



AND AFFILIATE

**COMBINING FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Contents
September 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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.

Alexander, Brown, Fenning & Co., P.C.

Boston, Massachusetts
January 22, 2018

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Combining Statements of Financial Position
September 30, 2017 and 2016

Assets	2017					2016				
	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	\$ 6,566,599	\$ 842,249	\$ 7,408,848	\$ 251,079	\$ 7,659,927	\$ 5,339,644	\$ 720,869	\$ 6,060,513	\$ 226,893	\$ 6,287,406
Grants, contracts and other receivables	406,359	-	406,359	-	406,359	412,760	-	412,760	-	412,760
Patient accounts receivable, net of allowance for uncollectible accounts of approximately \$2,333,000 and \$1,104,000 as of September 30, 2017 and 2016, respectively	2,175,721	-	2,175,721	-	2,175,721	2,912,618	-	2,912,618	-	2,912,618
Inventory	295,933	-	295,933	-	295,933	314,937	-	314,937	-	314,937
Due (to) from	(55,022)	-	(55,022)	55,022	-	(55,022)	-	(55,022)	55,022	-
Prepaid expenses	510,632	-	510,632	-	510,632	448,068	-	448,068	-	448,068
Total current assets	9,900,222	842,249	10,742,471	306,101	11,048,572	9,373,005	720,869	10,093,874	281,915	10,375,789
Restricted Cash	-	-	-	375,353	375,353	-	-	-	424,943	424,943
Note Receivable	12,713,464	-	12,713,464	-	12,713,464	12,713,464	-	12,713,464	-	12,713,464
Investments	6,284,658	-	6,284,658	-	6,284,658	4,611,311	-	4,611,311	-	4,611,311
Asset Held for Sale	-	-	-	-	-	652,286	-	652,286	-	652,286
Property and Equipment, net	6,061,945	-	6,061,945	16,816,769	22,878,714	6,358,231	-	6,358,231	17,710,905	24,069,136
Total assets	\$ 34,960,289	\$ 842,249	\$ 35,802,538	\$ 17,498,223	\$ 53,300,761	\$ 33,708,297	\$ 720,869	\$ 34,429,166	\$ 18,417,763	\$ 52,846,929
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	2,738,511	-	2,738,511	50,543	2,789,054	3,772,744	-	3,772,744	50,540	3,823,284
Total current liabilities	3,388,511	-	3,388,511	50,543	3,439,054	4,422,744	-	4,422,744	50,540	4,473,284
Long-Term Debt, net of unamortized debt issuance costs	3,500,000	-	3,500,000	16,876,176	20,376,176	3,500,000	-	3,500,000	16,765,436	20,265,436
Contingent Note Payable	1,680,426	-	1,680,426	-	1,680,426	1,880,081	-	1,880,081	-	1,880,081
Total liabilities	8,568,937	-	8,568,937	16,926,719	25,495,656	9,802,825	-	9,802,825	16,815,976	26,618,801
Net Assets:										
Unrestricted:										
Operating	10,796,369	-	10,796,369	306,101	11,102,470	7,561,572	-	7,561,572	281,915	7,843,487
Board designated	2,000,000	-	2,000,000	-	2,000,000	2,000,000	-	2,000,000	-	2,000,000
Property and equipment	13,594,983	-	13,594,983	265,403	13,860,386	14,343,900	-	14,343,900	1,319,872	15,663,772
Total unrestricted	26,391,352	-	26,391,352	571,504	26,962,856	23,905,472	-	23,905,472	1,601,787	25,507,259
Temporarily restricted	-	842,249	842,249	-	842,249	-	720,869	720,869	-	720,869
Total net assets	26,391,352	842,249	27,233,601	571,504	27,805,105	23,905,472	720,869	24,626,341	1,601,787	26,228,128
Total liabilities and net assets	\$ 34,960,289	\$ 842,249	\$ 35,802,538	\$ 17,498,223	\$ 53,300,761	\$ 33,708,297	\$ 720,869	\$ 34,429,166	\$ 18,417,763	\$ 52,846,929

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, 2017 and 2016

	2017						2016					
	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	\$ 30,112,705	\$ -	\$ 30,112,705	\$ -	\$ -	\$ 30,112,705	\$ 27,265,016	\$ -	\$ 27,265,016	\$ -	\$ -	\$ 27,265,016
Grants and contracts	5,032,900	1,072,906	6,105,806	-	-	6,105,806	4,307,386	758,978	5,066,364	-	-	5,066,364
Rent and other	527,111	-	527,111	236,745	(236,000)	527,856	558,153	-	558,153	236,683	(236,000)	558,836
Forgiveness of contingent note payable	199,655	-	199,655	-	-	199,655	116,465	-	116,465	-	-	116,465
In-kind contributions	71,500	-	71,500	-	-	71,500	71,500	-	71,500	-	-	71,500
Net assets released from program restrictions	905,701	(905,701)	-	-	-	-	529,253	(529,253)	-	-	-	-
Total operating revenue and public support	36,849,572	167,205	37,016,777	236,745	(236,000)	37,017,522	32,847,773	229,725	33,077,498	236,683	(236,000)	33,078,181
Operating Expenses:												
Clinical Care	22,456,259	-	22,456,259	-	(163,839)	22,292,420	20,007,916	-	20,007,916	-	(163,839)	19,844,077
Other Clinical Services	4,248,004	-	4,248,004	-	(25,151)	4,222,853	4,053,168	-	4,053,168	-	(25,151)	4,028,017
Mental Health	1,823,107	-	1,823,107	-	(15,929)	1,807,178	1,545,590	-	1,545,590	-	(15,929)	1,529,661
Dental	3,075,006	-	3,075,006	-	(19,065)	3,055,941	3,043,645	-	3,043,645	-	(19,065)	3,024,580
Eyecare	1,252,283	-	1,252,283	-	(11,842)	1,240,441	1,094,031	-	1,094,031	-	(11,842)	1,082,189
Community Services	2,739,271	-	2,739,271	-	(174)	2,739,097	1,859,433	-	1,859,433	-	(174)	1,859,259
Codman Square Health and Education Center, Inc.	-	-	-	1,267,028	-	1,267,028	-	-	-	1,379,780	-	1,379,780
Total operating expenses	35,593,930	-	35,593,930	1,267,028	(236,000)	36,624,958	31,603,783	-	31,603,783	1,379,780	(236,000)	32,747,563
Changes in net assets from operations	1,255,642	167,205	1,422,847	(1,030,283)	-	392,564	1,243,990	229,725	1,473,715	(1,143,097)	-	330,618
Non-Operating Revenue:												
Net gain on sale of asset held for sale	526,235	-	526,235	-	-	526,235	-	-	-	-	-	-
Investment income	490,181	-	490,181	-	-	490,181	260,762	-	260,762	-	-	260,762
Interest - note receivable	167,997	-	167,997	-	-	167,997	167,937	-	167,937	-	-	167,937
Net assets released from capital restrictions	45,825	(45,825)	-	-	-	-	121,655	(121,655)	-	-	-	-
Total non-operating revenue	1,230,238	(45,825)	1,184,413	-	-	1,184,413	550,354	(121,655)	428,699	-	-	428,699
Changes in net assets	2,485,880	121,380	2,607,260	(1,030,283)	-	1,576,977	1,794,344	108,070	1,902,414	(1,143,097)	-	759,317
Net Assets:												
Beginning 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
End of year	\$ 26,391,352	\$ 842,249	\$ 27,233,601	\$ 571,504	\$ -	\$ 27,805,105	\$ 23,905,472	\$ 720,869	\$ 24,626,341	\$ 1,601,787	\$ -	\$ 26,228,128

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

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

 Combining Statements of Cash Flows
 For the Years Ended September 30, 2017 and 2016

	2017			2016		
	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	\$ 2,607,260	\$ (1,030,283)	\$ 1,576,977	\$ 1,902,414	\$ (1,143,097)	\$ 759,317
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:						
Depreciation	833,560	894,136	1,727,696	822,637	995,884	1,818,521
Amortization of debt issuance costs charged as interest expense	-	110,740	110,740	-	110,740	110,740
Bad debts	2,428,446	-	2,428,446	726,790	-	726,790
Gain on sale of asset held for sale	(526,235)	-	(526,235)	-	-	-
Net realized and unrealized gains on investments	(399,269)	-	(399,269)	(176,209)	-	(176,209)
Forgiveness of contingent note payable	(199,655)	-	(199,655)	(116,465)	-	(116,465)
Changes in operating assets and liabilities:						
Grants, contracts and other receivables	6,401	-	6,401	139,473	-	139,473
Patient accounts receivable	(1,691,549)	-	(1,691,549)	(1,158,115)	-	(1,158,115)
Inventory	19,004	-	19,004	(73,158)	-	(73,158)
Due (to) from	-	-	-	(11,005)	11,005	-
Prepaid expenses	(62,564)	-	(62,564)	(72,080)	-	(72,080)
Accounts payable and accrued expenses	(1,034,233)	3	(1,034,230)	816,160	2	816,162
Net cash provided by (used in) operating activities	<u>1,981,166</u>	<u>(25,404)</u>	<u>1,955,762</u>	<u>2,800,442</u>	<u>(25,466)</u>	<u>2,774,976</u>
Cash Flows from Investing Activities:						
Acquisition of property and equipment	(537,274)	-	(537,274)	(805,026)	-	(805,026)
Purchase of investments	(1,561,407)	-	(1,561,407)	(837,927)	-	(837,927)
Net proceeds from sale of asset held for sale	1,178,521	-	1,178,521	-	-	-
Withdrawals from restricted cash accounts	-	92,000	92,000	-	92,000	92,000
Deposits to and interest earned on restricted cash accounts	-	(42,410)	(42,410)	-	(64,014)	(64,014)
Proceeds from sale of investments	287,329	-	287,329	755,893	-	755,893
Net cash provided by (used in) investing activities	<u>(632,831)</u>	<u>49,590</u>	<u>(583,241)</u>	<u>(887,060)</u>	<u>27,986</u>	<u>(859,074)</u>
Net Change in Cash and Cash Equivalents	1,348,335	24,186	1,372,521	1,913,382	2,520	1,915,902
Cash and Cash Equivalents:						
Beginning 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>
End of year	<u>\$ 7,408,848</u>	<u>\$ 251,079</u>	<u>\$ 7,659,927</u>	<u>\$ 6,060,513</u>	<u>\$ 226,893</u>	<u>\$ 6,287,406</u>
Supplemental Disclosure of Cash Flow Information:						
Cash paid for interest	<u>\$ 15,127</u>	<u>\$ 170,150</u>	<u>\$ 185,277</u>	<u>\$ 11,232</u>	<u>\$ 170,150</u>	<u>\$ 181,382</u>
Cost basis of property reclassified as asset held for sale	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 827,830</u>	<u>\$ -</u>	<u>\$ 827,830</u>
Unrealized gains on investments	<u>\$ 391,546</u>	<u>\$ -</u>	<u>\$ 391,546</u>	<u>\$ 284,442</u>	<u>\$ -</u>	<u>\$ 284,442</u>
Property and equipment acquired with contingent note payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,996,546</u>	<u>\$ -</u>	<u>\$ 1,996,546</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, 2017
 (With Summarized Comparative Totals for the Year Ended September 30, 2016)

	2017												2016			
	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	\$ 6,111,686	\$ 1,585,505	\$ 581,601	\$ 1,235,289	\$ 349,945	\$ 1,746,125	\$ 2,461,718	\$ 14,071,869	\$ 1,789,713	\$ 312,472	\$ 2,102,185	\$ 16,174,054	\$ -	\$ -	\$ 16,174,054	\$ 15,646,028
Contracted services	995,872	340,977	141,704	109,528	50,580	257,032	1,377,335	3,273,028	1,611,558	418,885	2,030,443	5,303,471	-	-	5,303,471	3,762,122
Payroll taxes and fringe benefits	924,263	237,422	93,673	205,565	49,464	269,704	409,469	2,189,560	756,507	57,633	814,140	3,003,700	-	-	3,003,700	2,700,382
Other	26,287	12,400	8,136	5,041	1,010	10,617	2,662	66,153	17,945	-	17,945	84,098	-	-	84,098	47,350
Total personnel and related	8,058,108	2,176,304	825,114	1,555,423	450,999	2,283,478	4,251,184	19,600,610	4,175,723	788,990	4,964,713	24,565,323	-	-	24,565,323	22,155,882
Occupancy and Related:																
Depreciation - building	-	1,032	-	1,341	-	4,675	49	7,097	2,042	213,609	215,651	222,748	828,063	-	1,050,811	1,153,590
Building costs	-	23,637	-	-	-	-	-	23,637	32,809	696,818	729,627	753,264	-	(236,000)	517,264	444,732
Interest	-	-	-	-	-	-	-	-	-	-	-	-	280,890	-	280,890	280,890
Utilities	-	-	-	-	-	-	-	-	-	121,114	121,114	121,114	-	-	121,114	122,963
Repairs and maintenance	45	1,470	214	1,615	-	-	2,776	6,120	22	86,181	86,203	92,323	-	-	92,323	84,469
Telephone	-	-	-	-	-	-	37,254	37,254	44,612	-	44,612	81,866	-	-	81,866	67,348
Total occupancy and related	45	26,139	214	2,956	-	4,675	40,079	74,108	79,485	1,117,722	1,197,207	1,271,315	1,108,953	(236,000)	2,144,268	2,153,992
Other Expenses:																
Pharmacy expenses	3,867,413	-	-	-	-	-	-	3,867,413	-	-	-	3,867,413	-	-	3,867,413	3,741,206
Bad debts	2,033,914	86,962	84,027	115,407	108,136	-	-	2,428,446	-	-	-	2,428,446	-	-	2,428,446	726,790
Medical supplies	492,709	668,389	-	169,741	46,515	6,500	231	1,384,085	-	-	-	1,384,085	-	-	1,384,085	1,155,350
Depreciation - equipment	208,879	55,644	419	51,777	20,856	18,956	10,126	366,657	187,720	56,435	244,155	610,812	66,073	-	676,885	664,931
Other	17,653	21,830	2,925	10,041	1,388	27,012	136,938	217,787	173,514	138,753	312,267	530,054	-	-	530,054	983,284
Legal, accounting and other consulting	-	-	-	-	-	14,960	163,358	178,318	194,388	-	194,388	372,706	92,002	-	464,708	565,851
Administrative supplies	16,495	12,299	3,645	4,230	1,585	43,053	25,446	106,753	76,685	8,324	85,009	191,762	-	-	191,762	197,238
Malpractice and other insurance	-	-	-	-	-	-	34,689	34,689	74,328	21,973	96,301	130,990	-	-	130,990	124,369
Printing and postage	1,470	1,860	735	38	1,073	2,679	8,156	16,011	55,210	42	55,252	71,263	-	-	71,263	74,963
Dues and subscriptions	3,530	666	-	-	789	630	4,958	10,573	50,930	325	51,255	61,828	-	-	61,828	57,085
Marketing and advertising	-	1,420	-	-	462	13,750	267	15,899	22,057	-	22,057	37,956	-	-	37,956	44,791
Conference and travel	1,325	3,229	1,519	5,507	-	9,299	4,367	25,246	5,421	1,695	7,116	32,362	-	-	32,362	25,621
Recruitment	1,281	789	165	525	263	175	1,439	4,637	17,763	88	17,851	22,488	-	-	22,488	63,548
Interest	-	-	-	-	-	-	-	-	15,127	-	15,127	15,127	-	-	15,127	12,662
Total other expenses	6,644,669	853,088	93,435	357,266	181,067	137,014	389,975	8,656,514	873,143	227,635	1,100,778	9,757,292	158,075	-	9,915,367	8,437,689
Total expenses before allocations	14,702,822	3,055,531	918,763	1,915,645	632,066	2,425,167	4,681,238	28,331,232	5,128,351	2,134,347	7,262,698	35,593,930	1,267,028	(236,000)	36,624,958	32,747,563
Facility Allocation	1,173,893	170,748	106,717	128,060	85,374	-	362,841	2,027,633	106,714	(2,134,347)	(2,027,633)	-	-	-	-	-
Patient Support Services Allocation	4,276,116	236,465	588,224	612,496	377,791	-	(6,091,092)	-	-	-	-	-	-	-	-	-
General and Administrative Allocation	2,303,428	785,260	209,403	418,805	157,052	314,104	1,047,013	5,235,065	(5,235,065)	-	(5,235,065)	-	-	-	-	-
Total expenses	\$ 22,456,259	\$ 4,248,004	\$ 1,823,107	\$ 3,075,006	\$ 1,252,283	\$ 2,739,271	\$ -	\$ 35,593,930	\$ -	\$ -	\$ -	\$ 35,593,930	\$ 1,267,028	\$ (236,000)	\$ 36,624,958	\$ 32,747,563

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Combining Statement of Functional Expenses
For the Year Ended September 30, 2016

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	\$ 6,049,941	\$ 1,532,074	\$ 608,978	\$ 1,221,976	\$ 287,372	\$ 1,282,264	\$ 2,468,113	\$ 13,450,718	\$ 1,961,805	\$ 233,505	\$ 2,195,310	\$ 15,646,028	\$ -	\$ -	\$ 15,646,028
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
Payroll taxes and fringe benefits	845,161	187,070	112,963	197,664	40,921	174,318	351,639	1,909,736	751,694	38,952	790,646	2,700,382	-	-	2,700,382
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
Total personnel and related	7,621,093	1,805,504	765,849	1,517,123	424,185	1,587,323	4,177,715	17,898,792	3,546,967	710,123	4,257,090	22,155,882	-	-	22,155,882
Occupancy and Related:															
Depreciation - building	-	3,635	-	-	-	-	-	3,635	-	221,751	221,751	225,386	928,204	-	1,153,590
Building costs	-	-	-	-	-	-	-	-	-	680,732	680,732	680,732	-	(236,000)	444,732
Interest	-	-	-	-	-	-	-	-	-	-	-	-	280,890	-	280,890
Utilities	-	-	-	-	-	-	-	-	-	122,963	122,963	122,963	-	-	122,963
Repairs and maintenance	3,331	101	178	651	178	1,120	851	6,410	768	77,291	78,059	84,469	-	-	84,469
Telephone	-	-	-	-	-	-	9,323	9,323	58,025	-	58,025	67,348	-	-	67,348
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	1,209,094	(236,000)	2,153,992
Other Expenses:															
Pharmacy expenses	3,741,206	-	-	-	-	-	-	3,741,206	-	-	-	3,741,206	-	-	3,741,206
Bad debts	447,178	102,226	40,241	88,720	48,425	-	-	726,790	-	-	-	726,790	-	-	726,790
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
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
Other	15,921	125,856	4,694	18,608	4,300	30,317	163,528	363,224	485,517	134,543	620,060	983,284	-	-	983,284
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
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
Malpractice and other insurance	-	-	-	-	-	-	48,100	48,100	19,391	56,878	76,269	124,369	-	-	124,369
Printing and postage	3,782	-	307	168	640	2,564	7,359	14,820	57,758	2,385	60,143	74,963	-	-	74,963
Dues and subscriptions	4,765	544	260	1,528	2,241	-	1,760	11,098	45,822	165	45,987	57,085	-	-	57,085
Marketing and advertising	-	1,250	-	-	-	20,778	-	22,028	22,763	-	22,763	44,791	-	-	44,791
Conference and travel	-	1,574	2,751	8,779	-	1,425	2,278	16,807	8,500	314	8,814	25,621	-	-	25,621
Recruitment	14,350	576	823	247	165	1,317	823	18,301	45,247	-	45,247	63,548	-	-	63,548
Interest	-	-	-	-	-	-	-	-	11,232	1,430	12,662	12,662	-	-	12,662
Total other expenses	4,777,341	965,652	57,895	295,943	127,659	172,066	379,876	6,776,432	1,237,118	253,453	1,490,571	8,267,003	170,686	-	8,437,689
Total expenses before allocations	12,401,765	2,774,892	823,922	1,813,717	552,022	1,760,509	4,567,765	24,694,592	4,842,878	2,066,313	6,909,191	31,603,783	1,379,780	(236,000)	32,747,563
Facility Allocation	1,136,471	165,305	103,316	123,979	82,653	-	351,273	1,962,997	103,316	(2,066,313)	(1,962,997)	-	-	-	-
Patient Support Services Allocation	4,144,969	420,504	420,504	660,792	360,432	-	(6,007,201)	-	-	-	-	-	-	-	-
General and Administrative Allocation	2,324,711	692,467	197,848	445,157	98,924	98,924	1,088,163	4,946,194	(4,946,194)	-	(4,946,194)	-	-	-	-
Total expenses	\$ 20,007,916	\$ 4,053,168	\$ 1,545,590	\$ 3,043,645	\$ 1,094,031	\$ 1,859,433	\$ -	\$ 31,603,783	\$ -	\$ -	\$ -	\$ 31,603,783	\$ 1,379,780	\$ (236,000)	\$ 32,747,563

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2017 and 2016

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).

Accounting Principle Adoption

During fiscal year 2017, the Health Center adopted FASB Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (ASC Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to long-term debt be presented in the combining statements of financial position as a direct reduction from the carrying balance of long-term debt. Previously, the Health Center reflected unamortized debt issuance costs as financing fees, an asset, in the accompanying combining statement of financial position, and has retroactively reclassified 2016 amounts in accordance with this ASU. The reclassification reduced total assets and long-term debt at September 30, 2016, by \$249,564.

In addition, amortization of debt issuance costs is required to be included with interest expense in the accompanying combining statements of functional expenses. Accordingly, amortization expense totaling \$110,740 for the year ended September 30, 2016, has been reclassified to be included with occupancy and related - interest. As a result, occupancy and related - interest originally stated at \$170,150 in the 2016 combining statement of functional expenses has been adjusted to \$280,890.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2017 and 2016

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Principle Adoption (Continued)

The adoption of this ASU did not impact the Health Center's combining net assets, changes in net assets, or cash flows for the years ended September 30, 2017 and 2016.

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, 2017 and 2016.

Rent and other income are recorded when earned.

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, 2017 and 2016, were approximately \$29,153,000 and \$27,817,000, respectively (see Note 4).

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 \$3,960,000 and \$3,911,000 of free care during the years ended September 30, 2017 and 2016, respectively. The cost of providing these services was approximately \$3,273,000 and \$3,168,000 for the years ended September 30, 2017 and 2016, 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 through Boston Medical Center (BMC) from the Commonwealth of Massachusetts for free care services of approximately \$640,000 and \$1,475,000 during the years ended September 30, 2017 and 2016, respectively.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2017 and 2016

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$1,727,696 and \$1,818,521 for the years ended September 30, 2017 and 2016, respectively.

The Health Center accounts for the carrying value of its long-lived assets in accordance with the requirements of the *Accounting for the Impairment or Disposal of Long-Lived Assets*. The carrying value is evaluated annually for impairment. No impairment loss was recognized in fiscal year 2017 or 2016.

Unamortized Debt Issuance Costs

Unamortized debt issuance costs (see page 7) are recorded at cost and amortized over the period the related obligation is outstanding using the straight-line method, which approximates the effective interest method.

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 for the years ended September 30, 2017 and 2016.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2017 and 2016

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist of checking and savings accounts. Interest income on cash 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 7) 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 on investments are recorded when realized or based on fair value changes during the period (see Note 7).

Advertising Costs

The Health Center expenses advertising costs as they are incurred. Total advertising expense was \$37,956 and \$44,791 for the years ended September 30, 2017 and 2016, respectively.

Combining Statements 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 public support and operating expenses in the accompanying combining statements of activities and changes in net assets. Non-operating revenue includes interest - note receivable, gain on sale of asset, capital activity, 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.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2017 and 2016

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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, except the asset held for sale (see Note 8) which was valued using Level 2 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, 2017 and 2016. The Health Center's information returns are subject to examination by the Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through January 22, 2018, which is the date the combining financial statements were available to be issued. See Note 6 for subsequent event disclosure surrounding a new lease entered into by CSHC.

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 and note receivable, net of any related debt.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2017 and 2016

2. NET ASSETS (Continued)

Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Program	\$ 764,536	\$ 597,331
Acquisition of property and equipment	<u>77,713</u>	<u>123,538</u>
	<u>\$ 842,249</u>	<u>\$ 720,869</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, 2017 and 2016, 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, 2017 and 2016, or on the changes in its net assets for the years then ended.

Primary Care Payment Reform Initiative

Effective March 1, 2014, CSHC 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 combined a shared savings/risk arrangement with quality incentives. CSHC was effectively paid on a per member per month (capitation) basis using historical information. PCPRI was a pilot program for the period March 1, 2014 to December 31, 2016.

Under PCPRI, CSHC received 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.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2017 and 2016

3. FUNDING (Continued)

Primary Care Payment Reform Initiative (Continued)

For the years ended September 30, 2017 and 2016, CSHC received CPCP payments of approximately \$445,000 and \$1,668,000, respectively, which are included in net patient service revenue in the accompanying combining statements of activities and changes in net assets. CSHC is eligible for a Hold Harmless settlement if CSHC'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. CSHC is not owed a Hold Harmless settlement at September 30, 2017.

The QIP was an annual incentive payment based upon CSHC's pool performance on pre-defined primary care metrics. The QIP was based upon CSHC's reporting of certain quality metrics.

The SSP was calculated annually based upon the difference between the actual spending and targeted spending as determined by MassHealth. CSHC 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.

The QIP and SSP are paid retrospectively at the end of the contract year, once sufficient time has elapsed for calculation and processing by MassHealth. The year one QIP payment was received in fiscal year 2016. Since the QIP and SSP settlements for years two and three cannot be determined as of September 30, 2017, there have been no settlements recorded in the accompanying combining financial statements.

CSHC 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. CSHC has deferred MassHealth CPCP revenue of approximately \$1,011,000 as of September 30, 2016, which is included in accounts payable and accrued expenses in the accompanying 2016 combining statement of financial position. CSHC deemed that no deferral was necessary as of September 30, 2017, due to the unlikelihood of payments being owed.

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 each of the fiscal years 2017 and 2016 (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). In the opinion of management, the result of such audit, if any, will not have a material effect on the combining financial position of CSHC as of September 30, 2017, or on the changes in its net assets for the years then ended.

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 \$246,840 and \$176,007 during fiscal years 2017 and 2016, respectively. These contributions are included in payroll taxes and fringe benefits in the accompanying combining statements of functional expenses.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2017 and 2016

5. EMPLOYEE BENEFIT PLAN (Continued)

CSHC has also established a tax-exempt 457(b) plan (the Plan) for the Chief Executive Officer. CSHC makes annual contributions to the Plan in accordance with the Plan documents. CSHC does not maintain custody of the Plan's assets.

6. 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 2017 and 2016, CSHC received \$14,886 and \$14,084, 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, 2017 and 2016

6. LEASE OBLIGATIONS AND CODMAN SQUARE CONDOMINIUM (Continued)

Facility Lease Agreement

Effective November 1, 2017, CSHC entered into a five year lease agreement for administrative and program space. The lease expires on November 30, 2022, with an option to extend for five years. Under this agreement, CSHC is responsible for their share of operating costs and real estate taxes as defined in the agreement.

Future minimum facility lease payments are as follows:

2018	\$ 64,335
2019	\$ 77,835
2020	\$ 80,380
2021	\$ 82,924
2022	\$ 85,470

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:

2018	\$ 263,000
2019	\$ 800,000
2020	\$ 976,000
2021	\$ 976,000
2022	\$ 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 \$11,000 and \$10,000 were due during fiscal years 2017 and 2016, respectively, plus their shares of certain operating expenses. Total rental income was approximately \$179,000 and \$185,000 for fiscal years 2017 and 2016, respectively, and is included in rent and other in the accompanying combining statements of activities and changes in net assets. Future minimum payments over the remaining life of the lease are as follows:

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 \$84,000 and \$50,000 for fiscal years 2017 and 2016, 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, 2017 and 2016

7. INVESTMENTS

The investment portfolio as of September 30, 2017 and 2016, summarized using Levels 1 inputs (see Note 1), are as follows:

	2017			Total
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Cash and cash equivalents	\$ 1,412,020	\$ -	\$ -	\$ 1,412,020
Corporate bonds	1,700,065	-	-	1,700,065
Government bonds	35,306	-	-	35,306
Exchange traded funds	298,381	-	-	298,381
Mortgage backed securities	29,187	-	-	29,187
Equities:				
Information technology	680,292	-	-	680,292
Healthcare	615,248	-	-	615,248
Financial	492,010	-	-	492,010
Services	471,455	-	-	471,455
Consumer goods	225,226	-	-	225,226
Industrial goods	206,291	-	-	206,291
Basic materials	119,177	-	-	119,177
	<u>\$ 6,284,658</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,284,658</u>
	2016			Total
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
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:				
Information technology	538,038	-	-	538,038
Healthcare	587,088	-	-	587,088
Financial	396,220	-	-	396,220
Services	427,083	-	-	427,083
Consumer goods	276,722	-	-	276,722
Industrial goods	158,467	-	-	158,467
Basic materials	100,245	-	-	100,245
	<u>\$ 4,611,311</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,611,311</u>

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2017 and 2016

7. INVESTMENTS (Continued)

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

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 126,747	\$ 117,837
Realized gains (losses)	7,723	(108,233)
Investment fees	(35,835)	(33,284)
Unrealized gains	<u>391,546</u>	<u>284,442</u>
	<u>\$ 490,181</u>	<u>\$ 260,762</u>

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.

8. PROPERTY AND EQUIPMENT AND ASSET HELD FOR SALE

Property and Equipment

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

	<u>2017</u>		
	<u>CSHC</u>	<u>CSHEC</u>	<u>Total</u>
Land	\$ 374,893	\$ 1,005,252	\$ 1,380,145
Land improvements	535,640	49,505	585,145
Buildings and improvements	3,379,052	27,103,146	30,482,198
Computer and office equipment	6,488,015	492,694	6,980,709
Medical and clinical equipment	<u>3,981,644</u>	<u>123,488</u>	<u>4,105,132</u>
	14,759,244	28,774,085	43,533,329
Less - accumulated depreciation	<u>8,697,299</u>	<u>11,957,316</u>	<u>20,654,615</u>
Net property and equipment	<u>\$ 6,061,945</u>	<u>\$ 16,816,769</u>	<u>\$ 22,878,714</u>
	<u>2016</u>		
	<u>CSHC</u>	<u>CSHEC</u>	<u>Total</u>
Land	\$ 374,893	\$ 1,005,252	\$ 1,380,145
Land improvements	535,640	49,505	585,145
Buildings and improvements	3,298,274	27,103,146	30,401,420
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>

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2017 and 2016

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

Asset Held for Sale

Asset held for sale at September 30, 2016, consisted of land and a building (the Property) located in Dorchester, Massachusetts recorded at the net book value of \$652,286. On October 13, 2015, a purchase and sale agreement was signed to sell the Property. On June 14, 2017, the agreement was finalized and the Property was sold for approximately \$1,179,000, which is net of related closing costs and other fees of approximately \$121,000. The gain on the sale of the Property of \$526,235 is reflected as net gain of sale of asset held for sale in the accompanying combining statement of activities and changes in net assets for the year ended September 30, 2017.

9. 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.

CSHC 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>2017</u>		<u>2016</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	18%	4%	25%	8%
Medicaid	11%	36%	33%	41%
Medicare	5%	10%	4%	8%
Neighborhood Health	4%	11%	6%	12%

10. 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, 2017 and 2016

11. 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 13), 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 13). This note is secured by the Investment Fund's interest in MHIC CDE and NFF CDE. Interest earned on this note during fiscal years 2017 and 2016 was approximately \$168,000, which is included in interest - note receivable in the accompanying combining statements of activities and changes in net assets. As of September 30, 2017 and 2016, 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.

12. CONTINGENT NOTE PAYABLE

During March 2016, in connection with the launch of CSHC's new electronic health record system (EHR), CSHC 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 CSHC continues to maintain and operate the EHR and remains a member of Boston Healthnet, Inc. The note bears interest at the *Wall Street Journal's* prime rate (4.25% and 3.5% at September 30, 2017 and 2016, respectively), plus 1%. Any accrued interest is forgiven each month. The accrued interest has not been recorded since CSHC is in compliance with the terms of the note agreement as of September 30, 2017, and plans to continue to comply with the terms of the note agreement. During fiscal years 2017 and 2016, the Health Center recognized \$199,655 and \$116,465, respectively, of forgiveness of the note, which is included in forgiveness of contingent note payable in the accompanying combining statements of activities and changes in net assets. As of September 30, 2017 and 2016, \$1,680,426 and \$1,880,081, respectively, is outstanding related to this agreement and is included in contingent note payable in the accompanying combining statements of financial position.

CSHC 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 CSHC does not receive the related meaningful use revenue, the note will convert to a ten-year forgivable note bearing interest at the *Wall Street Journal's* 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 CSHC continues to maintain and operate the EHR system and remains a member of Boston Healthnet, Inc. until March 2026. As of September 30, 2017, no amounts have been drawn on this note and no amount is expected to be drawn.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATENotes to Combining Financial Statements
September 30, 2017 and 2016

13. LONG-TERM DEBT

Long-term debt consists of the following as of September 30:

	<u>2017</u>	<u>2016</u>
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	\$ 9,215,000
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	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 6), as determined by an independent appraisal. As of September 30, 2017 and 2016, 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 11).	<u>3,500,000</u>	<u>3,500,000</u>
	20,515,000	20,515,000
Less - unamortized debt issuance costs	<u>138,824</u>	<u>249,564</u>
Total long-term debt	<u>\$ 20,376,176</u>	<u>\$ 20,265,436</u>

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, 2017 and 2016.

Interest expense on the note payable agreements was \$170,150 for the years ended September 30, 2017 and 2016.

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) (1.23% and 0.53% at September 30, 2017 and 2016, 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, 2017 and 2016, 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.

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2017 and 2016

13. LONG-TERM DEBT (Continued)

Imputed interest totaled \$110,740 for the years ended September 30, 2017 and 2016. As of September 30, 2017 and 2016, the unamortized debt issuance costs were \$138,824 and \$249,564, respectively, and have been deducted from long-term debt in the accompanying combining statements of financial position. Imputed interest is expected to be \$110,740 and \$28,084 for fiscal years 2018 and 2019, respectively.

14. 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 13).

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 and thereafter no additional deposits were required. 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, 2017 and 2016. The reserve was adequately funded as of September 30, 2017 and 2016.

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, 2017 and 2016.

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 6). 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 years 2017 and 2016. The reserve was adequately funded as of September 30, 2017 and 2016.

Restricted cash consists of the following as of September 30:

	<u>2017</u>	<u>2016</u>
MHIC Reserve Account	\$ 92,397	\$ 139,687
NFF Fee Reserve Account	207,752	225,156
Replacement Reserve	<u>75,204</u>	<u>60,100</u>
	<u>\$ 375,353</u>	<u>\$ 424,943</u>

CODMAN SQUARE HEALTH CENTER, INC. AND AFFILIATE

Notes to Combining Financial Statements
September 30, 2017 and 2016

15. MEDICAL MALPRACTICE INSURANCE

The healthcare industry is subject to voluminous and complex laws and regulations of Federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions.

CSHC 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 CSHC through its Section 330 Community Health Center grant administered by HRSA. The coverage afforded to CSHC is comparable to an occurrence-based policy without a monetary cap. The coverage is applicable to CSHC, its officers, Board members, employees, and contractors who are physicians or other licensed or certified health care practitioners.

16. RECLASSIFICATIONS

Certain amounts in the fiscal year 2016 combining financial statements have been reclassified to conform with the fiscal year 2017 presentation.