

Generations Family Health Center, Inc. and Subsidiary

**Consolidated Financial Statements
(With Supplementary Information)
and Independent Auditor's Report**

June 30, 2014 and 2013

Generations Family Health Center, Inc. and Subsidiary

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Independent Auditor's Report

To the Board of Directors
Generations Family Health Center, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Generations Family Health Center, Inc. and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities, changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Generations Family Health Center, Inc. and Subsidiary 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.

Report on Supplemental Schedules

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included in the schedules on pages 24 and 25 is presented for purposes of additional analysis of the 2014 consolidated financial statements rather than to present the financial position and changes in net assets of the individual organizations, and is not a required part of the 2014 consolidated 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 2014 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the 2014 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2014 consolidated financial statements or to the 2014 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the 2014 consolidated 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 25, 2014 on our consideration of Generations Family Health Center, Inc. and Subsidiary'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 Generations Family Health Center, Inc. and Subsidiary's internal control over financial reporting and compliance.



Glastonbury, Connecticut
November 25, 2014

Generations Family Health Center, Inc. and Subsidiary

Consolidated Statements of Financial Position June 30, 2014 and 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 1,197,251	\$ 842,759
Patient services receivable, net	876,896	848,943
Interest receivable	31,916	31,916
Prepaid expenses and other current assets	504,347	413,432
Total current assets	2,610,410	2,137,050
Property and equipment, net	17,989,307	17,957,145
Other assets:		
Restricted cash and cash equivalents	159,543	191,488
Note receivable	9,005,125	9,005,125
Investment, at cost	83,333	83,333
Deferred financing costs, net	15,132	19,079
Total other assets	9,263,133	9,299,025
Total assets	\$ 29,862,850	\$ 29,393,220
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 390,568	\$ 315,919
Accrued compensation	833,229	690,960
Refundable advances	241,906	56,827
Line of credit	96,619	654,715
Current maturities of long-term debt	88,050	84,741
Current maturities of capital lease obligations	-	2,394
Total current liabilities	1,650,372	1,805,556
Long-term debt, less current maturities	18,798,220	18,891,480
Deferred revenue	2,327,482	2,615,293
Total liabilities	22,776,074	23,312,329
Commitments and contingencies		
Net assets unrestricted:		
Controlling interest	6,987,518	5,944,498
Non-controlling interest	99,258	136,393
Total net assets	7,086,776	6,080,891
Total liabilities and net assets	\$ 29,862,850	\$ 29,393,220

See Notes to Consolidated Financial Statements.

Generations Family Health Center, Inc. and Subsidiary

**Consolidated Statements of Activities
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Unrestricted revenue:		
Patient services revenue, net of contractual allowance and discounts	\$ 12,445,229	\$ 10,652,836
Provision for uncollectible accounts	<u>(262,448)</u>	<u>(402,945)</u>
Patient services revenue, net of provision for uncollectible accounts	12,182,781	10,249,891
DHHS grants	3,126,788	2,980,839
Contract services and other grants	1,775,006	1,351,814
Donated vaccines and other	234,345	318,254
Other revenue	<u>294,999</u>	<u>193,943</u>
Total unrestricted revenue	<u>17,613,919</u>	<u>15,094,741</u>
Expenses:		
Salaries and benefits	12,996,786	12,189,755
Other than personnel services	3,282,879	3,017,693
Interest	<u>290,520</u>	<u>300,478</u>
Total expenses	<u>16,570,185</u>	<u>15,507,926</u>
Operating income (loss) before depreciation and amortization	1,043,734	(413,185)
Depreciation and amortization	<u>767,268</u>	<u>717,601</u>
Operating income (loss) before nonoperating activities	<u>276,466</u>	<u>(1,130,786)</u>
Nonoperating activities:		
Grant funds for capital expenditures	458,753	1,059,485
Developer fees used for capital expenditures	30,501	419,490
Interest income	385,763	385,775
Asset management fees	(35,412)	-
Interest expense	(403,594)	(403,594)
Loss on disposal of property and equipment	-	(13,953)
Contributions and other revenue	<u>293,408</u>	<u>442,574</u>
Total nonoperating activities	<u>729,419</u>	<u>1,889,777</u>
Change in consolidated net assets	1,005,885	758,991
Change in net assets attributable to non-controlling interest	<u>37,135</u>	<u>33,016</u>
Increase in net assets attributable to Generations Family Health Center, Inc. and Subsidiary	<u>\$ 1,043,020</u>	<u>\$ 792,007</u>

See Notes to Consolidated Financial Statements.

Generations Family Health Center, Inc. and Subsidiary

**Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2014 and 2013**

	Total Generations Family Health Center, Inc. and Subsidiary	Non-controlling Interest	Total
Net assets, July 1, 2012	\$ 5,152,491	\$ 169,409	\$ 5,321,900
Change in consolidated net assets	<u>792,007</u>	<u>(33,016)</u>	<u>758,991</u>
Net assets, June 30, 2013	5,944,498	136,393	6,080,891
Change in consolidated net assets	<u>1,043,020</u>	<u>(37,135)</u>	<u>1,005,885</u>
Net assets, June 30, 2014	<u><u>\$ 6,987,518</u></u>	<u><u>\$ 99,258</u></u>	<u><u>\$ 7,086,776</u></u>

See Notes to Consolidated Financial Statements.

Generations Family Health Center, Inc. and Subsidiary

**Consolidated Statement of Functional Expenses
Year Ended June 30, 2014**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salary and wages	\$ 8,505,557	\$ 1,655,157	\$ 10,160,714
Fringe benefits	2,430,182	405,890	2,836,072
Consumable supplies	771,161	22,512	793,673
Other	383,585	207,940	591,525
Occupancy	593,961	189,963	783,924
Equipment rental and maintenance	330,761	36,809	367,570
Non patient care related contractual services	-	260,491	260,491
Patient care related contractual services	428,993	-	428,993
Travel, conferences and meetings	43,070	13,633	56,703
Interest	23	290,497	290,520
	<u>13,487,293</u>	<u>3,082,892</u>	<u>16,570,185</u>
Depreciation and amortization	601,538	165,730	767,268
Total functional expenses	<u>\$ 14,088,831</u>	<u>\$ 3,248,622</u>	<u>\$ 17,337,453</u>

See Notes to Consolidated Financial Statements.

Generations Family Health Center, Inc. and Subsidiary

**Consolidated Statement of Functional Expenses
Year Ended June 30, 2013**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salary and wages	\$ 7,987,508	\$ 1,562,368	\$ 9,549,876
Fringe benefits	2,240,591	399,288	2,639,879
Consumable supplies	935,243	19,991	955,234
Other	377,973	208,165	586,138
Occupancy	335,501	167,517	503,018
Equipment rental and maintenance	361,351	93,175	454,526
Non patient care related contractual services	3,197	267,674	270,871
Patient care related contractual services	200,013	-	200,013
Travel, conferences and meetings	35,477	12,416	47,893
Interest	-	300,478	300,478
	<u>12,476,854</u>	<u>3,031,072</u>	<u>15,507,926</u>
Depreciation and amortization	579,104	138,497	717,601
Total functional expenses	<u>\$ 13,055,958</u>	<u>\$ 3,169,569</u>	<u>\$ 16,225,527</u>

See Notes to Consolidated Financial Statements.

Generations Family Health Center, Inc. and Subsidiary

**Consolidated Statements of Cash Flows
Years Ended June 30, 2014 and 2013**

	2014	2013
Operating activities:		
Change in consolidated net assets	\$ 1,005,885	\$ 758,991
Adjustments to reconcile change in consolidated net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	767,268	717,601
Amortization of deferred financing costs	3,947	3,947
Loss on disposal of property and equipment	-	13,953
Provision for uncollectible accounts	262,448	402,945
Grant funds for capital expenditures	(458,753)	(1,059,485)
Developer fees used for capital expenditures	(30,501)	(419,490)
Deferred revenue	(287,811)	(262,810)
Changes in operating assets and liabilities:		
Patient services receivable	(290,401)	(477,146)
Prepaid expenses and other current assets	(90,915)	124,959
Accounts payable and accrued expenses	74,649	(658,671)
Accrued compensation	142,269	9,377
Refundable advances	185,079	(452,241)
Net cash provided by (used in) operating activities	<u>1,283,164</u>	<u>(1,298,070)</u>
Investing activities:		
Change in restricted cash and cash equivalents	31,945	98,143
Purchases of property and equipment	(799,430)	(1,081,323)
Net cash used in investing activities	<u>(767,485)</u>	<u>(983,180)</u>
Financing activities:		
Proceeds from line of credit	-	320,000
Repayments of line of credit	(558,096)	(55,285)
Repayments of long-term debt	(89,951)	(89,489)
Proceeds from deferred revenue	-	250,000
Repayments of capital lease obligations	(2,394)	(7,183)
Grant funds for capital expenditures	458,753	1,059,485
Developer fees used for capital expenditures	30,501	419,490
Net cash provided by (used in) financing activities	<u>(161,187)</u>	<u>1,897,018</u>
Net increase (decrease) in cash and cash equivalents	354,492	(384,232)
Cash and cash equivalents, beginning of year	<u>842,759</u>	<u>1,226,991</u>
Cash and cash equivalents, end of year	<u>\$ 1,197,251</u>	<u>\$ 842,759</u>
Supplemental disclosure of cash flow data:		
Interest paid	<u>\$ 660,481</u>	<u>\$ 704,072</u>

See Notes to Consolidated Financial Statements.

Generations Family Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements June 30, 2014 and 2013

Note 1 - Organization and summary of significant accounting policies

Nature of activities

Generations Family Health Center, Inc. (the "Center") operates community healthcare centers located in Willimantic, Putnam, Danielson and Norwich, Connecticut. The Center provides a broad range of health services to a largely medically underserved population. Generations Willimantic, LLC ("GW") is a limited liability company that was formed in June 2010 to acquire, invest in, own and maintain a 32,000 square foot community health center (the "Project") located in Willimantic, Connecticut. The Center holds a 90% membership interest in GW and is the managing member and statutory agent. The remaining 10% non-controlling membership interest in GW is held by Capital Link, Inc., a nonprofit corporation which is an unrelated third-party. Collectively, the Center and GW are referred to herein as the "Organization."

The U.S. Department of Health and Human Services (the "DHHS") provides substantial support to the Organization. The Organization is obligated under the terms of the DHHS grants to comply with specified conditions and program requirements set forth by the grantor.

Principles of consolidation

The consolidated financial statements include the accounts of the Center and GW. All significant inter-company accounts and transactions are eliminated in consolidation.

Basis of presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. They are described as follows:

Unrestricted - Net assets that are not subject to explicit donor-imposed stipulations. 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 either explicit donor-imposed stipulations or by the operation of law that can be fulfilled by actions of the Organization or that expire by the passage of time. At June 30, 2014 and 2013, there were no temporarily restricted net assets.

Permanently Restricted - Net assets subject to explicit donor-imposed stipulations that they be maintained permanently by the Organization and stipulate the use of income and/or appreciation as either unrestricted or temporarily restricted based on donor-imposed stipulations or by operation of law. At June 30, 2014 and 2013, there were no permanently restricted net assets.

Generations Family Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements June 30, 2014 and 2013

Non-controlling interest

Non-controlling interest in the consolidated statements of activities represents the non-controlling member's share of the income or loss of GW. The non-controlling interest in the consolidated statements of financial position reflects the original capital contribution by the non-controlling member, along with its proportional share of the income or loss of GW.

Performance indicator

The consolidated statements of activities include the operating income (loss) before nonoperating activities as the performance indicator.

Concentrations of credit risk

The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents (including restricted cash and cash equivalents), patient services receivable and revenue (see Notes 2 and 13) and grant revenue and receivables (see Note 3).

The Organization maintains cash and cash equivalents in bank accounts which at times, may exceed Federally insured limits. As of June 30, 2014, the Organization had cash and cash equivalents in excess of Federally insured limits of approximately \$1,300,000. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and cash equivalents

The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Restricted cash and cash equivalents

The composition of restricted cash and cash equivalents as of June 30, 2014 and 2013 is as follows:

	2014	2013
Asset management fee reserve	\$ 124,383	\$ 156,417
Put and call reserve	35,160	35,071
	<u>\$ 159,543</u>	<u>\$ 191,488</u>

Financial instruments

The carrying value of cash and cash equivalents, restricted cash and cash equivalents, patient services receivable, interest receivable, accounts payable and accrued expenses, line of credit, capital lease obligations and long-term debt as of June 30, 2014 and 2013 are believed to approximate fair value based on their maturities and current market conditions.

Generations Family Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements June 30, 2014 and 2013

Patient services receivable

The collection of receivables from third-party payors and patients is the Organization's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Patient services receivable from third-party payors are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under the Organization's charity care policy, less amounts covered by third-party payors and less an estimated allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Organization does not charge interest on past due accounts. The provision for uncollectible accounts is increased when patient services receivable are deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of provision for uncollectible accounts when received.

Property and equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$5,000 and having a useful life greater than one year. Purchased property and equipment is carried at cost less accumulated depreciation and amortization. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets which range from 3 to 40 years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less.

Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the consolidated statements of activities.

Certain property and equipment have been purchased with grant funds received from the DHHS. Such items or a portion thereof may be reclaimed by the Federal government if not used to further the grant's objectives.

Generations Family Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements June 30, 2014 and 2013

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Organization compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that impairment has occurred, the loss would be recognized during the period. The impairment loss is calculated as the difference between the asset carrying values and the present value of estimated net cash flows or comparable market values giving consideration to recent operating performance and pricing trends. The Organization does not believe that any material impairment currently exists related to its long-lived assets.

Deferred financing costs

Deferred financing costs consist of commitment fees paid to institutions within the new market tax credit financing structure (see Note 7). Costs are being amortized on a straight-line basis over the length of the corresponding loans.

Revenue recognition

Grants and contracts

Grant revenue from government grants and contracts designated for use in specific activities is recognized in the period when expenditures have been incurred in compliance with the grantor's requirements. Grants and contracts awarded for the acquisition of long-lived assets are reported as unrestricted nonoperating revenue, in the absence of donor stipulations to the contrary, during the fiscal year in which the assets are acquired. Cash received in excess of revenue recognized is recorded as refundable advances. These grants and contracts require the Organization to provide certain healthcare services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allocated under the grants and contracts.

Patient services revenue

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Patient services revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined.

Generations Family Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements June 30, 2014 and 2013

The Organization provides care to certain patients under Medicaid and Medicare payment arrangements. Laws and regulations governing the Medicaid and Medicare programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action.

Charity care and community benefit

The Organization is open to all patients, regardless of their ability to pay. In the ordinary course of business, the Organization renders services to patients who are financially unable to pay for healthcare. The Organization provides care to these patients who meet certain criteria under its sliding fee discount policy without charge or at amounts less than the established rates. Charity care services are computed using a sliding fee scale based on patient income and family size. The Organization maintains records to identify and monitor the level of sliding fee discount it provides. For uninsured self-pay patients that do not qualify for charity care, the Organization recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by policy. On the basis of historical experience, a significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided.

Community benefit represents the cost of services for Medicaid, Medicare and other public patients for which the Organization is not reimbursed.

Based on the cost of patient services, charity care approximated \$2,230,000 and \$2,608,000 and community benefit approximated \$2,494,000 and \$2,593,000 for the years ended June 30, 2014 and 2013, respectively.

Meaningful use incentives

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under the Medicare and Medicaid programs for certain professionals that: (1) meaningfully use certified Electronic Health Record ("EHR") technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of health care and (3) use the certified EHR technology to submit clinical and quality measures.

These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health ("HITECH") Act. The criteria for meaningful use incentives will be staged in three steps over six years and be paid out based on a transitional schedule.

Generations Family Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements June 30, 2014 and 2013

Most of the Organization's providers have met the first year criteria for Stage 1 (meaningful use through attesting to the adoption of a certified Electronic Health Record) and the Organization has earned \$127,500 from the Medicaid incentive program during the year ended June 30, 2013. This amount is included in other operating revenue on the accompanying consolidated statements of activities. No incentives were earned during the year ended June 30, 2014.

Contributions

Contributions are recorded at fair value when received or pledged. Amounts are recorded as unrestricted, temporarily restricted or permanently restricted revenue, depending on the existence and/or nature of any donor restrictions. 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 are reported in the consolidated statements of activities as net assets released from restrictions. Donor restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue. Conditional contributions are recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions on the consolidated statements of activities.

Donated goods and services

Donated goods and services are recorded at fair value at the time of the donation.

In-kind contributions

In-kind contributions consist primarily of medical supplies and are recorded at the fair value of the supplies provided. The fair value of those goods as provided by the funding sources was \$234,345 and \$318,254 for the years ended June 30, 2014 and 2013, respectively, and is recorded as donated vaccines and other on the consolidated statements of activities, along with a corresponding charge to consumable supplies in the accompanying consolidated statements of functional expenses.

Interest income

Interest earned on nonfederal funds is recorded as income on an accrual basis. Interest earned on Federal funds is recorded as a payable to the Public Health Service ("PHS") in compliance with Office of Management and Budget ("OMB") Circular A-110.

Functional expenses

Expenses are charged to program services or general and administrative based on a combination of specific identification and allocation by management.

Income taxes

The Center was incorporated as a not-for-profit entity and is exempt from Federal and state income tax under the provisions of the Internal Revenue Code Section 501(c)(3). GW is a limited liability company and in lieu of Federal and state corporate income taxes, the members are taxed individually on their proportionate share of GW's taxable income. Therefore, no provision or liability for Federal or state income taxes has been included in the consolidated financial statements for GW.

Generations Family Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements June 30, 2014 and 2013

The Organization has no unrecognized tax benefits at June 30, 2014 and 2013. The Organization's Federal and state tax returns prior to fiscal year 2011 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If the Organization has unrelated business income taxes, they will recognize interest and penalties associated with uncertain tax positions as part of the income tax provision and include accrued interest and penalties with the related tax liability in the consolidated statements of financial position.

Cost settlement

The Organization is subject to cost settlement procedures prescribed by various state agencies. No cost settlement payable was required for the years ended June 30, 2014 and 2013.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent events

The Organization has evaluated events and transactions for potential recognition or disclosure through November 25, 2014, which is the date the consolidated financial statements were available to be issued.

Note 2 - Patient services receivable, net

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables, net from patients and third-party payors as of June 30, 2014 and 2013 is as follows:

	2014	2013
Medicaid	\$ 492,948	\$ 565,700
Medicare	87,197	109,098
Private insurance	241,551	230,932
Self-pay	522,832	344,191
	<u>1,344,528</u>	<u>1,249,921</u>
Less allowance for doubtful accounts	(467,632)	(400,978)
	<u>\$ 876,896</u>	<u>\$ 848,943</u>

Generations Family Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements June 30, 2014 and 2013

Patient services receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of patient services receivable, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectable accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectable accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates provided by the Organization's policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

The Organization's allowance for doubtful accounts was 35% and 32% of gross patient receivables at June 30, 2014 and 2013, respectively. The Organization has not changed its charity care or uninsured discount policies during 2014 and 2013. The Organization had \$195,794 and \$699,684 of write-offs during the years ended June 30, 2014 and 2013, respectively.

Note 3 - Grants

Grant receivables are evidenced by contracts with a variety of Federal and state government agencies and, based on historical experience, management believes these receivables represent negligible credit risk. Accordingly, management has not established an allowance for doubtful accounts.

The Organization receives a significant amount of grants either directly from DHHS or passed through from other agencies and also from the State of Connecticut Department of Public Health ("DPH"). As with all government funding, these grants are subject to reduction or termination in future years. For the years ended June 30, 2014 and 2013, grants from DHHS consisted of 80% and 81%, respectively, and DPH consisted of 10% and 12%, respectively, of total grant revenue.

Generations Family Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements June 30, 2014 and 2013

Note 4 - Property and equipment, net

Property and equipment, net, consists of the following at June 30, 2014 and 2013:

	2014	2013
Land	\$ 1,322,380	\$ 1,281,030
Condominium	1,009,942	1,009,942
Building and building improvements	15,650,631	15,656,033
Equipment	2,157,427	2,070,660
Leasehold improvements	841,960	121,597
	<u>20,982,340</u>	<u>20,139,262</u>
Less accumulated depreciation and amortization	2,993,033	2,225,763
	<u>17,989,307</u>	<u>17,913,499</u>
Construction in progress	-	43,646
	<u>\$17,989,307</u>	<u>\$17,957,145</u>

In the event the DHHS grants are terminated, the DHHS reserves the right to transfer any property and equipment purchased with grant funds to PHS or other third parties.

Note 5 - Note receivable

As a result of the new market tax credit financing structure as described in Note 7, the Organization is the holder of a promissory note with Generations Investment Fund, LLC (the "Investment Fund") effective September 1, 2010 for the face value of \$9,005,125. This note bears interest at 4.2531% per annum and is due in interest-only payments terminating on March 1, 2018, which coincides with the date the new market tax credit period expires. At that time, management expects this note to be offset against the related secured note payable with the remaining amount of \$3,017,340 being recognized as an increase in net assets. If this transaction were not to occur, the principal balance will amortize over the life of the note maturing on December 1, 2042. Interest income for the years ended June 30, 2014 and 2013 totaled \$385,405 and \$383,925, respectively, and is included in the consolidated statements of activities as non-operating revenue.

Note 6 - Investments

The Center is a member of a not-for-profit health plan, Community Health Network of Connecticut, Inc. ("CHNCT"). CHNCT provides statewide healthcare services for the State of Connecticut HUSKY A, HUSKY B and Charter Oak Populations. The Center has purchased an interest in CHNCT. The Center's investment in CHNCT, as of June 30, 2014 and 2013, amounted to \$83,333 and is recognized based on cost due to ownership of less than 20%.

Generations Family Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements June 30, 2014 and 2013

Note 7 - New market tax credit financing

The Organization entered into a financing agreement with various entities for the purpose of receiving financing for the Project as described in Note 1. The new market tax credit structure consists of new market tax credit investors and other lenders that provide qualified equity investments to community development entities ("CDE") who in turn provide debt financing to qualified active low income community businesses ("QALICB").

The Center is a lender in this process and holds a note with the Investment Fund (see Note 5). The Center is also the managing and majority member of GW, through capital contributions of \$1,650,000 which were made during fiscal year 2011. An additional \$181,329 of capital contribution was made in fiscal year 2013. The Investment Fund made qualified equity investments to MHIC NE CDE II Subsidiary 2, LLC ("MHIC"), who qualifies as a CDE. As a CDE, MHIC has provided debt financing to GW. GW, who qualifies as a QALICB, received debt financing of \$12,022,465 from MHIC for the qualified purpose of constructing a community health center in a low-income area, as required by the terms of the agreements.

This structure will stay in effect for a period of seven years, until March 31, 2018 when the new market tax credit period expires. Built within the agreements are put and call options for the Organization to acquire 100% of the Investment Fund. After either the put or call options have been exercised, the remaining debt will be the balance due on the promissory note (see Note 9).

Note 8 - Line of credit

The Organization has a revolving line of credit of \$800,000, which is payable in full on demand effective February 15, 2015. This agreement requires interest to be charged at the bank's prime rate (3.25% at June 30, 2014) plus .50%. The line of credit is secured by all of the Organization's business assets. Interest is payable monthly on any outstanding balance. As of June 30, 2014 and 2013, the Organization had an outstanding balance of \$96,619 and \$654,715, respectively.

Note 9 - Long-term debt

Long-term debt consists of the following at June 30, 2014 and 2013:

	2014	2013
Mortgage payable - \$96,000 face amount maturing on October 1, 2019, payable in equal monthly installments of \$647 including interest of 6.25% with the remaining balance due at the maturity date. The note is collateralized by real property located in Willimantic, Connecticut.	\$ 76,028	\$ 78,877

Generations Family Health Center, Inc. and Subsidiary

**Notes to Consolidated Financial Statements
June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Promissory note - \$7,000,000 face amount. This promissory note is with the Rural Housing Service of the United States Department of Agriculture. The note bears interest at 3.75% and matures in 2051.	\$ 6,787,777	\$ 6,874,879
Secured note payable - \$12,022,465 face amount. During the introductory period which terminates in March 2018, interest-only payments are due to MHIC in equal amounts of \$33,633, based on an interest rate of 3.357% per annum. From April 2018 through maturity, monthly payments are increased to \$50,753, which include principal plus interest of 7.357% per annum. The remaining principal balance is due in August 2050. This note requires the Organization to comply with certain non-financial covenants.	12,022,465	12,022,465
	<u>18,886,270</u>	<u>18,976,221</u>
Less current maturities	88,050	84,741
Long-term portion	<u>\$18,798,220</u>	<u>\$18,891,480</u>

Principal payments on long-term debt during each of the five years subsequent to June 30, 2014 and thereafter are as follows:

<u>Year Ending June 30,</u>	<u>Total</u>
2015	\$ 88,050
2016	91,491
2017	95,069
2018	98,788
2019	154,161
Thereafter	18,358,711
	<u>\$18,886,270</u>

Generations Family Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements June 30, 2014 and 2013

Note 10 - Deferred revenue

The Organization has received bond funds for capital projects. The provider of the bond funds places a ten year lien on the applicable property when the project is completed. If the property is not utilized by the Organization, the bond funds will have to be repaid. The repayment is made in an amount equal to the amount of the bond less 10% for each full year of the ten year period that the location was utilized. For each full year that the property is utilized by the Organization, 10% of the deferred revenue will be reclassified to revenue and recorded in the consolidated statements of activities. Deferred revenue relating to bond funds, as of June 30, 2014 and 2013, was \$2,327,482 and \$2,615,293, respectively, and is included on the consolidated statements of financial position.

Note 11 - Asset management fee reserve

GW has established and maintains an asset management fee reserve related to fees due under certain management agreements with MHIC and other parties. The initial deposit of \$240,000 and additional annual deposits commencing on June 30, 2012, and continuing through June 30th of each subsequent year terminating on June 30, 2016 in the amount of \$1,577, are required to be made to the reserve account. These funds shall be used by GW to make annual payments directly to MHIC in set amounts commencing December 1, 2010 and continuing through December 1st of each subsequent year with the final payment being due upon maturity of the secured note payable as described in Note 9. As of June 30, 2014 and 2013, the required reserve for asset management fees totaled \$124,383 and \$156,417, respectively.

Note 12 - Guarantee

GW's note payable with MHIC is guaranteed by the Center. This guarantee includes liability for any non-payment or non-performance of GW during the term of the note.

Note 13 - Patient services revenue, net

The Organization recognizes patient services revenue associated with services provided to patients who have Medicaid, Medicare and third-party payor coverage on the basis of contractual rates for services rendered.

For the years ended June 30, 2014 and 2013, patient services revenue (net of contractual allowances and discounts but before the provision for uncollectible accounts) consists of the following:

	2014	2013
Medicaid	\$ 9,570,373	\$ 8,090,842
Medicare	942,705	931,040
Third-party payors	956,865	988,757
Self-pay patients	975,286	642,197
	<u>\$12,445,229</u>	<u>\$10,652,836</u>

Generations Family Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements June 30, 2014 and 2013

Medicaid and Medicare revenue is reimbursed to the Organization at the net reimbursement rates determined by each program. Reimbursement rates are subject to revisions under the provision of reimbursement regulations. Adjustments for such revisions are recognized in the fiscal year incurred.

Note 14 - Pension plan

The Generations Family Health Center Annuity Plan qualifies as an Internal Revenue Service 403(b) plan, also known as a tax sheltered annuity. Employees, who meet certain eligible requirements, may make tax-deferred contributions to a retirement account. In addition, the Organization makes discretionary non-elective contributions. Pension expense for the years ended June 30, 2014 and 2013 amounted to \$152,117 and \$160,360, respectively.

Note 15 - Leases

The Organization leases space and various office equipment, which either expire at various times through December 2015 or are on a month-to-month basis. For the years ended June 30, 2014 and 2013, rent expense amounted to \$553,033 and \$579,303, respectively. Future minimum lease payments under the noncancelable operating leases are as follows:

Year Ending <u>June 30,</u>	
2015	\$ 14,635
2016	1,410
	<u>\$ 16,045</u>

Note 16 - Collective bargaining agreement

Approximately 57% of the Center's labor force is covered by a collective bargaining agreement, which expires in January 2015.

Note 17 - Commitments and contingencies

The Center has contracted with various funding agencies to perform certain healthcare services, and receives Medicaid and Medicare revenue from Federal, state and local governments. Reimbursements received under these contracts and payments from Medicaid and Medicare are subject to audit by Federal, state and local governments and other agencies. Upon audit, if discrepancies are discovered, the Organization could be held responsible for refunding the amounts in question.

Generations Family Health Center, Inc. and Subsidiary

Notes to Consolidated Financial Statements June 30, 2014 and 2013

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

In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulation by healthcare providers. The Organization believes that it is in material compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Upon audit, if discrepancies are discovered, the Organization could be held responsible for refunding the amounts in question.

The Center maintains its medical malpractice coverage under the Federal Tort Claims Act (the "FTCA"). The FTCA provides malpractice coverage to eligible PHS-supported programs and applies to the Organization and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractice cases approved for FTCA coverage. The Organization maintains gap insurance for claims that are not covered by the FTCA.

The Organization is involved in various claims and legal actions arising in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters would not have a material adverse impact on the financial position of the Organization or its results of operations.

Generations Family Health Center, Inc. and Subsidiary
Consolidating Statement of Financial Position
June 30, 2014

Assets

	GFHC	GW	Total	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	\$ 1,084,071	\$ 113,180	\$ 1,197,251	\$ -	\$ 1,197,251
Patient services receivable, net	876,896	-	876,896	-	876,896
Interest receivable	31,916	-	31,916	-	31,916
Prepaid expenses and other current assets	504,347	-	504,347	-	504,347
Total current assets	2,497,230	113,180	2,610,410	-	2,610,410
Property and equipment, net	6,474,326	13,022,302	19,496,628	(1,507,321)	17,989,307
Other assets:					
Restricted cash and cash equivalents	-	159,543	159,543	-	159,543
Note receivable	9,005,125	-	9,005,125	-	9,005,125
Investment, at cost	83,333	-	83,333	-	83,333
Deferred financing costs, net	15,132	-	15,132	-	15,132
Equity investment in subsidiary	1,074,659	-	1,074,659	(1,074,659)	-
Total other assets	10,178,249	159,543	10,337,792	(1,074,659)	9,263,133
Total assets	\$ 19,149,805	\$ 13,295,025	\$ 32,444,830	\$ (2,581,980)	\$ 29,862,850

Liabilities and Net Assets

Current liabilities:					
Accounts payable and accrued expenses	\$ 291,925	\$ 98,643	\$ 390,568	\$ -	\$ 390,568
Accrued compensation	833,229	-	833,229	-	833,229
Refundable advances	241,906	-	241,906	-	241,906
Line of credit	96,619	-	96,619	-	96,619
Current maturities of long-term debt	88,050	-	88,050	-	88,050
Total current liabilities	1,551,729	98,643	1,650,372	-	1,650,372
Long-term debt, less current maturities	6,775,755	12,022,465	18,798,220	-	18,798,220
Deferred revenue	2,327,482	-	2,327,482	-	2,327,482
Total liabilities	10,654,966	12,121,108	22,776,074	-	22,776,074
Net assets unrestricted:					
Controlling interest	8,494,839	-	8,494,839	(1,507,321)	6,987,518
Non-controlling interest	-	1,173,917	1,173,917	(1,074,659)	99,258
Total net assets	8,494,839	1,173,917	9,668,756	(2,581,980)	7,086,776
Total liabilities and net assets	\$ 19,149,805	\$ 13,295,025	\$ 32,444,830	\$ (2,581,980)	\$ 29,862,850

See Independent Auditor's Report.

Generations Family Health Center, Inc. and Subsidiary

Consolidating Statement of Activities Year Ended June 30, 2014

	GFHC	GW	Total	Eliminations	Consolidated
Unrestricted revenue:					
Patient services revenue, net of contractual allowance and discounts	\$ 12,445,229	\$ -	\$ 12,445,229	\$ -	\$ 12,445,229
Provision for uncollectible accounts	(262,448)	-	(262,448)	-	(262,448)
Patient services revenue, net of provision for uncollectible accounts	<u>12,182,781</u>	<u>-</u>	<u>12,182,781</u>	<u>-</u>	<u>12,182,781</u>
DHHS grants	3,126,788	-	3,126,788	-	3,126,788
Contract services and other grants	1,775,006	-	1,775,006	-	1,775,006
Donated vaccines and other	234,345	-	234,345	-	234,345
Other revenue	<u>294,999</u>	<u>-</u>	<u>294,999</u>	<u>-</u>	<u>294,999</u>
Total unrestricted revenue	<u>17,613,919</u>	<u>-</u>	<u>17,613,919</u>	<u>-</u>	<u>17,613,919</u>
Expenses:					
Salaries and benefits	12,996,786	-	12,996,786	-	12,996,786
Other than personnel services	3,693,439	13,440	3,706,879	(424,000)	3,282,879
Interest	<u>290,520</u>	<u>-</u>	<u>290,520</u>	<u>-</u>	<u>290,520</u>
Total expenses	<u>16,980,745</u>	<u>13,440</u>	<u>16,994,185</u>	<u>(424,000)</u>	<u>16,570,185</u>
Operating income (loss) before depreciation and amortization	633,174	(13,440)	619,734	424,000	1,043,734
Depreciation and amortization	<u>424,010</u>	<u>343,258</u>	<u>767,268</u>	<u>-</u>	<u>767,268</u>
Operating income (loss) before nonoperating activities	<u>209,164</u>	<u>(356,698)</u>	<u>(147,534)</u>	<u>424,000</u>	<u>276,466</u>
Nonoperating activities:					
Grant funds used for capital expenditures	458,753	-	458,753	-	458,753
Developer fees	30,501	-	30,501	-	30,501
Change in investment in LLC	(334,211)	-	(334,211)	334,211	-
Interest income	385,405	358	385,763	-	385,763
Asset management fees	-	(35,412)	(35,412)	-	(35,412)
Interest expense	-	(403,594)	(403,594)	-	(403,594)
Rental income	-	424,000	424,000	(424,000)	-
Contributions and other revenue	<u>293,408</u>	<u>-</u>	<u>293,408</u>	<u>-</u>	<u>293,408</u>
Total nonoperating activities	<u>833,856</u>	<u>(14,648)</u>	<u>819,208</u>	<u>(89,789)</u>	<u>729,419</u>
Change in consolidated net assets	1,043,020	(371,346)	671,674	334,211	1,005,885
Change in net assets attributable to non-controlling interest	<u>-</u>	<u>37,135</u>	<u>37,135</u>	<u>-</u>	<u>37,135</u>
Increase (decrease) in net assets attributable to Generations Family Health Center, Inc. and Subsidiary	<u>\$ 1,043,020</u>	<u>\$ (334,211)</u>	<u>\$ 708,809</u>	<u>\$ 334,211</u>	<u>\$ 1,043,020</u>

See Independent Auditor's Report.

Generations Family Health Center, Inc.

**Federal Awards in
Accordance with OMB Circular A-133
and Independent Auditor's Reports**

June 30, 2014

Generations Family Health Center, Inc.

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Independent Auditor's 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*

To the Board of Directors
Generations Family Health Center, Inc.

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 consolidated financial statements of Generations Family Health Center, Inc. and Subsidiary (a nonprofit entity), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report dated November 25, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Generations Family Health Center, Inc. and Subsidiary'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Generations Family Health Center, Inc. and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of Generations Family Health Center, Inc. and Subsidiary'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 entity's 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 Generations Family Health Center, Inc. and Subsidiary's consolidated 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 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

Glastonbury, Connecticut
November 25, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

To the Board of Directors
Generations Family Health Center, Inc.

Report on Compliance for Each Major Federal Program

We have audited Generations Family Health Center, Inc.'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 Generations Family Health Center, Inc.'s major Federal programs for the year ended June 30, 2014. Generations Family Health Center, Inc.'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 Generations Family Health Center, Inc.'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 Generations Family Health Center, Inc.'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 Generations Family Health Center, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Generations Family Health Center, Inc. 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.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 2014-001. Our opinion on the major Federal program is not modified with respect to this matter.

Generations Family Health Center, Inc.'s response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Generations Family Health Center, Inc.'s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Generations Family Health Center, Inc. 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 Generations Family Health Center, Inc.'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 Generations Family Health Center, Inc.'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.

Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the consolidated financial statements of Generations Family Health Center, Inc. and Subsidiary as of and for the year ended June 30, 2014, and have issued our report thereon dated November 25, 2014, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of Federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CohnReznick LLP

Glastonbury, Connecticut
November 25, 2014

Generations Family Health Center, Inc.

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Pass-Through ID/ Grantor's Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Health Center Cluster:			
Consolidated Health Centers Passed through the Massachusetts League of Community Health Centers:	93.224	N/A	\$ 1,172,390
Consolidated Health Centers	93.224	N/A	<u>37,357</u>
Total CFDA 93.224			<u>1,209,747</u>
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	N/A	<u>1,653,254</u>
Total Health Center Cluster			<u>2,863,001</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	<u>301,144</u>
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	N/A	<u>458,753</u>
Passed through the State of Connecticut Department of Public Health:			
Immunization Cooperative Agreements	93.268	N/A	234,345
Affordable Care Act (ACA) Maternal, Infant and Early Childhood Home Visiting Program	93.505	2012-0145	<u>560,976</u>
			<u>795,321</u>
Passed through the Community Health Center Association of Connecticut:			
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153	H12HA24859AO	35,034
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	N/A	<u>13,830</u>
			<u>48,864</u>
U.S. Department of Agriculture:			
Passed through the Community Health Center Association of Connecticut:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	094CHC-FSP-02-A1	<u>58,849</u>
Total Federal Awards			<u>\$ 4,525,932</u>

See Notes to Schedule of Expenditures of Federal Awards.

Generations Family Health Center, Inc.

**Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

Note 1 - Basis of presentation

The accounting policies of Generations Family Health Center, Inc. (the "Center") conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit entities. The Center recognizes grants to the extent that eligible grant costs are incurred.

The accompanying schedule of expenditures of Federal awards (the "Schedule") includes the Federal grant activity of the Center and is presented on the accrual basis of accounting. All expenditures incurred under Federally sponsored agreements are recognized and recorded on an accrual basis, except for subrecipient award costs which are recognized and recorded on a cash basis. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Government, 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 consolidated financial statements.

Note 2 - Noncash assistance

The Center received and used vaccines with a fair value of \$234,345 under Federal CFDA Number 93.268, passed through the State of Connecticut Department of Public Health. Such non-cash assistance has been included in the schedule of expenditures of Federal awards.

Note 3 - Subrecipients

There were no Federal awards provided to subrecipients.

Note 4 - Loan program

The following is a summary of the loan program activity for the year ended June 30, 2014:

United States Department of Agriculture

Community Facilities Loans and Grants (CFDS #10.766)

Issue date	12/1/2011
Interest rate	3.75%
Original amount	<u>\$7,000,000</u>
Balance, beginning of year	\$6,874,879
Paid during fiscal year	<u>87,102</u>
Balance, end of year	<u><u>\$6,787,777</u></u>

Generations Family Health Center, Inc.

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

I. Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	_____ yes <u> X </u> no
Significant deficiency(ies) identified?	_____ yes <u> X </u> none reported
Noncompliance material to financial statements noted?	_____ yes <u> X </u> no

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	_____ yes <u> X </u> no
Significant deficiency(ies) identified?	_____ yes <u> X </u> none reported
Type of auditor's report issued on compliance for major programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	<u> X </u> yes _____ no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	U.S. Department of Health and Human Services:
	Health Center Cluster:
93.224	Consolidated Health Centers
93.527	Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Centers Program
	Passed-through State of Connecticut Department of Public Health:
93.505	Affordable Care Act (ACA) Maternal, Infant and Early Childhood Home Visiting Program
93.918	Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease

Dollar threshold used to distinguish between type A and type B programs	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	_____ yes <u> X </u> no

Generations Family Health Center, Inc.

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

II. Schedule of findings in accordance with *Government Auditing Standards*
None

III. Schedule of findings and questioned costs in accordance with Circular A-133:

Finding 2014-001: Activities Allowed or Unallowed

Grantor: U.S. Department of Health and Human Services
Federal Program Name: Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease
CFDA Number: 93.918

Criteria:

As prescribed by OMB Circular A-122, charges for salaries and wages must be supported by records indicating the total number of hours worked each day as maintained in conformity with Department of Labor regulations.

Condition:

There was an instance where the salaries and wages charged to the funding source did not agree with the approved payroll record.

Questioned Cost:

None.

Effect:

Certain personnel costs allocated to funding sources are not supported by accurate payroll records.

Cause:

An employee did not utilize the electronic time keeping system and the manual recording of their time created a discrepancy between their payroll disbursement and formal payroll documentation.

Recommendation:

We recommend that only the electronic time keeping system be utilized in order to avoid future discrepancies whether due to timing or manual error.

Management's Response:

Payroll department will communicate to supervisors the importance of recording time electronically in order to ensure the consistency and accuracy of the documentation maintained.

Generations Family Health Center, Inc.

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

IV. Prior year findings and questioned costs:

Finding 2013-1: Activities Allowed or Unallowed

Condition:

There were instances where hourly employees did not have proper approval over payroll time reports by their supervisors upon submission of the electronic payroll.

Current Status:

There was a similar finding in the current year (Finding 2014-001).