

OUTER CAPE HEALTH SERVICES, INC.

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011



OUTER CAPE HEALTH SERVICES, INC.

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

To the Board of Directors
Outer Cape Health Services, Inc.
Wellfleet, Massachusetts

Independent Auditors' Report

We have audited the accompanying balance sheets of Outer Cape Health Services, Inc. (the "Health Center") as of June 30, 2012 and 2011, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Health Center's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 financial statements referred to above present fairly, in all material respects, the financial position of Outer Cape Health Services, Inc. as of June 30, 2012 and 2011, and the results of its 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 14, 2012, on our consideration of Outer Cape Health Services, Inc.'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* and should be considered in assessing the results of our audit.

To the Board of Directors
Outer Cape Health Services, Inc.
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Our audits were conducted for the purpose of forming an opinion on the 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 required as part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Feeley & Driscoll, P.C.

November 14, 2012



OUTER CAPE HEALTH SERVICES, INC.

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	\$ 8,836,651	\$ 5,840,358
Grant and contract revenue	1,950,270	1,824,818
Net assets released from restrictions used in operations	125,525	277,266
Contributions	256,945	153,096
Other revenue	374,345	69,193
Total revenue and other support	<u>11,543,736</u>	<u>8,164,731</u>
Expenses:		
Salaries and wages	6,715,217	5,410,039
Employee benefits	1,479,018	1,223,464
Occupancy	451,129	376,995
Supplies and expense	1,606,261	881,855
Purchased services	196,848	430,850
Professional fees	289,690	231,799
Depreciation and amortization	373,089	229,881
Interest expense	102,526	46,657
Insurance	25,821	29,668
Provision for uncollectible accounts	289,670	311,334
Total expenses	<u>11,529,269</u>	<u>9,172,542</u>
Income (loss) from operations	<u>14,467</u>	<u>(1,007,811)</u>
Non-operating gains -		
Investment income	<u>326</u>	<u>1,932</u>
Excess (deficit) of revenue, other support and gains over expenses	14,793	(1,005,879)
Capital grant	2,182,379	835,472
Net assets released from restriction for capital expenditures	<u>27,833</u>	<u>156,408</u>
Increase (decrease) in unrestricted net assets	<u>\$ 2,225,005</u>	<u>\$ (13,999)</u>

See accompanying notes to financial statements.

OUTER CAPE HEALTH SERVICES, INC.

Statements of Changes in Net Assets

For the years ended June 30, 2012 and 2011

	Unrestricted	Temporarily Restricted	Total
Net assets, June 30, 2010	\$ 761,708	\$ 565,427	\$ 1,327,135
Excess (deficit) of revenue, other support and gains over expenses	(1,005,879)	-	(1,005,879)
Grants and contributions	835,472	160,945	996,417
Net assets released from restrictions for capital expenditures	156,408	(156,408)	-
Net assets released from restrictions used in operations	-	(277,266)	(277,266)
Change in net assets	(13,999)	(272,729)	(286,728)
Net assets, June 30, 2011	747,709	292,698	1,040,407
Excess of revenue, other support and gains over expenses	14,793	-	14,793
Grants and contributions	2,182,379	106,295	2,288,674
Net assets released from restrictions for capital expenditures	27,833	(27,833)	-
Net assets released from restrictions used in operations	-	(125,525)	(125,525)
Change in net assets	2,225,005	(47,063)	2,177,942
Net assets, June 30, 2012	\$ 2,972,714	\$ 245,635	\$ 3,218,349

See accompanying notes to financial statements.

OUTER CAPE HEALTH SERVICES, INC.

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	\$ 2,177,942	\$ (286,728)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	373,089	229,881
Provision for uncollectible accounts	289,670	311,334
Capital grants	(2,182,379)	(835,472)
Increase (decrease) in cash resulting from a change in:		
Patient accounts receivable	(559,952)	(551,619)
Grants and contracts receivable	(781,306)	215,645
Other receivables, prepaid expenses and other current assets	123,923	(189,384)
Accounts payable and accrued expenses	385,730	449,077
Accrued salaries and wages payable	88,926	91,920
Net cash used in operating activities	<u>(84,357)</u>	<u>(565,346)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(2,567,635)	(1,320,634)
Payment for other assets	-	(33,495)
Net cash used in investing activities	<u>(2,567,635)</u>	<u>(1,354,129)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	1,111,580	714,000
(Payments on) proceeds from line of credit	(550,000)	297,500
Capital grants	2,182,379	835,472
Principal payments on long-term debt	(81,213)	(317,547)
Net cash provided by financing activities	<u>2,662,746</u>	<u>1,529,425</u>
Net increase (decrease) in cash and cash equivalents	10,754	(390,050)
Cash and cash equivalents, beginning of year	<u>240,794</u>	<u>630,844</u>
Cash and cash equivalents, end of year	<u>\$ 251,548</u>	<u>\$ 240,794</u>
Supplemental disclosure of cash flow information -		
Cash paid for interest	<u>\$ 102,526</u>	<u>\$ 46,657</u>
Equipment and other assets acquired through note payable	<u>\$ 88,000</u>	<u>\$ -</u>

See accompanying notes to financial statements.

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements

June 30, 2012 and 2011

Note 1 - Organization

Outer Cape Health Services, Inc. (the "Health Center") is a not-for profit corporation organized in December 1972 to provide high quality primary care services to those living or visiting the eight towns of the lower and outer Cape Cod area of Massachusetts. The Health Center also provides educational and social services to the residents of the lower Cape.

Note 2 - Summary of Significant Accounting Policies

The accounts of the Health Center 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 Health Center. Temporarily restricted net assets are those whose use by the Health Center 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.

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

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 is stated at the lower of cost (first-in, first-out) or market. Inventory consists of medical and pharmaceutical supplies.

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.

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.

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies - Continued

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 Health Center are subject to possible audit by the grantor agency or governmental regulatory agency overseeing the contract award. Costs incurred in furtherance of the grant or contract objective and not yet reimbursed by year end are reported as grants and contracts receivable in the balance sheet.

Charity Care - The Health 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 Health Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Health Center includes in revenue its reimbursement from the Massachusetts Health Safety Net Trust ("HSN") for services provided under its charity care policy.

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. Changes in unrestricted net assets which are excluded from the excess of revenue, other support and gains over expenses, consistent with industry practice, include grants and donations used to purchase long-lived assets.

Gifts, Bequests and Contributions - Contributions received, including pledges and the use of property, are recorded as revenues in the period received, at their fair values. The Health Center reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of 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 as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same operating period are presented as unrestricted support. The Health Center reports gifts of property at their estimated fair value at the date of gift. The gifts are shown as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the Health Center reports expirations of donor restrictions when the donated assets or acquired long-lived assets are placed in service.

Advertising Costs - Advertising costs are expensed as incurred.

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies - Continued

Tax Status - The Health Center is incorporated under Section 501(c)(3) of the Internal Revenue Code (the "Code") and, accordingly, is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Health Center is classified as a public charity. The Health Center 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.

Subsequent Events - The Organization has evaluated subsequent events through November 14, 2012, which is the date the financial statements were available for issuance.

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.

Note 3 - Concentration of Credit Risk

The Health 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 and others was as follows at June 30:

	<u>2012</u>	<u>%</u>	<u>2011</u>	<u>%</u>
Health Safety Net	\$ 247,303	16%	\$ 201,517	18%
Self pay	241,788	16%	142,975	13%
Medicaid	220,254	14%	252,081	22%
Medicare	151,129	10%	220,166	19%
Commercial and other	684,619	44%	315,599	28%
Gross accounts receivable	<u>1,545,093</u>	<u>100%</u>	<u>1,132,338</u>	<u>100%</u>
Less allowance for doubtful accounts	<u>(489,763)</u>		<u>(347,290)</u>	
Patient accounts receivable, net of allowance	<u>\$ 1,055,330</u>		<u>\$ 785,048</u>	

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 Health Center.

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Note 4 - Charity Care

As a community provider of health care services, the Health 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 Health 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 Health 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 approximately \$666,000 and \$380,000, respectively.

The cost to provide the charity care is determined using a ratio of cost to gross charges and amounted to approximately \$584,000 and \$406,000 for the years ended June 30, 2012 and 2011, respectively. These costs represent approximately five percent (5%) and four percent (4%) of the Health Center's total expenses for the years ended June 30, 2012 and 2011, respectively.

In accordance with the Commonwealth of Massachusetts' Health Safety Net ("HSN") guidelines, the Health 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 Health Center's free care policies.

HSN reimburses providers according to a claims methodology, based on an established rate per visit. Such amounts received from HSN are included in net patient service revenue and totaled approximately \$512,000 and \$272,000 for the years ended June 30, 2012 and 2011, respectively.

Note 5 - 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 and 2011, the Health Center is not subject to any recoupment under the provisions of the Commonwealth's Surplus Revenue Retention regulations.

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Note 6 - Property and Equipment

Property and equipment were as follows at June 30:

	<u>2012</u>	<u>2011</u>
Land	\$ 105,666	\$ 105,666
Buildings and improvements	2,466,503	2,482,761
Equipment	1,589,598	1,308,453
Construction in progress	2,541,410	210,898
	<u>6,703,177</u>	<u>4,107,778</u>
Less accumulated depreciation	<u>2,143,187</u>	<u>1,785,843</u>
	<u>\$ 4,559,990</u>	<u>\$ 2,321,935</u>

Note 7 - Artwork Held for Investment

The Health Center holds donated artwork with a fair market value of \$135,350, as determined by an appraiser. The Health Center records donated artwork at fair market value upon receipt. This artwork is not expected to be sold and, therefore, is reflected as a long-term asset in the accompanying balance sheets.

The Health Center's management value artwork held for investment using unobservable, or Level III, inputs. These inputs include an appraisal of the artwork as determined by an outside appraiser. There have been no significant changes in the fair value of the artwork between June 30, 2012 and 2011.

Note 8 - Line of Credit

During 2011, the Health Center maintained a \$550,000 line of credit agreement with TD Bank. The line was subject to renewal by the bank annually in December. Borrowings under this agreement were due on demand and interest was payable monthly at the bank's prime rate (3.25% at June 30, 2011) plus 1%, with a floor of 5%. The line was secured by land and buildings located in Wellfleet, Massachusetts and Provincetown, Massachusetts. There was \$550,000 outstanding as of June 30, 2011. The agreement was also subject to various financial and reporting covenants. This line of credit was converted into a term note on April 17, 2012. (See Note 9.)

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Note 9 - Long-term Debt

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

	<u>2012</u>	<u>2011</u>
TD Bank, 2011 note payable	\$ 692,528	\$ 712,453
TD Bank, 2012 note payable	545,417	-
U. S. Department of Agriculture, 2011 note payable	309,300	-
Massachusetts Development Finance Agency note payable	250,000	-
U. S. Department of Agriculture, 1980 note payable	208,684	225,440
Installment note payable	50,331	-
	<u>2,056,260</u>	<u>937,893</u>
Less current portion	<u>131,914</u>	<u>37,321</u>
	<u>\$ 1,924,346</u>	<u>\$ 900,572</u>

Long-term debt consists of a 5% note payable to a government agency, due in monthly principal and interest installments of \$2,309, through March 2022. This note is secured by a first mortgage on land and a building in Provincetown, Massachusetts. The balance of this note was \$208,684 and \$225,440 at June 30, 2012 and 2011, respectively.

On May 3, 2011, the Health Center entered into a 5.58% loan with a bank in the amount of \$714,000, due in monthly principal and interest installments of \$4,978, through May 2031. This loan is secured by a first mortgage on land and a building in Wellfleet, Massachusetts. The balance on this loan was \$692,528 and \$712,453 at June 30, 2012 and 2011, respectively.

On August 16, 2011, the Health Center entered into a 3% note payable with a physician in the amount of \$88,000 for the purchase of the Crossroads Medical, P.C., a Massachusetts corporation. This note is due in monthly principal and interest installments of \$3,942, through August 2013. The balance on this note was \$50,331 as of June 30, 2012.

On October 18, 2011, the Health Center entered into a 3.75% note payable to a government agency, due in monthly principal and interest installments of \$1,256, through September 2051. This note is secured by all contract rights, accounts, general intangibles, gross receipts, gifts, pledges, income and revenue of the Health Center. The balance on this note was \$309,300 at June 30, 2012.

On December 22, 2011, the Health Center entered into a 5% note payable to a government agency, due in monthly principal and interest installments ranging from \$312 to \$4,035, through January 2019. This note is secured by the equipment, machinery and other personal property of the Health Center. The balance on this note was \$250,000 at June 30, 2012.

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Note 9 - Long-term Debt - Continued

On April 17, 2012, the Health Center converted a line of credit with a bank into a term note in the amount of \$550,000, due in monthly principal and interest installments of \$2,292, through May 2032. This note bears interest at the Wall Street Journal prime rate (3.25% at June 30, 2012) plus 1%. The note is secured by a security interest in any and all assets of the Health Center. The balance on this note was \$545,417 at June 30, 2012.

Aggregate annual maturities of long-term debt are as follows at June 30, 2012:

2013	\$	131,914
2014		113,941
2015		112,345
2016		118,930
2017		123,760
Thereafter		<u>1,455,370</u>
	\$	<u>2,056,260</u>

The Health Center is also required to maintain certain financial and other covenants on its TD Bank notes payable, which management believes will not restrict the nature of the Health Center's business or operation.

Note 10 - Commitments

Lease Commitments

The Health Center leases facilities under operating lease agreements with monthly payments ranging from \$50 to \$6,130. These agreements expire at various dates through fiscal year 2014 with various renewal options. Under these agreements, the Health Center is responsible for a proportionate share of building operating costs over a base period amount.

The Health Center leases equipment under operating lease agreements with monthly payments ranging from \$229 to \$1,795. These agreements expire at various dates through fiscal year 2013.

Total rent expense was \$206,936 and \$174,404 for the years ended June 30, 2012 and 2011, respectively.

Remaining minimum annual rental payments for the non-cancelable portions of the leases are as follows

	<u>Facilities</u>	<u>Equipment</u>
Year ending June 30:		
2013	\$ 95,731	\$ 4,434
2014	9,799	-

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Note 11 - 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	\$ 12,727,373	\$ 8,592,350
Less contractual allowances and rate adjustments	<u>3,890,722</u>	<u>2,751,992</u>
Net patient service revenue	<u>\$ 8,836,651</u>	<u>\$ 5,840,358</u>

Note 12 - Third Party Reimbursement

The Health 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 Health Center to file annual cost reports that summarize actual and allowable cost and charge data.

The Medicare program of the CMS pays the Health Center under the payment guidelines established for Federally Qualified Health Centers ("FQHC's"). Under this methodology, the Health 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 Health Center on a fee-for-service basis for routine services provided. For the majority of services it provides, the Health Center is reimbursed the lesser of its actual charges or the fee-schedule amounts for such services.

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

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Note 13 - Temporarily Restricted Net Assets

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

	<u>2012</u>	<u>2011</u>
Greenhouse	\$ 133,794	\$ 158,489
Dental	43,521	7,726
Capital	34,695	23,568
Healthcare services	33,625	60,706
Pharmacy	-	32,209
Childhood obesity	-	10,000
	<u>\$ 245,635</u>	<u>\$ 292,698</u>

Note 14 - Retirement Plan

The Health Center has a 403(b) retirement plan available to all eligible full time employees. This is an employee only plan with no employer contributions.

Note 15 - Medical Malpractice Insurance

The Health 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 Health 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 Health Center is comparable to an occurrence-based policy without a monetary cap. The coverage is applicable to the Health Center, its officers, board members, employees, contracted physicians and other licensed or certified health care practitioners.

Note 16 - Related Party Transactions

The Health Center leases a facility under an operating lease agreement from an employee of the Health Center. As part of the lease agreement, the Health Center also pays for repairs and maintenance costs incurred at the facility. Total rent and repairs and maintenance expenses related to this facility were \$72,011 and \$28,602 for the years ended June 30, 2012 and 2011, respectively.

During 2012, the Health Center received an interest free loan of \$15,000 from a company majority owned by the Chief Executive Officer (CEO) of the Health Center, as well as a \$30,000 interest free loan from the CEO, directly. These loans were both repaid during 2012.

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Note 17 - 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 Health Center is in substantial compliance with current laws and regulations.

Claims and legal actions are brought against the Health 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 Health Center which, individually or in the aggregate, will be in excess of its insurance coverage.

Note 18 - Functional Expenses

The Health Center 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	\$ 9,731,619	85%	\$ 7,045,091	77%
General and administrative	1,656,429	14%	2,010,680	22%
Fundraising	141,221	1%	116,771	1%
	<u>11,529,269</u>	<u>100%</u>	<u>9,172,542</u>	<u>100%</u>
	\$		\$	

Note 19 - Subsequent Event

On October 18, 2012, the Health Center entered into a financing agreement with a lender in the amount of \$283,162 for the purchase of mammography equipment.

OUTER CAPE HEALTH SERVICES, INC.

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2012

Federal Grantor	Federal CFDA #	Pass-through Identification Number	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>			
Affordable Care Act - Grants for Capital Development in Health Centers Capital Development Grants	93.526	N/A	\$ 2,182,379
Consolidated Health Centers Grant	93.224	N/A	924,683
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	186,736
<u>Passed through the Commonwealth of Massachusetts - Department of Public Health:</u>			
HIV Care Formula Grant	93.917	4513-9037	<u>85,000</u>
			<u>3,378,798</u>
<u>U.S. Department of Agriculture</u>			
<u>Passed through the Commonwealth of Massachusetts - Department of Public Health:</u>			
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	4513-9007	<u>462,919</u>
			<u>\$ 3,841,717</u>

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

OUTER CAPE HEALTH SERVICES, INC.

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 Outer Cape Health Services, Inc. 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 \$284,877 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
Outer Cape Health Services, Inc.
Wellfleet, Massachusetts

We have audited the financial statements of Outer Cape Health Services, Inc. as of and for the year ended June 30, 2012, and have issued our report thereon dated November 14, 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 Outer Cape Health Services, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Outer Cape Health Services, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Outer Cape Health Services, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Outer Cape Health Services, Inc.'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 financial statements will not be prevented, or detected and corrected on a timely basis.

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

To the Board of Directors
Outer Cape Health Services, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of Outer Cape Health Services, Inc. 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.

Feeley & Driscoll P.C.

November 14, 2012





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
Outer Cape Health Services, Inc.
Wellfleet, Massachusetts

Compliance

We have audited Outer Cape Health Services, Inc.'s compliance 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 Outer Cape Health Services, Inc.'s major federal programs for the year ended June 30, 2012. Outer Cape Health Services, Inc.'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 Outer Cape Health Services, Inc.'s management. Our responsibility is to express an opinion on Outer Cape Health Services, Inc.'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 Outer Cape Health Services, Inc.'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 Outer Cape Health Services, Inc.'s compliance with those requirements.

In our opinion, Outer Cape Health Services, Inc. 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. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-1.

To the Board of Directors
Outer Cape Health Services, Inc.

Internal Control Over Compliance

The management of Outer Cape Health Services, Inc. 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 Outer Cape Health Services, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Outer Cape Health Services, Inc.'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.

Feeley & Driscoll, P.C.

November 14, 2012



OUTER CAPE HEALTH SERVICES, INC.

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>
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease
93.526	Affordable Care Act – Capital Development Grant

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

OUTER CAPE HEALTH SERVICES, INC.

Schedule of Findings and Questioned Costs - Continued

For the year ended June 30, 2012

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

Finding 2012 -1:

Criteria: Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §.320, requires the Organization to submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after fiscal year-end, unless the Organization's federal oversight agency approves an extension of this deadline.

Condition and Context: The federal reporting deadline for the Organization's Single Audit Reporting Package was March 31, 2012; however, the Organization did not submit its Single Audit Reporting Package until April 2012.

Effect: The Organization did not meet the 9 month submission deadline.

Cause: The late completion of the Organization's audit and transition in management contributed to the late submission of its Single Audit Reporting Package.

Recommendation: The Organization should improve its financial reporting process so that it can submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after fiscal year-end.

Management Response: We have put personnel and processes in place to improve the financial reporting process in order to facilitate the timely submission of the Single Audit Reporting Package.

Section IV - Prior Audit Findings

None.