



AND AFFILIATE

**COMBINING FINANCIAL STATEMENTS
IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS AND
OMB CIRCULAR A-133
JUNE 30, 2014 AND 2013
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

**CONTENTS
JUNE 30, 2014 AND 2013**

	<u>PAGES</u>
UNMODIFIED OPINION ON COMBINING FINANCIAL STATEMENTS ACCOMPANIED BY OTHER INFORMATION - NOT-FOR-PROFIT-ENTITY	1 - 1A
COMBINING FINANCIAL STATEMENTS:	
Combining Statements of Financial Position	2
Combining Statements of Activities and Changes in Net Assets	3
Combined Statements of Cash Flows	4
Combining Statements of Functional Expenses	5 - 6
Notes to Combining Financial Statements	7 - 21
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	22
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMBINING FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	23 - 24
REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133	25 - 26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	27 - 28

Where Every Client is a Valued Client

**UNMODIFIED OPINION ON COMBINING FINANCIAL STATEMENTS
ACCOMPANIED BY OTHER INFORMATION – NOT-FOR-PROFIT ENTITY**

Independent Auditor's Report

To the Board of Directors of
Family Health Center of Worcester, Inc. and Affiliate:

Report on the Combining Financial Statements

We have audited the accompanying combining financial statements of Family Health Center of Worcester, Inc. and Affiliate (Massachusetts corporations, not for profit) (collectively, the Agency) which comprise the combining statement of financial position as of June 30, 2014, and the related combining statements of activities and changes in net assets and functional expenses and the combined statement of cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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.

To the Board of Directors of
Family Health Center of Worcester, Inc. and Affiliate
Page II

Opinion

In our opinion, the combining financial statements referred to on page one present fairly, in all material respects, the combining financial position of Family Health Center of Worcester, Inc. and Affiliate as of June 30, 2014 and 2013, 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.

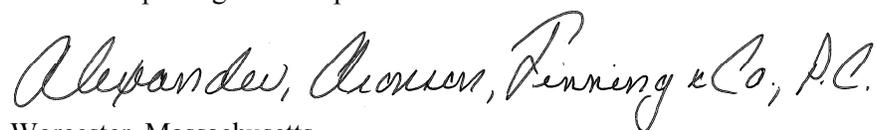
Other Matters

The financial statements of Family Health Center of Worcester, Inc., as of and for the year ended June 30, 2013, were audited by us in our report dated November 11, 2013, we expressed an unmodified opinion on those financial statements.

Our audits were conducted for the purpose of forming an opinion on the combining financial statements as a whole. The Schedule of Expenditures of Federal Awards for the year ended June 30, 2014, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the combining financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combining financial statements. The information has been subjected to the auditing procedures applied in the audit of the combining financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combining financial statements or to the combining financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combining financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2014, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.



Worcester, Massachusetts
November 10, 2014

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

COMBINING STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

ASSETS	2014					2013		
	FAMILY HEALTH CENTER OF WORCESTER, INC.			FAMILY HEALTH CENTER REALTY, INC.		UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	REALTY, INC.	TOTAL			
CURRENT ASSETS:								
Cash and cash equivalents	\$ 2,746,237	\$ 741,798	\$ 3,488,035	\$ -	\$ 3,488,035	\$ 1,957,006	\$ 250,479	\$ 2,207,485
Current portion of restricted cash	-	-	-	581,544	581,544	-	-	-
Patient accounts receivable, net of reserve for doubtful accounts of approximately \$103,000 and \$128,000 at June 30, 2014 and 2013, respectively	1,390,448	-	1,390,448	-	1,390,448	1,884,920	-	1,884,920
Contracts, grants and other receivables	485,806	-	485,806	-	485,806	868,347	-	868,347
Pharmacy inventory	174,826	-	174,826	-	174,826	150,534	-	150,534
Prepaid expenses	134,758	-	134,758	-	134,758	127,995	-	127,995
Due (to) from affiliate	581,544	-	581,544	(581,544)	-	-	-	-
Total current assets	5,513,619	741,798	6,255,417	-	6,255,417	4,988,802	250,479	5,239,281
RESTRICTED CASH , net of current portion	400,000	-	400,000	1,797,370	2,197,370	-	-	-
NOTE RECEIVABLE	4,992,000	-	4,992,000	-	4,992,000	-	-	-
PROPERTY AND EQUIPMENT , net of accumulated depreciation	1,088,542	-	1,088,542	5,384,648	6,473,190	2,073,178	-	2,073,178
CONSTRUCTION IN PROCESS	-	-	-	-	-	509,881	-	509,881
FINANCING FEES , net of accumulated amortization	19,792	-	19,792	369,228	389,020	-	-	-
Total assets	<u>\$ 12,013,953</u>	<u>\$ 741,798</u>	<u>\$ 12,755,751</u>	<u>\$ 7,551,246</u>	<u>\$ 20,306,997</u>	<u>\$ 7,571,861</u>	<u>\$ 250,479</u>	<u>\$ 7,822,340</u>
LIABILITIES AND NET ASSETS								
CURRENT LIABILITIES:								
Note payable to a bank	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,823	\$ -	\$ 20,823
Current portion of capital lease obligation	19,466	-	19,466	-	19,466	19,177	-	19,177
Current portion of long-term debt	1,617,845	-	1,617,845	-	1,617,845	-	-	-
Accounts payable	909,404	-	909,404	449,476	1,358,880	910,688	-	910,688
Accrued expenses	2,534,847	-	2,534,847	32,271	2,567,118	1,915,466	-	1,915,466
Total current liabilities	5,081,562	-	5,081,562	481,747	5,563,309	2,866,154	-	2,866,154
CAPITAL LEASE OBLIGATION , net of current portion	21,168	-	21,168	-	21,168	41,504	-	41,504
LONG-TERM DEBT , net of current portion	-	-	-	6,962,500	6,962,500	-	-	-
Total liabilities	<u>5,102,730</u>	<u>-</u>	<u>5,102,730</u>	<u>7,444,247</u>	<u>12,546,977</u>	<u>2,907,658</u>	<u>-</u>	<u>2,907,658</u>
NET ASSETS:								
Unrestricted:								
Operating	2,086,691	-	2,086,691	(442,451)	1,644,240	1,447,467	-	1,447,467
Board designated	232,019	-	232,019	-	232,019	805,311	-	805,311
Capital fund	150,658	-	150,658	-	150,658	90,171	-	90,171
Property and equipment	4,441,855	-	4,441,855	549,450	4,991,305	2,321,254	-	2,321,254
Total unrestricted	6,911,223	-	6,911,223	106,999	7,018,222	4,664,203	-	4,664,203
Temporarily restricted	-	741,798	741,798	-	741,798	-	250,479	250,479
Total net assets	<u>6,911,223</u>	<u>741,798</u>	<u>7,653,021</u>	<u>106,999</u>	<u>7,760,020</u>	<u>4,664,203</u>	<u>250,479</u>	<u>4,914,682</u>
Total liabilities and net assets	<u>\$ 12,013,953</u>	<u>\$ 741,798</u>	<u>\$ 12,755,751</u>	<u>\$ 7,551,246</u>	<u>\$ 20,306,997</u>	<u>\$ 7,571,861</u>	<u>\$ 250,479</u>	<u>\$ 7,822,340</u>

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

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

**COMBINING STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	2014					2013			
	FAMILY HEALTH CENTER OF WORCESTER, INC.			FAMILY HEALTH	ELIMI- NATIONS	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	CENTER REALTY, INC.					
OPERATING REVENUES AND SUPPORT:									
Net patient service revenue	\$ 18,481,641	\$ -	\$ 18,481,641	\$ -	\$ -	\$ 18,481,641	\$ 16,523,472	\$ -	\$ 16,523,472
Grants and contracts	8,481,965	869,913	9,351,878	-	-	9,351,878	7,983,955	643,009	8,626,964
Performance and management fees	324,035	-	324,035	-	-	324,035	460,575	-	460,575
Donated goods and services	259,229	-	259,229	342,255	(342,255)	259,229	255,877	-	255,877
Special events	97,609	-	97,609	-	-	97,609	89,019	-	89,019
Contributions	47,579	-	47,579	-	-	47,579	35,798	-	35,798
Interest income	-	-	-	1,583	-	1,583	-	-	-
Rental income	-	-	-	634,769	(634,769)	-	-	-	-
Net assets released from purpose restrictions	828,594	(828,594)	-	-	-	-	543,291	(543,291)	-
Total operating revenues and support	<u>28,520,652</u>	<u>41,319</u>	<u>28,561,971</u>	<u>978,607</u>	<u>(977,024)</u>	<u>28,563,554</u>	<u>25,891,987</u>	<u>99,718</u>	<u>25,991,705</u>
OPERATING EXPENSES:									
Program services	22,542,214	-	22,542,214	-	-	22,542,214	19,731,598	-	19,731,598
Support services	5,430,704	-	5,430,704	-	-	5,430,704	4,849,004	-	4,849,004
Family Health Center Realty, Inc.	-	-	-	1,016,695	(977,024)	39,671	-	-	-
Total operating expenses before depreciation and amortization	27,972,918	-	27,972,918	1,016,695	(977,024)	28,012,589	24,580,602	-	24,580,602
Depreciation	506,529	-	506,529	359,360	-	865,889	783,488	-	783,488
Amortization	-	-	-	12,732	-	12,732	-	-	-
Total operating expenses	<u>28,479,447</u>	<u>-</u>	<u>28,479,447</u>	<u>1,388,787</u>	<u>(977,024)</u>	<u>28,891,210</u>	<u>25,364,090</u>	<u>-</u>	<u>25,364,090</u>
Changes in net assets from operations	<u>41,205</u>	<u>41,319</u>	<u>82,524</u>	<u>(410,180)</u>	<u>-</u>	<u>(327,656)</u>	<u>527,897</u>	<u>99,718</u>	<u>627,615</u>
OTHER REVENUE (EXPENSES):									
Capital grants and contracts	2,854,989	450,000	3,304,989	-	-	3,304,989	414,614	-	414,614
Interest income	8,006	-	8,006	-	-	8,006	4,373	-	4,373
Amortization	(27,708)	-	(27,708)	-	-	(27,708)	-	-	-
Management fees	-	-	-	(32,271)	-	(32,271)	-	-	-
Interest expense	(80,022)	-	(80,022)	-	-	(80,022)	-	-	-
Net assets released from capital restrictions	-	-	-	-	-	-	4,797	(4,797)	-
Total other revenue (expenses)	<u>2,755,265</u>	<u>450,000</u>	<u>3,205,265</u>	<u>(32,271)</u>	<u>-</u>	<u>3,172,994</u>	<u>423,784</u>	<u>(4,797)</u>	<u>418,987</u>
Changes in net assets	<u>2,796,470</u>	<u>491,319</u>	<u>3,287,789</u>	<u>(442,451)</u>	<u>-</u>	<u>2,845,338</u>	<u>951,681</u>	<u>94,921</u>	<u>1,046,602</u>
NET ASSETS, beginning of year	<u>4,664,203</u>	<u>250,479</u>	<u>4,914,682</u>	<u>-</u>	<u>-</u>	<u>4,914,682</u>	<u>3,712,522</u>	<u>155,558</u>	<u>3,868,080</u>
Transfer	(549,450)	-	(549,450)	549,450	-	-	-	-	-
NET ASSETS, end of year	<u>\$ 6,911,223</u>	<u>\$ 741,798</u>	<u>\$ 7,653,021</u>	<u>\$ 106,999</u>	<u>\$ -</u>	<u>\$ 7,760,020</u>	<u>\$ 4,664,203</u>	<u>\$ 250,479</u>	<u>\$ 4,914,682</u>

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

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

**COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 2,845,338	\$ 1,046,602
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	865,889	783,488
Amortization	40,440	-
Bad debt	198,305	246,186
Capital grants	(3,304,989)	(414,614)
Changes in operating assets and liabilities:		
Patient accounts receivable	296,167	(453,381)
Contracts, grants and other receivables	382,541	(101,997)
Pharmacy inventory	(24,292)	(27,734)
Prepaid expenses	(6,763)	(77,172)
Accounts payable	199,840	(226,890)
Accrued expenses	651,652	360,637
	<u>2,144,128</u>	<u>1,135,125</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(4,507,668)	(145,882)
Acquisition of construction in process	-	(321,181)
Issuance of note receivable	(4,992,000)	-
Deposits to and interest earned on restricted cash	(6,962,500)	-
Withdrawals from restricted cash	4,183,586	-
	<u>(12,278,582)</u>	<u>(467,063)</u>
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital grants	3,304,989	414,614
Principal payments on capital lease obligation	(20,047)	(11,325)
Net payments on note payable to a bank	(20,823)	(294,541)
Net payments on long-term debt	(1,382,155)	-
Proceeds from long-term debt	9,962,500	-
Financing fees	(429,460)	-
	<u>11,415,004</u>	<u>108,748</u>
Net cash provided by financing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,280,550	776,810
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,207,485</u>	<u>1,430,675</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 3,488,035</u>	<u>\$ 2,207,485</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 86,184</u>	<u>\$ 17,534</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:		
Construction in process placed in service	<u>\$ 509,881</u>	<u>\$ 14,286</u>
Property and equipment acquired through accounts payable	<u>\$ 449,476</u>	<u>\$ -</u>
Construction in process acquired through accounts payable	<u>\$ -</u>	<u>\$ 201,124</u>
Equipment financed under capital lease obligation	<u>\$ -</u>	<u>\$ 72,006</u>

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

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

COMBINING STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

(With Summarized Comparative Totals for the Year Ended June 30, 2013)

	2014															2013				
	FAMILY HEALTH CENTER OF WORCESTER, INC.																			
	PROGRAM SERVICES										SUPPORT SERVICES									
	MEDICAL	DENTAL	PHARMACY	LABORATORY	RADIOLOGY	MENTAL HEALTH	WOMEN, INFANTS AND CHILDREN	SCHOOL BASED HEALTH CENTER	VISION	OTHER PROGRAMS	TOTAL PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	PATIENT SUPPORT	FACILITIES	TOTAL SUPPORT SERVICES	TOTAL HEALTH CENTER EXPENSES	FAMILY HEALTH CENTER REALTY, INC.	ELIMINATIONS	TOTAL EXPENSES	TOTAL EXPENSES
OPERATING EXPENSES:																				
Personnel and related costs:																				
Salaries	\$ 9,124,868	\$ 1,152,658	\$ 733,731	\$ 294,397	\$ 304,836	\$ 392,265	\$ 959,902	\$ 822,470	\$ 5,782	\$ 990,657	\$ 14,781,566	\$ 1,048,537	\$ 1,038,248	\$ 170,202	\$ 2,256,987	\$ 17,038,553	\$ -	\$ -	\$ 17,038,553	\$ 15,083,300
Payroll taxes and fringe benefits	1,377,337	185,013	126,597	42,150	43,557	63,392	158,768	172,797	221	181,426	2,351,258	208,481	216,574	12,903	437,958	2,789,216	-	-	2,789,216	2,617,043
Contract labor	699,866	291,759	1,488	28,693	224,989	44,970	6,983	22,928	-	25,824	1,347,500	107,382	247,411	37,138	391,931	1,739,431	-	-	1,739,431	1,467,675
Total personnel and related costs	11,202,071	1,629,430	861,816	365,240	573,382	500,627	1,125,653	1,018,195	6,003	1,197,907	18,480,324	1,364,400	1,502,233	220,243	3,086,876	21,567,200	-	-	21,567,200	19,168,018
Medical supplies and services	454,180	157,196	1,532,170	141,682	45,002	11,831	548	15,236	351	7,930	2,366,126	-	-	-	2,366,126	-	-	2,366,126	2,155,444	
Occupancy:																				
Rent	69,460	-	-	-	-	-	66,450	1,540	-	9,000	146,450	-	-	622,969	622,969	769,419	622,969	(622,969)	769,419	609,351
Housekeeping services	20,470	1,056	-	-	-	-	11,565	-	462	-	33,553	-	-	162,392	162,392	195,945	-	-	195,945	122,381
Repairs and maintenance	32,226	18,419	2,049	3,253	37,298	1,032	3,883	3,903	119	3,323	105,505	8,941	1,575	72,676	83,192	188,697	-	-	188,697	203,940
Utilities and storage	14,645	1,609	1,125	182	-	1,468	9,169	8,313	-	20,644	57,155	1,366	7,451	16,441	25,258	82,413	-	-	82,413	73,442
Property insurance	900	-	-	-	-	-	-	-	-	-	900	-	-	57,496	57,496	58,396	-	-	58,396	61,330
Non-capital equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	342,255	(342,255)	-	-
Total occupancy	137,701	21,084	3,174	3,435	37,298	2,500	91,067	13,756	581	32,967	343,563	10,307	9,026	931,974	951,307	1,294,870	965,224	(965,224)	1,294,870	1,070,444
Other:																				
Information systems	5,802	-	33,318	-	-	1,427	99	-	-	-	40,646	-	456,106	1,138	457,244	497,890	-	-	497,890	459,462
Office and computer supplies	49,820	17,081	25,848	34,211	3,333	2,691	30,778	14,525	576	8,943	187,806	20,057	269,732	22	289,811	477,617	-	-	477,617	175,552
Equipment rental	114,307	150	-	2,898	24,608	4,958	2,574	14,206	3,787	6,094	173,582	24,436	2,439	20,588	47,463	221,045	3,654	(11,800)	212,899	53,425
Professional fees	7,270	34,325	-	-	-	-	-	-	-	210	41,805	161,930	-	-	161,930	203,735	-	-	203,735	142,349
Bad debt	102,434	44,979	33,551	6,227	5,059	3,408	-	2,647	-	-	198,305	-	-	-	198,305	198,305	-	-	198,305	246,186
Subcontract expense	-	-	-	-	-	-	-	-	-	197,358	197,358	-	-	-	-	197,358	-	-	197,358	242,386
Dues and memberships	57,359	7,617	2,402	4,557	4,277	1,474	878	9,433	-	1,195	89,192	54,169	4,104	4,021	62,294	151,486	-	-	151,486	159,932
Personnel training and recruiting	76,900	1,695	561	-	60	778	5,102	1,514	-	17,624	104,234	29,532	21,699	-	51,231	155,465	-	-	155,465	140,741
General insurance	82,273	2,285	-	-	-	-	-	-	-	-	84,558	52,307	-	-	52,307	136,865	-	-	136,865	94,136
Printing and postage	19,041	12,300	-	37	37	474	7,057	4,351	-	2,231	45,528	56,185	17,568	11,466	85,219	130,747	-	-	130,747	109,728
Miscellaneous	17,268	553	3,873	82	143	236	-	-	-	-	22,155	69,586	110	-	69,696	91,851	23,306	-	115,157	37,476
Telephone	47,954	23	-	-	-	-	12,638	7,080	-	-	67,695	3,129	(510)	44,823	47,442	115,137	-	-	115,137	165,845
Patient education	10,602	-	-	-	-	-	31,105	5,948	-	8,577	56,232	1,237	-	-	1,237	57,469	-	-	57,469	46,878
Travel and conferences	11,279	407	-	-	-	164	5,305	1,267	-	3,147	21,569	13,400	13,075	668	27,143	48,712	-	-	48,712	48,049
Interest	-	-	-	-	-	-	-	-	-	-	-	13,922	-	-	13,922	13,922	24,511	-	38,433	17,534
Marketing	2,391	2,288	363	-	90	2,334	3,304	-	-	261	11,031	24,649	933	-	25,582	36,613	-	-	36,613	29,844
Patient transportation	4,005	(100)	-	-	-	-	-	5,576	-	1,024	10,505	-	-	-	10,505	10,505	-	-	10,505	17,173
Total other	608,705	123,603	99,916	48,012	37,607	17,944	98,840	66,547	4,363	246,664	1,352,201	524,539	785,256	82,726	1,392,521	2,744,722	51,471	(11,800)	2,784,393	2,186,696
Total operating expenses before depreciation, amortization and allocations	12,402,657	1,931,313	2,497,076	558,369	693,289	532,902	1,316,108	1,113,734	11,298	1,485,468	22,542,214	1,899,246	2,296,515	1,234,943	5,430,704	27,972,918	1,016,695	(977,024)	28,012,589	24,580,602
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-	506,529	506,529	506,529	359,360	-	865,889	783,488
Amortization	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,732	-	12,732	-
Total operating expenses before allocations	12,402,657	1,931,313	2,497,076	558,369	693,289	532,902	1,316,108	1,113,734	11,298	1,485,468	22,542,214	1,899,246	2,296,515	1,741,472	5,937,233	28,479,447	1,388,787	(977,024)	28,891,210	25,364,090
General and administrative allocation	1,143,575	178,075	230,240	51,484	63,924	49,136	121,350	102,691	1,042	136,966	2,078,483	(2,078,483)	-	-	(2,078,483)	-	-	-	-	-
Patient support allocation	1,053,072	310,455	-	700,790	104,656	108,402	-	192,261	359	-	2,469,995	-	(2,469,995)	-	(2,469,995)	-	-	-	-	-
Facilities allocation	730,995	121,290	73,511	48,261	46,916	31,197	103,416	112,034	39,936	81,199	1,388,755	179,237	173,480	(1,741,472)	(1,388,755)	-	-	-	-	-
Total operating expenses	\$ 15,330,299	\$ 2,541,133	\$ 2,800,827	\$ 1,358,904	\$ 908,785	\$ 721,637	\$ 1,540,874	\$ 1,520,720	\$ 52,635	\$ 1,703,633	\$ 28,479,447	\$ -	\$ -	\$ -	\$ -	\$ 28,479,447	\$ 1,388,787	\$ (977,024)	\$ 28,891,210	\$ 25,364,090

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

FAMILY HEALTH CENTER OF WORCESTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	PROGRAM SERVICES									SUPPORT SERVICES				TOTAL EXPENSES	
	MEDICAL	DENTAL	PHARMACY	LABORATORY	RADIOLOGY	MENTAL HEALTH	WOMEN, INFANTS AND CHILDREN	SCHOOL BASED HEALTH CENTER	OTHER PROGRAMS	TOTAL PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	PATIENT SUPPORT	FACILITIES		TOTAL SUPPORT SERVICES
OPERATING EXPENSES:															
Personnel and related costs:															
Salaries	\$ 7,315,429	\$ 937,679	\$ 665,036	\$ 294,286	\$ 290,067	\$ 349,831	\$ 889,734	\$ 859,853	\$ 1,049,037	\$ 12,650,952	\$ 1,008,098	\$ 1,374,101	\$ 50,149	\$ 2,432,348	\$ 15,083,300
Payroll taxes and fringe benefits	1,138,683	155,858	125,663	44,397	44,462	54,786	159,292	172,587	117,721	2,013,449	187,352	408,603	7,639	603,594	2,617,043
Contract labor	554,395	244,748	1,116	14,255	193,285	46,238	3,215	10,891	16,201	1,084,344	44,352	338,273	706	383,331	1,467,675
Total personnel and related costs	9,008,507	1,338,285	791,815	352,938	527,814	450,855	1,052,241	1,043,331	1,182,959	15,748,745	1,239,802	2,120,977	58,494	3,419,273	19,168,018
Medical supplies and services	357,575	144,178	1,435,613	143,200	41,844	8,018	409	12,303	11,311	2,154,451	946	47	-	993	2,155,444
Occupancy:															
Rent	50,960	-	-	-	-	-	65,700	1,540	9,000	127,200	2,180	-	479,971	482,151	609,351
Housekeeping services	9,280	-	-	-	-	-	6,935	-	2,000	18,215	-	-	104,166	104,166	122,381
Repairs and maintenance	40,247	24,248	10,856	22,353	51,936	1,206	1,639	11,890	150	164,525	1,915	1,046	36,454	39,415	203,940
Utilities and storage	10,993	1,223	104	210	-	1,692	5,930	7,407	21,093	48,652	1,293	9,585	13,912	24,790	73,442
Property insurance	2,900	-	-	-	-	-	-	-	-	2,900	-	-	58,430	58,430	61,330
Total occupancy	114,380	25,471	10,960	22,563	51,936	2,898	80,204	20,837	32,243	361,492	5,388	10,631	692,933	708,952	1,070,444
Other:															
Information systems	27,555	8,834	54,480	610	602	4,997	-	2,039	282,793	381,910	35,886	38,421	3,245	77,552	459,462
Office and computer supplies	43,548	13,597	18,105	6,285	4,320	1,487	19,270	12,960	3,218	122,790	23,089	29,579	94	52,762	175,552
Equipment rental	27,075	331	-	1,492	1,492	2,534	-	540	-	33,464	11,798	5,488	2,675	19,961	53,425
Professional fees	313	-	-	-	-	-	-	-	641	954	141,293	102	-	141,395	142,349
Bad debt	149,626	19,901	43,371	10,233	8,567	4,963	-	9,525	-	246,186	-	-	-	-	246,186
Subcontract expense	6,508	-	-	-	-	-	-	-	202,654	209,162	-	33,224	-	33,224	242,386
Dues and memberships	69,508	3,993	1,650	3,593	4,615	1,331	1,290	4,131	996	91,107	47,847	20,978	-	68,825	159,932
Personnel training and recruiting	68,043	1,375	427	-	2,250	1,203	6,880	2,112	3,696	85,986	10,312	44,443	-	54,755	140,741
General insurance	45,849	2,037	-	-	-	-	-	-	-	47,886	46,250	-	-	46,250	94,136
Printing and postage	16,463	10,045	161	161	1,845	856	12,331	2,445	455	44,762	36,207	20,021	8,738	64,966	109,728
Miscellaneous	5,860	211	5,369	-	94	405	37	420	-	12,396	24,760	138	182	25,080	37,476
Telephone	67,468	-	-	-	-	170	17,486	7,612	-	92,736	1,815	625	70,669	73,109	165,845
Patient education	9,484	-	-	-	5,627	41	17,010	3,801	9,848	45,811	1,067	-	-	1,067	46,878
Travel and conferences	8,390	5,659	-	-	68	126	6,721	4,261	4,372	29,597	13,490	4,002	960	18,452	48,049
Interest	-	-	-	-	-	-	-	-	-	-	17,534	-	-	17,534	17,534
Marketing	1,350	1,421	-	-	-	-	2,219	-	-	4,990	16,974	-	7,880	24,854	29,844
Patient transportation	7,252	100	-	-	-	-	-	5,824	3,997	17,173	-	-	-	-	17,173
Total other	554,292	67,504	123,563	22,374	29,480	18,113	83,244	55,670	512,670	1,466,910	428,322	197,021	94,443	719,786	2,186,696
Total operating expenses before depreciation and allocations	10,034,754	1,575,438	2,361,951	541,075	651,074	479,884	1,216,098	1,132,141	1,739,183	19,731,598	1,674,458	2,328,676	845,870	4,849,004	24,580,602
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	783,488	783,488	783,488
Total operating expenses before allocations	10,034,754	1,575,438	2,361,951	541,075	651,074	479,884	1,216,098	1,132,141	1,739,183	19,731,598	1,674,458	2,328,676	1,629,358	5,632,492	25,364,090
General and administrative allocation	898,329	142,159	210,375	48,229	58,333	43,123	110,342	102,122	157,759	1,770,771	(1,770,771)	-	-	(1,770,771)	-
Patient support allocation	1,054,550	272,560	-	742,520	91,601	124,757	-	90,535	-	2,376,523	-	(2,376,523)	-	(2,376,523)	-
Facilities allocation	788,197	73,218	47,375	66,325	64,477	42,874	142,124	153,968	106,640	1,485,198	96,313	47,847	(1,629,358)	(1,485,198)	-
Total operating expenses	\$ 12,775,830	\$ 2,063,375	\$ 2,619,701	\$ 1,398,149	\$ 865,485	\$ 690,638	\$ 1,468,564	\$ 1,478,766	\$ 2,003,582	\$ 25,364,090	\$ -	\$ -	\$ -	\$ -	\$ 25,364,090

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

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

**NOTES TO COMBINING FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

Family Health Center of Worcester, Inc. (the Health Center) was established in 1972 as a nonprofit organization that provides primary health care, mental health, and social services to residents of Worcester, Massachusetts and the surrounding communities.

Family Health Center Realty, Inc. (FHCR) is a Massachusetts nonprofit corporation established in December, 2013, to benefit, perform the functions of, and carry out the purposes of the Health Center. FHCR is a qualified active low-income community business (QALICB), as defined in Section 45(d) of the Internal Revenue Code (IRC).

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

SIGNIFICANT ACCOUNTING POLICIES

The Health Center and FHCR prepare their 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 footnotes are to the FASB Accounting Standards Codification (ASC).

Principles of Combination

Family Health Center Realty, Inc. (collectively, the Agency) are related by common management and Board of Directors. The activities of the Agency are reflected in the accompanying combining financial statements. All significant inter-company transactions and balances have been eliminated in the accompanying combining financial statements.

Cash and Cash Equivalents

For the purpose of the combined statements of cash flows, management considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

Patient Accounts Receivable and Reserve for Doubtful Accounts

Accounts receivable are stated at unpaid balances, less reserves for doubtful accounts and contractual allowances. The Agency provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances, which 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 Agency's policy to charge-off uncollectible accounts receivable when management determines the receivable will not be collected.

Grants and Contracts Receivable

The Health Center receives grants from various donors. The allowance for doubtful accounts, if any, is based on management's best estimate of the amount of probable credit losses on grants receivable. There was no allowance as of June 30, 2014 and 2013.

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pharmacy Inventory

Pharmacy inventory is recorded at the lower of cost (as determined by the first-in, first-out (FIFO) method) or market and consists of pharmaceuticals on hand at the Health Center's pharmacy.

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost (see Note 5). Donated property and equipment are recorded at fair value at the time of donation. Renewals and betterments are capitalized, while repairs and maintenance are expensed as they are incurred.

Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Lives</u>
Equipment and furniture	3 - 10 years
Leasehold improvements	5 - 30 years or life of lease, if less

Fair Value Measurements

ASC Topic, *Fair Value Measurements*, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance only applies when the fair value measurement of assets and liabilities is required or permitted. The Agency has determined that none of its financial or nonfinancial assets or liabilities are measured at fair value; therefore, the disclosure requirements do not currently apply.

Revenue Recognition

Patient service revenue is recorded as services are provided. The Health Center establishes fees for services to patients based upon the patient's ability to pay for these services. 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 were approximately \$6,376,000 and \$7,796,000 for the years ended June 30, 2014 and 2013, respectively.

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

The Agency has a policy of providing free care services to patients who are unable to pay. Such patients are identified based upon financial information obtained from the patient prior to services being rendered. The Agency provided approximately \$4,187,000 and \$4,849,000 of free care during the years ended June 30, 2014 and 2013, respectively. The approximate cost of providing these services was \$4,056,000 and \$4,576,000 for the years ended June 30, 2014 and 2013, 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. The Agency received partial reimbursement from a third-party payor for free care services of approximately \$1,716,000 and \$2,106,000 during the years ended June 30, 2014 and 2013, respectively.

Contract revenue is recorded over the contract period as services are provided. Unrestricted grants and contributions are recorded when received or unconditionally pledged.

Restricted grants and contributions are recorded as temporarily restricted revenues and support and net assets, if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combining statements of activities and changes in net assets as net assets released from restrictions. Restricted grants and contributions received and satisfied in the same period are included in unrestricted net assets.

The Commonwealth of Massachusetts provides vouchers to participants of the Health Center's Women, Infants and Children (WIC) program. The value of these vouchers for fiscal years 2014 and 2013 was approximately \$3,626,000 and \$5,261,000, respectively. These amounts are not reflected in the accompanying combining financial statements.

Fundraising revenue and expenses from annual events are recorded as unrestricted revenues and expenses when revenues are received and expenses are incurred. All other revenue is recorded when earned.

Donated Goods and Services

Volunteers and other organizations contribute goods and services to the Agency in support of various aspects of its programs. These goods and services are reflected in the accompanying combining financial statements based upon the estimated value assigned to them by the donating volunteers, agencies, or by management.

The Health Center received donated salaries of \$259,229 and \$255,877 for the years ended June 30, 2014 and 2013, respectively. These amounts are included in donated services and salaries in the accompanying combining financial statements.

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods and Services (Continued)

FHCR received donated non-capital equipment from the Health Center during fiscal year 2014 valued at \$342,255 based upon the Health Center's cost (see Note 14). FHCR recorded this as donated goods and services and non-capital equipment in the accompanying 2014 combining financial statements. These amounts have been eliminated in the accompanying combining financial statements.

Advertising

The Agency expenses advertising costs as they are incurred, which are shown as marketing expense in the accompanying combining statements of functional expenses.

Expense Allocation

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

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.

Financing Fees and Amortization

Financing fees have been capitalized and amortized on a straight-line basis over the life of the notes payable to which they relate (see Note 9).

Income Taxes

The Agency 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 Agency has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the combining financial statements at June 30, 2014 and 2013. The Agency's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

Subsequent Events

Subsequent events have been evaluated through November 10, 2014, 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, except as stated in Note 7.

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

(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 Agency. The Agency has grouped its unrestricted net assets into the following categories:

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

Board designated net assets bear no external restrictions, but have been designated by the Board of Directors for specific purposes as follows:

	<u>2014</u>	<u>2013</u>
Other purposes	\$232,019	\$507,507
Building expansion	<u>-</u>	<u>297,804</u>
	<u>\$232,019</u>	<u>\$805,311</u>

The other purposes amounts may only be used with the approval of the Board of Directors.

Capital fund net assets have been designated for capital purchases.

Property and equipment net assets reflect and account for the activities relating to the Agency's property and equipment and construction in process, net of related debt.

Temporarily Restricted Net Assets

The Agency receives contributions and grants which are designated by donors for specific purposes or time periods. These contributions are recorded as temporarily restricted net assets until they are expended for their designated purposes or as the time period lapses. Temporarily restricted net assets are restricted for the following at June 30:

	<u>2014</u>	<u>2013</u>
Capital restrictions and billing system implementation	\$466,354	\$ 16,354
Purpose restrictions	<u>275,444</u>	<u>234,125</u>
	<u>\$741,798</u>	<u>\$250,479</u>

(3) FUNDING

The Agency receives a significant portion of its total operating revenues and support from the U.S. Department of Health and Human Services and the Commonwealth of Massachusetts, Department of Public Health. These amounts totaled approximately 31% and 22% of total operating revenues and support during fiscal years 2014 and 2013, respectively. Payments to the Agency are subject to audit by the appropriate government agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the combining financial position of the Agency as of June 30, 2014 and 2013, or on the combining changes in their net assets for the years then ended.

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

(3) FUNDING (Continued)

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 combining financial position of the Agency as of June 30, 2014 and 2013, or on the combining changes in their net assets for the years then ended.

During fiscal year 2013, the Health Center was awarded a \$5 million grant from the U.S. Department of Health and Human Services under the Affordable Care Act to fund the Project (see Note 4 and 5). The Agency drew approximately \$3,000,000 and \$400,000 on the grant during the years ended June 30, 2014 and 2013, respectively. These amounts are included in capital grants in the accompanying combining statements of activities and changes in net assets.

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 is a pilot program for the period March 1, 2014 to December 31, 2016. Year one is for the period March 1, 2014 to December 31, 2014; year two is for the period January 1, 2015 to December 31, 2015; and year three is 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 payments.
- 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 Agency based upon savings on non-primary care spending by MassHealth, including hospitalizations and specialty services.

During fiscal year 2014, the Health Center received CPCP payments of approximately \$1,025,000, which are 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 Hold Harmless settlements are determined on a quarterly basis beginning with the period ended June 30, 2014. The Health Center does not anticipate a Hold Harmless settlement at June 30, 2014.

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 three, the QIP will also incorporate performance on certain quality metrics.

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

(3) FUNDING (Continued)

Primary Care Payment Reform Initiative (Continued)

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.

The QIP and SSP are paid retrospectively at the end of each contract year, once sufficient time has elapsed for calculation and processing by MassHealth. Since any QIP and SSP settlements for 2014 cannot be determined as of June 30, 2014, there have been no settlements recorded in the accompanying combining financial statements.

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 estimated a settlement owed to MassHealth of approximately \$292,000 as of June 30, 2014, which is included in accrued expenses in the accompanying combining statement of financial position.

(4) NEW MARKETS TAX CREDIT TRANSACTION

As of June 30, 2014 and 2013, FHCR is in the process of the rehabilitation and expansion of the Health Center's main facility (the Project). The Project is expected to cost approximately \$7.3 million to complete.

The Project was funded by New Markets Tax Credits (NMTC) funds from Chase Community Equity, LLC (Chase) and bridge financing from the Health Center. The tax credit equity was combined with proceeds from a leverage loan from the Health Center (see below) to fund Chase NMTC FHCW Investment Fund LLC (Investment Fund).

The NMTC program offers credits against Federal income taxes over a seven-year period (the compliance period) for Qualified Equity Investments (QEIs) in certified Community Development Entities (CDEs) pursuant to Section 45D of the IRC. To claim the NMTC, the CDEs must use substantially all of the proceeds of the QEIs to make a loan and/or an equity investment, which are qualified low-income community investments (QLICI), as defined in Section 45D of the IRC, to a QALICB.

The Investment Fund, using equity proceeds from Chase and loans from the Health Center, made QEIs into ESIC New Markets Partner XIV LP (ESIC). ESIC provided loans to FHCR (see Note 9).

Notes Receivable

As part of funding the Project, the Health Center entered into a note receivable agreement with the Investment Fund using proceeds from the note from the Enterprise Community Loan Fund (One Day Loan and Bridge Loan). The note receivable of \$4,992,000 from the Investment Fund is due in quarterly interest-only installments, with an interest rate of 1%, beginning on March 10, 2014 through December 31, 2020. Beginning January 1, 2021, principal and interest will be amortized through December 31, 2037.

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

(4) NEW MARKETS TAX CREDIT TRANSACTION (Continued)

Notes Receivable (Continued)

During fiscal year 2014, the Health Center earned interest income on this note of \$28,887, which has been fully reserved in the accompanying combining financial statements.

The One Day Loan for \$1,962,719 was received and repaid on the date of closing the NMTC transaction.

The above note is secured by a first priority interest in the Investment Fund ownership percentage in the CDEs and all project leases, property and equipment.

Put and Call Option

The Health Center has granted Chase the option (the Put Option) to sell their entire membership interest in the Investment Fund to the Health Center for certain amounts defined in the agreements. The Put Option may be exercised by Chase at any time during the period commencing on the last day of the compliance period and ending ninety days after the put exercise date (the Put Option Period).

In the event that Chase does not exercise the Put Option during the Put Option Period, the Health Center has the right and option to purchase the entire interest in the Investment Fund for certain amounts, as defined in the agreements, within ninety days commencing on the last day of the Put Option Period.

(5) PROPERTY AND EQUIPMENT, CONSTRUCTION IN PROCESS AND FINANCING COSTS

Property and equipment consist of the following at June 30:

	<u>Health Center</u>		<u>FHCR</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Leasehold improvements	\$ 402,574	\$1,927,301	\$5,890,405	\$ -
Equipment and furniture	<u>5,371,985</u>	<u>5,109,226</u>	<u>637,464</u>	<u>-</u>
	5,774,559	7,036,527	6,527,869	-
Less - accumulated depreciation	<u>4,686,017</u>	<u>4,963,349</u>	<u>1,143,221</u>	<u>-</u>
	<u>\$ 1,088,542</u>	<u>\$2,073,178</u>	<u>\$5,384,648</u>	<u>\$ -</u>

Depreciation expense was \$865,889 and \$783,488 for the years ended June 30, 2014 and 2013, respectively, of which approximately \$255,000 and \$390,000, respectively, was depreciation on the practice management system, which began to be implemented during fiscal year 2010. These assets will be depreciated through fiscal year 2015.

During fiscal year 2014, the Health Center's lease for its main facility was transferred to FHCR (see Note 7). As part of this lease assignment, the Health Center transferred leasehold improvements, equipment and furniture with a net book value of \$549,450 to FHCR, which are included in the transfer line on the accompanying combining statement of activities and changes in net assets for the year ended June 30, 2014.

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

(5) PROPERTY AND EQUIPMENT, CONSTRUCTION IN PROCESS AND FINANCING COSTS (Continued)

Construction in Progress

Construction in process at June 30, 2013, consists of improvements to the Agency's main facility. These improvements are funded by a \$5,000,000 grant from the U.S. Department of Health and Human Services under the Affordable Care Act and long-term debt (see Note 9). The Project was substantially completed during fiscal year 2014 and placed in service as of June 30, 2014.

Financing Fees

The Agency incurred certain financing fees as a result of the long-term debt agreements (see Note 9). Financing fees are amortized using the straight-line method over the life of the related debt and are shown net of \$40,440 of accumulated amortization on the accompanying combining statement of financial position as of June 30, 2014. Annual amortization expense is \$12,372 over the next five years.

(6) RESTRICTED CASH

The Agency opened the following restricted cash accounts during fiscal year 2014:

CDE Fee Reserve

Pursuant to certain note payable agreements (see Note 9), FHCR was required to establish a CDE fee reserve account with an initial deposit of \$250,000, which will be used to provide for payment of certain fees and expenses incurred by ESIC. FHCR is required to make an additional deposit of \$70,000 into this reserve during fiscal year 2015 from the proceeds of the note payable (see Note 9). This account was funded at the close of the Project's construction financing. The following costs will be funded from the CDE reserve escrow:

- FHCR is required to pay ESIC an annual asset management fee of \$40,000 during 2014 through 2021.
- FHCR is also required to reimburse ESIC for operating expenses of \$5,000 per year during 2014 through 2021.

Chase Audit and Reimbursement Reserve

Pursuant to certain note payable agreements (see Note 9), FHCR was required to establish an audit and reimbursement reserve account of \$145,000, which will be used to provide for payment of certain amounts representing reimbursement of certain fees and expenses incurred by ESIC. This account was funded at the close of the Project's construction financing. FHCR is expected to pay approximately \$20,000 to ESIC annually from their reserve beginning in 2014.

Undisbursed Construction Proceeds

As part of the Project (see Note 5), FHCR received proceeds from notes payable (see Note 9), which are to be used to pay construction and other rehabilitation costs of the Project. As of June 30, 2014, the balance of undisbursed construction proceeds was \$1,983,664, which is included in restricted cash on the accompanying combining statement of financial position.

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

(6) RESTRICTED CASH (Continued)

Collateral Pledge Reserve

Pursuant to certain note payable agreements (see Note 9), the Health Center was required to pledge a portion of cash as collateral of \$400,000. This account was funded at the close of the Project's construction financing from Board Designated net assets. As of June 30, 2014, the balance is included in restricted cash on the accompanying combining statement of financial position.

Restricted cash consists of the following reserves at June 30, 2014:

	<u>The Health Center</u>	<u>FHCR</u>	<u>Total</u>
CDE Fee Reserve	\$ -	\$ 250,180	\$ 250,180
Chase Audit and Reimbursement Reserve	-	145,070	145,070
Undisbursed Construction Proceeds	-	1,983,664	1,983,664
Collateral Pledge Reserve	<u>400,000</u>	<u>-</u>	<u>400,000</u>
	400,000	2,378,914	2,778,914
Less - current portion	<u>-</u>	<u>581,544</u>	<u>581,544</u>
	<u>\$400,000</u>	<u>\$1,797,370</u>	<u>\$2,197,370</u>

(7) LEASE AGREEMENTS

Facility

Effective December, 2013, FHCR leases a facility from a hospital under an agreement that expires on December 31, 2037. Beginning in January, 2012, through the end of the lease term, FHCR is required to pay monthly rent based on an established percentage of the Landlord's reasonable costs to operate and maintain this facility. This percentage ranges from 90% to 100% of the aforementioned costs. Monthly payments under the terms of the agreement were \$62,675 and \$41,344 as of June 30, 2014 and 2013, respectively. Under the terms of this agreement, the Agency is required to maintain certain insurance coverage. The lease contains a mutual option to extend the agreement for an additional twenty years. FHCR subleases this facility to the Health Center under the same terms as the original lease. All rental income and expenses related to this transaction are eliminated in the accompanying combining statements of activities and changes in net assets and functional expenses. Prior to December, 2013, the Health Center leased its facility directly from the hospital. During December, 2013, the lease was transferred from the Health Center to FHCR and the Health Center became the sub-lessee. As part of the change in the lease agreement, the Health Center transferred property and equipment with a net book value of \$549,450 to FHCR (see Note 5).

The Health Center leases additional space in the same location under three separate lease agreements that expired at various dates through December 31, 2012, one of which was extended through December, 2014. Aggregated monthly rent for these leases was \$767 and \$722 as of June 30, 2014 and 2013, respectively. The Health Center is required to maintain certain insurance coverage under the terms of these agreements.

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

(7) LEASE AGREEMENTS (Continued)

Facility (Continued)

The Health Center also leases additional space for its satellite clinic under an agreement that expires in May, 2015. Monthly payments under the terms of this agreement were \$4,375 as of June 30, 2014 and 2013. The monthly rent increases annually as defined in the lease agreement. Under the terms of this agreement, the Health Center is responsible for its share of operating costs, taxes and utilities.

The Health Center also rents other combined program spaces as a tenant-at-will. Monthly rent payments under these agreements totaled \$1,311 and \$1,230 for the years ended June 30, 2014 and 2013, respectively.

The Health Center also leases additional space under an agreement that expires on May 31, 2015. Monthly rent payments under the agreement totaled \$4,175 for the years ended June 30, 2014 and 2013.

The Health Center entered into a lease agreement in March, 2014, to rent additional space for health care services which expired in August, 2014. Subsequent to June 30, 2014, the lease was extended through November, 2014. Monthly payments under the terms of this agreement were \$3,700 as of June 30, 2014. The Health Center is responsible for its share of utilities.

Equipment

The Health Center leases various office equipment under operating lease agreements. These agreements expire at various dates through September, 2014. Payments relating to these leases were \$3,197 and \$7,208 for fiscal years 2014 and 2013, respectively, and are included in equipment rental in the accompanying combining statements of functional expenses.

The Health Center entered into an agreement with FHCR during December, 2013, to lease certain equipment. The lease required an initial payment of \$5,800 on March 1, 2014, and thereafter, quarterly installments of \$6,000 through December, 2019.

Minimum lease payments over the next five years, excluding the lease for the main facility, are as follows:

<u>Fiscal Years</u>	<u>Operating Leases</u>	
	<u>Equipment</u>	<u>Facilities</u>
2015	\$ 24,245	\$75,426
2016	24,000	-
2017	24,000	-
2018	24,000	-
2019	24,000	-
Later years	<u>12,000</u>	<u>-</u>
Total minimum lease payments	<u>\$132,245</u>	<u>\$75,426</u>

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

(7) LEASE AGREEMENTS (Continued)

Equipment (Continued)

The Agency's minimum lease payments under the lease for its main facility over the next five years are as follows:

Fiscal Years

2015	92% of lessor's costs
2016	93% of lessor's costs
2017	97% of lessor's costs
2018	100% of lessor's costs
2019	100% of lessor's costs

Capital Lease

During fiscal year 2013, the Health Center entered into a capital lease agreement for certain equipment and software. The aggregate cost of the assets was \$72,006 at June 30, 2014 and 2013. The interest rate under this agreement was 1.5%. Future minimum lease payments under this agreement are as follows:

Fiscal Years

2015	\$20,004
2016	20,004
2017	<u>3,916</u>
Total future minimum payments	43,924
Less - amounts representing interest	<u>3,290</u>
Present value of future minimum payments	40,634
Less - current portion	<u>19,466</u>
	<u>\$21,168</u>

Depreciation expense on the aforementioned assets was \$6,809 for the years ended June 30, 2014 and 2013.

(8) NOTE PAYABLE TO A BANK

The Health Center has available up to \$1,250,000 under a line of credit agreement with a bank. Borrowings under the agreement are due on demand and interest is payable monthly at the bank's prime rate (3.25% at June 30, 2014 and 2013), plus 0.5%. The interest rate will not be less than 4% per annum or more than the maximum rate allowed by applicable law as noted in the agreement. The line of credit is secured by substantially all assets of the Health Center. This agreement is subject to renewal annually. There was no outstanding balance under the agreement as of June 30, 2014. As of June 30, 2013, the outstanding balance under this agreement was \$20,823. As of June 30, 2014, the Health Center was in compliance with the line of credit covenant.

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

(9) LONG-TERM DEBT

Notes payable consist of the following at June 30, 2014:

The Health Center

Bridge Loan

The Health Center entered into a note payable agreement with Enterprise Community Loan Fund through People's United Bank for \$3,000,000, due on December 31, 2014. The loan bears interest at 6.6% per annum. Monthly interest-only payments are due through the notes maturity. The loan is secured by the Cash Pledge Reserve (see Note 6). \$1,617,845

FHCR

Note payable to ESIC, with an interest rate of .710%. This note allows for borrowing up to \$4,992,000. FHCR expects to borrow the remaining \$70,000 during fiscal year 2015 to be deposited into the CDE Fee Reserve (see Note 6). Quarterly interest-only installments are due until December 31, 2021. Beginning January 1, 2022, quarterly principal and interest installments of \$59,455 will be due through December 31, 2043. The note is secured by all project leases, property and equipment, as well as the fund reserve and disbursement account. The note has certain covenants with which the FHCR must comply. FHCR was in compliance with these covenants as of June 30, 2014. 4,922,000

Note payable to ESIC, with an interest rate of .71%. Quarterly interest-only installments are due until December 31, 2021. Beginning January 1, 2022, quarterly principal and interest installments of \$83,305 will be due through December 31, 2043. The note is secured by all project leases, property and equipment, as well as the fund reserve and disbursement account. The note has certain covenants with which FHCR must comply. FHCR was in compliance with these covenants as of June 30, 2014. 2,040,500

Less - current portion 8,580,345

1,617,845

\$6,962,500

During fiscal year 2014, the Agency paid interest expense on these notes of \$93,944, which is included in interest expense on the accompanying combining statements of activities and changes in net assets and functional expenses.

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

(10) CONCENTRATIONS

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

The Health Center's contracts, grants and other receivables at June 30, 2014 and 2013, were due from the following sources:

	<u>2014</u>	<u>2013</u>
Massachusetts Department of Public Health	83%	44%
Nonprofit organization	13%	22%

The Health Center's third-party revenues and patient accounts receivables at June 30, 2014 and 2013, consist of the following concentrations:

<u>Payor</u>	<u>2014</u>		<u>2013</u>	
	<u>Percentage of Net Patient Service Revenue</u>	<u>Percentage of Gross Accounts Receivable</u>	<u>Percentage of Net Patient Service Revenue</u>	<u>Percentage of Gross Accounts Receivable</u>
Medicaid	52%	39%	40%	35%
Medicare	13%	- %	14%	- %
Network Health	12%	- %	12%	- %
Health Safety Net	- %	16%	14%	31%

(11) RETIREMENT PLAN

The Health Center maintains an IRC Section 401(k) Retirement Plan (the Plan) covering all eligible employees, as defined in the Plan document. Employees may make contributions to the Plan up to the maximum allowed by statutory law. The Health Center has the right to make discretionary contributions to the Plan. The Health Center made safe harbor contributions of approximately \$372,000 and \$375,000 to the Plan during fiscal years 2014 and 2013, respectively, which are included in payroll taxes and fringe benefits in the accompanying combining statements of functional expenses, as well as a portion in accrued expenses on the accompanying combining statements of financial position. The Health Center did not make any additional discretionary contributions during fiscal year 2014 or 2013.

(12) CONDITIONAL GRANT

During fiscal year 2013, the Health Center was awarded a grant commitment from a foundation to fund certain program costs during fiscal years 2014 and 2013 totaling \$125,000. During fiscal year 2013, the Agency received \$62,500 from this foundation. During fiscal year 2014, the Agency met the remaining conditions and received the second payment of \$62,500.

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

NOTES TO COMBINING FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

(Continued)

(13) CONTINGENCIES

The Agency, from time-to-time, is the defendant in lawsuits. It is management's belief that the Agency will prevail in these lawsuits. Accordingly, no amounts have been reflected in the accompanying combining financial statements for any potential liability resulting from these lawsuits. The Agency maintains Board of Directors' liability insurance.

(14) RELATED PARTY TRANSACTIONS

Family Health Center Realty, Inc.

Effective December, 2013, the Health Center leases its facility and certain equipment from FHCR (see Note 7).

During fiscal year 2014, the Health Center donated non-capital equipment to FHCR (see page 13).

During fiscal year 2014, the Health Center transferred property and equipment with a net book value of \$902,245 to FHCR (see Note 5).

Other

A member of the Agency's Board of Directors is employed by an organization that provides legal services to the Agency. The Agency paid this organization approximately \$3,494 for the year ended June 30, 2014, and had \$225 outstanding at June 30, 2014. The Agency paid this organization \$7,600 for the year ended June 30, 2013.

A member of the Agency's Board of Directors is employed by an organization that provides medical training and health education to the Agency. The Agency paid this organization approximately \$25,998 during fiscal year 2014. The Agency paid this organization approximately \$13,650 during fiscal year 2013 and had \$1,700 outstanding at June 30, 2013.

A relative of the Agency's management team was hired as a consultant during fiscal year 2013. The Agency paid the consultant \$12,960 during fiscal year 2013.

The above Board members abstain from discussions and do not vote on matters relating to their respective employers.

(15) 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 Health Resources and Services Administration (HRSA). The coverage afforded the Health Center is comparable to an occurrence-based policy without a monetary cap. The coverage is applicable to the Health Center, its officers, Board members, employees, and contractors who are physicians or other licensed or certified health care practitioners.

(16) RECLASSIFICATIONS

Certain amounts in the 2013 financial statements have been reclassified to conform with the 2014 presentation.

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES	AMOUNT PROVIDED TO SUBRECIPIENTS
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</u>				
Direct Programs:				
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	N/A	\$ 3,038,218	\$ -
Health Centers Cluster: Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	N/A	2,663,414	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	535,599	171,957
Affordable Care Act (ACA) Grants for School-Based Health Centers Capital Expenditures	93.501	N/A	21,558	-
Special Projects of National Significance	93.928	N/A	18,545	-
Pass-through Commonwealth of Massachusetts, Department of Public Health:				
Refugee and Entrant Assistance - State Administered Programs	93.566	5189MM36009	133,479	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	3406MM39008	123,613	2,495
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	DPHPYD0121 3212M031068	77,155	20,000
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153	3712MM32008	66,417	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2351MM3802	<u>5,300</u>	<u>-</u>
Total Pass-Through Commonwealth of Massachusetts, Department of Public Health			405,964	22,495
Pass-through Edward M. Kennedy Community Health Center, Inc.:				
HIV Prevention Activities - Health Department Based	93.940	INTF4941M03800116002	<u>69,542</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>6,752,840</u>	<u>194,452</u>
<u>U.S. DEPARTMENT OF AGRICULTURE:</u>				
Special Supplemental Nutrition Program for Women, Infants, and Children - Food Vouchers	10.557	3500J106010	* 3,625,706	-
Special Supplemental Nutrition Program for Women, Infants, and Children - Food Vouchers	10.557	3502M037009	<u>961,109</u>	<u>-</u>
Total U.S. Department of Agriculture, total CFDA 10.557			<u>4,586,815</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 11,339,655</u>	<u>\$ 194,452</u>

NOTE 1. BASIS OF PRESENTATION

The accompanying Supplementary Schedule of Expenditures of Federal Awards includes the Federal assistance activity of Family Health Center of Worcester, Inc. and Affiliate and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2. * SUBRECIPIENTS

This represents the WIC food voucher amount. For purposes of the accompanying combining financial statements, the related revenue and expense amounts have been shown net.

Where Every Client is a Valued Client

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
COMBINING FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

To the Board of Directors of
Family Health Center of Worcester, Inc. and Affiliate:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combining financial statements of Family Health Center of Worcester, Inc. and Affiliate (collectively, the Agency), which comprise the combining statement of financial position as of June 30, 2014, and the related combining statements of activities and changes in net assets and functional expenses and the combined statement of cash flows for the year then ended, and the related notes to the combining financial statements, and have issued our report thereon dated November 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the combining financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combining financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's combining financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's combining financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of combining financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Worcester, Massachusetts
November 10, 2014

Where Every Client is a Valued Client

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Independent Auditor's Report

To the Board of Directors of
Family Health Center of Worcester, Inc. and Affiliate:

Report on Compliance for Each Major Federal Program

We have audited Family Health Center of Worcester, Inc. and Affiliate's (collectively, the Agency) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Agency's major Federal programs for the year ended June 30, 2014. The Agency's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Worcester, Massachusetts
November 10, 2014

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014

I. SUMMARY OF AUDITOR'S RESULTS

Combining Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported
- Noncompliance material to combining financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes X No

Identification of major programs:

<u>Program or Cluster Title</u>	<u>Federal CFDA Number</u>
Health Centers Cluster: Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557
Refugee and Entrant Assistance - State Administered Programs	93.566

FAMILY HEALTH CENTER OF WORCESTER, INC. AND AFFILIATE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2014

(Continued)

I. SUMMARY OF AUDITOR'S RESULTS (Continued)

The dollar threshold used to distinguish between Type A and Type B programs was \$340,190.

Auditee qualified as low-risk auditee? X Yes No

II. COMBINING FINANCIAL STATEMENT FINDINGS

None

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None