FAMILY FIRST HEALTH

FINANCIAL REPORT

MARCH 31, 2012

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FAMILY FIRST HEALTH
LIST OF REPORT DISTRIBUTION
March 31, 2012

Employer Identification Number: 23-7118262

1 Report -	Federal Audit Clearinghouse Bureau of Census 1201 E. 10th Street Jeffersonville, Indiana 47132 (Submitted electronically)
2 Reports -	Family Health Council of Central Pennsylvania Suite 200 3461 Market Street Camp Hill, Pennsylvania 17011-4441
1 Report -	WellSpan Health P. O. Box 2767 York, Pennsylvania 17401-2767 Attention: Leah Eckert
1 Report -	York County Planning Commission 28 East Market Street York, Pennsylvania 17401-1580 Attention: Joiann Galiano

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Family First Health
York, Pennsylvania

We have audited the accompanying balance sheets of Family First Health (a nonprofit organization) as of March 31, 2012 and 2011, and the related statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Family First Health's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Family First Health as of March 31, 2012 and 2011, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012, on our consideration of Family First Health'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the schedule of operations – Nurse Family Partnership is presented for purposes of additional analysis and is also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Smith Elliott Kearns & Company, LLC

Carlisle, Pennsylvania
October 15, 2012

FAMILY FIRST HEALTH

BALANCE SHEETS
March 31, 2012 and 2011

ASSETS	2012	2011
CURRENT ASSETS		
Cash	$ 66,683	$ 59,667
Investments	549,057	541,211
Accounts receivable - Patients (net of allowance for doubtful accounts of $ 285,939 for 2012 and $ 194,164 for 2011)	862,082	627,266
Estimated receivable under third-party agreements	1,018,494	1,035,588
Grants receivable	64,399	86,705
Other accounts receivable	30,490	24,291
Prepaid expenses	37,331	107,957
Total current assets	2,628,536	2,482,685
ASSETS LIMITED AS TO USE		
Debt service reserve	102,880	102,927
	102,880	102,927
OTHER ASSETS		
Property and equipment, net	5,394,747	5,647,193
Total assets	$ 8,126,163	$ 8,232,805
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 219,481	$ 238,306
Accounts payable	252,499	165,575
Accrued payroll and taxes	532,356	517,564
Accrued expenses	58,333	84,161
Total current liabilities	1,062,669	1,005,606
LONG-TERM LIABILITIES		
Long-term debt	3,457,315	3,672,310
Total liabilities	4,519,984	4,677,916
NET ASSETS		
Unrestricted - Undesignated	3,606,179	3,554,889
Total net assets	3,606,179	3,554,889
Total liabilities and net assets	$ 8,126,163	$ 8,232,805

The Notes to Financial Statements are an integral part of these statements.

FAMILY FIRST HEALTH

STATEMENTS OF OPERATIONS
Years Ended March 31, 2012 and 2011

	2012	2011
Revenue, gains, and other support:		
Net patient service revenue	$ 5,679,554	$ 5,576,193
Premium revenue	2,177,628	2,202,812
Other service revenue	49,997	35,463
Other revenue:		
Federal grants	2,056,694	2,314,495
State grants	814,603	796,831
Local grants	561,643	523,231
Contributions	504,477	472,234
Rental income	92,361	84,821
Other income	669,058	253,648
Investment income	19,619	13,961
Grant funds released from restrictions	-	11,104
Total revenue, gains, and other support	12,625,634	12,284,793
Expenses:		
Salaries and benefits	8,286,419	7,910,256
Contracted services	706,140	670,601
Medical supplies and drugs	1,033,478	986,283
Insurance	20,906	21,207
Rental expense	154,075	142,839
Other operating expenses	1,469,379	1,477,137
Provision for bad debts	352,949	574,559
Depreciation	380,627	358,442
Interest	163,876	168,809
Total expenses	12,567,849	12,310,133
Excess (deficit) of revenues over expenses	57,785	(25,340)
Unrealized gain (loss) on investments	(6,495)	55,964
Increase in unrestricted net assets	$ 51,290	$ 30,624

The Notes to Financial Statements are an integral part of these statements.

FAMILY FIRST HEALTH

STATEMENTS OF CHANGES IN NET ASSETS
Years Ended March 31, 2012 and 2011

	2012	2011
Unrestricted net assets		
Excess (deficit) of revenues over expenses	$ 57,785	$ (25,340)
Unrealized gain (loss) on investments	(6,495)	55,964
Increase in unrestricted net assets	51,290	30,624
Temporarily restricted net assets		
Grant funds released from restrictions	-	(11,104)
Decrease in temporarily restricted net assets	-	(11,104)
Increase in net assets	51,290	19,520
Net assets, beginning of year	3,554,889	3,535,369
Net assets, end of year	$ 3,606,179	$ 3,554,889

The Notes to Financial Statements are an integral part of these statements.

FAMILY FIRST HEALTH

STATEMENTS OF CASH FLOWS
Years Ended March 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ 51,290	$ 19,520
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	380,627	358,442
Provision for bad debts	352,949	574,559
Realized and unrealized loss (gain) on investments	1,989	(55,609)
Loss on disposal of equipment	1,353	-
(Increase) decrease in:		
Patient accounts receivable	(587,765)	(459,967)
Grants receivable	22,306	28,503
Other receivables	(6,199)	(7,981)
Prepaid expenses	70,626	(75,619)
Estimated receivables under third-party agreements	17,094	34,607
Increase (decrease) in:		
Accounts payable	86,924	(22,904)
Accrued expenses	(11,036)	46,140
Total adjustments	328,868	420,171
Net cash provided by operating activities	380,158	439,691
Cash flows from investing activities:		
Withdrawal from (deposit to) reserve funds	47	(35,783)
Purchase of investments and deposits to reserve funds	(83,958)	(227,381)
Proceeds from sale of investments	74,123	218,124
Purchase of property and equipment	(129,534)	(329,333)
Net cash used by investing activities	(139,322)	(374,373)
Cash flows from financing activities:		
Payments on long-term debt	(233,820)	(221,835)
Net cash used by financing activities	(233,820)	(221,835)
Net increase (decrease) in cash	7,016	(156,517)
Cash at beginning of year	59,667	216,184
Cash at end of year	$ 66,683	$ 59,667
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 163,876	$ 168,809

The Notes to Financial Statements are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of Operations

Family First Health (the "Organization") is a not-for-profit Federally Qualified Health Center network located in the city of York, Pennsylvania. Its direct grant funding comes from Community Health Centers (Title 330), Ryan White Title C Early Intervention monies, and United Way of York County. As a subcontractor, the Organization receives funding from Ryan White B, HOPWA, and Nurse Family Partnership. The network consists of the following:

116 South George Street Site (Federally Qualified Health Center)

At this location the Organization provides the following services: primary medical and dental care, pediatric care, immunizations, sexually transmitted disease testing and treatment, preventive care, routine health, examinations, drivers' physical exam, referrals, HIV counseling and testing, reproductive health care, nutrition counseling, and family planning. Its target population includes the uninsured and underinsured population in York County by reason of access, condition, payment source, or other factors creating a barrier to health care. It serves all ages and utilizes Board Certified Physicians, Certified Registered Nurse Practitioners, Physicians Assistants, and residency trained Dentists. In addition, 116 South George Street has various service contracts with the York City Bureau of Health and Family Health Council of Central Pennsylvania.

Family First Health Social Services

The Social Service division provides case management services primarily for people infected with or affected by the HIV virus or AIDS. It serves clients at the Organization's 116 South George Street site, as well as those using other community providers. Family First Health Social Services offers assistance with obtaining medical/dental services (including nursing, prescriptions, and hospice), enrollment in clinical trials, nutritional supplements and counseling (individual, couple, family, drug/alcohol, HIV, mental health), HIV testing, therapy sessions in English and Spanish, support group assistance, transportation, legal assistance, housing, rental assistance, food bank access and information, and behavioral health.

Hannah Penn Family Health Center (Federally Qualified Health Center)

The Hannah Penn Family Health Center is a school-based health center in the York City School District providing services to students and their families along with other community members. Its services include physicals, sick visits, health and wellness information, prevention and screenings, patient education, counseling, and referrals to other community services. It offers medical and dental care and is funded by grants from York Hospital, York City School District, and Title 330.

Rural Centers (Federally Qualified Health Centers)

The Rural Centers, located in Lewisberry, Gettysburg, and Hanover, serve the uninsured and underinsured populations of York and Adams Counties. Their funding sources include the York County Community Development Block Grant and Title 330. They provide medical and dental services including immunizations, STD tests, family planning services, and referrals.

Note 1. Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to estimates of the allowance for doubtful accounts and amounts receivable or payable under third-party contractual agreements, which are based on historical collection rates and analysis of specific third-party receivables and prior cost report settlement information. Consequently, these estimates may change in the near term. The amount of the change that is reasonably possible cannot be determined.

Significant Accounting Policies are as follows:

Donor Restrictions

The Organization reports gifts of cash and other assets as restricted support 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 as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. When long-lived assets are placed in service, thus satisfying purpose restrictions, the amount is included as a change in net assets, restricted, and unrestricted. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

The Organization reports gifts of equipment (or other long-lived assets) as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Accounts Receivable – Patients

Accounts receivable – patients are written off when management determines, based upon prior experience, collection history, or contractual agreements, that an account is no longer collectible. Accounts that are over 30 days old are typically considered past due. Management does provide an allowance for doubtful accounts, which is based upon historical collection rates and analysis of specific third-party receivables.

Property and Equipment

Property and equipment is stated at cost. The Organization capitalizes all property and equipment purchases greater than $ 5,000 with a life in excess of two years. Depreciation is provided on a straight-line basis based upon the estimated useful lives of the assets as follows:

Land improvements	8 - 20 years
Building	40 years
Office equipment	3 - 20 years
Medical and dental equipment	10 - 15 years

Note 1. Summary of Significant Accounting Policies (Continued)

Net Assets

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. A description of the three net asset categories follows:

Unrestricted: Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted: Net assets whose use by the Organization is subject to donor-imposed restrictions that can be fulfilled by actions of the Organization pursuant to those restrictions or that expires by the passage of time. No temporarily restricted assets were held at March 31, 2012 and 2011.

Permanently Restricted: Net assets subject to donor-imposed restrictions that are to be maintained permanently by the Organization. No permanently restricted assets were held at March 31, 2012 and 2011 and accordingly, these financial statements do not reflect any activity related to this class of net assets.

Net Patient Service Revenue

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

Premium Revenue

The Organization has agreements with various Health Maintenance Organizations (HMO) to provide medical services to subscribing participants. Under these agreements, the Organization receives monthly capitation payments based on the number of each HMOs' participants, regardless of services actually performed. In addition, the HMO makes fee-for-service payments to the Organization for certain covered services based upon discounted fee schedules.

Charity Care

The Organization has a policy of providing charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis. The amount of their payment is determined using a reduced fee scale. Since the Organization does not expect payment for the fees waived, estimated charges for charity care are not included in net patient service revenue. The Organization provided approximately $ 3,682,742 and $ 3,470,493 of charity care for 2012 and 2011, respectively, when measured at a ratio of cost to charges.

Donations In-Kind

The Organization began to recognize the value of donated vaccines and other supplies as revenue in the current year. In order to make the financial statements comparable, the prior year revenue and corresponding expenses were adjusted to reflect the value of donated vaccines and supplies. This had no impact on the previously reported change in net assets.

Note 1. Summary of Significant Accounting Policies (Continued)

Tax-Exempt Status

The Organization is a nonprofit corporation organized under the provisions of the nonprofit laws of the Commonwealth of Pennsylvania. The Organization is exempt from federal income tax under Section 501(C)(3) of the Internal Revenue Code, and is classified as a public charity.

Malpractice Insurance

The Organization has an occurrence policy which covers malpractice claims reported to the insurance carrier during and after the policy term. This coverage is provided under the Federal Tort Claims Act.

Statements of Cash Flows

Cash and cash equivalents include investments in highly-liquid debt instruments with an original maturity of three months or less.

Advertising

The Organization follows the policy of charging the costs of advertising to expense as incurred. Advertising expense was $ 18,198 and $ 51,964 for 2012 and 2011, respectively.

Uncertain Tax Positions

The Organization follows the FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. As of March 31, 2012, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the Organization's financial statements. The tax years subsequent to 2008 are subject to review by federal, state, and local taxing authorities.

Note 2. Net Patient Service Revenue

Family First Health has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Revenue received under a cost reimbursement agreement with Medicare is based upon Family First Health's cost per patient encounter. Interim Medicare rates are established and paid throughout the year with a final settlement determined after Family First Health files its annual cost reports.

Medical Assistance is paid on a prospective payment system. Family First Health is paid a pre-established rate per visit for their medical and dental services.

Family First Health's patient service and premium revenue concentrations for the years ended March 31, 2012 and 2011 are as follows:

	2012	2011
Medicare	16%	14%
Medical Assistance	53%	56%
Commercial	17%	19%
Self-pay	14%	11%

Note 3. Investments

The composition of investments at March 31 is set forth in the following schedule:

2012	%		Cost		Fair Value
Cash and cash equivalents	2	$	12,067	$	12,067
Mutual funds - Debt securities	47		245,013		257,996
Mutual funds - Equities	51		205,176		278,994
Total	100	$	462,256	$	549,057

2011	%		Cost		Fair Value
Cash and cash equivalents	2	$	11,531	$	11,531
Mutual funds - Debt securities	37		192,577		201,860
Mutual funds - Equities	61		243,808		327,820
Total	100	$	447,916	$	541,211

Investment income consists of the following:

		2012		2011
Interest and dividends	$	15,113	$	14,316
Realized gain (loss) on investments		4,506		(355)
	$	19,619	$	13,961

Note 4. Assets Limited As To Use

Debt Service Reserve

The Organization is required to maintain a reserve fund to cover one year's debt service on the PNC Bank loans.

These reserve accounts consist of the following investment types as of March 31:

2012	Cost	Market
Cash and cash equivalents	$ 102,880	$ 102,880

2011	Cost	Market
Cash and cash equivalents	$ 102,927	$ 102,927

Note 5. Property and Equipment

Asset Description	2012	2011
Land	$ 150,000	$ 150,000
Land improvements	8,950	8,950
Building	5,977,733	5,937,255
Office equipment	906,704	912,255
Medical and dental equipment	672,800	685,968
Construction in progress	155,279	120,399
	7,871,466	7,814,827
Less accumulated depreciation	(2,476,719)	(2,167,634)
Property and equipment, net	$ 5,394,747	$ 5,647,193

Depreciation expense for 2012 and 2011 was $ 380,627 and $ 358,442, respectively.

Note 6. Notes Payable and Long-Term Debt

2012	Collateral	Interest Rate	Long-Term Debt Current	Long-Term Debt Non-Current
Note payable, PNC Bank, due November 2023, monthly payments of $ 4,114 (lesser of Prime Rate as published by the Wall Street Journal or the lenders' offered rate).	Real estate	3.15% (Variable)	$ 38,037	$ 468,163
Note payable, Sovereign Bank, due November 2012, monthly payments of $ 12,098 based on a 25 year amortization schedule. Refer to *Refinancing of Sovereign Bank Debt.*	Real estate and improvements	4.2% (Fixed)	68,817	1,793,330
Note payable, Sovereign Bank, due December 2012, monthly payments of $ 5,100 based on a 25 year amortization schedule. Refer to *Refinancing of Sovereign Bank Debt*.	Real estate and improvements	4.45% (Fixed)	27,567	751,411
Note payable, Sovereign Bank, due December 2012, monthly payments of $ 7,344	Real estate and improvements	4.4% (Fixed)	57,787	-
Note payable, PNC, due August 2015, monthly payments of $ 3,995 based on a 15 year amortization schedule	Real estate and improvements	4.5% (Fixed)	27,273	444,411
			$ 219,481	$ 3,457,315

2011	Collateral	Interest Rate	Long-Term Debt Current	Long-Term Debt Non-Current
Note payable, PNC Bank, due November 2023, monthly payments of $ 4,114 (lesser of Prime Rate as published by the Wall Street Journal or the lenders' offered rate).	Real estate	2.31% (Variable)	$ 37,172	$ 505,999
Note payable, Sovereign Bank, due November 2012, monthly payments of $ 12,098 based on a 25 year amortization schedule	Real estate and improvements	4.2% (Fixed)	65,644	1,858,805
Note payable, Sovereign Bank, due December 2012, monthly payments of $ 5,100 based on a 25 year amortization schedule	Real estate and improvements	4.45% (Fixed)	25,830	778,476
Note payable, Sovereign Bank, due December 2012, monthly payments of $ 7,344	Real estate and improvements	4.4% (Fixed)	83,568	57,721
Note payable, PNC, due August 2015, monthly payments of $ 3,995, beginning May 2010 based on a 15 year amortization schedule	Real estate and improvements	4.5% (Fixed)	26,092	471,309
			$ 238,306	$ 3,672,310

Note 6. Notes Payable and Long-Term Debt (Continued)

The future principal payments on long-term debt for each of the next five years are as follows:

2013	$ 219,481
2014	170,206
2015	174,881
2016	528,319
2017	142,926
Thereafter	2,440,983
Total	$ 3,676,796

The loans with the financial institutions contain various covenants such as meeting debt service coverage and leverage ratios and funding a reserve account.

There are prepayment penalties associated with the long-term debt.

Lines of Credit

The Organization maintains an operating line of credit for $ 1,000,000 with Sovereign Bank. The line of credit is due on demand and renews on September 30 of each year. The line of credit bears interest at the overnight LIBOR rate plus 300 basis points. The rate was 3.15% at March 31, 2012 and 4.50% at March 31, 2011. The line of credit is cross defaulted and collateralized with all other loans at Sovereign Bank. There were no amounts drawn on this line of credit as of March 31, 2012 and 2011.

During 2012 the organization obtained an additional operating line of credit with PNC Bank, NA in the amount of $ 300,000. The line of credit is due on demand and renews on February 2 of each year. The line of credit bears interest at the Prime Rate or 3.25% at March 31, 2012. The line of credit is collateralized with receivables, deposit accounts, inventory and equipment. There were no draws on the line of credit at March 31, 2012.

Refinancing of Sovereign Bank Debt

Family First Health entered into a commitment with Wells Fargo on October 1, 2012 to refinance its Sovereign Bank loans. The Organization will enter into a new term loan that will be due in December 2019. This term loan will be amortized using a 20 year amortization schedule based on a fixed rate of 2.36%. The term loan is collateralized with the South George Street property and UCC filings on all business assets. This loan does have prepayment penalties.

In addition, the Organization will also enter into a line of credit agreement with Wells Fargo. The line of credit is for $ 1,500,000 and will be due on demand and renew annually. The line of credit will bear interest at 30 day LIBOR plus 2.75%, with a 3% floor. This loan is cross collateralized with the previously described term loan.

These loans will carry certain debt covenants, such as maintaining a debt coverage ratio of 1.25 to 1.0 and a current ratio of 1.6 to 1.0.

Total interest expense was $ 163,876 and $ 168,809 for the years ended March 31, 2012 and 2011, respectively.

Note 7. Retirement Plan

The Organization also provides a 403(b) salary reduction retirement plan to employees, but does not contribute to the plan. The plan covers substantially all employees, who may elect to defer a portion of their gross salaries under the plan. The Organization contributed $ 40,000 and $ 36,000 to the plan for the years ended March 31, 2012 and 2011, respectively.

Note 8. Operating Lease Commitments

Leases that do not meet the criteria for capitalization are classified as operating leases, with rental expense charged to operations as incurred.

As of March 31, 2012 and 2011, the Organization had entered into various operating lease agreements for its office facilities and parking spaces, expiring from April 2011 to December 2019.

Minimum annual rentals are as follows for the years ending March 31:

2013	$ 78,205
2014	80,551
2015	82,968
2016	85,457
2017	88,021

Total rent expense under operating leases was $ 154,075 and $ 142,839 for the years ended March 31, 2012 and 2011, respectively.

Note 9. Rental Income

On May 30, 2008 the Organization subleased space at the 116 South George Street location to WellSpan Healthcare Services for the purpose of operating a public pharmacy. The terms of the lease include a period of 10 years and initial monthly rent of $ 3,245 plus utility costs. Rent is to increase 3% annually.

Minimum annual rentals are as follows for the year ending March 31:

2013	$ 41,305
2014	42,544
2015	43,820
2016	45,135

Note 10. Concentrations of Credit Risk

The Organization maintains its funds at several financial institutions. During the course of the year, these funds may periodically exceed limits insured by the Federal Deposit Insurance Corporation. Management considers this to be a normal business risk.

Note 11. Economic Dependency

The Organization received 31% and 33% of its total revenue, gains, and support from various grant programs administered by federal, state, and local governmental and private sources for the years ended March 31, 2012 and 2011, respectively.

Note 12. Functional Expenses

Functional expense allocations for the years ended March 31 were as follows:

2012	Total	Program Activities	General and Administration
Salaries and benefits	$ 8,286,419	$ 7,286,709	$ 999,710
Contracted services	706,140	656,958	49,182
Medical supplies and drugs	1,033,478	1,033,478	-
Insurance	20,906	14,174	6,732
Rental expense	154,075	150,505	3,570
Other operating expenses	1,469,379	1,226,487	242,892
Provision for bad debts	352,949	352,949	-
Depreciation	380,627	330,231	50,396
Interest	163,876	157,350	6,526
Total expenses	$ 12,567,849	$ 11,208,841	$ 1,359,008

2011	Total	Program Activities	General and Administration
Salaries and benefits	$ 7,910,256	$ 6,971,942	$ 938,314
Contracted services	670,601	648,314	22,287
Medical supplies and drugs	986,283	986,283	-
Insurance	21,207	13,410	7,797
Rental expense	142,839	141,700	1,139
Other operating expenses	1,477,137	1,217,360	259,777
Provision for bad debts	574,559	574,559	-
Depreciation	358,442	344,289	14,153
Interest	168,809	166,938	1,871
Total expenses	$ 12,310,133	$ 11,064,795	$ 1,245,338

Note 13. Fair Value Measurements

The Accounting Standards Codification defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Represented by quoted prices available in an active market. Level 1 securities include highly liquid government bonds, treasury securities, mortgage products, and exchange traded equities.

Note 13. Fair Value Measurements (Continued)

Level 2 – Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data, such as quoted prices for similar securities and quoted prices in inactive markets and estimated using pricing models or discounted cash flows. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states, and political subdivisions and certain corporate and asset backed securities.

Level 3 – Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining the fair value measurement include the reporting entity's own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and internally developed values.

The Organization has no liabilities measured at fair value. The fair values of the Organization's assets measured on a recurring basis as of March 31, 2012 and 2011 are as follows:

	2012			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds - Bond funds	$ 257,996	$ -	$ 257,996	$ -
Mutual funds - Equities	278,994	-	278,994	-
	$ 536,990	$ -	$ 536,990	$ -

	2011			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds - Bond funds	$ 201,860	$ -	$ 201,860	$ -
Mutual funds - Equities	327,820	-	327,820	-
	$ 529,680	$ -	$ 529,680	$ -

Note 14. Subsequent Events

The Organization has evaluated events and transactions subsequent to March 31, 2012 through October 15, 2012 the date these financial statements were available to be issued. Subsequent to year end, Family First Health entered into a commitment with Wells Fargo on October 1, 2012 to refinance its Sovereign Bank loans beginning December 2012. Refer to Note 6 for a description of the refinancing terms.

SCHEDULE OF OPERATIONS – NURSE FAMILY PARTNERSHIP
Year Ended March 31, 2012

	Actual	DPW
REVENUES		
DPW	$ 355,350	$ 355,350
10% Required Match	35,535	35,535
Community Funds	16,132	-
Medical Assistance Fee for Service	73,689	-
Total revenue	480,706	390,885
EXPENSES		
Salaries/Wages	289,728	272,076
Benefits	66,120	54,530
Total personnel expenses	355,848	326,606
Occupancy	21,426	25,000
Communications	1,466	1,500
Administrative Supplies	3,270	1,000
Transportation	6,928	5,000
Purchased Services	8,186	8,000
Other Operating Costs:		
Indirect Cost	58,876	21,579
Insurance	804	400
Audit	1,580	1,800
Billing	5,974	-
Conferences	2,525	-
Meetings	87	-
Postage	297	-
Printing/Publications	4,265	-
Telephone Directory	124	-
Training	1,917	-
Client Related Supplies	2,166	-
Total operating expenditures	119,891	64,279
Total expenditures	475,739	390,885
Excess (deficit) of revenue over expenditures	$ 4,967	$ -

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended March 31, 2012

Federal Grantor/Pass -Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures	
U.S. Department of Housing and Urban Development				
Passed through from Family Health Council of Central Pennsylvania, Inc.				
Housing Opportunities for People with Aids (HOPWA) (04/01/2011 - 06/30/2011)	14.241	SAP 4100047983	$ 31,362	
Housing Opportunities for People with Aids (HOPWA) (07/01/2011 - 03/31/2012)	14.241	SAP 4100055223	73,049	
			104,411	
Passed through from York County Planning Commission				
Community Development Block Grant	14.218	45151822	15,000	
Total U.S. Department of Housing and Urban Development			119,411	
U.S. Department of Health and Human Services				
Community Health Centers	93.224	6 H80 CS 00529-10-07	1,264,870	*
ARRA - Capital Improvement Program	93.703	6 C81 CS 13695-01-02	209,759	
Early Intervention Services (04/01/2011 - 06/30/2011)	93.918	3 H76 HA 00072-20-01	139,697	*
Early Intervention Services (07/01/2011 - 03/31/2012)	93.918	6 H76 HA 00072-21-01	442,368	*
			582,065	
Passed through from Family Health Council of Central Pennsylvania, Inc.				
HIV Care Formula Grant (04/01/2011-06/30/2011)	93.917	SAP 4100047983	74,277	*
HIV Care Formula Grant (07/01/2011-03/31/2012)	93.917	SAP 4100055223	245,266	*
			319,543	
Passed through from Milton S. Hershey Medical Center				
HIV Testing	93.943	1U62PS003222-01-FFC	41,509	
Total U.S. Department of Health and Human Services			2,417,746	
Total Federal Awards			$ 2,537,157	

*** Denotes a program tested as a major program**

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of Family First Health and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Reconciliation of Federal Expenditures and Revenue

Federal Grants	$ 2,056,694
State Grants	423,954
Local Grants	56,509
Total federal expenditures	$ 2,537,157

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

Board of Directors
Family First Health
York, Pennsylvania

We have audited the financial statements of Family First Health as of and for the year ended March 31, 2012, and have issued our report thereon dated October 15, 2012. 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.

Internal Control Over Financial Reporting

Management of Family First Health is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Family First Health's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Family First Health's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
Family First Health

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Family First Health's financial statements are free of 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 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*.

We noted certain other matters that we reported to management of Family First Health in a separate letter dated October 15, 2012.

This report is intended solely for the information and use of management, the board of directors, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Smith Elliott Kearns & Company, LLC

Carlisle, Pennsylvania
October 15, 2012

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Family First Health
York, Pennsylvania

Compliance

We have audited Family First Health's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Family First Health's major federal programs for the year ended March 31, 2012. Family First Health's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Family First Health's management. Our responsibility is to express an opinion on Family First Health's compliance based on our audit.

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 Family First Health'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. Our audit does not provide a legal determination of Family First Health's compliance with those requirements.

In our opinion, Family First Health complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2012.

Internal Control Over Compliance

Management of Family First Health is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Family First Health's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 Family First Health's internal control over compliance.

Board of Directors
Family First Health

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of directors, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Smith Elliott Kearns & Company, LLC

Carlisle, Pennsylvania
October 15, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended March 31, 2012

A. Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Family First Health.
2. No significant deficiencies or material weaknesses were disclosed during the audit of the financial statements of Family First Health.
3. No instances of noncompliance material to the financial statements of Family First Health were disclosed during the audit.
4. No significant deficiencies or material weaknesses were disclosed during the audit of the major federal award programs for Family First Health.
5. The auditor's report on compliance for the major federal award programs for Family First Health expresses an unqualified opinion.
6. The audit findings relative to the major federal award programs for Family First Health are reported in Part C of this Schedule.
7. The programs tested as a major program were:

   Community Health Centers Program (CFDA Number 93.224)

   Ryan White Title III: Early Intervention Services (CFDA Number 93.918)

   Ryan White Title II: HIV Care Formula Grant (CFDA Number 93.917)
8. The threshold for distinguishing Types A and B programs was $ 300,000.
9. Family First Health was determined to be a low-risk auditee.

B. Findings - Financial Statements Audit

None

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None

STATUS OF PRIOR AUDIT FINDINGS
March 31, 2012

None noted in 2011.

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT – NURSE FAMILY PARTNERSHIP COMPLIANCE

Board of Directors
Family First Health
York, Pennsylvania

We have examined Family First Health's compliance with the requirements of the Nurse Family Partnership grant by determining that a statement of operations was prepared reporting the revenues and expenses of this program, that client information is entered into the clinical information system in a timely manner, and inquired whether the policy for home visits is being followed during the year ended March 31, 2012. Management is responsible for Family First Health's compliance with those requirements. Our responsibility is to express an opinion on Family First Health's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining on a test basis, evidence about Family First Health's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Family First Health's compliance with the specified requirements.

In our opinion, Family First Health complied, in all material respects, with the aforementioned requirements for the year ended March 31, 2012.

This report is intended solely for the information and use of Family First Health and the Pennsylvania Department of Public Welfare and is not intended to be and should not be used by anyone other than these specified parties.

Smith Elliott Kearns & Company, LLC

Carlisle, Pennsylvania
October 15, 2012

Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

October 15, 2012

Board of Directors
Family First Health
York, Pennsylvania

We have completed our audit of the financial statements of Family First Health for the year ended March 31, 2012 and have issued our report thereon dated October 15, 2012. We believe that part of our responsibility, as your independent certified public accountants, is to bring to your attention our observations and suggestions which we believe are opportunities for strengthening internal controls, improving operating efficiency, and assisting you in managing the growth of your Organization. The comments and suggestions which follow cover matters that came to our attention during our recent audit that we believe merit your consideration.

Accounts Receivable and Cash Flow

During our current year testing we noted the days in patients accounts receivable increased from 29 days at March 31, 2011 to 40 days at March 31, 2012. This calculation includes net patient service revenue and premium revenue in the denominator. An upward trend indicates decreased cash flows. We believe this undesirable trend is attributable to changes in the billing department staffing level and the implementation of an electronic health records system throughout the Organization.

The importance of timely billing and collection of charges for any health care entity cannot be overemphasized. We believe the Board of Directors and management of the Organization should monitor this trend going forward and make changes to speed up billing and collections.

Board of Directors
Family First Health

Loan Covenants – Sovereign Bank

The loans with Sovereign Bank contain various financial covenants the Organization must comply with. The Organization is required to maintain a minimum debt service coverage ratio of 1.2:1 or greater and a leverage ratio (total liabilities divided by net assets) of 2.25:1 or less. During the year ended March 31, 2012, the Organization met the debt service coverage requirement with a ratio of 1.24:1 and the leverage requirement with a ratio of 1.27:1.

Proposed Changes to the Single Audit Act

In late February 2012, the Office of Management Budget proposed certain changes to the Single Audit requirements. The most significant of the proposed changes is to raise the threshold requiring a single audit from $ 500,000 of federal expenditures to $ 1,000,000. In addition, those entities which expend more than $ 1,000,000 and less than $ 3,000,000, would be required to undergo a more focused version of the Single Audit. This more focused version would require only two compliance items to be tested, one of which would always be allowable and unallowable costs, and the other requirement would be of the oversight agency's choosing. Those expending $ 3,000,000 or more would continue to undergo the full Single Audit. We will continue to monitor these proposed changes and keep you informed.

Accounting Standards Update

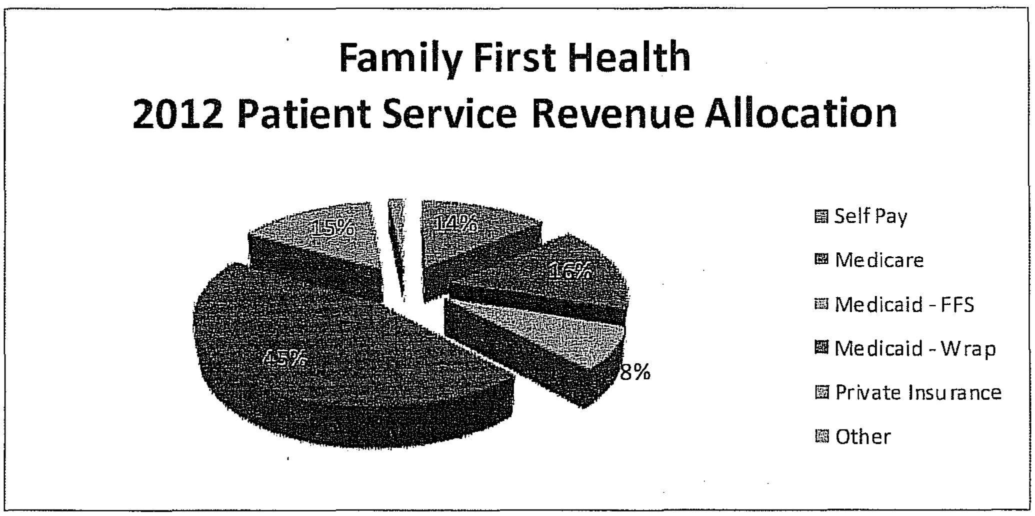
Accounting Standards Update 2010-24, *"Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and Allowance for Doubtful Accounts for Certain Health Care Entities,"* will require bad debt expense associated with patient service revenue to be reported as a deduction from patient service revenue and not as an operating expense as it is currently reported in the statement of operations. It also requires enhanced disclosures about revenue recognition, bad debt assessments, patient

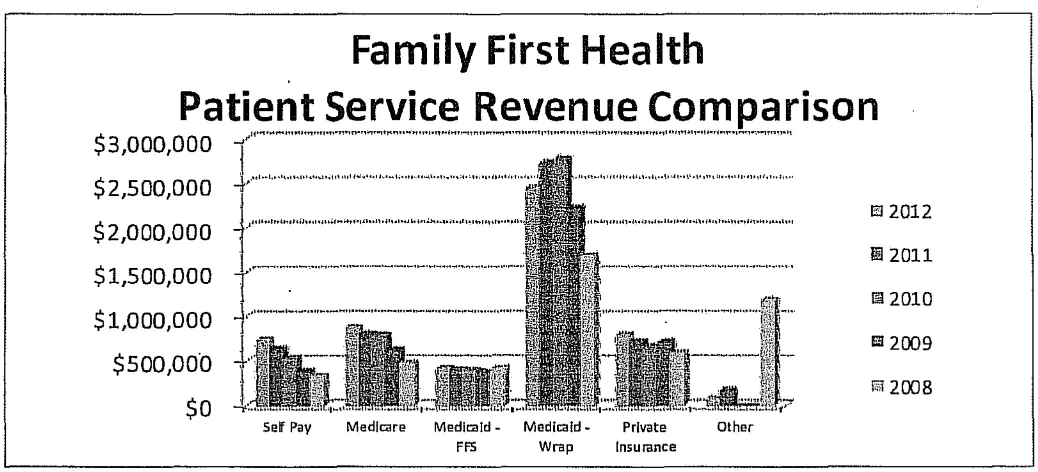
Board of Directors
Family First Health

service revenue, and information on the changes in the allowance for doubtful accounts. The reporting of bad debt expense does not affect the reporting of other non-patient service revenue bad debt expense such as from employee loans. This standard is effective for the Organization's year ending March 31, 2013.

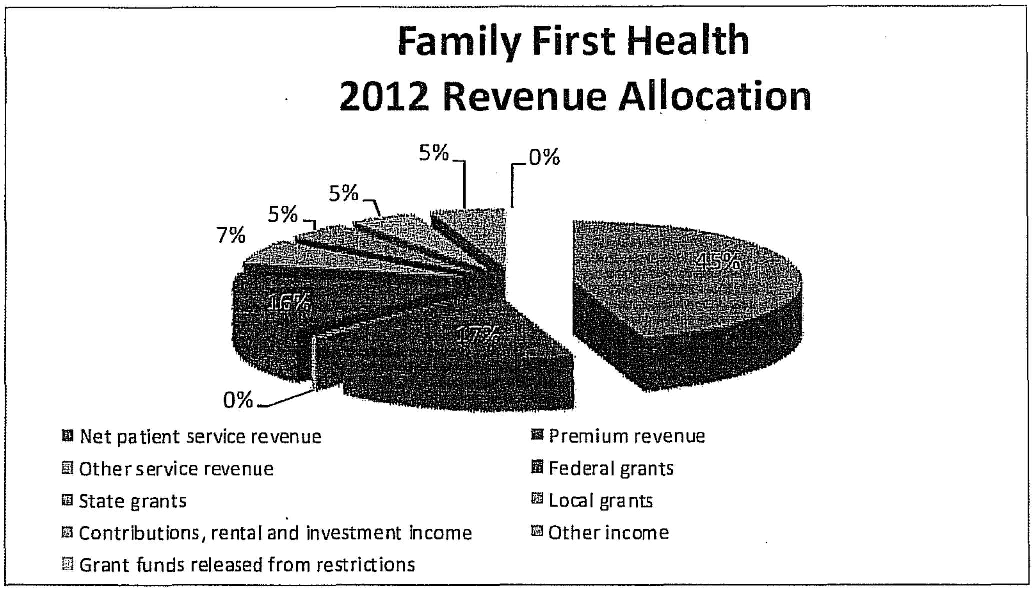
Graphical Analysis

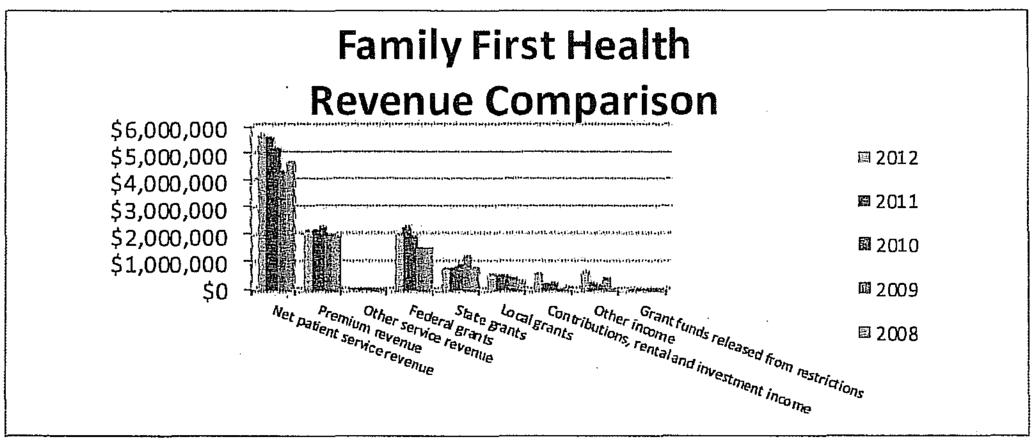
We have provided the following graphs which may assist you in your financial analysis.

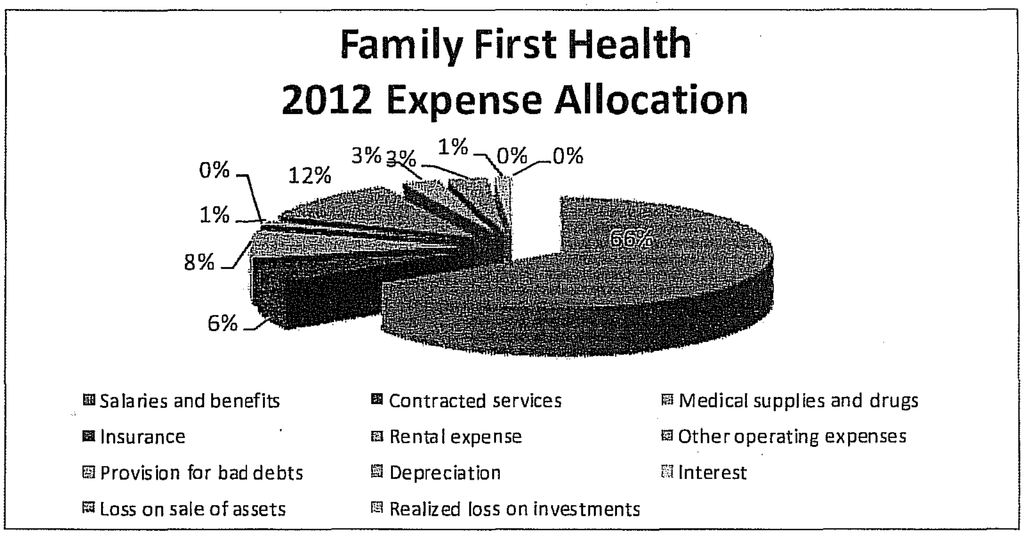


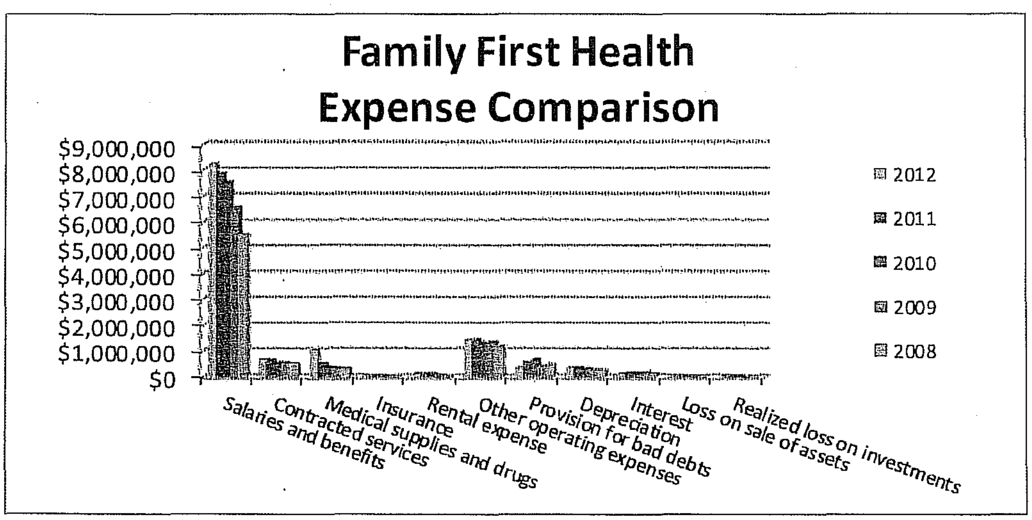


Board of Directors
Family First Health









Conclusion

This report is intended solely for the information and use of management, the board of directors and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Board of Directors
Family First Health

We acknowledge and appreciate the courtesy and assistance extended to our representatives by your Organization during our audit. The above comments and suggestions are made because we are interested in the continued success of Family First Health. We will be pleased to further discuss these comments and recommendations at your convenience.

Smith Elliott Kearns & Company, LLC