

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

FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009



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

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Feeley & Driscoll, P.C.

Certified Public Accountants / Business Consultants

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

Independent Auditors' Report

We have audited the accompanying balance sheets of Lynn Community Health, Inc. d/b/a Lynn Community Health Center as of June 30, 2010 and 2009, 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 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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lynn Community Health, Inc. d/b/a Lynn Community Health Center as of June 30, 2010 and 2009, 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.

Feeley & Driscoll, P.C.

December 9, 2010

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

Balance Sheets

June 30, 2010 and 2009

<u>Assets</u>	<u>2010</u>	<u>2009</u>	<u>Liabilities and Net Assets</u>	<u>2010</u>	<u>2009</u>
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 2,009,659	\$ 356,335	Current portion of long-term debt	\$ 71,162	\$ 67,406
Investments	459,743	426,482	Accounts payable and accrued expenses	1,180,393	1,164,681
Patient accounts receivable, net	3,737,196	4,608,430	Accrued salaries and wages payable	1,734,009	1,524,737
Grants and contracts receivable	691,713	852,924	Total current liabilities	<u>2,985,564</u>	<u>2,756,824</u>
Other accounts receivable	817,812	562,664	Long-term liabilities -		
Prepaid expenses and other current assets	132,334	269,356	Long-term debt, net of current portion	<u>1,758,022</u>	<u>1,823,585</u>
Total current assets	<u>7,848,457</u>	<u>7,076,191</u>	Total liabilities	<u>4,743,586</u>	<u>4,580,409</u>
Assets whose use is limited or restricted:					
Board designated	484,361	462,003			
Donor restricted	<u>3,003,412</u>	<u>-</u>			
	<u>3,487,773</u>	<u>462,003</u>			
Property and equipment, net	<u>4,544,076</u>	<u>3,926,096</u>			
Other assets -			Commitments and contingencies		
Deferred financing costs	<u>40,163</u>	<u>47,466</u>			
Total assets	<u>\$ 15,920,469</u>	<u>\$ 11,511,756</u>	Net assets:		
			Unrestricted	7,552,270	6,358,135
			Temporarily restricted	3,624,613	573,212
			Total net assets	<u>11,176,883</u>	<u>6,931,347</u>
			Total liabilities and net assets	<u>\$ 15,920,469</u>	<u>\$ 11,511,756</u>

See accompanying notes to financial statements.

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

Statements of Operations

For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Revenue and other support:		
Net patient service revenue	\$ 21,936,964	\$ 20,585,156
Grant and contract revenue	9,210,330	8,924,222
Net assets released from restrictions used in operations	1,476,619	1,784,745
Other revenue	150,158	125,326
Total revenue and other support	<u>32,774,071</u>	<u>31,419,449</u>
Expenses:		
Salaries and wages	18,261,786	17,510,081
Employee benefits	4,543,977	4,076,201
Medical expenses	5,029,032	4,714,937
Occupancy	1,748,301	1,929,558
Administrative and general supplies and expense	611,027	775,687
Purchased services	1,002,326	880,667
Transportation	37,574	62,666
Depreciation and amortization	398,403	287,100
Interest expense	92,665	105,059
Insurance	160,618	188,859
Provision for uncollectible accounts	692,141	775,509
Total expenses	<u>32,577,850</u>	<u>31,306,324</u>
Income from operations	<u>196,221</u>	<u>113,125</u>
Non-operating gains (losses):		
Investment income	38,032	36,687
Contributions	187,311	119,442
Realized gain (loss) on sale of investments	6,821	(197,234)
Total non-operating gains (losses)	<u>232,164</u>	<u>(41,105)</u>
Excess of revenue, other support and gains over expenses and losses	428,385	72,020
Capital grant	742,376	-
Net assets released from restriction for capital expenditures	-	517,044
Unrealized gain on investments	<u>23,374</u>	<u>61,148</u>
Increase in unrestricted net assets	<u>\$ 1,194,135</u>	<u>\$ 650,212</u>

See accompanying notes to financial statements.

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

Statements of Changes in Net Assets

For the years ended June 30, 2010 and 2009

	Unrestricted	Temporarily Restricted	Total
Net assets, June 30, 2008	\$ 5,707,923	\$ 619,961	\$ 6,327,884
Excess of revenue, other support and gains over expenses and losses	72,020	-	72,020
Unrealized gain on investments	61,148	-	61,148
Grants and contributions	-	2,255,040	2,255,040
Net assets released from restriction for capital expenditures	517,044	(517,044)	-
Net assets released from restrictions used in operations	-	(1,784,745)	(1,784,745)
Change in net assets	650,212	(46,749)	603,463
Net assets, June 30, 2009	6,358,135	573,212	6,931,347
Excess of revenue, other support and gains over expenses and losses	428,385	-	428,385
Unrealized gain on investments	23,374	-	23,374
Grants and contributions	-	4,528,020	4,528,020
Capital grant	742,376	-	742,376
Net assets released from restrictions used in operations	-	(1,476,619)	(1,476,619)
Change in net assets	1,194,135	3,051,401	4,245,536
Net assets, June 30, 2010	\$ 7,552,270	\$ 3,624,613	\$ 11,176,883

See accompanying notes to financial statements.

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

Statements of Cash Flows

For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 4,245,536	\$ 603,463
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	398,403	287,100
Provision for uncollectible accounts	692,141	775,509
Restricted grants	(3,793,777)	(573,212)
Net realized and unrealized (gains) losses on investments	(30,195)	136,086
Increase (decrease) in cash resulting from a change in:		
Patient accounts receivable	179,093	(1,681,251)
Grants and contracts receivable	161,211	153,195
Other receivables, prepaid expenses and other current assets	(118,126)	(58,696)
Accounts payable and accrued expenses	15,712	308,793
Accrued salaries and wages payable	209,272	259,712
Net cash provided by operating activities	<u>1,959,270</u>	<u>210,699</u>
Cash flows from investing activities:		
Purchases of property and equipment	(1,009,080)	(666,204)
Proceeds from sales and maturities of investments	449,446	3,594,505
Purchases of investments	(474,870)	(3,622,788)
Payment for assets whose use is limited or restricted	(3,003,412)	-
Net cash used in investing activities	<u>(4,037,916)</u>	<u>(694,487)</u>
Cash flows from financing activities:		
Restricted grants	3,793,777	573,212
Principal payments on long-term debt	(61,807)	(63,848)
Net cash provided by financing activities	<u>3,731,970</u>	<u>509,364</u>
Net increase in cash and cash equivalents	1,653,324	25,576
Cash and cash equivalents, beginning of year	<u>356,335</u>	<u>330,759</u>
Cash and cash equivalents, end of year	<u>\$ 2,009,659</u>	<u>\$ 356,335</u>
Supplemental disclosure of cash flow information -		
Cash paid for interest	<u>\$ 92,665</u>	<u>\$ 105,059</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2010 and 2009

Note 1 - Organization

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

Note 2 - Summary of Significant Accounting Policies

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

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

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

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

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

Notes to Financial Statements - Continued

June 30, 2010 and 2009

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.

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

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

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

Grant and Contract Revenue - Grant and contract revenue are reported in accordance with the provisions of the applicable contract or grant agreement. The majority of the grants and contracts received by the Center are subject to possible audit by the grantor agency or governmental regulatory agency overseeing the contract award.

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

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

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

Notes to Financial Statements - Continued

June 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies - Continued

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

Advertising Costs - Advertising costs are expensed as incurred.

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

Tax Status - The 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 Center is classified as a public charity. The Center annually evaluates its tax status and tax positions taken with respect to its operations and financial position. Tax years from 2006 through the current year remain open for examination by federal and state taxing authorities.

Subsequent Events - The Organization has evaluated subsequent events through December 9, 2010, which is the date the financial statements were available for issuance (see Note 21).

Note 3 - Concentration of Credit Risk

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

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

Notes to Financial Statements - Continued

June 30, 2010 and 2009

Note 3 - Concentration of Credit Risk - Continued

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

	<u>2010</u>	<u>%</u>	<u>2009</u>	<u>%</u>
Medicaid	\$ 2,130,313	29%	\$ 1,416,629	19%
Medicare	1,120,911	15%	970,605	13%
Self pay	36,096	-%	367,024	5%
Health Safety Net Trust	1,350,272	18%	1,077,761	15%
Other	<u>2,829,439</u>	<u>38%</u>	<u>3,590,561</u>	<u>48%</u>
Gross accounts receivable	7,467,031	<u>100%</u>	7,422,580	<u>100%</u>
Less allowance for doubtful accounts	<u>(3,729,835)</u>		<u>(2,814,150)</u>	
Patient accounts receivable, net of allowance	<u>\$ 3,737,196</u>		<u>\$ 4,608,430</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 Center.

The Center has a potential concentration of credit risk in that it maintains deposits with a financial institution in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). As of June 30, 2010 and 2009, the Center had \$1,544,981 and \$192,000, respectively, in excess of the FDIC insured limit of \$250,000.

Note 4 - Charity Care

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

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

Notes to Financial Statements - Continued

June 30, 2010 and 2009

Note 4 - Charity Care - Continued

The Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and patient service statistics. Total charity care charges for the years ended June 30, 2010 and 2009 amounted to \$5,420,000 and \$5,700,000, respectively.

The costs to provide the charity care represent sixteen percent (16%) and eighteen percent (18%) of the Center's total expenses for the years ended June 30, 2010 and 2009, respectively.

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

In October of 2007, Health Care Reform in Massachusetts has redefined the roles and regulations of the Uncompensated Care Pool, now referred to as the Health Safety Net Trust ("HSN"). Effective October 1, 2007, HSN reimburses providers according to a claims methodology, based on an established rate per visit. Such amounts received from the pool are included in net patient service revenue and totaled \$5,150,000 and \$4,100,000 for the years ended June 30, 2010 and 2009, respectively.

Note 5 - Surplus Revenue Retention

The Operational Services Division of the Commonwealth of Massachusetts 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, 2010, the Center is not subject to any recoupment under the provisions of the Commonwealth's Surplus Revenue Retention regulations.

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

Notes to Financial Statements - Continued

June 30, 2010 and 2009

Note 6 - Property and Equipment

Property and equipment were as follows at June 30:

	<u>2010</u>	<u>2009</u>
Land	\$ 253,000	\$ 253,000
Buildings and improvements	4,723,690	4,646,139
Equipment	1,853,323	1,718,376
Motor vehicles	14,780	14,780
Construction in progress	900,174	116,991
	<u>7,744,967</u>	<u>6,749,286</u>
Less accumulated depreciation	<u>3,200,891</u>	<u>2,823,190</u>
	<u>\$ 4,544,076</u>	<u>\$ 3,926,096</u>

Note 7 - Investments

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

	<u>2010</u>	<u>2009</u>
Money market	\$ 58,265	\$ 78,630
Equity securities	468,552	416,509
Fixed income securities	<u>417,287</u>	<u>393,346</u>
Total	<u>\$ 944,104</u>	<u>\$ 888,485</u>

Investments are reported on the balance sheet as follows:

Investments	\$ 459,743	\$ 426,482
Assets whose use is limited - board designated	<u>484,361</u>	<u>462,003</u>
Total	<u>\$ 944,104</u>	<u>\$ 888,485</u>

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

Notes to Financial Statements - Continued

June 30, 2010 and 2009

Note 7 - Investments - Continued

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

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

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

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

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

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

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

June 30, 2010 and 2009

Note 7 - Investments - Continued

The following table sets forth by level, within the fair value hierarchy, the Center's investments at fair value as of June 30, 2010:

	June 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments included in:				
Money market funds	\$ 58,265	\$ 58,265	\$ -	\$ -
Equity securities	468,552	468,552	-	-
Fixed income	417,287	417,287	-	-
	<u>\$ 944,104</u>	<u>\$ 944,104</u>	<u>\$ -</u>	<u>\$ -</u>

The following table sets forth by level, within the fair value hierarchy, the Center's investments at fair value as of June 30, 2009:

	June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments included in:				
Money market funds	\$ 78,630	\$ 78,630	\$ -	\$ -
Equity securities	416,509	416,509	-	-
Fixed income	393,346	393,346	-	-
	<u>\$ 888,485</u>	<u>\$ 888,485</u>	<u>\$ -</u>	<u>\$ -</u>

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

June 30, 2010 and 2009

Note 7 - Investments - Continued

Unrealized losses at June 30, 2010 are shown below. None of the losses are considered other than temporary.

	Time Period in Loss Position				Total	
	Less than 12 months		Greater than 12 months			
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Equity Securities	<u>\$220,994</u>	<u>\$ 23,398</u>	<u>\$ 98,437</u>	<u>\$ 15,708</u>	<u>\$ 319,431</u>	<u>\$ 39,106</u>

Unrealized losses at June 30, 2009 are shown below. None of the losses are considered other than temporary.

	Time Period in Loss Position				Total	
	Less than 12 months		Greater than 12 months			
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Equity Securities	<u>\$161,352</u>	<u>\$ 21,068</u>	<u>\$ 4,956</u>	<u>\$ 7,493</u>	<u>\$ 166,308</u>	<u>\$ 28,561</u>

Note 8 - Endowments

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

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

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

Notes to Financial Statements - Continued

June 30, 2010 and 2009

Note 8 - Endowments - Continued

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

	<u>2010</u>	<u>2009</u>
Endowment assets - beginning of year	\$ 462,003	\$ 540,244
Investment return:		
Investment income	14,226	14,609
Realized and unrealized losses on investments, net	12,936	(88,478)
Fees	<u>(4,804)</u>	<u>(4,372)</u>
Total investment return	<u>22,358</u>	<u>(78,241)</u>
Endowment assets - end of year	<u>\$ 484,361</u>	<u>\$ 462,003</u>

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

Note 9 - Long-term Debt

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

	<u>2010</u>	<u>2009</u>
Massachusetts Development Finance Agency (MDFA) Series 2005A Bonds	\$ 1,356,757	\$ 1,388,956
Massachusetts Development Finance Agency (MDFA) Series 2005B Bonds	<u>472,427</u>	<u>502,035</u>
	1,829,184	1,890,991
Less current portion	<u>71,162</u>	<u>67,406</u>
Long-term debt	<u>\$ 1,758,022</u>	<u>\$ 1,823,585</u>

In December 2005, the Center entered into an agreement with the Massachusetts Development Finance Agency ("MDFA") to issue \$1,497,700 of Massachusetts Development Finance Agency Revenue Bonds, Lynn Community Health Center, Series 2005A ("Series A Bonds") and \$602,300 Massachusetts Development Finance Agency Revenue Bonds, Lynn Community Health Center, Series 2005B ("Series B Bonds") to refinance its existing HEFA loan and provide resources for the renovation

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

June 30, 2010 and 2009

Note 9 - Long-term Debt - Continued

of the Center's facilities. Under the terms of a loan and trust agreement (the "Agreement") between the Center, MDFA and Eastern Bank, as trustee, the Center is required to make monthly payments to the trustee in amounts sufficient to pay the scheduled principal and interest requirements of the Series 2005A and 2005B Bonds through maturity (December 29, 2030 and 2020, respectively). The annual interest rate on the outstanding Series A&B Bonds is 5.36% per annum. Collateral for the bonds consists of first and second mortgage liens along with assignment of rents and leases on property located at 269 Union Street in Lynn. The agreement also contains various financial and reporting covenants which management believes will not adversely affect operations. See Note 21.

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

2011	\$	71,162
2012		74,868
2013		79,299
2014		83,720
2015		88,374
Thereafter		<u>1,431,761</u>
	<u>\$</u>	<u>1,829,184</u>

Note 10 - Note Payable, Line of Credit

The Center has a \$500,000 line of credit agreement with Eastern Bank. Borrowings under the agreement are due on demand, and interest is payable monthly at the bank's prime rate, which was 3.99% and 3.99% at June 30, 2010 and 2009, respectively. The line of credit is secured by a first security interest in all business assets of the Center and was renewed by the bank on November 30, 2010. As of June 30, 2010 and 2009, no borrowings were outstanding under this agreement. The agreement also contains various financial and reporting covenants which management believes will not adversely affect operations.

Note 11 - Net Patient Service Revenue

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

	<u>2010</u>	<u>2009</u>
Gross patient service revenue	\$ 31,504,451	\$ 26,192,382
Less contractual allowances and rate adjustments	<u>9,567,487</u>	<u>5,607,226</u>
Net patient service revenue	<u>\$ 21,936,964</u>	<u>\$ 20,585,156</u>

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

June 30, 2010 and 2009

Note 12 - Third Party Reimbursement

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

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

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

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

Note 13 - Temporarily Restricted Net Assets

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

	<u>2010</u>	<u>2009</u>
Program services	\$ 225,507	\$ 361,228
Capital acquisitions	<u>3,399,106</u>	<u>211,984</u>
	<u>\$ 3,624,613</u>	<u>\$ 573,212</u>

Note 14 - Related Party Transactions

The by-laws of the Elder Service Plan of the North Shore, Inc. ("ESP"), a nonprofit organization affiliated with the Health Center, require the executive director and three (3) board members of the Health Center to be board members of ESP. This represents fifty percent (50%) of ESP's board, a non-controlling interest. The Health Center acts as payroll agent for ESP. The Health Center disbursed \$11,537,774 and \$9,136,343 for the years ended June 30, 2010 and 2009, respectively, on behalf of ESP. Included in grants, contracts and other receivables is approximately \$847,951 and \$776,883 due from ESP at June 30, 2010 and 2009, respectively, for salary reimbursement.

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

June 30, 2010 and 2009

Note 14 - Related Party Transactions - Continued

A board member of the Center is an officer with Eastern Bank. Eastern Bank is the trustee for the Center's Massachusetts Development Finance Agency Series A and Series B Revenue Bonds.

Note 15 - Affiliation Agreements

The Health Center entered into an affiliation agreement with two (2) not-for-profit health care organizations in September 2002. The Health Center and the other organizations collaborate in certain activities to increase access to primary care services in the West Lynn area and to improve the clinical integration of services offered by the Health Center and affiliates. As a part of this agreement, the Health Center is receiving a grant of up to \$5,024,000 over a five (5) year period. The grant consists of up to \$1,179,000 for space support as defined by the agreement and \$3,845,000 for program support. Additional space support grants will be made available for a second five (5) year period subject to certain conditions. During fiscal year 2008, the agreement was extended through September 2010 for a total grant of \$7,150,000. The extension allows for up to \$1,700,000 for space support and \$5,450,000 for program support.

For the years ended June 30, 2010 and 2009, the Health Center has cumulatively received and expended \$7,177,669 and \$6,142,000, respectively. The remaining balance of the grant is conditional upon the Health Center achieving certain milestones, and is therefore not reflected in the accompanying financial statements at June 30, 2010 and 2009.

Note 16 - Retirement Plan

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

Note 17 - Medical Malpractice Insurance

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

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Notes to Financial Statements - Continued

June 30, 2010 and 2009

Note 18 - Commitments and Contingencies

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

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

Note 19 - Functional Expenses

The 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>2010</u>	<u>%</u>	<u>2009</u>	<u>%</u>
Program services	\$ 27,897,151	86%	\$ 26,645,906	85%
General and administrative	4,663,079	14%	4,651,665	15%
Fundraising	17,620	-	8,753	-
	<u> </u>	<u>100%</u>	<u> </u>	<u>100%</u>
	<u>\$ 32,577,850</u>		<u>\$ 31,306,324</u>	

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

June 30, 2010 and 2009

Note 20 - Operating Leases

The Center leases various property under non-cancelable operating leases expiring at different times through 2015, with monthly payments ranging from \$815 to \$11,383. During the years ended June 30, 2010 and 2009, the Center incurred rent expense of \$263,136 and \$360,369, respectively. The following are the minimum future lease payments due at June 30:

Year ending June 30:

2011	\$	275,058
2012		158,310
2013		39,123
2014		38,692
2015		22,214
		<hr/>
	\$	<u>533,397</u>

Included in the lease expense total above is the value of property provided to the Center as in-kind contributions. The Health Center recognizes contribution revenue for certain goods and services received at the fair value of those goods and services. The value of the in-kind contributions was \$120,770 for each of the years ended June 30, 2010 and 2009 and is included in the other revenue on the statement of operations.

Note 21 - Subsequent Event

In July 2010, the Center entered into an \$11,000,000 contract for the design, construction and furnishing of a new facility to accommodate certain of the Center's healthcare services. In connection with the construction of the new building, the Center entered into a \$6,500,000 loan and trust agreement with the Massachusetts Development Finance Agency for the issuance of tax-exempt debt, and the borrowing of \$2,000,000 through the MassDevelopment Community Development Entity ("CDE") New Market Tax Credit Fund. In connection with the new borrowings, the Center retired its existing Massachusetts Health and Educational Facilities Authority Series A and B bond obligations.