	<u>65,970,477</u>
Income (loss) from operations	<u>270,788</u>	<u>(545,231)</u>
Non-operating gains:		
Investment income	137,454	135,612
Contributions	107,823	151,530
Realized gain on sale of investments	33,877	15,302
Total non-operating gains	<u>279,154</u>	<u>302,444</u>
Excess (deficit) of revenue, other support and gains over expenses	549,942	(242,787)
Capital grant	392,283	628,004
Unrealized gain on investments	<u>94,246</u>	<u>60,653</u>
Increase in unrestricted net assets	<u>\$ 1,036,471</u>	<u>\$ 445,870</u>

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, 2014 and 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net assets, June 30, 2012	\$ 19,057,268	\$ 4,160,806	\$ 23,218,074
Excess (deficit) of revenue, other support and gains over expenses	(242,787)	-	(242,787)
Capital grant	628,004	-	628,004
Unrealized gain on investments	60,653	-	60,653
Grants and contributions	-	1,822,865	1,822,865
Net assets released from restrictions used in operations	-	(2,102,254)	(2,102,254)
Change in net assets	<u>445,870</u>	<u>(279,389)</u>	<u>166,481</u>
Net assets, June 30, 2013	<u>19,503,138</u>	<u>3,881,417</u>	<u>23,384,555</u>
Excess (deficit) of revenue, other support and gains over expenses	549,942	-	549,942
Capital grant	392,283	-	392,283
Unrealized gain on investments	94,246	-	94,246
Grants and contributions	-	3,496,976	3,496,976
Net assets released from restrictions used in operations	-	(2,987,144)	(2,987,144)
Change in net assets	<u>1,036,471</u>	<u>509,832</u>	<u>1,546,303</u>
Net assets, June 30, 2014	<u><u>\$ 20,539,609</u></u>	<u><u>\$ 4,391,249</u></u>	<u><u>\$ 24,930,858</u></u>

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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,546,303	\$ 166,481
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	1,262,545	1,180,059
Provision for uncollectible accounts	484,918	569,989
Capital grants	(392,283)	(628,004)
Restricted grants	(3,496,976)	(1,822,865)
Net realized and unrealized (gains) on investments and assets whose use is limited or restricted	(128,123)	(75,955)
Increase (decrease) in cash resulting from a change in:		
Patient accounts receivable	(570,885)	(2,528,407)
Grants and contracts receivable	(65,826)	174,836
Other receivables	(469,260)	143,111
Prepaid expenses and other current assets	147,563	(215,200)
Accounts payable and accrued expenses	(148,822)	35,885
Accrued salaries and wages payable	845,944	373,928
Net cash used in operating activities	<u>(984,902)</u>	<u>(2,626,142)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(611,291)	(1,448,662)
Proceeds from sales of assets whose use is limited or restricted	471,853	322,623
Purchases of investments	(561,917)	(304,682)
(Increase) decrease in assets whose use is limited or restricted	(454,169)	990,110
Net cash used in investing activities	<u>(1,155,524)</u>	<u>(440,611)</u>
Cash flows from financing activities:		
Capital grants	392,283	628,004
Restricted grants	3,496,976	1,822,865
Principal payments on long-term debt	(109,478)	(104,469)
Net cash provided by financing activities	<u>3,779,781</u>	<u>2,346,400</u>
Net increase (decrease) in cash and cash equivalents	1,639,355	(720,353)
Cash and cash equivalents, beginning of year	<u>407,053</u>	<u>1,127,406</u>
Cash and cash equivalents, end of year	<u>\$ 2,046,408</u>	<u>\$ 407,053</u>
Supplemental disclosure of cash flow information -		
Cash paid for interest, net of amount capitalized	<u>\$ 462,151</u>	<u>\$ 467,159</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, 2014 and 2013

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. A substantial portion 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 unrestricted and temporarily restricted 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 Center have 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 and Cash Equivalents - Cash and cash equivalents include all highly liquid investments with an original maturity of ninety (90) days or less.

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

Notes to Consolidated Financial Statements - Continued

June 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies - Continued

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 reported as other changes in net assets.

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.

Allowance for Doubtful Accounts - Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable the Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about the major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients, the Center records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is directly charged to the patient account.

Inventory - Inventory (included with prepaid expenses and other current assets) includes pharmaceutical and central supplies, is stated at lower of cost or market and is determined based on the first in, first out method.

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.

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

Notes to Consolidated Financial Statements - Continued

June 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies - Continued

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

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

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

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

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

Notes to Consolidated Financial Statements - Continued

June 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies - Continued

Gifts, Bequests and Contributions - The Center 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.

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 2010 through the current year remain open for examination by federal and state taxing authorities.

Reclassifications - Certain amounts reported in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements. Amounts classified within contract receivables, within the prior year financial statements, have been reclassified to accounts payable, and rental activity between the Health Center and Building Corporation has been reclassified on the statement of operations.

Subsequent Events - The Organization has evaluated subsequent events through November 7, 2014, which is the date the financial statements were available for issuance.

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

Notes to Consolidated Financial Statements - Continued

June 30, 2014 and 2013

Note 3 - Concentration of Credit Risk

The Organization has a potential concentration of credit risk in that it maintains deposits with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The maximum deposit insurance amount is \$250,000, which is applied per depositor, per insured bank for each account ownership category. As of June 30, 2014 and 2013, the Organization had \$1,162,239 and \$209,811, respectively, in excess of FDIC limits.

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 (1) institution.

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

	<u>2014</u>	<u>2013</u>
Commercial and other	45%	55%
Medicaid	34%	32%
Medicare	17%	9%
Self Pay	4%	4%
	100%	100%
Total	100%	100%

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

The methodology and assumptions utilized by management to estimate the allowance for doubtful accounts have not changed significantly from the prior year. As of June 30, 2014 and 2013, the Center's allowance for doubtful accounts was approximately \$2,213,000 and \$2,239,000, respectively.

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

Notes to Consolidated Financial Statements - Continued

June 30, 2014 and 2013

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 (3) 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 one percent (1%) per annum, through July 2020. The loan is interest only for the first seven (7) years and then amortizes until maturity, at which time all unpaid principal and interest are due. The balance at June 30, 2014 and 2013 was \$8,804,200, respectively. The permanent financing amount for the development of the new health center is effectively the difference between the Health Center's bonds, the Building Corporation's notes payable and the Health Center's note receivable from the Investment Fund. The Center earned and received \$88,042 in interest during 2014 and 2013, respectively.

Note 5 - Charity Care

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

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 Organization's free care policies and submitted to the HSN.

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

Notes to Consolidated Financial Statements - Continued

June 30, 2014 and 2013

Note 5 - Charity Care - Continued

The following information identifies the level of charity provided during the fiscal years ended June 30:

	<u>2014</u>	<u>2013</u>
Charity care charges based on established rates	\$ 6,671,000	\$ 6,800,000
Estimated costs and expenses incurred to provide charity care	\$ 6,222,000	\$ 6,200,000
Equivalent percentage of charity care patients to all patients served	12%	13%

The cost to provide charity care was determined using a ratio of cost to charges.

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

	<u>2014</u>	<u>2013</u>
Charity care cost recognized	\$ 5,100,000	\$ 5,200,000
HSN assessment	-	-
Net amount received from the HSN	\$ 5,100,000	\$ 5,200,000

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 on a cumulative basis, exceeds twenty percent (20%) of prior year Commonwealth revenues, becomes a liability to the Commonwealth. Additionally, the Commonwealth requires that providers take steps to segregate state attributed surpluses which fall below five percent (5%) as a segregated account which is presented in unrestricted net assets.

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

Notes to Consolidated Financial Statements - Continued

June 30, 2014 and 2013

Note 6 - Surplus Revenue Retention - Continued

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

Note 7 - Property and Equipment

Property and equipment were as follows at June 30:

	<u>2014</u>	<u>2013</u>
Buildings and improvements	\$ 20,486,873	\$ 20,396,201
Equipment	4,003,945	3,769,380
Construction in progress	1,622,205	1,336,151
Land	253,000	253,000
Motor vehicles	14,780	14,780
	<u>26,380,803</u>	<u>25,769,512</u>
Less accumulated depreciation	<u>6,762,100</u>	<u>5,546,254</u>
	<u>\$ 19,618,703</u>	<u>\$ 20,223,258</u>

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>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 4,716,644	\$ 4,190,229
Equity securities	806,772	647,400
Fixed income securities	525,330	518,939
Pledges receivable, net	122,256	128,264
Money market funds	29,079	42,893
	<u>\$ 6,200,081</u>	<u>\$ 5,527,725</u>

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

Notes to Consolidated Financial Statements - Continued

June 30, 2014 and 2013

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>2014</u>	<u>2013</u>
Board-designated	\$ 750,616	\$ 653,747
Bond Sinking Fund	447,651	437,076
Donor restricted, net of current portion	<u>423,046</u>	<u>1,305,026</u>
	1,621,313	2,395,849
Short-term investments	610,565	555,485
Donor restricted, current portion	<u>3,968,203</u>	<u>2,576,391</u>
	<u>4,578,768</u>	<u>3,131,876</u>
	 <u>\$ 6,200,081</u>	 <u>\$ 5,527,725</u>

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

	<u>2014</u>	<u>2013</u>
Equity securities	\$ 806,772	\$ 647,400
Fixed income securities	525,330	518,939
Money market	<u>29,079</u>	<u>42,893</u>
Total	<u>\$ 1,361,181</u>	<u>\$ 1,209,232</u>

Investments are reported on the balance sheet as follows:

Assets whose use is limited - board designated	\$ 750,616	\$ 653,747
Investments	<u>610,565</u>	<u>555,485</u>
Total	<u>\$ 1,361,181</u>	<u>\$ 1,209,232</u>

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

Notes to Consolidated Financial Statements - Continued

June 30, 2014 and 2013

Note 9 - Fair Value Measurements

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

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
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Level 2	Inputs to the valuation methodology include: <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	Valuations using unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.
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The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

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.

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

Notes to Consolidated Financial Statements - Continued

June 30, 2014 and 2013

Note 9 - Fair Value Measurements - Continued

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments included in:				
Money market funds	\$ 29,079	\$ -	\$ -	\$ 29,079
Equity securities:				
Miscellaneous	174,843	-	-	174,843
Consumer	138,832	-	-	138,832
Information technology	118,108	-	-	118,108
Financials	107,979	-	-	107,979
Industrials	83,269	-	-	83,269
Health care	75,029	-	-	75,029
Energy	69,260	-	-	69,260
Materials	22,473	-	-	22,473
Utilities	16,979	-	-	16,979
Total equity securities	<u>806,772</u>	<u>-</u>	<u>-</u>	<u>806,772</u>
Fixed income	<u>525,330</u>	<u>-</u>	<u>-</u>	<u>525,330</u>
	<u>\$ 1,361,181</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,361,181</u>

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

Notes to Consolidated Financial Statements - Continued

June 30, 2014 and 2013

Note 9 - Fair Value Measurements - Continued

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments included in:				
Money market funds	\$ 42,893	\$ -	\$ -	\$ 42,893
Equity securities:				
Financials	148,044	-	-	148,044
Consumer	125,913	-	-	125,913
Information technology	98,818	-	-	98,818
Miscellaneous	85,156	-	-	85,156
Health care	70,741	-	-	70,741
Energy	46,514	-	-	46,514
Industrials	40,253	-	-	40,253
Materials	16,114	-	-	16,114
Utilities	15,847	-	-	15,847
Total equity securities	<u>647,400</u>	<u>-</u>	<u>-</u>	<u>647,400</u>
Fixed income	<u>518,939</u>	<u>-</u>	<u>-</u>	<u>518,939</u>
	<u>\$ 1,209,232</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,209,232</u>

Unrealized losses at June 30, 2014 are shown below. None of the losses are considered other than temporary.

	<u>Time Period in Loss Position</u>				<u>Total</u>	
	<u>Less than 12 months</u>		<u>Greater than 12 months</u>		<u>Fair Value</u>	<u>Unrealized Loss</u>
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>		
Equity securities	<u>\$ 160,611</u>	<u>\$ 1,072</u>	<u>\$ 72,845</u>	<u>\$ 1,723</u>	<u>\$ 233,456</u>	<u>\$ 2,795</u>

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

Notes to Consolidated Financial Statements - Continued

June 30, 2014 and 2013

Note 9 - Fair Value Measurements - Continued

Unrealized losses at June 30, 2013 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	\$ 258,857	\$ 10,968	\$ 251,358	\$ 4,771	\$ 510,215	\$ 15,739

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, 2014 and 2013

Note 10 - Endowments - Continued

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

	<u>2014</u>	<u>2013</u>
Endowment assets - beginning of year	\$ 653,747	\$ 580,338
Investment return:		
Investment income	17,806	16,604
Realized and unrealized gains on investments, net	85,908	59,435
Fees	<u>(6,845)</u>	<u>(2,630)</u>
Total investment return	<u>96,869</u>	<u>73,409</u>
Endowment assets - end of year	<u>\$ 750,616</u>	<u>\$ 653,747</u>

Note 11 - Pledges Receivable

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

	<u>2014</u>	<u>2013</u>
In less than one (1) year	\$ 12,300	\$ 46,961
Between one (1) year and five (5) years	<u>133,289</u>	<u>96,737</u>
Total pledges receivable	145,589	143,698
Less present value discount (3.25%)	14,957	8,248
Less reserve for doubtful pledges	<u>8,376</u>	<u>7,186</u>
Pledges receivable, net	<u>\$ 122,256</u>	<u>\$ 128,264</u>

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

Notes to Consolidated Financial Statements - Continued

June 30, 2014 and 2013

Note 12 - Long-term Debt

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

	<u>2014</u>	<u>2013</u>
Massachusetts Development Finance Agency (MDFA) Series 2010 Bonds	\$ 6,219,619	\$ 6,329,097
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>
	<u>17,604,619</u>	<u>17,714,097</u>
Less current portion	<u>115,221</u>	<u>109,947</u>
Long-term debt	<u>\$ 17,489,398</u>	<u>\$ 17,604,150</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 four and sixty-three hundredths percent (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, 2014 and 2013

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 one and forty-seven hundredths percent (1.47%) per annum. Loan A matures in July 2020 and Loans B and C mature in July 2040. All three (3) loans are secured by a mortgage on property known as 269 Union Street, Lynn, Massachusetts. The loans are interest only for the first seven (7) 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:

2014	\$	115,221
2015		120,748
2016		270,130
2017		495,290
2018		513,967
Thereafter		<u>16,089,263</u>
	\$	<u>17,604,619</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 monthly rent ranging from \$833 to \$68,417 over the term of the lease, 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 (4.00%) at June 30, 2014. The line of credit is secured by assignment of the Center's contracts and is outstanding through January 31, 2015. As of June 30, 2014, 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, 2014 and 2013

Note 14 - Net Patient Service Revenue

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

	<u>2014</u>	<u>2013</u>
Gross patient service revenue	\$ 51,973,848	\$ 46,881,881
Less: contractual allowances and rate adjustments	<u>16,640,898</u>	<u>15,110,260</u>
	35,332,950	31,771,621
Less: Provision for uncollectible accounts	<u>484,918</u>	<u>569,989</u>
Net patient service revenue	<u>\$ 34,848,032</u>	<u>\$ 31,201,632</u>

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

	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total</u>
Patient service revenue, net of contractual allowance and discounts: June 30, 2014	<u>\$ 34,708,907</u>	<u>\$ 624,043</u>	<u>\$ 35,332,950</u>
June 30, 2013	<u>\$ 30,863,744</u>	<u>\$ 907,877</u>	<u>\$ 31,771,621</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.

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

Notes to Consolidated Financial Statements - Continued

June 30, 2014 and 2013

Note 15 - Third-Party Reimbursement - Continued

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>2014</u>	<u>2013</u>
Program services	\$ 2,851,944	\$ 2,533,045
Capital acquisitions	<u>1,539,305</u>	<u>1,348,372</u>
	<u>\$ 4,391,249</u>	<u>\$ 3,881,417</u>

Note 17 - Related Party Transactions

The Elder Service Plan of the North Shore, Inc. (“ESP”) (as of July 1, 2014, ESP changed its name to Element Care, Inc.), a nonprofit organization affiliated with the Health Center, requires the Executive Director and three (3) additional individuals to be chosen by the Health Center’s board to serve as board members of ESP. This represents fifty percent (50%) of ESP’s board, a non-controlling interest. As of July 1, 2012, the Health Center updated its scope of service with the Department of Health and Human Services - Human Resources and Services Administration (“HRSA”) to include the six (6) North Shore PACE sites participating in the Elder Service Plan, as a department of the Health Center. As a result of the HRSA Scope of Service update, clinical services related to the PACE sites are recorded on the Health Center’s financial statements for the years ended June 30, 2013 and 2014.

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

Notes to Consolidated Financial Statements - Continued

June 30, 2014 and 2013

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 2014, the agreement was extended through September 2016 for a total grant of \$13,522,000.

For the years ended June 30, 2014 and 2013, the Health Center has cumulatively received and expended \$11,328,545 and \$10,265,258, 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, 2014 and 2013.

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. Employees are eligible immediately upon employment.

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.

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

Notes to Consolidated Financial Statements - Continued

June 30, 2014 and 2013

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 Organization is in substantial compliance with current laws and regulations.

Claims and legal actions are brought against the Organization 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>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>
Program services	\$ 66,442,797	90%	\$ 58,067,034	88%
General and administrative	7,555,497	10%	7,901,482	12%
Fundraising	-	-%	1,961	-%
	<u> </u>	<u>100%</u>	<u> </u>	<u>100%</u>
	<u>\$ 73,998,294</u>		<u>\$ 65,970,477</u>	

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

Notes to Consolidated Financial Statements - Continued

June 30, 2014 and 2013

Note 23 - Operating Leases

The Center leases various property under non-cancelable operating leases expiring at different times through 2018, with monthly payments ranging from \$900 to \$31,572. During the years ended June 30, 2014 and 2013, the Center incurred rent expense of \$335,937 and \$371,057, respectively. The following are the minimum future lease payments due at June 30:

Year ending June 30:

2015	\$	393,000
2016		369,773
2017		378,869
2018		378,869
2019		<u>315,724</u>
	\$	<u>1,836,235</u>

Included in the lease expense total above is the value of property provided to the Center as in-kind contributions. The 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, 2014 and 2013 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, 2014

<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:			
Community Health Center Program	93.224		\$ 2,659,153
Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	93.501		28,664
HIV Relief Project Grant	93.918		295,506
Passed through Boston Public Health Commission			
HIV Relief Project Grant	93.918	N/A	335,582
Total HIV Relief Project Grant			<u>631,088</u>
Passed through HealthQuarters, Inc.			
Family Planning Grant	93.217	N/A	82,097
Passed through the Commonwealth of Massachusetts			
Department of Public Health:			
Refugee and Entrance Assistance	93.566	4003-0826	220,768
HIV Prevention Activities	93.940	4513-9018	107,368
Prevention and Treatment of Substance Abuse	93.959	4512-9069	<u>11,057</u>
Total Health and Human Services			<u>3,740,195</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	<u>4,228,700</u>
Federal Mediation and Conciliation Service:			
Direct Awards:			
Labor Management Cooperation	34.002		<u>5,447</u>
Total expenditures of federal awards			<u><u>\$ 7,974,342</u></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, 2014

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 consolidated financial statements.

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

In fiscal year 2014, the WIC Program issued \$3,324,634 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

To the Board of Directors
Lynn Community Health, Inc. and Subsidiary
d/b/a Lynn Community Health Center
Lynn, Massachusetts

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Lynn Community Health, Inc. and Subsidiary d/b/a Lynn Community Health Center (a nonprofit organization), which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 7, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Lynn Community Health, Inc. and Subsidiary'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 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. Accordingly, we do not express an opinion on the effectiveness of Lynn Community Health, Inc. and Subsidiary's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Boston, Massachusetts
November 7, 2014

Feeley, E. Driscoll, P.C.



Feeley & Driscoll, P.C.

Certified Public Accountants / Business Consultants

To the Board of Directors
Lynn Community Health, Inc. and Subsidiary
d/b/a Lynn Community Health Center
Lynn, Massachusetts

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

Report on Compliance for Each Major Federal Program

We have audited Lynn Community Health, Inc. and Subsidiary's compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Lynn Community Health, Inc. and Subsidiary's major federal programs for the year ended June 30, 2014. Lynn Community Health, Inc. and Subsidiary'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 Lynn Community Health, Inc. and Subsidiary'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 are 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Lynn Community Health, Inc. and Subsidiary's compliance.

Opinion on Each Major Federal Program

In our opinion, Lynn Community Health, Inc. and Subsidiary 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 Lynn Community Health, Inc. and Subsidiary 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 Lynn Community Health, Inc. and Subsidiary'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 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. *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 7, 2014

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, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of independent auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	No
Non-compliance material to financial statements noted?	No

Federal Awards

Internal Control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133?	No

Identification of major programs:

CFDA #
10.557

Name of Program
Special Supplemental Nutrition Program
for Women, Infant and Children

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

For the year ended June 30, 2014

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

Section IV - Follow Up of Prior Year Findings

None.

ADDITIONAL INFORMATION

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

Consolidating Balance Sheet

June 30, 2014

<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	\$ 2,042,185	\$ 4,223	\$ -	\$ 2,046,408
Investments	610,565	-	-	610,565
Patient accounts receivable, net	6,741,408	-	-	6,741,408
Grants and contracts receivable	1,588,167	-	-	1,588,167
Other accounts receivable	1,672,830	-	-	1,672,830
Prepaid expenses and other current assets	390,868	-	-	390,868
Current portion of assets whose use is limited or restricted	3,968,203	-	-	3,968,203
Total current assets	<u>17,014,226</u>	<u>4,223</u>	<u>-</u>	<u>17,018,449</u>
Assets whose use is limited or restricted:				
Board designated	750,616	-	-	750,616
Donor restricted	423,046	-	-	423,046
Indenture agreement	447,651	-	-	447,651
	<u>1,621,313</u>	<u>-</u>	<u>-</u>	<u>1,621,313</u>
Property and equipment, net	<u>4,423,124</u>	<u>15,195,579</u>	<u>-</u>	<u>19,618,703</u>
Other assets:				
Deferred financing costs, net	32,500	247,712	-	280,212
Long-term note receivable	8,804,200	-	-	8,804,200
	<u>8,836,700</u>	<u>247,712</u>	<u>-</u>	<u>9,084,412</u>
	<u>\$ 31,895,363</u>	<u>\$ 15,447,514</u>	<u>\$ -</u>	<u>\$ 47,342,877</u>

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

Consolidating Balance Sheet - Continued

June 30, 2014

<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	\$ 115,221	\$ -	\$ -	\$ 115,221
Accounts payable and accrued expenses	981,116	-	-	981,116
Accrued salaries and wages payable	<u>3,826,284</u>	<u>-</u>	<u>-</u>	<u>3,826,284</u>
Total current liabilities	4,922,621	-	-	4,922,621
Long-term liabilities -				
Long-term debt, net of current portion	<u>6,104,398</u>	<u>11,385,000</u>	<u>-</u>	<u>17,489,398</u>
Total liabilities	<u>11,027,019</u>	<u>11,385,000</u>	<u>-</u>	<u>22,412,019</u>
Commitments and contingencies				
Net assets:				
Unrestricted	16,477,095	4,062,514	-	20,539,609
Temporarily restricted	<u>4,391,249</u>	<u>-</u>	<u>-</u>	<u>4,391,249</u>
Total net assets	<u>20,868,344</u>	<u>4,062,514</u>	<u>-</u>	<u>24,930,858</u>
 Total liabilities and net assets	 <u>\$ 31,895,363</u>	 <u>\$ 15,447,514</u>	 <u>\$ -</u>	 <u>\$ 47,342,877</u>

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

Consolidating Balance Sheet

June 30, 2013

<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	\$ 402,530	\$ 4,523	\$ -	\$ 407,053
Investments	555,485	-	-	555,485
Patient accounts receivable, net	6,655,441	-	-	6,655,441
Grants and contracts receivable	1,522,341	-	-	1,522,341
Other accounts receivable	1,203,570	-	-	1,203,570
Prepaid expenses and other current assets	538,431	-	-	538,431
Current portion of assets whose use is limited or restricted	2,576,391	-	-	2,576,391
Total current assets	<u>13,454,189</u>	<u>4,523</u>	<u>-</u>	<u>13,458,712</u>
Assets whose use is limited or restricted:				
Board designated	653,747	-	-	653,747
Donor restricted	1,305,026	-	-	1,305,026
Indenture agreement	437,076	-	-	437,076
	<u>2,395,849</u>	<u>-</u>	<u>-</u>	<u>2,395,849</u>
Property and equipment, net	<u>4,355,232</u>	<u>15,868,026</u>	<u>-</u>	<u>20,223,258</u>
Other assets:				
Deferred financing costs, net	32,500	294,411	-	326,911
Long-term note receivable	8,804,200	-	-	8,804,200
	<u>8,836,700</u>	<u>294,411</u>	<u>-</u>	<u>9,131,111</u>
	<u>\$ 29,041,970</u>	<u>\$ 16,166,960</u>	<u>\$ -</u>	<u>\$ 45,208,930</u>

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

Consolidating Balance Sheet - Continued

June 30, 2013

<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	\$ 109,947	\$ -	\$ -	\$ 109,947
Accounts payable and accrued expenses	1,129,938	-	-	1,129,938
Accrued salaries and wages payable	<u>2,980,340</u>	-	-	<u>2,980,340</u>
Total current liabilities	4,220,225	-	-	4,220,225
Long-term liabilities -				
Long-term debt, net of current portion	<u>6,219,150</u>	<u>11,385,000</u>	-	<u>17,604,150</u>
Total liabilities	<u>10,439,375</u>	<u>11,385,000</u>	-	<u>21,824,375</u>
Commitments and contingencies				
Net assets:				
Unrestricted	14,721,178	4,781,960	-	19,503,138
Temporarily restricted	<u>3,881,417</u>	-	-	<u>3,881,417</u>
Total net assets	<u>18,602,595</u>	<u>4,781,960</u>	-	<u>23,384,555</u>
 Total liabilities and net assets	 <u>\$ 29,041,970</u>	 <u>\$ 16,166,960</u>	 <u>\$ -</u>	 <u>\$ 45,208,930</u>

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

Consolidating Statement of Operations

For the year ended June 30, 2014

	Lynn Community Health, Inc.	Lynn Community Health Center Building Corporation	Eliminations and Reclassifications	Consolidated Totals
Revenue and other support:				
Patient service revenue, net of contractual allowances	\$ 35,332,950	\$ -	\$ -	\$ 35,332,950
Provision for uncollectible accounts	(484,918)	-	-	(484,918)
Net patient service revenue	<u>34,848,032</u>	<u>-</u>	<u>-</u>	<u>34,848,032</u>
PACE personnel reimbursement	21,348,849	-	-	21,348,849
Grant and contract revenue	14,961,624	-	-	14,961,624
Net assets released from restrictions used in operations	2,987,144	-	-	2,987,144
Other revenue	123,433	167,360	(167,360)	123,433
Total revenue and other support	<u>74,269,082</u>	<u>167,360</u>	<u>(167,360)</u>	<u>74,269,082</u>
Expenses:				
Salaries and wages	47,092,907	-	-	47,092,907
Employee benefits	10,645,098	-	-	10,645,098
Medical expenses	8,255,890	-	-	8,255,890
Occupancy	3,832,210	-	(167,360)	3,664,850
Administrative and general supplies and expense	1,039,617	385	-	1,040,002
Purchased services	1,130,231	-	-	1,130,231
Transportation	77,401	-	-	77,401
Depreciation and amortization	543,400	719,146	-	1,262,546
Interest expense	294,791	167,360	-	462,151
Insurance	367,218	-	-	367,218
Total expenses	<u>73,278,763</u>	<u>886,891</u>	<u>(167,360)</u>	<u>73,998,294</u>
Income (loss) from operations	<u>990,319</u>	<u>(719,531)</u>	<u>-</u>	<u>270,788</u>
Non-operating gains:				
Investment income	137,454	-	-	137,454
Contributions	107,823	-	-	107,823
Realized gain on sale of investments	33,877	-	-	33,877
Total non-operating gains	<u>279,154</u>	<u>-</u>	<u>-</u>	<u>279,154</u>
Excess (deficit) of revenue, other support and gains over expenses	1,269,473	(719,531)	-	549,942
Capital grant	392,283	-	-	392,283
Unrealized gain on investments	94,246	-	-	94,246
Transfer (to) from affiliate	(85)	85	-	-
Increase (decrease) in unrestricted net assets	<u>\$ 1,755,917</u>	<u>\$ (719,446)</u>	<u>\$ -</u>	<u>\$ 1,036,471</u>

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

Consolidating Statement of Operations

For the year ended June 30, 2013

	Lynn Community Health, Inc.	Lynn Community Health Center Building Corporation	Eliminations and Reclassifications	Consolidated Totals
Revenue and other support:				
Patient service revenue, net of contractual allowances	\$ 31,771,621	\$ -	\$ -	\$ 31,771,621
Provision for uncollectible accounts	(569,989)	-	-	(569,989)
Net patient service revenue	<u>31,201,632</u>	<u>-</u>	<u>-</u>	<u>31,201,632</u>
PACE personnel reimbursement	18,441,193	-	-	18,441,193
Grant and contract revenue	13,500,113	-	-	13,500,113
Net assets released from restrictions used in operations	2,102,254	-	-	2,102,254
Other revenue	180,054	167,360	(167,360)	180,054
Total revenue and other support	<u>65,425,246</u>	<u>167,360</u>	<u>(167,360)</u>	<u>65,425,246</u>
Expenses:				
Salaries and wages	41,157,194	-	-	41,157,194
Employee benefits	10,090,662	-	-	10,090,662
Medical expenses	7,361,611	-	-	7,361,611
Occupancy	3,135,494	-	(167,360)	2,968,134
Administrative and general supplies and expense	934,772	314	-	935,086
Purchased services	1,494,439	-	-	1,494,439
Transportation	89,041	-	-	89,041
Depreciation and amortization	460,912	719,146	-	1,180,058
Interest expense	299,799	167,360	-	467,159
Insurance	227,093	-	-	227,093
Total expenses	<u>65,251,017</u>	<u>886,820</u>	<u>(167,360)</u>	<u>65,970,477</u>
Income (loss) from operations	<u>174,229</u>	<u>(719,460)</u>	<u>-</u>	<u>(545,231)</u>
Non-operating gains:				
Investment income	135,612	-	-	135,612
Contributions	151,530	-	-	151,530
Realized gain on sale of investments	15,302	-	-	15,302
Total non-operating gains	<u>302,444</u>	<u>-</u>	<u>-</u>	<u>302,444</u>
Excess (deficit) of revenue, other support and gains over expenses	476,673	(719,460)	-	(242,787)
Capital grant	628,004	-	-	628,004
Unrealized gain on investments	60,653	-	-	60,653
Transfer (to) from affiliate	762,484	(762,484)	-	-
Increase (decrease) in unrestricted net assets	<u>\$ 1,927,814</u>	<u>\$ (1,481,944)</u>	<u>\$ -</u>	<u>\$ 445,870</u>