

OUTER CAPE HEALTH SERVICES, INC.

FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013



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 Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of Outer Cape Health Services (a nonprofit organization), which comprise the balance sheets as of June 30, 2014 and 2013, and the related 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 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 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Outer Cape Health Services as of June 30, 2014 and 2013, the results of its operations, the changes in its net assets and its 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 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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 information is fairly stated, in all material respects, in relation to the 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 October 22, 2014, 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* in considering the Outer Cape Health Services, Inc's internal control over financial reporting and compliance.

Boston, Massachusetts
October 22, 2014

Feeley, Eriscoll, P.C.



OUTER CAPE HEALTH SERVICES, INC.

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	\$ 357,506	\$ 286,927	Line of credit	\$ 250,000	\$ 500,000
Patient accounts receivable, net	1,115,703	998,041	Current portion of long-term debt	166,451	154,458
Grants and contracts receivable	93,252	291,629	Accounts payable and accrued expenses	768,285	1,109,667
Inventory	351,739	181,847	Accrued salaries and wages payable	<u>734,025</u>	<u>625,761</u>
Prepaid expenses and other current assets	127,371	144,439	Total current liabilities	1,918,761	2,389,886
Total current assets	<u>2,045,571</u>	<u>1,902,883</u>			
			Long-term liabilities -		
Property and equipment, net	<u>6,082,495</u>	<u>6,049,447</u>	Long-term debt, net of current portion	<u>2,533,881</u>	<u>2,052,125</u>
			Total liabilities	<u>4,452,642</u>	<u>4,442,011</u>
Other assets:			Commitments and contingencies		
Artwork held for investment	136,950	136,950	Net assets:		
Other assets	<u>191,873</u>	<u>77,084</u>	Unrestricted	3,688,773	3,409,601
Total other assets	<u>328,823</u>	<u>214,034</u>	Temporarily restricted	<u>315,474</u>	<u>314,752</u>
			Total net assets	<u>4,004,247</u>	<u>3,724,353</u>
Total assets	<u>\$ 8,456,889</u>	<u>\$ 8,166,364</u>	Total liabilities and net assets	<u>\$ 8,456,889</u>	<u>\$ 8,166,364</u>

See accompanying notes to financial statements.

OUTER CAPE HEALTH SERVICES, INC.

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	\$ 13,712,886	\$ 11,162,463
Provision for uncollectible accounts	(451,257)	(1,027,570)
Net patient service revenue	<u>13,261,629</u>	<u>10,134,893</u>
Grant and contract revenue	1,974,289	1,757,503
Net assets released from restrictions used in operations	309,246	236,484
Contributions	446,360	224,631
Other revenue	186,171	145,563
Total revenue and other support	<u>16,177,695</u>	<u>12,499,074</u>
Expenses:		
Salaries and wages	8,430,463	7,534,826
Employee benefits	1,689,545	1,677,094
Occupancy	428,042	481,502
Supplies and expense	3,728,072	2,485,647
Purchased services	313,694	273,125
Professional fees	377,318	340,068
Depreciation and amortization	798,796	461,646
Interest expense	133,140	116,056
Insurance	54,754	32,672
Total expenses	<u>15,953,824</u>	<u>13,402,636</u>
Income (loss) from operations	<u>223,871</u>	<u>(903,562)</u>
Non-operating gains and (losses):		
Investment income	290	514
Loss on sale of property and equipment	(36,319)	-
Total non-operating gains and (losses)	<u>(36,029)</u>	<u>514</u>
Excess (deficit) of revenue, other support and gains over expenses and losses	187,842	(903,048)
Capital grant	2,424	1,090,950
Net assets released from restrictions for capital expenditures	<u>88,906</u>	<u>248,985</u>
Increase in unrestricted net assets	<u>\$ 279,172</u>	<u>\$ 436,887</u>

See accompanying notes to financial statements.

OUTER CAPE HEALTH SERVICES, INC.

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	\$ 2,972,714	\$ 245,635	\$ 3,218,349
Excess (deficit) of revenue, other support and gains over expenses and losses	(903,048)	-	(903,048)
Grants and contributions	1,090,950	554,586	1,645,536
Net assets released from restrictions for capital expenditures	248,985	(248,985)	-
Net assets released from restrictions used in operations	-	(236,484)	(236,484)
Change in net assets	<u>436,887</u>	<u>69,117</u>	<u>506,004</u>
Net assets, June 30, 2013	<u>3,409,601</u>	<u>314,752</u>	<u>3,724,353</u>
Excess (deficit) of revenue, other support and gains over expenses and losses	187,842	-	187,842
Grants and contributions	2,424	398,874	401,298
Net assets released from restrictions for capital expenditures	88,906	(88,906)	-
Net assets released from restrictions used in operations	-	(309,246)	(309,246)
Change in net assets	<u>279,172</u>	<u>722</u>	<u>279,894</u>
Net assets, June 30, 2014	<u>\$ 3,688,773</u>	<u>\$ 315,474</u>	<u>\$ 4,004,247</u>

See accompanying notes to financial statements.

OUTER CAPE HEALTH SERVICES, INC.

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	\$ 279,894	\$ 506,004
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	798,796	461,646
Provision for uncollectible accounts	451,257	1,027,570
Loss on sale of property and equipment	36,319	-
Capital grants	(2,424)	(1,090,950)
Increase (decrease) in cash resulting from a change in:		
Patient accounts receivable	(568,919)	(970,281)
Grants and contracts receivable	198,377	574,474
Inventory	(169,892)	(87,955)
Prepaid expenses and other current assets	17,068	(62,321)
Accounts payable and accrued expenses	(26,482)	(498,151)
Accrued salaries and wages payable	108,264	65,265
Net cash provided by (used in) operating activities	<u>1,122,258</u>	<u>(74,699)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(519,378)	(1,355,220)
Payment for other assets	(133,474)	(23,343)
Net cash used in investing activities	<u>(652,852)</u>	<u>(1,378,563)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	-	580,529
Proceeds from (payments on) line of credit	(250,000)	500,000
Capital grants	2,424	1,090,950
Principal payments on long-term debt	(151,251)	(682,838)
Net cash (used in) provided by financing activities	<u>(398,827)</u>	<u>1,488,641</u>
Net increase in cash and cash equivalents	70,579	35,379
Cash and cash equivalents, beginning of year	<u>286,927</u>	<u>251,548</u>
Cash and cash equivalents, end of year	<u>\$ 357,506</u>	<u>\$ 286,927</u>
Supplemental disclosure of cash flow information -		
Cash paid for interest	<u>\$ 133,140</u>	<u>\$ 116,056</u>
Purchase of property and equipment in accounts payable at year-end	<u>\$ -</u>	<u>\$ 314,900</u>
Equipment and other assets acquired through note payable and capital lease obligation	<u>\$ 645,000</u>	<u>\$ 252,632</u>

See accompanying notes to financial statements.

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements

June 30, 2014 and 2013

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 (8) 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 - Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Health 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 Health Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provisions for uncollectible accounts, if necessary. For receivables associated with self-pay patients, the Health Center records a provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that certain 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 charged off against the allowance for doubtful accounts.

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

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements - Continued

June 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies - Continued

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. Equipment under capital lease obligation is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Collections - Collection items are recorded at cost if purchased and at fair value at date of accession if donated. Gains and losses are reported as changes in net assets based on the absence or existence and nature of donor-imposed restrictions. Collection items are protected, kept unencumbered, cared for, and preserved.

Deferred Financing Costs - The direct costs incurred in entering into debt agreements that have been capitalized and are being amortized on a straight-line basis, which approximates the effective interest method over the term of the related debt.

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 Health 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 Health 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 Health 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 portion of the Health Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Health Center records a provision for uncollectible accounts 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 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.

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements - Continued

June 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies - Continued

Charity Care - The Health 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 Health Center 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 financial statements is recorded net of its reimbursement from the Massachusetts Health Safety Net Trust.

Excess (Deficit) of Revenue, Other Support and Gains Over Expenses and Losses - The statement of operations includes the excess (deficit) of revenue, other support and gains over expenses and losses. Changes in unrestricted net assets which are excluded from the excess (deficit) of revenue, other support and gains over expenses and losses, 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.

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

Subsequent Events - The Health Center has evaluated subsequent events through October 22, 2014, which is the date the financial statements were available for issuance.

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements - Continued

June 30, 2014 and 2013

Note 3 - Concentration of Credit Risk

The Health Center 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 Health Center had \$136,434 and \$56,629, respectively, in excess of FDIC limits.

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>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>
Commercial and other	\$ 937,328	58%	\$ 706,544	45%
Medicare	271,667	17%	307,142	19%
Medicaid	190,576	12%	258,058	16%
Self pay	138,465	8%	137,038	9%
Health Safety Net	75,809	5%	175,989	11%
Gross accounts receivable	<u>1,613,845</u>	<u>100%</u>	<u>1,584,771</u>	<u>100%</u>
Less allowance for doubtful accounts	<u>(498,142)</u>		<u>(586,730)</u>	
Patient accounts receivable, net of allowance	<u>\$ 1,115,703</u>		<u>\$ 998,041</u>	

A significant portion of the accounts receivable from commercial and other payors is derived from BlueCross BlueShield of Massachusetts and Harvard Pilgrim HealthCare. 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 significantly changed from the prior year.

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements - Continued

June 30, 2014 and 2013

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.

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	<u>\$ 789,000</u>	<u>\$ 604,000</u>
Estimated costs and expenses incurred to provide charity care	<u>\$ 712,800</u>	<u>\$ 578,298</u>
Equivalent percentage of charity care patients to all patients served	<u>4.35%</u>	<u>4.01%</u>

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

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 approximated \$722,000 and \$570,000 for the years ended June 30, 2014 and 2013, respectively.

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements - Continued

June 30, 2014 and 2013

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, 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.

As of June 30, 2014 and 2013, the Health Center is not subject to any recoupment under the provisions of the Commonwealth’s Surplus Revenue Retention regulations.

Note 6 - Property and Equipment

Property and equipment were as follows at June 30:

	<u>2014</u>	<u>2013</u>
Land	\$ 410,066	\$ 105,666
Buildings and improvements	6,523,603	6,255,770
Equipment	2,246,192	2,258,844
Construction-in-progress	222,400	-
	<u>9,402,261</u>	<u>8,620,280</u>
Less accumulated depreciation	<u>3,319,766</u>	<u>2,570,833</u>
	<u>\$ 6,082,495</u>	<u>\$ 6,049,447</u>

Note 7 - Artwork Held for Investment

The Health Center holds donated artwork with a fair market value of \$136,950, 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 values artwork held for investment using unobservable, or level 3, 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, 2014 and 2013.

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements - Continued

June 30, 2014 and 2013

Note 8 - Line of Credit

The Health Center maintains a \$550,000 line of credit agreement with TD Bank. The line is subject to renewal by the bank annually in December. Borrowings under this agreement are due on demand and interest is payable monthly at the bank's prime rate (3.25% at June 30, 2014) plus one percent (1%), with a floor of five percent (5%). The line is secured by land and buildings located in Wellfleet, Massachusetts. There was \$250,000 and \$500,000 outstanding as of June 30, 2014 and 2013, respectively. The agreement is also subject to various financial and reporting covenants. These covenants are tested on an annual basis coinciding with the fiscal year of the Health Center.

Note 9 - Long-term Debt and Capital Leases

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

	<u>2014</u>	<u>2013</u>
TD Bank, 2011 note payable	\$ 649,135	\$ 671,547
Callis building mortgage	643,064	-
Massachusetts Development Finance Agency (MDFFA) mortgage note payable	534,748	550,000
U. S. Department of Agriculture, 2011 note payable	302,108	305,752
General Electric Healthcare Capital Lease	202,372	250,382
Massachusetts Development Finance Agency note payable	196,651	234,049
U. S. Department of Agriculture, 1980 note payable	172,254	190,921
Installment note payable	-	3,932
	<u>2,700,332</u>	<u>2,206,583</u>
Less current portion	<u>166,451</u>	<u>154,458</u>
	<u>\$ 2,533,881</u>	<u>\$ 2,052,125</u>

On May 3, 2011, the Health Center entered into a five and fifty-eight hundredths percent (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 \$649,135 and \$671,547 at June 30, 2014 and 2013, respectively.

On April 1, 2014, the Health Center entered into a six percent (6%) note payable with a trust, as a loan until the Health Center can obtain financing from another agency. Repayment of the note is made in monthly principal and interest installments of \$3,867, through January 1, 2044. This note is secured by the purchased property. The balance on this note was \$643,064 at June 30, 2014.

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements - Continued

June 30, 2014 and 2013

Note 9 - Long-term Debt and Capital Leases - Continued

On December 28, 2012, the Health Center entered into a five percent (5%) note to MDFA to pay the outstanding principal and interest on the Health Center's term note. Repayment of the note is made in monthly principal and interest installments of \$3,684, through January 1, 2018. This note is secured by the equipment, machinery, and other personal property of the Health Center. The balance on this note was \$534,748 and \$550,000 at June 30, 2014 and 2013, respectively.

On October 18, 2011, the Health Center entered into a three and three-quarters percent (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 \$302,108 and \$305,752 at June 30, 2014 and 2013, respectively.

On August 3, 2013, the Health Center entered into a capital lease for a mammography machine with GE Healthcare with a monthly payment amount of \$5,402. The capital lease expires in October of 2017, and the balance was \$202,372 and \$250,382 at June 30, 2014 and 2013, respectively.

On December 22, 2011, the Health Center entered into a five percent (5%) note payable to MDFA, 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 \$196,651 and \$234,049 at June 30, 2014 and 2013, respectively.

The Health Center has a five percent (5%) note payable to the United States Department of Agriculture, 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 \$172,254 and \$190,921 at June 30, 2013 and 2012, respectively.

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements - Continued

June 30, 2014 and 2013

Note 9 - Long-term Debt and Capital Leases - Continued

Aggregate annual maturities of long-term debt are as follows at June 30, 2014:

2015	\$	166,451
2016		177,142
2017		186,923
2018		158,834
2019		117,414
Thereafter		<u>1,893,568</u>
	\$	<u><u>2,700,332</u></u>

The Health Center is also subject to various financial and reporting covenants. These covenants are tested on an annual basis coinciding with the fiscal year of the Health Center.

Aggregate annual maturities of capital lease obligations are as follows:

2015	\$	64,824
2016		64,824
2017		64,824
2018		<u>27,011</u>
		221,483
Less amount representing interest		<u>19,111</u>
Present value of minimum lease payments		202,372
Current portion		<u>55,278</u>
	\$	<u><u>147,094</u></u>

Assets under capital lease at June 30, 2014 and 2013, totaled \$250,126 and \$283,162, respectively. The cost of these assets is included with property and equipment and accumulated depreciation and amortization on the balance sheet. Amortization expense for assets under capital lease was \$57,840 and \$33,040 in 2014 and 2013, respectively, and has been included with depreciation and amortization expense in the financial statements. Accumulated amortization relating to assets under capital lease was \$90,880 and \$33,040 at June 30, 2014 and 2013, respectively.

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements - Continued

June 30, 2014 and 2013

Note 10 - Commitments

Lease Commitments - The Health Center leases facilities under operating lease agreements with monthly payments ranging from \$50 to \$6,129. These agreements expire at various dates through fiscal 2016, 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 \$310. These agreements expire at various dates through fiscal year 2018.

Total rent expense was \$114,980 and \$176,504 for the years ended June 30, 2014 and 2013, respectively.

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

<u>Years ending June 30:</u>	<u>Facilities</u>	<u>Equipment</u>
2015	\$ 126,090	\$ 11,200
2016	36,944	11,200
2017	-	4,674
2018	-	1,716

Note 11 - Net Patient Service Revenue

Net patient service revenue consisted of the following for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Gross patient service revenue	\$ 17,665,735	\$ 14,620,827
Less contractual allowances and rate adjustments	<u>3,952,849</u>	<u>3,458,364</u>
	13,712,886	11,162,463
Less: Provision for uncollectible accounts	<u>451,257</u>	<u>1,027,570</u>
Net patient service revenue	<u>\$ 13,261,629</u>	<u>\$ 10,134,893</u>

OUTER CAPE HEALTH SERVICES, INC.

Notes to Financial Statements - Continued

June 30, 2014 and 2013

Note 11 - Net Patient Service Revenue - Continued

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), 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>\$ 13,451,846</u>	<u>\$ 261,040</u>	<u>\$ 13,712,886</u>
June 30, 2013	<u>\$ 10,827,194</u>	<u>\$ 335,269</u>	<u>\$ 11,162,463</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 (FQHCs). 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, 2014 and 2013

Note 13 - Temporarily Restricted Net Assets

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

	<u>2014</u>	<u>2013</u>
Capital Program	\$ 146,786	\$ 113,381
Healthcare services	138,321	138,321
Dental	29,867	57,435
	<u>500</u>	<u>5,615</u>
	<u>\$ 315,474</u>	<u>\$ 314,752</u>

Note 14 - Retirement Plan

The Health Center maintains a 403(b) retirement plan available to all eligible full time employees. The plan provides for a discretionary employer contribution. The Health Center contribution was \$71,620 and \$57,511 for the years ended June 30, 2014 and 2013, respectively.

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 leased a facility under an operating lease agreement from an employee of the Health Center through May 2013. As part of the lease agreement, the Health Center also paid for repairs and maintenance costs incurred at the facility. Total rent and repairs and maintenance expenses related to this facility were \$-0- and \$64,355 for the years ended June 30, 2014 and 2013, respectively.

OUTER CAPE HEALTH SERVICES, INC.

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2014

Federal Grantor	Federal CFDA #	Pass-through Identification Number	Federal Expenditures
<u>U.S. Department of Health and Human Services:</u>			
Consolidated Health Centers Grant	93.224	N/A	\$ 1,108,051
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	177,400
Passed through the Commonwealth of Massachusetts - Department of Public Health: HIV Care Formula Grant	93.917	4513-9037	85,000
			1,370,451
<u>U.S. Department of Agriculture:</u>			
Passed through the Commonwealth of Massachusetts - Department of Public Health: Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	4513-9007	350,364
			\$ 1,720,815

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, 2014

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 2014, the WIC Program issued \$175,217 in vouchers to program participants to be used at local grocery stores. These funds, which are not received directly by the Health Center, are included on the schedule of expenditures of federal awards.



Feeley & Driscoll, P.C.

Certified Public Accountants / Business Consultants

To the Board of Directors
Outer Cape Health Services, Inc.
Wellfleet, 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 financial statements of Outer Cape Health Services, Inc. (a nonprofit organization), which comprise the balance sheet as of June 30, 2014, and the related 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 October 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Outer Cape Health Services, Inc.'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of Outer Cape Health Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Outer Cape Health Services, Inc.'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.

Outer Cape Health Services, Inc.
Paget Twenty-Three

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Outer Cape Health Services, Inc.'s 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 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
October 22, 2014

Feeley & Driscoll, P.C.





Feeley & Driscoll, P.C.

Certified Public Accountants / Business Consultants

To the Board of Directors
Outer Cape Health Services, Inc.
Wellfleet, 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 Outer Cape Health Services, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Outer Cape Health Services, Inc.'s major federal programs for the year ended June 30, 2014. Outer Cape Health Services, Inc.'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 Outer Cape Health Services, Inc.'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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Outer Cape Health Service, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Outer Cape Health Services, Inc. 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 Outer Cape Health Services, Inc. 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 Outer Cape Health Services, Inc.'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 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. *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
October 22, 2014

Feeley, E. Driscoll, P.C.



OUTER CAPE HEALTH SERVICES, INC.

Schedule of Findings and Questioned Costs

For the year ended June 30, 2014

Section I - Summary of Auditors' 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 #
93.224

Name of Program
Health Center Cluster

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, 2014

Section II - Financial Statement Findings

None.

Section III - Federal Award Findings and Questioned Costs

None.

Section IV - Prior Audit Findings

Finding 2013-1: During fiscal year 2013, the Health Center experienced significant personnel turnover related to the patient accounts receivable function. In 2013, an overstatement occurred related to patient accounts receivable due to calculation errors within the contractual allowance and allowance for doubtful accounts reserve model.

2014 Status - The finding has been resolved.