



AND AFFILIATE

**COMBINING FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015**

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Contents
September 30, 2016 and 2015

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Independent Auditor's Report

To the Boards of Directors of
Codman Square Health Center, Inc. and Affiliate:

Report on the Combining Financial Statements

We have audited the accompanying combining financial statements of Codman Square Health Center, Inc. and Affiliate (Massachusetts corporations, not for profit) which comprise the combining statements of financial position as of September 30, 2016 and 2015, and the related combining statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the combining financial statements.

Management's Responsibility for the Combining Financial Statements

Management is responsible for the preparation and fair presentation of these combining 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 combining financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

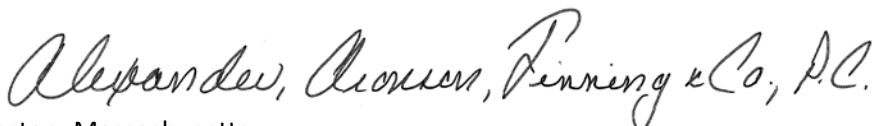
Our responsibility is to express an opinion on these combining financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combining financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combining 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 combining 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 combining financial statements.

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

Opinion

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the combining financial position of Codman Square Health Center, Inc. and Affiliate as of September 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Boston, Massachusetts
January 23, 2017

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Combining Statements of Financial Position
September 30, 2016 and 2015

Assets	2016					2015				
	Codman Square Health Center, Inc.			Codman Square Health and Education Center, Inc.	Combined Total	Codman Square Health Center, Inc.			Codman Square Health and Education Center, Inc.	Combined Total
	Unrestricted	Temporarily Restricted	Total	Unrestricted		Temporarily Restricted	Total			
Current Assets:										
Cash and cash equivalents	\$ 5,339,644	\$ 720,869	\$ 6,060,513	\$ 226,893	\$ 6,287,406	\$ 3,534,332	\$ 612,799	\$ 4,147,131	\$ 224,373	\$ 4,371,504
Grants, contracts and other receivables	600,822	-	600,822	-	600,822	740,295	-	740,295	-	740,295
Patient accounts receivable, net of allowance for uncollectible accounts of approximately \$1,104,000 and \$1,849,000 as of September 30, 2016 and 2015, respectively	2,724,556	-	2,724,556	-	2,724,556	2,293,231	-	2,293,231	-	2,293,231
Inventory	314,937	-	314,937	-	314,937	241,779	-	241,779	-	241,779
Due (to) from	(55,022)	-	(55,022)	55,022	-	(66,027)	-	(66,027)	66,027	-
Prepaid expenses	448,068	-	448,068	-	448,068	375,988	-	375,988	-	375,988
Total current assets	9,373,005	720,869	10,093,874	281,915	10,375,789	7,119,598	612,799	7,732,397	290,400	8,022,797
Restricted Cash	-	-	-	424,943	424,943	-	-	-	452,929	452,929
Note Receivable	12,713,464	-	12,713,464	-	12,713,464	12,713,464	-	12,713,464	-	12,713,464
Investments	4,611,311	-	4,611,311	-	4,611,311	4,353,068	-	4,353,068	-	4,353,068
Financing Fees, net	-	-	-	249,564	249,564	-	-	-	360,304	360,304
Asset Held for Sale	652,286	-	652,286	-	652,286	683,107	-	683,107	-	683,107
Property and Equipment, net	6,358,231	-	6,358,231	17,710,905	24,069,136	4,348,475	-	4,348,475	18,706,789	23,055,264
Total assets	\$ 33,708,297	\$ 720,869	\$ 34,429,166	\$ 18,667,327	\$ 53,096,493	\$ 29,217,712	\$ 612,799	\$ 29,830,511	\$ 19,810,422	\$ 49,640,933
Liabilities and Net Assets										
Current Liabilities:										
Note payable to a bank	\$ 650,000	\$ -	\$ 650,000	\$ -	\$ 650,000	\$ 650,000	\$ -	\$ 650,000	\$ -	\$ 650,000
Accounts payable and accrued expenses	3,772,744	-	3,772,744	50,540	3,823,284	2,956,584	-	2,956,584	50,538	3,007,122
Total current liabilities	4,422,744	-	4,422,744	50,540	4,473,284	3,606,584	-	3,606,584	50,538	3,657,122
Long-Term Debt	3,500,000	-	3,500,000	17,015,000	20,515,000	3,500,000	-	3,500,000	17,015,000	20,515,000
Contingent Note Payable	1,880,081	-	1,880,081	-	1,880,081	-	-	-	-	-
Total liabilities	9,802,825	-	9,802,825	17,065,540	26,868,365	7,106,584	-	7,106,584	17,065,538	24,172,122
Net Assets:										
Unrestricted:										
Operating	7,561,572	-	7,561,572	281,915	7,843,487	5,866,082	-	5,866,082	290,400	6,156,482
Board designated	2,000,000	-	2,000,000	-	2,000,000	2,000,000	-	2,000,000	-	2,000,000
Property and equipment	14,343,900	-	14,343,900	1,319,872	15,663,772	14,245,046	-	14,245,046	2,454,484	16,699,530
Total unrestricted	23,905,472	-	23,905,472	1,601,787	25,507,259	22,111,128	-	22,111,128	2,744,884	24,856,012
Temporarily restricted	-	720,869	720,869	-	720,869	-	612,799	612,799	-	612,799
Total net assets	23,905,472	720,869	24,626,341	1,601,787	26,228,128	22,111,128	612,799	22,723,927	2,744,884	25,468,811
Total liabilities and net assets	\$ 33,708,297	\$ 720,869	\$ 34,429,166	\$ 18,667,327	\$ 53,096,493	\$ 29,217,712	\$ 612,799	\$ 29,830,511	\$ 19,810,422	\$ 49,640,933

The accompanying notes are an integral part of these combining statements.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Combining Statements of Activities and Changes in Net Assets
For the Years Ended September 30, 2016 and 2015

	2016					2015						
	Codman Square Health Center, Inc.			Codman Square Health and Education Center, Inc.	Eliminations	Combined Total	Codman Square Health Center, Inc.			Codman Square Health and Education Center, Inc.	Eliminations	Combined Total
	Unrestricted	Temporarily Restricted	Total				Unrestricted	Temporarily Restricted	Total			
Operating Revenue and Public Support:												
Net patient service revenue	\$ 27,265,016	\$ -	\$ 27,265,016	\$ -	\$ -	\$ 27,265,016	\$ 26,544,642	\$ -	\$ 26,544,642	\$ -	\$ -	\$ 26,544,642
Grants and contracts	4,307,386	758,978	5,066,364	-	-	5,066,364	3,436,642	461,764	3,898,406	-	-	3,898,406
Rent and other	558,153	-	558,153	236,683	(236,000)	558,836	334,027	-	334,027	236,350	(236,000)	334,377
In-kind contributions	71,500	-	71,500	-	-	71,500	70,000	-	70,000	-	-	70,000
Net assets released from program restrictions	529,253	(529,253)	-	-	-	-	319,968	(319,968)	-	-	-	-
Total operating revenue and public support	32,731,308	229,725	32,961,033	236,683	(236,000)	32,961,716	30,705,279	141,796	30,847,075	236,350	(236,000)	30,847,425
Operating Expenses:												
Clinical Care	20,313,011	-	20,313,011	-	(163,839)	20,149,172	19,510,441	-	19,510,441	-	(163,839)	19,346,602
Other Clinical Services	3,933,562	-	3,933,562	-	(25,151)	3,908,411	3,916,952	-	3,916,952	-	(25,151)	3,891,801
Mental Health	1,508,824	-	1,508,824	-	(15,929)	1,492,895	1,984,068	-	1,984,068	-	(15,929)	1,968,139
Dental	2,931,545	-	2,931,545	-	(19,065)	2,912,480	2,382,088	-	2,382,088	-	(19,065)	2,363,023
Eyecare	1,033,981	-	1,033,981	-	(11,842)	1,022,139	997,302	-	997,302	-	(11,842)	985,460
Community Services	1,882,860	-	1,882,860	-	(174)	1,882,686	975,862	-	975,862	-	(174)	975,688
Codman Square Health and Education Center, Inc.	-	-	-	1,379,780	-	1,379,780	-	-	-	1,420,256	-	1,420,256
Total operating expenses	31,603,783	-	31,603,783	1,379,780	(236,000)	32,747,563	29,766,713	-	29,766,713	1,420,256	(236,000)	30,950,969
Changes in net assets from operations	1,127,525	229,725	1,357,250	(1,143,097)	-	214,153	938,566	141,796	1,080,362	(1,183,906)	-	(103,544)
Non-Operating Revenue (Expenses):												
Investment income (loss)	260,762	-	260,762	-	-	260,762	(14,813)	-	(14,813)	-	-	(14,813)
Interest - note receivable	167,937	-	167,937	-	-	167,937	169,344	-	169,344	-	-	169,344
Forgiveness of debt	116,465	-	116,465	-	-	116,465	-	-	-	-	-	-
Capital grants	-	-	-	-	-	-	34,710	152,000	186,710	-	-	186,710
Net assets released from capital restrictions	121,655	(121,655)	-	-	-	-	68,539	(68,539)	-	-	-	-
Total non-operating revenue (expenses)	666,819	(121,655)	545,164	-	-	545,164	257,780	83,461	341,241	-	-	341,241
Changes in net assets	1,794,344	108,070	1,902,414	(1,143,097)	-	759,317	1,196,346	225,257	1,421,603	(1,183,906)	-	237,697
Net Assets:												
Beginning of year	22,111,128	612,799	22,723,927	2,744,884	-	25,468,811	20,914,782	387,542	21,302,324	3,928,790	-	25,231,114
End of year	\$ 23,905,472	\$ 720,869	\$ 24,626,341	\$ 1,601,787	\$ -	\$ 26,228,128	\$ 22,111,128	\$ 612,799	\$ 22,723,927	\$ 2,744,884	\$ -	\$ 25,468,811

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

 Combining Statements of Cash Flows
 For the Years Ended September 30, 2016 and 2015

	2016			2015		
	Codman Square Health Center, Inc.	Codman Square Health and Education Center, Inc.	Combined Total	Codman Square Health Center, Inc.	Codman Square Health and Education Center, Inc.	Combined Total
Cash Flows from Operating Activities:						
Changes in net assets	\$ 1,902,414	\$ (1,143,097)	\$ 759,317	\$ 1,421,603	\$ (1,183,906)	\$ 237,697
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:						
Depreciation and amortization	822,637	1,106,624	1,929,261	676,312	1,155,221	1,831,533
Bad debts	726,790	-	726,790	871,596	-	871,596
Capital grants	-	-	-	(186,710)	-	(186,710)
Net realized and unrealized (gains) losses on investments	(176,209)	-	(176,209)	106,521	-	106,521
Forgiveness of debt	(116,465)	-	(116,465)	-	-	-
Changes in operating assets and liabilities:						
Grants, contracts and other receivables	139,473	-	139,473	(57,339)	-	(57,339)
Patient accounts receivable	(1,158,115)	-	(1,158,115)	(602,483)	-	(602,483)
Inventory	(73,158)	-	(73,158)	(1,126)	-	(1,126)
Due (to) from	(11,005)	11,005	-	124,512	(124,512)	-
Prepaid expenses	(72,080)	-	(72,080)	(31,574)	-	(31,574)
Accounts payable and accrued expenses	816,160	2	816,162	(232,844)	(215)	(233,059)
Net cash provided by (used in) operating activities	<u>2,800,442</u>	<u>(25,466)</u>	<u>2,774,976</u>	<u>2,088,468</u>	<u>(153,412)</u>	<u>1,935,056</u>
Cash Flows from Investing Activities:						
Acquisition of property and equipment	(805,026)	-	(805,026)	(527,811)	-	(527,811)
Purchase of investments	(837,927)	-	(837,927)	(1,596,193)	-	(1,596,193)
Withdrawals from restricted cash accounts	-	92,000	92,000	-	92,000	92,000
Deposits to and interest earned on restricted cash accounts	-	(64,014)	(64,014)	-	(20,348)	(20,348)
Proceeds from sale of investments	755,893	-	755,893	1,503,577	-	1,503,577
Net cash provided by (used in) investing activities	<u>(887,060)</u>	<u>27,986</u>	<u>(859,074)</u>	<u>(620,427)</u>	<u>71,652</u>	<u>(548,775)</u>
Cash Flows from Financing Activities:						
Capital grants	-	-	-	186,710	-	186,710
Net Change in Cash and Cash Equivalents	<u>1,913,382</u>	<u>2,520</u>	<u>1,915,902</u>	<u>1,654,751</u>	<u>(81,760)</u>	<u>1,572,991</u>
Cash and Cash Equivalents:						
Beginning of year	<u>4,147,131</u>	<u>224,373</u>	<u>4,371,504</u>	<u>2,492,380</u>	<u>306,133</u>	<u>2,798,513</u>
End of year	<u>\$ 6,060,513</u>	<u>\$ 226,893</u>	<u>\$ 6,287,406</u>	<u>\$ 4,147,131</u>	<u>\$ 224,373</u>	<u>\$ 4,371,504</u>
Supplemental Disclosure of Cash Flow Information:						
Cash paid for interest	<u>\$ 11,232</u>	<u>\$ 170,150</u>	<u>\$ 181,382</u>	<u>\$ 9,915</u>	<u>\$ 170,150</u>	<u>\$ 180,065</u>
Cost basis of property reclassified as asset held for sale	<u>\$ 827,830</u>	<u>\$ -</u>	<u>\$ 827,830</u>	<u>\$ 827,830</u>	<u>\$ -</u>	<u>\$ 827,830</u>
Unrealized gains (losses) on investments	<u>\$ 284,442</u>	<u>\$ -</u>	<u>\$ 284,442</u>	<u>\$ (223,112)</u>	<u>\$ -</u>	<u>\$ (223,112)</u>
Property and equipment acquired with contingent note payable	<u>\$ 1,996,546</u>	<u>\$ -</u>	<u>\$ 1,996,546</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these combining statements.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Combining Statement of Functional Expenses
 For the Year Ended September 30, 2016
 (With Summarized Comparative Totals for the Year Ended September 30, 2015)

	2016												2015			
	Codman Square Health Center, Inc.												Codman Square Health and Education Center, Inc.	Eliminations	Combined Total	Combined Total
	Program Services							Supporting Services								
	Clinical Care	Other Clinical Services	Mental Health	Dental	Eyecare	Community Services	Patient Support Services	Total Program Services	General and Administrative	Facility	Total Supporting Services	Total				
Personnel and Related:																
Salaries	\$ 6,047,686	\$ 1,532,074	\$ 608,978	\$ 1,221,976	\$ 287,372	\$ 1,283,560	\$ 2,469,072	\$ 13,450,718	\$ 1,961,805	\$ 233,505	\$ 2,195,310	\$ 15,646,028	\$ -	\$ -	\$ 15,646,028	\$ 14,171,386
Payroll taxes and fringe benefits	844,681	187,070	112,963	197,664	40,921	174,597	351,839	1,909,735	751,694	38,952	790,646	2,700,381	-	-	2,700,381	2,493,352
Contracted services	712,310	81,568	39,535	95,483	95,342	127,829	1,355,450	2,507,517	817,249	437,356	1,254,605	3,762,122	-	-	3,762,122	3,885,532
Other	13,681	4,792	4,373	2,000	550	2,912	2,513	30,821	16,219	310	16,529	47,350	-	-	47,350	59,847
Total personnel and related	7,618,358	1,805,504	765,849	1,517,123	424,185	1,588,898	4,178,874	17,898,791	3,546,967	710,123	4,257,090	22,155,881	-	-	22,155,881	20,610,117
Occupancy and Related:																
Depreciation - building	-	3,635	-	-	-	-	-	3,635	-	221,751	221,751	225,386	928,204	-	1,153,590	1,205,925
Building costs	-	-	-	-	-	-	-	-	-	680,732	680,732	680,732	-	(236,000)	444,732	609,860
Interest	-	-	-	-	-	-	-	-	-	-	-	-	170,150	-	170,150	170,150
Utilities	-	-	-	-	-	-	-	-	-	122,963	122,963	122,963	-	-	122,963	81,715
Repairs and maintenance	3,331	101	178	651	178	1,120	851	6,410	768	77,291	78,059	84,469	-	-	84,469	108,843
Telephone	-	-	-	-	-	-	9,323	9,323	58,025	-	58,025	67,348	-	-	67,348	55,899
Total occupancy and related	3,331	3,736	178	651	178	1,120	10,174	19,368	58,793	1,102,737	1,161,530	1,180,898	1,098,354	(236,000)	2,043,252	2,232,392
Other Expenses:																
Pharmacy expenses	3,741,206	-	-	-	-	-	-	3,741,206	-	-	-	3,741,206	-	-	3,741,206	3,248,651
Medical supplies	402,900	590,744	-	105,699	42,506	6,627	185	1,148,661	3,186	3,503	6,689	1,155,350	-	-	1,155,350	1,278,293
Other	15,922	125,856	4,694	18,608	4,300	30,317	163,528	363,225	485,517	134,543	620,060	983,285	-	-	983,285	826,820
Depreciation - equipment	123,760	65,978	1,650	69,809	25,322	9,258	14,247	310,024	251,350	35,877	287,227	597,251	67,680	-	664,931	514,868
Bad debts	726,790	-	-	-	-	-	-	726,790	-	-	-	726,790	-	-	726,790	871,596
Legal, accounting and other consulting	-	66,811	2,160	-	-	80,051	120,789	269,811	190,703	2,331	193,034	462,845	103,006	-	565,851	732,714
Administrative supplies	23,479	10,093	5,009	2,385	4,060	19,729	20,807	85,562	95,649	16,027	111,676	197,238	-	-	197,238	160,576
Malpractice and other insurance	-	-	-	-	-	-	48,100	48,100	19,391	56,878	76,269	124,369	-	-	124,369	133,119
Amortization	-	-	-	-	-	-	-	-	-	-	-	-	110,740	-	110,740	110,740
Printing and postage	3,782	-	307	168	640	2,564	7,359	14,820	57,758	2,385	60,143	74,963	-	-	74,963	78,899
Recruitment	14,350	576	823	247	165	1,317	823	18,301	45,247	-	45,247	63,548	-	-	63,548	47,758
Dues and subscriptions	4,765	544	260	1,528	2,241	-	1,760	11,098	45,822	165	45,987	57,085	-	-	57,085	44,973
Marketing and advertising	-	1,250	-	-	-	20,778	-	22,028	22,763	-	22,763	44,791	-	-	44,791	18,257
Conference and travel	-	1,574	2,751	8,779	-	1,425	2,278	16,807	8,500	314	8,814	25,621	-	-	25,621	31,281
Interest	-	-	-	-	-	-	-	-	11,232	1,430	12,662	12,662	-	-	12,662	9,915
Total other expenses	5,056,954	863,426	17,654	207,223	79,234	172,066	379,876	6,776,433	1,237,118	253,453	1,490,571	8,267,004	281,426	-	8,548,430	8,108,460
Total expenses before allocations	12,678,643	2,672,666	783,681	1,724,997	503,597	1,762,084	4,568,924	24,694,592	4,842,878	2,066,313	6,909,191	31,603,783	1,379,780	(236,000)	32,747,563	30,950,969
Facility Allocation	1,136,465	165,307	103,317	123,980	82,653	-	351,274	1,962,996	103,317	(2,066,313)	(1,962,996)	-	-	-	-	-
Patient Support Services Allocation	4,184,976	450,851	427,347	635,807	332,403	-	(6,031,384)	-	-	-	-	-	-	-	-	-
General and Administrative Allocation	2,312,927	644,738	194,479	446,761	115,328	120,776	1,111,186	4,946,195	(4,946,195)	-	(4,946,195)	-	-	-	-	-
Total expenses	\$ 20,313,011	\$ 3,933,562	\$ 1,508,824	\$ 2,931,545	\$ 1,033,981	\$ 1,882,860	\$ -	\$ 31,603,783	\$ -	\$ -	\$ -	\$ 31,603,783	\$ 1,379,780	\$ (236,000)	\$ 32,747,563	\$ 30,950,969

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Combining Statement of Functional Expenses
For the Year Ended September 30, 2015

Codman Square Health Center, Inc.

	Program Services							Supporting Services				Codman Square Health and Education Center, Inc.	Eliminations	Combined Total	
	Clinical Care	Other Clinical Services	Mental Health	Dental	Eyecare	Community Services	Patient Support Services	Total Program Services	General and Administrative	Facility	Total Supporting Services				Total
Personnel and Related:															
Salaries	\$ 5,813,960	\$ 1,436,334	\$ 905,102	\$ 1,003,898	\$ 256,904	\$ 598,103	\$ 2,405,060	\$ 12,419,361	\$ 1,543,501	\$ 208,524	\$ 1,752,025	\$ 14,171,386	\$ -	\$ -	\$ 14,171,386
Payroll taxes and fringe benefits	815,515	222,155	185,810	168,042	39,767	126,786	369,758	1,927,833	513,019	52,500	565,519	2,493,352	-	-	2,493,352
Contracted services	799,461	91,623	9,612	96,639	422	30,325	1,427,240	2,455,322	1,030,607	399,603	1,430,210	3,885,532	-	-	3,885,532
Other	30,705	7,155	1,787	4,279	2,477	4,886	563	51,852	7,920	75	7,995	59,847	-	-	59,847
Total personnel and related	7,459,641	1,757,267	1,102,311	1,272,858	299,570	760,100	4,202,621	16,854,368	3,095,047	660,702	3,755,749	20,610,117	-	-	20,610,117
Occupancy and Related:															
Depreciation - building	757	8,342	244	5,812	2,256	36	1,167	18,614	24,934	225,299	250,233	268,847	937,078	-	1,205,925
Building costs	-	-	-	-	-	-	-	-	-	845,860	845,860	845,860	-	(236,000)	609,860
Interest	-	-	-	-	-	-	-	-	-	-	-	-	170,150	-	170,150
Utilities	-	-	-	-	-	-	-	-	-	81,715	81,715	81,715	-	-	81,715
Repairs and maintenance	1,416	-	-	1,100	-	-	-	2,516	-	106,327	106,327	108,843	-	-	108,843
Telephone	2,116	-	411	-	-	-	8,798	11,325	43,590	984	44,574	55,899	-	-	55,899
Total occupancy and related	4,289	8,342	655	6,912	2,256	36	9,965	32,455	68,524	1,260,185	1,328,709	1,361,164	1,107,228	(236,000)	2,232,392
Other Expenses:															
Pharmacy expenses	3,248,651	-	-	-	-	-	-	3,248,651	-	-	-	3,248,651	-	-	3,248,651
Medical supplies	569,867	544,218	58	113,293	40,382	7,770	147	1,275,735	1,269	1,289	2,558	1,278,293	-	-	1,278,293
Other	14,022	134,808	1,810	16,447	4,058	25,396	203,860	400,401	290,523	134,361	424,884	825,285	1,535	-	826,820
Depreciation - equipment	5,990	40,664	2,678	68,369	22,198	360	12,265	152,524	230,049	24,892	254,941	407,465	107,403	-	514,868
Bad debts	871,596	-	-	-	-	-	-	871,596	-	-	-	871,596	-	-	871,596
Legal, accounting and other consulting	70	82,544	2,564	-	114,466	67,592	175,315	442,551	189,658	7,155	196,813	639,364	93,350	-	732,714
Administrative supplies	22,928	7,681	2,325	3,959	2,666	15,961	30,434	85,954	72,305	2,317	74,622	160,576	-	-	160,576
Malpractice and other insurance	-	-	-	-	-	-	55,737	55,737	43,079	34,303	77,382	133,119	-	-	133,119
Amortization	-	-	-	-	-	-	-	-	-	-	-	-	110,740	-	110,740
Printing and postage	6,893	101	930	15	981	1,264	11,264	21,448	57,413	38	57,451	78,899	-	-	78,899
Recruitment	977	12,867	763	613	67	926	24,039	40,252	7,506	-	7,506	47,758	-	-	47,758
Dues and subscriptions	5,828	80	1,547	1,145	355	250	1,400	10,605	34,028	340	34,368	44,973	-	-	44,973
Marketing and advertising	-	60	-	510	-	2,324	400	3,294	14,963	-	14,963	18,257	-	-	18,257
Conference and travel	2,344	810	2,015	4,813	600	8,740	7,760	27,082	4,199	-	4,199	31,281	-	-	31,281
Interest	-	-	-	-	-	-	-	-	9,915	-	9,915	9,915	-	-	9,915
Total other expenses	4,749,166	823,833	14,690	209,164	185,773	130,583	522,621	6,635,830	954,907	204,695	1,159,602	7,795,432	313,028	-	8,108,460
Total expenses before allocations	12,213,096	2,589,442	1,117,656	1,488,934	487,599	890,719	4,735,207	23,522,653	4,118,478	2,125,582	6,244,060	29,766,713	1,420,256	(236,000)	30,950,969
Facility Allocation	1,169,068	170,047	106,279	127,535	85,024	-	361,349	2,019,302	106,280	(2,125,582)	(2,019,302)	-	-	-	-
Patient Support Services Allocation	3,927,191	697,381	527,293	467,341	342,382	-	(5,961,588)	-	-	-	-	-	-	-	-
General and Administrative Allocation	2,201,086	460,082	232,840	298,278	82,297	85,143	865,032	4,224,758	(4,224,758)	-	(4,224,758)	-	-	-	-
Total expenses	\$ 19,510,441	\$ 3,916,952	\$ 1,984,068	\$ 2,382,088	\$ 997,302	\$ 975,862	\$ -	\$ 29,766,713	\$ -	\$ -	\$ -	\$ 29,766,713	\$ 1,420,256	\$ (236,000)	\$ 30,950,969

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2016 and 2015

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

Codman Square Health Center, Inc. (CSHC) is a Massachusetts nonprofit organization incorporated in 1975 that provides health care services, educational programs, and social services to the residents of the Codman Square community in Dorchester, Massachusetts.

Codman Square Health and Education Center, Inc. (CSHEC) is a Massachusetts nonprofit organization incorporated in 2011. CSHEC is a qualified active low-income community business (QALICB), as defined in Section 45D(d) of the Internal Revenue Code (IRC). CSHEC was established to develop, initiate, and operate projects that provide educational and health related services that are consistent with the community needs in Dorchester, Massachusetts. CSHEC's Board of Directors consists of an equal membership from CSHC and Codman Academy Foundation (CAF) and is managed by CSHC. CAF is a Massachusetts nonprofit organization formed to support the mission and promote the overall financial well-being of Codman Academy Charter Public School (Codman Academy).

CSHC and CSHEC are exempt from Federal income taxes as organizations (not private foundations) formed for charitable purposes under Section 501(c)(3) of the IRC. CSHC and CSHEC are also exempt from state income taxes. Donors may deduct contributions made to CSHC and CSHEC within the IRC regulations.

Basis of Combination

CSHC and CSHEC are related by common management and Board control. The combining financial statements include the net assets of CSHC and CSHEC (collectively, the Health Center). All significant intercompany balances between classes of net assets and intercompany balances and transactions have been eliminated in the accompanying combining financial statements.

SIGNIFICANT ACCOUNTING POLICIES

The Health Center prepares its combining financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Estimates

The preparation of combining financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combining financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Contract revenue is recorded over the contract period as services are provided and costs are incurred. Revenues from unrestricted grants are recorded when received or unconditionally committed by the donor. An allowance for uncollectible grants and contracts receivable is recorded based on management's estimate of amounts that may become uncollectible. No allowance was deemed necessary at September 30, 2016 and 2015.

Rent and other income are recorded when earned.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2016 and 2015

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

The Health Center records restricted grants as temporarily restricted support and net assets if they are received or committed with donor stipulations that limit the use of the donated assets. 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 combining statements of activities and changes in net assets as net assets released from restrictions (see Note 2).

Gross patient service revenue is recorded at the full value of those services as assigned by CSHC. Net patient service revenue reflects the amounts to be collected after provisions for contractual allowances and free care.

Contractual allowances are accrued on an estimated basis in the period the related services are rendered. Net patient service revenue is adjusted as required based on final settlements. Contractual allowances for the years ended September 30, 2016 and 2015, were approximately \$29,139,000 and \$26,981,000, respectively.

CSHC has a policy of providing free care to patients who meet certain criteria under its free care policy without charges or at amounts less than established rates. CSHC adjudicates claims for these services, therefore, charges for free care have been included in net patient services revenue. CSHC provided approximately \$2,797,000 and \$2,055,000 of free care during the years ended September 30, 2016 and 2015, respectively. The cost of providing these services was approximately \$2,253,000 and \$2,163,000 for the years ended September 30, 2016 and 2015, respectively. The cost of providing free care was calculated by multiplying the percentage of gross free care charges to gross patient charges by the total cost of providing patient services. CSHC received partial reimbursement from Boston Medical Center (BMC) for free care services of approximately \$1,706,000 and \$1,267,000 during the years ended September 30, 2016 and 2015, respectively (see Note 4).

Property and Equipment and Depreciation

Property and equipment are recorded at cost, if purchased, or at fair value, if donated. Renewals and betterments are capitalized, while repairs and maintenance are expensed as incurred. Property and equipment are depreciated using the straight-line method over the following estimated lives:

Land improvements	20 years
Buildings and improvements	10 - 40 years
Computer and office equipment	3 - 10 years
Medical and clinical equipment	5 - 10 years

Depreciation expense for the Health Center was \$1,818,521 and \$1,720,793 for the years ended September 30, 2016 and 2015, respectively.

Financing Fees and Amortization

CSHEC incurred certain financing fees as a result of the long-term debt agreements (see Note 14). Financing fees are amortized using the straight-line method over the anticipated life of the related debt (seven years) and are shown net of \$526,012 and \$415,272 of accumulated amortization in the accompanying combining statements of financial position as of September 30, 2016 and 2015, respectively. Amortization expense for CSHEC was \$110,740 for the years ended September 30, 2016 and 2015.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2016 and 2015

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Allocation

Expenses related directly to a function are distributed to that function, while other expenses are allocated based upon management's estimate of the percentage attributable to each function.

Patient Accounts Receivable and Bad Debts

Accounts receivable are stated at unpaid balances, less allowances for uncollectible accounts and contractual allowances. The Health Center provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances that may affect the ability of patients to meet their obligations. Receivables are considered impaired if full payments are not received in accordance with the contractual terms. It is the Health Center's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

In-Kind Contributions

The Health Center receives in-kind occupancy in support of various aspects of its programs. These in-kind contributions are reflected in the accompanying combining financial statements based upon the estimated value assigned to them by the donating organization or management. The related expenses are included in other in the accompanying combining statements of functional expenses.

The value of these in-kind contributions was \$71,500 and \$70,000 for the years ended September 30, 2016 and 2015, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, certificates of deposits and money market accounts. Interest income on cash and the certificates of deposit is recognized when earned and is included in investment income in the accompanying combining statements of activities and changes in net assets. Cash and cash equivalents included in investments (see Note 8) are not considered cash and cash equivalents for purposes of the accompanying combining statements of cash flows.

Inventory

Inventory consists of pharmaceuticals, which is accounted for at the lower of cost (as determined by the first-in, first-out method) or market.

Investments

The Health Center records its investments at fair value. Interest and dividends are recorded as investment income when earned. Gains and losses are recorded when realized or based on fair value changes during the period (see Note 8).

Advertising Costs

The Health Center expenses advertising costs as they are incurred. Total advertising expense was \$44,791 and \$18,257 for the years ended September 30, 2016 and 2015, respectively.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2016 and 2015

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major or central to the provision of program services are reported as operating revenue and expenses on the accompanying combining statements of activities and changes in net assets. Non-operating revenues (expenses) include debt forgiveness, capital and investment activity.

Fair Value Measurements

The Health Center follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Health Center would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Health Center uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Health Center. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. All qualifying assets and liabilities are valued using Level 1 inputs.

Income Taxes

The Health Center accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the combining financial statements regarding a tax position taken or expected to be taken in a tax return. The Health Center has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the combining financial statements at September 30, 2016 and 2015. The Health Center's information returns are subject to examination by the Federal and state jurisdictions.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2016 and 2015

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events have been evaluated through January 23, 2017, which is the date the combining financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the combining financial statements.

2. NET ASSETS

Unrestricted Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Health Center. The Health Center has grouped its unrestricted net assets into the following categories:

Operating net assets represent funds available to carry on the operations of the Health Center.

Board designated net assets represent funds designated by the Board of Directors to be used if the Health Center has financial difficulties. These funds may only be used with the approval of the Board of Directors.

Property and equipment net assets represent the net book value of the Health Center's property and equipment, financing fees and note receivable, net of any related debt.

Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes at September 30:

	<u>2016</u>	<u>2015</u>
Program	\$ 597,331	\$ 367,606
Acquisition of property and equipment	<u>123,538</u>	<u>245,193</u>
	<u>\$ 720,869</u>	<u>\$ 612,799</u>

3. FUNDING

CSHC receives a significant portion of its funding from various governmental agencies under cost reimbursable contracts. These reimbursements are subject to audit by these agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of CSHC as of September 30, 2016 and 2015, or on the changes in its net assets for the years then ended.

Charges made to most third-party payors for patient services are periodically reviewed and adjusted based upon the submission of cost reports and possible subsequent audits. In the opinion of management, the effects of such determinations or adjustments, if any, will not have a material effect on the financial position of CSHC as of September 30, 2016 and 2015, or on the changes in its net assets for the years then ended.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2016 and 2015

3. FUNDING (Continued)

Primary Care Payment Reform Initiative

Effective March 1, 2014, the Health Center entered into a Primary Care Payment Reform Initiative (PCPRI) contract with the Commonwealth of Massachusetts, Executive Office of Health and Human Services, for services provided to certain MassHealth patients. PCPRI combines a shared savings/risk arrangement with quality incentives. PCPRI was a pilot program for the period March 1, 2014 to December 31, 2016. Year One was for the period March 1, 2014 to December 31, 2014, Year Two was for the period January 1, 2015 to December 31, 2015, and Year Three was for the period January 1, 2016 to December 31, 2016.

Under PCPRI, the Health Center receives reimbursement from MassHealth under the following payment model:

- 1) Comprehensive Primary Care Payment (CPCP) – a risk adjusted per panel enrollee, per month payment.
- 2) Quality Incentive Payment (QIP) – Annual incentive for reporting and performance on pre-defined primary care quality metrics.
- 3) Shared Savings Payment (SSP) – Annual payment to the Health Center based upon savings on non-primary care spending by MassHealth, including hospitalizations and specialty services.

For the years ended September 30, 2016 and 2015, the Health Center received CPCP payments of approximately \$1,668,000 and \$1,594,000, respectively, of which approximately \$1,668,000 and \$1,181,000, respectively, is included in net patient service revenue in the accompanying combining statements of activities and changes in net assets. The Health Center is eligible for a Hold Harmless settlement if the Health Center's CPCP payments are less than what the reimbursement has been under traditional fee for service reimbursement from MassHealth, as defined in the PCPRI contract. The Health Center is not owed a Hold Harmless settlement at September 30, 2016.

The Health Center could owe CPCP payments back to MassHealth if it has received payments for patients not seen by the Health Center within eighteen months of the end of each year. The Health Center has deferred MassHealth CPCP revenue of approximately \$1,011,000 as of September 30, 2016 and 2015, which is included in accounts payable and accrued expenses in the accompanying combining statements of financial position. These payments have been deferred based on uncertainties associated with the finalization of Year Two and Three of PCPRI and the risk of non-Health Center patients being included in the Health Center's CPCP payments.

The QIP is an annual incentive payment based upon the Health Center's pool performance on pre-defined primary care metrics. For Year One of the pilot program, the QIP will be based upon the Health Center's reporting of certain quality metrics. In Years Two and Year Three, the QIP will also incorporate performance on certain quality metrics.

The SSP is calculated annually based upon the difference between the actual spending and targeted spending as determined by MassHealth. During Year One, the Health Center is entitled to a settlement due from MassHealth if the actual spending is less than the targeted spending. In Years Two and Three, the Health Center could be subject to a settlement owed to MassHealth if the actual spending is more than the targeted spending based upon certain criteria as defined in the PCPRI contract.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2016 and 2015

3. FUNDING (Continued)

Primary Care Payment Reform Initiative (Continued)

The QIP and SSP are paid retrospectively once sufficient time has elapsed for calculation and processing by MassHealth. The calendar year 2014 QIP payment of \$66,741 was included in patient accounts receivable at September 30, 2015 and was received in fiscal year 2016. Since the QIP and SSP settlements for calendar year 2015 cannot be determined as of September 30, 2016, there have been no settlements recorded in the accompanying combining financial statements.

4. ACCRUED SETTLEMENTS AND FREE CARE

CSHC is licensed under BMC. As part of this arrangement, CSHC receives funding from BMC for certain health care reform initiatives. CSHC received approximately \$2,896,000 in supplemental payments from BMC during fiscal years 2016 and 2015 (see Note 1). These supplemental payments are subject to audit by BMC and the Commonwealth of Massachusetts, Division of Health Care Finance and Policy (the Division).

5. EMPLOYEE BENEFIT PLAN

CSHC has established a tax sheltered annuity plan under IRC Section 403(b). This plan covers substantially all employees of CSHC. Under the provisions of the plan, each employee may voluntarily contribute a percentage of their pre-tax earnings, not to exceed the IRC annual limit. CSHC contributes a discretionary amount equal to a percentage of each eligible employee's contribution to the plan. CSHC's contributions to this plan were \$176,007 and \$120,906 during fiscal years 2016 and 2015, respectively. These contributions are included in payroll taxes and fringe benefits in the accompanying combining statements of functional expenses.

In October 2014, CSHC established a tax-exempt 457(b) plan (the Plan). Contributions, in accordance with the Plan documents, are paid directly to the Chief Executive Officer. CSHC does not maintain custody of the Plan assets.

6. DOTHOUSE HEALTH, INC.

CSHC was one of two members in a Massachusetts nonprofit corporation named Health Services Partnership of Dorchester, Inc. d/b/a Dotwell (Dotwell). Dotwell was exempt from income taxes under Section 501(c)(3) of the IRC. Dotwell was formed as a membership organization of health centers to share resources and to collaborate on health-related initiatives. CSHC and the other member health center had equal representation on Dotwell's Board of Directors. In July 2015, the Board of Directors of Dotwell elected to dissolve the organization. All programs carried on by Dotwell were continued by DotHouse Health, Inc. (DotHouse) (a Massachusetts corporation, not for profit and Federally Qualified Community Health Center).

CSHC reimburses DotHouse for its share of information technology and other services provided by DotHouse. During fiscal years 2016 and 2015, CSHC incurred \$730,376 and \$840,000, respectively, in contracted services and paid Dotwell / DotHouse \$481,500 and \$840,000 for fiscal years 2016 and 2015, respectively. These amounts are included in contracted services in the accompanying combining statements of functional expenses. At September 30, 2015, CSHC had a liability due to DotHouse in the amount of \$41,627 which is included in accounts payable and accrued expenses in the accompanying combining statements of financial position.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2016 and 2015

7. LEASE OBLIGATIONS AND CODMAN SQUARE CONDOMINIUM

Codman Square Condominium

During December 2011, CSHC created the Codman Square Condominium Trust (the Condo Trust) consisting of land and two condominium units (the Health Center Condominium Unit and the School Condominium Unit) within property owned by CSHC, located in Dorchester, Massachusetts. The Condo Trust consists of three trustees, two from CSHC and one from CAF, and governs the operations of the condominium units, including the allocation of common area and operating costs between CSHC and CAF. The common area space of the facility is governed by a shared space agreement between CAF and CSHC. The agreement requires CAF and CSHC to make certain payments to the Condo Trust for each unit's proportionate share of common costs.

In addition, CSHC entered into a management agreement with the Condo Trust. This agreement expired in December 2016, with an annual automatic renewal thereafter. Under this agreement, the Condo Trust pays CSHC an annual management fee of 3% of costs, as defined in the agreement. During fiscal years 2016 and 2015, CSHC received \$14,084 and \$16,377, respectively, of management fees from the Condo Trust.

Master Lease

Effective December 29, 2011, CSHC entered into a ninety-nine year master lease agreement with CSHEC for the condominium units described above. Rent is due annually in the amount of \$1 on the lease anniversary date. Under the terms of the lease, CSHC is responsible for all operating expenses of the facility. Under this agreement, CSHC conveyed ownership interest in certain land, a building and related improvements to CSHEC, which is included in the Health Center Condominium Unit described above. Upon executing the master lease agreement, CSHEC entered into two sublease agreements to lease the Health Center Condominium Unit and the School Condominium Unit to CSHC and CAF, respectively (see above).

Sublease Agreement

Effective December 29, 2011, CSHC entered into a ninety-nine year sublease agreement with CSHEC to lease the Health Center Condominium Unit from CSHEC. Rent is due quarterly and payments commenced on December 25, 2012. Rent increases periodically during the lease term, as defined in the agreement.

Fee Purchase Option

CSHC has granted CAF an option to purchase CSHC's interest in the School Condominium Unit for \$10. The purchase option is exercisable between completion of construction of the School Condominium Unit and eight years thereafter (until December 2019). CAF's rights under this agreement are not assignable without the consent of other parties.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2016 and 2015

7. LEASE OBLIGATIONS AND CODMAN SQUARE CONDOMINIUM (Continued)

Rental Income

Effective December 29, 2011, CAF entered into a sublease agreement with CSHEC to lease the School Condominium Unit from CSHEC. CAF is responsible for its proportionate share of operating costs of the School Condominium Unit. CAF will have the right to purchase the School Condominium Unit from CSHEC and to terminate CSHEC's leasehold interest in the School Condominium Unit in accordance with certain purchase option agreements (see page 14). Future minimum payments and sublease receipts over the next five years are as follows:

2017	\$ 236,000
2018	\$ 236,000
2019	\$ 800,000
2020	\$ 976,000
2021	\$ 976,000

Beginning in March 2015, the Health Center began renting space to a nonprofit organization. The lease expires in February 2020, with two options to extend for an additional five years each. Monthly payments of approximately \$10,000 were due during fiscal years 2016 and 2015. Total rental income was approximately \$127,000 and \$71,000 for fiscal years 2016 and 2015, respectively, and is included in rent and other income in the accompanying combining statements of activities and changes in net assets for the years ended September 30, 2016 and 2015. Future minimum payments over the remaining life of the lease are as follows:

2017	\$ 130,455
2018	\$ 135,528
2019	\$ 139,152
2020	\$ 57,980

The Health Center also rents space to nonprofit organizations as tenants-at-will. Total rental income was approximately \$103,000 and \$72,000 for fiscal years 2016 and 2015, respectively, and is included in rent and other income in the accompanying combining statements of activities and changes in net assets.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2016 and 2015

8. INVESTMENTS

The investment portfolio as of September 30, 2016 and 2015, summarized using Levels 1 and 2 inputs (see Note 1), are as follows:

	2016			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 78,946	\$ -	\$ -	\$ 78,946
Corporate bonds	-	1,708,974	-	1,708,974
Government bonds	-	35,632	-	35,632
Exchange traded funds	255,259	-	-	255,259
Mortgage backed securities	-	48,637	-	48,637
Equities:				
Healthcare	587,088	-	-	587,088
Information technology	538,038	-	-	538,038
Services	427,083	-	-	427,083
Financial	396,220	-	-	396,220
Consumer goods	276,722	-	-	276,722
Basic materials	100,245	-	-	100,245
Industrial goods	158,467	-	-	158,467
	<u>\$ 2,818,068</u>	<u>\$ 1,793,243</u>	<u>\$ -</u>	<u>\$ 4,611,311</u>
	2015			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 95,343	\$ -	\$ -	\$ 95,343
Corporate bonds	-	1,779,288	-	1,779,288
Exchange traded funds	228,196	-	-	228,196
Mortgage backed securities	-	69,225	-	69,225
Foreign stocks	34,391	-	-	34,391
Equities:				
Healthcare	441,792	-	-	441,792
Information technology	379,558	-	-	379,558
Services	379,126	-	-	379,126
Financial	375,970	-	-	375,970
Consumer goods	329,163	-	-	329,163
Basic materials	131,460	-	-	131,460
Industrial goods	109,556	-	-	109,556
	<u>\$ 2,504,555</u>	<u>\$ 1,848,513</u>	<u>\$ -</u>	<u>\$ 4,353,068</u>

Investment income consists of the following for the years ended September 30:

	2016	2015
Interest and dividends	\$ 117,837	\$ 126,136
Realized gains (losses)	(108,233)	116,591
Investment fees	(33,284)	(34,428)
Unrealized gains (losses)	284,442	(223,112)
	<u>\$ 260,762</u>	<u>\$ (14,813)</u>

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATENotes to Combining Financial Statements
September 30, 2016 and 2015**8. INVESTMENTS (Continued)**

Investments are reflected as long-term assets in accordance with the Health Center's intent to hold these investments for long-term growth. Investments are not insured and are subject to ongoing market fluctuations.

Level 2 investments consist of corporate and foreign bonds and mortgage backed securities. The values for these bonds are determined using other observable inputs such as prevailing interest rates, the market demand for such bonds, and the dates of maturity and purchase of the bonds or securities.

9. PROPERTY AND EQUIPMENT AND ASSET HELD FOR SALE**Property and Equipment**

Property and equipment is as follows for the Health Center at September 30:

	2016		
	<u>CSHC</u>	<u>CSHEC</u>	<u>Total</u>
Land	\$ 564,639	\$ 1,005,252	\$ 1,569,891
Land improvements	535,640	49,505	585,145
Buildings and improvements	3,108,528	27,103,146	30,211,674
Computer and office equipment	6,301,968	492,694	6,794,662
Medical and clinical equipment	<u>3,711,195</u>	<u>123,488</u>	<u>3,834,683</u>
	14,221,970	28,774,085	42,996,055
Less - accumulated depreciation	<u>7,863,739</u>	<u>11,063,180</u>	<u>18,926,919</u>
Net property and equipment	<u>\$ 6,358,231</u>	<u>\$ 17,710,905</u>	<u>\$ 24,069,136</u>
	2015		
	<u>CSHC</u>	<u>CSHEC</u>	<u>Total</u>
Land	\$ 564,639	\$ 1,005,252	\$ 1,569,891
Land improvements	535,640	49,505	585,145
Buildings and improvements	2,913,303	27,103,146	30,016,449
Computer and office equipment	4,157,483	492,694	4,650,177
Medical and clinical equipment	<u>3,249,333</u>	<u>123,488</u>	<u>3,372,821</u>
	11,420,398	28,774,085	40,194,483
Less - accumulated depreciation	<u>7,071,923</u>	<u>10,067,296</u>	<u>17,139,219</u>
Net property and equipment	<u>\$ 4,348,475</u>	<u>\$ 18,706,789</u>	<u>\$ 23,055,264</u>

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2016 and 2015

9. PROPERTY AND EQUIPMENT AND ASSET HELD FOR SALE (Continued)

Asset Held for Sale

Asset held for sale at September 30, 2016 and 2015 consists of land and a building (the Property) located in Dorchester, Massachusetts. The Property has a net book value of \$652,286 and \$683,107 at September 30, 2016 and 2015, respectively. On October 13, 2015, the Health Center signed a purchase and sale agreement to sell the Property for \$1,300,000. As part of the purchase and sale agreement, the following transactions occurred during fiscal year 2016:

- A deposit of \$25,000 was received and is included in cash and cash equivalents and accounts payable and accrued expenses in the accompanying 2016 statement of financial position.
- The buyer is required to make rent payments of \$2,500 per month through the closing. As of September 30, 2016, \$27,500 of rent payments were received and are included in rent and other in the accompanying 2016 statement of activities in changes in net assets.

The Health Center expects to close on the sale of the Property during fiscal year 2017.

10. CONCENTRATIONS

The Health Center maintains its cash balances in various banks in Massachusetts. The Federal Deposit Insurance Corporation (FDIC) insures balances at each bank up to certain amounts. At certain times during the year, cash balances exceeded the insured amounts. The Health Center has not experienced any losses in such accounts. The Health Center believes it is not exposed to any significant credit risk on its cash.

The Health Center had the following concentrations of payors within patient accounts receivable and net patient service revenue as of and for the years ended September 30:

	<u>2016</u>		<u>2015</u>	
	<u>Patient Accounts Receivable</u>	<u>Net Patient Service Revenue</u>	<u>Patient Accounts Receivable</u>	<u>Net Patient Service Revenue</u>
Health Safety Net	25%	8%	11%	7%
Medicaid	33%	41%	50%	26%
Neighborhood Health	6%	12%	2%	12%

11. CONTINGENCIES

The Health Center, from time-to-time, is the defendant in lawsuits and employee discrimination claims. It is management's belief that the Health Center will prevail. Accordingly, no amounts have been reflected in the accompanying combining financial statements for any potential liability from these lawsuits or claims. Management believes the Health Center is adequately insured through its liability insurance.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2016 and 2015

12. MEMORANDUM OF AGREEMENT

During fiscal year 2008, CSHC entered into an agreement with the Healthworks Foundation (the Foundation) to construct and operate a fitness center. The fitness center is located in a building owned by CSHC. Under the agreement, CSHC has committed and paid \$100,000 toward the renovation of a building owned by CSHC to house the fitness center. CSHC and the Foundation have agreed to split the costs associated with the upkeep and operation of the building in which the fitness center is located. Additionally, CSHC has agreed to work with the Foundation to create and implement fitness-related programs. The fitness center opened during fiscal year 2009. CSHC and the Foundation established an agreement covering the Foundation's use of the space and the allocation of operating costs between CSHC and the Foundation. CSHC received reimbursement of shared facility costs of approximately \$5,000 and \$30,000 from the Foundation for its use of the space during the years ended September 30, 2016 and 2015, respectively. CSHC and the Foundation meet annually in July to evaluate the partnership, program performance, and continuity of the agreement.

13. NOTE RECEIVABLE

During fiscal year 2012, in connection with the New Markets Tax Credit (NMTC) financing, CSHC entered into a note receivable agreement with Chase NMTC Codman Investment Fund, LLC (the Investment Fund). The note bears interest at 1.26950% per annum. Interest-only payments commenced on April 10, 2012, and continue through April 10, 2019, at which time principal and interest payments of \$771,935 will be due annually through July 1, 2037, the maturity date. The note receivable was funded by proceeds from a bridge loan, proceeds from a note payable with CAF (see Note 14), as well as operating reserves. The Investment Fund used the proceeds from this note, along with other funding, to make qualified low-income equity investments in MHIC NE CDE II Subsidiary II LLC (MHIC CDE) and NFF New Markets Fund XIII, LLC (NFF CDE). MHIC CDE and NFF CDE loaned the proceeds from the qualified low-income equity investments to CSHEC under three note payable agreements (see Note 14). This note is secured by the Investment Fund's interest in MHIC CDE and NFF CDE. Interest earned on this note during fiscal years 2016 and 2015 was approximately \$168,000 and \$169,000, respectively, which is included in interest - note receivable in the accompanying combining statements of activities and changes in net assets. As of September 30, 2016 and 2015, the note receivable has a balance of \$12,713,464.

On December 29, 2018, Chase Community Equity LLC (the Investor) has a right and option, but not an obligation, for a period of 180 days, to require CSHC to purchase all of the Investor's 99.99% interest in the Investment Fund for a put exercise price of \$1,000. The Investment Fund holds a 99.99% ownership interest in MHIC CDE and a 99.99% ownership interest in NFF CDE. If the put is not exercised, then CSHC has the right to purchase the Investor's interest in the Investment Fund for fair market value, as determined by an independent appraiser.

14. LONG-TERM DEBT

Long-term debt consists of the following as of September 30, 2016 and 2015:

1.0% note payable to MHIC CDE, which requires interest-only payments of \$23,038, due in quarterly installments commencing on April 1, 2012, through January 1, 2019. Beginning January 1, 2019, quarterly payments of principal and interest of \$447,772 are due through the maturity date of January 1, 2042. This note is secured by a shared first mortgage on CSHEC's property in Dorchester, Massachusetts.	\$ 9,215,000
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CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2016 and 2015

14. LONG-TERM DEBT (Continued)

Two 1.0% notes payable to NFF CDE in the amounts of \$5,730,628 and \$2,069,372, with interest-only payments due in quarterly installments through January 1, 2019. Beginning January 1, 2019, quarterly payments of principal and interest of \$372,250 are due through the maturity date of January 1, 2042. This note is secured by a shared first mortgage on CSHEC's property in Dorchester, Massachusetts.

7,800,000

Note payable to CAF, which matures in July 2037. Interest accrues on a quarterly basis and is imputed based upon the fair value of CAF's condominium unit (see Note 7), as determined by an independent appraisal. As of September 30, 2016 and 2015, the fair value of the related condominium unit has not been assessed. Accordingly, CSHC and CAF have not accrued any interest related to this note. The note is secured by CSHC's security interest in the Investment Fund's note receivable (see Note 13).

3,500,000

\$ 20,515,000

The note payable agreements contain various covenants with which the Health Center must comply. The Health Center was in compliance with these covenants at September 30, 2016 and 2015.

Interest expense on the note payable agreements was \$170,150 for the years ended September 30, 2016 and 2015.

During fiscal year 2013, the Health Center entered into a note payable agreement with a bank for a maximum borrowing of \$2,500,000. Interest is payable monthly on outstanding borrowings at the London Interbank Offered Rate (LIBOR) (0.53% and 0.58% at September 30, 2016 and 2015, respectively), plus .95%. Outstanding balances under this agreement are due on demand. An annual fee of 0.10% of the maximum borrowing is due annually. The note payable is secured by certain business assets. As of September 30, 2016 and 2015, there was \$650,000 outstanding under this agreement and is reflected as note payable to a bank in the accompanying combining statements of financial position. This agreement is renewable annually.

15. CONTINGENT NOTE PAYABLE

During March 2016, in connection with the launch of the Health Center's new electronic health record system (EHR), the Health Center entered into a \$1,996,546 note payable agreement with BMC. The note is unsecured and is expected to be forgiven over ten years through March 2026 provided that the Health Center continues to maintain and operate the EHR and remains a member of Boston Healthnet, Inc. The note bears interest at the Wall Street Journal prime rate (3.5% at September 30, 2016), plus 1%. Any accrued interest is forgiven each month. The accrued interest has not been recorded since the Health Center is in compliance with the terms of the note agreement as of September 30, 2016, and plans to continue to comply with the terms of the note agreement. During fiscal year 2016, the Health Center recognized \$116,465 of forgiveness of the note, which is included in forgiveness of debt in the accompanying 2016 combining statement of activities and changes in net assets. As of September 30, 2016, \$1,880,081 is outstanding related to this agreement and is included in contingent notes payable in the accompanying combining statement of financial position.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2016 and 2015

15. CONTINGENT NOTE PAYABLE (Continued)

The Health Center also entered into another unsecured interest free note with total proceeds of \$238,000 available, due in June 2019. The note is to be repaid upon receipt of meaningful use revenue under the Health Information Technology for Economic and Clinical Health Act associated with the EHR implementation. If the Health Center does not receive the related meaningful use revenue, the note will convert to a 10 year forgivable note bearing interest at the Wall Street Journal prime rate plus 1% through March 2026. Under the terms of the agreement, 10% of the principal, plus accrued interest will be forgiven annually, provided that the Health Center continues to maintain and operate the EHR system and remains a member of Boston Healthnet, Inc. until March 2026. As of September 30, 2016, no amounts have been drawn on this note.

16. RESTRICTED CASH

Restricted cash consists of long-term debt proceeds, as well as reserves required to be established pursuant to the notes payable agreements (see Note 14).

MHIC Reserve Account

In accordance with the terms of the MHIC CDE note, CSHEC was required to make an initial deposit of \$332,500 in a reserve account. Disbursements from this account are controlled by MHIC CDE and are released annually to fund fees associated with the related note payable. Disbursements from the account were \$47,500 for the years ended September 30, 2016 and 2015. The reserve was adequately funded as of September 30, 2016 and 2015.

NFF Fee Reserve Account

In accordance with the terms of the NFF CDE notes, CSHEC was required to make an initial deposit of \$324,000 in a reserve account. Commencing on January 1, 2013, CSHEC was required to make additional quarterly deposits of \$6,667, with a final deposit of \$6,659 on October 1, 2018. Disbursements from this account are controlled by NFF CDE and are released annually to fund fees associated with the related notes payable. Disbursements from the account were \$44,500 for the years ended September 30, 2016 and 2015.

Replacement Reserve

As of January 2013, CSHEC was required to establish and fund a replacement reserve under the terms of the sublease agreement with CSHC (see Note 7). CSHEC is required to make quarterly deposits of \$3,750 into the replacement reserve. The replacement reserve is required to be used to fund maintenance and other capital costs associated with the Health Center Condominium Unit as requested by CSHC, as tenant. There were no disbursements from the account during fiscal year 2016 and 2015. The reserve was adequately funded as of September 30, 2016. The reserve was underfunded by \$15,000 as of September 30, 2015, because CSHEC did not make the required quarterly deposits until October 2015.

Restricted cash consists of the following as of September 30:

	<u>2016</u>	<u>2015</u>
MHIC Reserve Account	\$ 139,687	\$ 186,940
NFF Fee Reserve Account	225,156	235,946
Replacement Reserve	<u>60,100</u>	<u>30,043</u>
	<u>\$ 424,943</u>	<u>\$ 452,929</u>

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2016 and 2015

17. MEDICAL MALPRACTICE INSURANCE

The Health Center is insured for professional liability coverage through the Federal Bureau of Primary Health Care, known as the Federal Tort Claims Act (FTCA), in accordance with the Public Health Services Act. This coverage is provided to the Health Center through its Section 330 Community Health Center grant administered by HRSA. The coverage afforded to 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, and contractors who are physicians or other licensed or certified health care practitioners.

18. RECLASSIFICATIONS

Certain amounts in the fiscal year 2015 combining financial statements have been reclassified to conform with the fiscal year 2016 presentation.