

Generations Family Health Center, Inc. and Subsidiary

**Report on Consolidated Financial Statements
(With Supplementary Information)**

Years Ended June 30, 2012 and 2011

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

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Report of Independent Public Accountants

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

We have audited the accompanying consolidated statements of financial position of Generations Family Health Center, Inc. and Subsidiary as of June 30, 2012 and 2011, and the related consolidated statements of activities, changes in net assets, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. 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 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 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Generations Family Health Center, Inc. and Subsidiary as of June 30, 2012 and 2011, and the changes in their net assets and 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 December 3, 2012 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* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 25 and 26 is presented for purposes of additional analysis and is not a required part of the 2012 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 2012 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 2012 consolidated financial statements or to the 2012 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 2012 consolidating information is fairly stated in all material respects in relation to the 2012 consolidated financial statements as a whole.



Glastonbury, Connecticut
December 3, 2012

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011**

ASSETS

	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 1,226,991	\$ 1,601,580
Patient services receivable, net	774,742	747,868
Interest receivable	31,916	31,916
Prepaid expenses and other current assets	538,391	347,128
Total current assets	<u>2,572,040</u>	<u>2,728,492</u>
Property and equipment, net	<u>17,607,376</u>	<u>8,714,160</u>
Other assets:		
Restricted cash and cash equivalents	289,631	6,395,490
Note receivable	9,005,125	9,005,125
Investment, at cost	83,333	83,333
Deferred financing costs, net	23,026	50,000
Total other assets	<u>9,401,115</u>	<u>15,533,948</u>
 Total assets	 <u><u>\$ 29,580,531</u></u>	 <u><u>\$ 26,976,600</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable and accrued expenses	\$ 974,590	\$ 1,116,811
Accrued compensation	681,583	565,076
Refundable advances	509,068	101,874
Line of credit	390,000	125,000
Current maturities of long-term debt	81,557	59,371
Current maturities of capital lease obligations	7,182	7,182
Total current liabilities	<u>2,643,980</u>	<u>1,975,314</u>
Long-term debt, less current maturities	18,984,153	19,519,698
Deferred revenue	2,628,103	778,103
Capital lease obligations, less current maturities	<u>2,395</u>	<u>9,577</u>
Total liabilities	<u>24,258,631</u>	<u>22,282,692</u>
Commitments and contingencies		
Net assets:		
Unrestricted consolidated net assets	5,152,491	4,508,387
Non-controlling interest	169,409	185,521
Total net assets	<u>5,321,900</u>	<u>4,693,908</u>
Total liabilities and net assets	<u><u>\$ 29,580,531</u></u>	<u><u>\$ 26,976,600</u></u>

See Notes to Consolidated Financial Statements.

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
Unrestricted revenue:		
DHHS grants	\$ 2,961,222	\$ 3,575,597
Patient services revenue, net	8,404,801	7,243,076
Contract services and other grants	1,284,994	1,171,061
Donated vaccines and other	176,168	111,298
Other revenue	729,683	62,520
Total unrestricted revenue	13,556,868	12,163,552
Expenses:		
Salaries and benefits	10,884,887	9,004,617
Other than personnel services	3,039,582	2,986,099
Provision for bad debts	721,640	289,931
Interest	229,261	51,012
Total expenses	14,875,370	12,331,659
Operating loss before depreciation and amortization	(1,318,502)	(168,107)
Depreciation and amortization	406,250	189,153
Operating loss before nonoperating activities	(1,724,752)	(357,260)
Nonoperating activities:		
Grant funds used for capital expenditures	2,084,281	2,313,470
Interest income	388,661	379,595
Other income	-	158,127
Interest expense	(309,716)	(394,451)
Loss on disposal of property and equipment	(64,158)	-
Contribution and other revenue	253,676	41,323
Total nonoperating activities	2,352,744	2,498,064
Change in consolidated net assets	627,992	2,140,804
Change in net assets attributable to non-controlling interest	16,112	(2,188)
Increase in net assets attributable to Generations Family Health Center, Inc. and Subsidiary	\$ 644,104	\$ 2,138,616

See Notes to Consolidated Financial Statements.

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2012 AND 2011**

	Total Generations Family Health Center, Inc. and Subsidiary	Non-controlling Interest	Total
Net assets, July 1, 2010	\$ 2,369,771	\$ -	\$ 2,369,771
Capital contributions	-	183,333	183,333
Change in consolidated net assets	<u>2,138,616</u>	<u>2,188</u>	<u>2,140,804</u>
Net assets, June 30, 2011	4,508,387	185,521	4,693,908
Change in consolidated net assets	<u>644,104</u>	<u>(16,112)</u>	<u>627,992</u>
Net assets, June 30, 2012	<u>\$ 5,152,491</u>	<u>\$ 169,409</u>	<u>\$ 5,321,900</u>

See Notes to Consolidated Financial Statements.

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2012**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salary and wages	\$ 7,147,964	\$ 1,435,286	\$ 8,583,250
Fringe benefits	1,904,966	396,671	2,301,637
Consumable supplies	841,144	200,333	1,041,477
Provision for bad debts	721,640	-	721,640
Occupancy	332,219	211,275	543,494
Other	239,800	254,294	494,094
Patient care related contractual services	332,080	-	332,080
Equipment rental and maintenance	271,121	34,495	305,616
Non patient care related contractual services	52,872	218,024	270,896
Travel, conferences and meetings	44,028	7,897	51,925
Interest	-	229,261	229,261
	<u>11,887,834</u>	<u>2,987,536</u>	<u>14,875,370</u>
Depreciation and amortization	193,295	212,955	406,250
Total functional expenses	<u>\$ 12,081,129</u>	<u>\$ 3,200,491</u>	<u>\$ 15,281,620</u>

See Notes to Consolidated Financial Statements.

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2011**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salary and wages	\$ 5,975,319	\$ 1,220,465	\$ 7,195,784
Fringe benefits	1,372,489	436,344	1,808,833
Consumable supplies	421,585	132,620	554,205
Provision for bad debts	289,931	-	289,931
Occupancy	454,625	292,719	747,344
Other	215,007	200,897	415,904
Patient care related contractual services	647,535	-	647,535
Equipment rental and maintenance	347,176	57,091	404,267
Non patient care related contractual services	-	182,241	182,241
Travel, conferences and meetings	30,192	4,411	34,603
Interest	204	50,808	51,012
	<u>9,754,063</u>	<u>2,577,596</u>	<u>12,331,659</u>
Depreciation and amortization	151,322	37,831	189,153
	<u>9,905,385</u>	<u>2,615,427</u>	<u>12,520,812</u>
Total functional expenses	<u>\$ 9,905,385</u>	<u>\$ 2,615,427</u>	<u>\$ 12,520,812</u>

See Notes to Consolidated Financial Statements.

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Operating activities:		
Change in consolidated net assets	\$ 627,992	\$ 2,140,804
Adjustments to reconcile change in consolidated net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	406,250	189,153
Amortization of deferred financing costs	26,974	-
Loss on disposal of property and equipment	64,158	-
Provision for bad debts	721,640	289,931
Grants and contributions received for capital expenditures	(2,337,957)	(2,354,793)
Changes in operating assets and liabilities:		
Patient services receivable	(748,514)	(316,571)
Interest receivable	-	(31,916)
Prepaid expenses and other current assets	(191,263)	(70,748)
Accounts payable and accrued expenses	(142,221)	801,276
Accrued compensation	116,507	161,275
Refundable advances	407,194	46,516
Net cash provided by (used in) operating activities	(1,049,240)	854,927
Investing activities:		
Change in restricted cash	6,105,859	(6,395,490)
Cash paid for purchases of property and equipment	(9,363,624)	(40,115)
Purchases of construction in progress	-	(6,142,265)
Net cash used in investing activities	(3,257,765)	(12,577,870)
Financing activities:		
Cash paid to establish note receivable	-	(405,125)
Deferred financing costs	-	(50,000)
Proceeds from line of credit	500,000	125,000
Repayment of line of credit	(235,000)	-
Proceeds from long-term debt	-	12,022,466
Repayment of long-term debt	(513,359)	(2,156,044)
Proceeds from deferred revenue	1,850,000	778,103
Repayment of capital lease obligations	(7,182)	(7,183)
Grants and contributions received for capital expenditures	2,337,957	2,354,793
Capital contributions	-	183,333
Net cash provided by financing activities	3,932,416	12,845,343
Net (decrease) increase in cash and cash equivalents	(374,589)	1,122,400
Cash and cash equivalents, beginning of year	1,601,580	479,180
Cash and cash equivalents, end of year	\$ 1,226,991	\$ 1,601,580

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Supplemental disclosure of cash flow data:		
Interest paid	<u>\$ 713,800</u>	<u>\$ 813,182</u>
Supplemental disclosure of noncash investing transactions:		
Net change in long-term debt	\$ (513,359)	\$ 18,466,422
Payments on long-term debt	513,359	2,156,044
Amounts transferred to Generations Investment Fund, LLC	-	(8,600,000)
Net proceeds from long-term debt	<u>\$ -</u>	<u>\$ 12,022,466</u>
Increase in notes receivable	\$ -	\$ 9,005,125
Amounts transferred to Generations Investment Fund, LLC	-	(8,600,000)
Cash paid to establish note receivable	<u>\$ -</u>	<u>\$ 405,125</u>

See Notes to Consolidated Financial Statements.

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 non-profit 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, 2012 and 2011, 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, 2012 and 2011, there were no permanently restricted net assets.

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and summary of significant accounting policies (continued):

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 earnings of GW.

Cash and cash equivalents:

The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. At June 30, 2012 and 2011, cash equivalents were \$1,226,991 and \$1,601,580, respectively.

Restricted cash and cash equivalents:

Restricted cash and cash equivalents consists of funds held by GW that are required to be held in a construction escrow account, asset management fee reserves required to be held by GW and unused bonding funds received from the Department of Social Service ("DSS") and held by the Organization in a tax-exempt proceeds fund.

The composition of restricted cash and cash equivalents as of June 30, 2012 and 2011 is as follows:

	2012	2011
Escrow account	\$ 289,591	\$ 5,278,655
Bond funds	20	441,850
Asset management fees	20	240,000
Construction period interest	-	434,985
	<u>\$ 289,631</u>	<u>\$ 6,395,490</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, 2012 and 2011 are believed to approximate fair value based on their maturities and current market conditions.

Income taxes:

The Center was incorporated as a not-for-profit entity and is exempt from Federal 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.

The Organization has no unrecognized tax benefits at June 30, 2012 and 2011. The Organization's Federal and state tax returns prior to fiscal year 2009 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and summary of significant accounting policies (continued):

Income taxes (concluded):

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.

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 receivables 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 bad debts is increased when patient receivables are deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of provision for bad debts 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. 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.

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and summary of significant accounting policies (continued):

Property and equipment (concluded):

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.

Construction in progress:

Construction-in-progress is recorded at cost. The Organization capitalizes construction, insurance, interest and other costs during the period of construction. Depreciation is recorded when construction is substantially complete and the assets are placed in service.

For the years ended June 30, 2012 and 2011, the Organization capitalized interest of \$201,797 and \$367,719, respectively, during the construction of community health center facilities.

Deferred financing costs:

Deferred financing costs consist of commitment fees paid to institutions within the new market tax credit financing structure (see Note 6). 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.

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and summary of significant accounting policies (continued):

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. Service fees are 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.

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. Self-pay revenue is recorded at gross charges less sliding fee scale discounts (i.e., charity care) to arrive at net self-pay patient revenue

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 the course of the next four years and be paid out based on a transitional schedule. 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 \$361,250 from the Medicaid incentive program during the year ended June 30, 2012. This amount is included in other revenue on the accompanying consolidated statements of activities.

Contributions:

Contributions are recorded as either temporarily or permanently restricted revenue if they are received with donor stipulations that limit the use of the donated asset. 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.

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and summary of significant accounting policies (continued):

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 source is \$175,449 and \$110,204 for the years ended June 30, 2012 and 2011, 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.

Charity care:

The Organization's charity care policy is to provide care to all patients regardless of their ability to pay or lack of available third party reimbursement. Charity care services are computed using a sliding fee scale based on patient income and family size. The amount of patient service revenue foregone under the Organization's charity care policy totaled \$2,154,144 and \$2,351,732 for the years ended June 30, 2012 and 2011, respectively. The cost of providing this charity care was \$2,243,900 for the year ended June 30, 2012.

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.

Cost settlement:

The Organization is subject to cost settlement procedures prescribed by various state agencies. As of June 30, 2012 and 2011, management has recorded cost settlement payables of \$55,967 and \$11,306, respectively, which is included in refundable advances in the consolidated statements of financial position.

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.

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Organization and summary of significant accounting policies (concluded):

Reclassifications:

Certain prior year amounts have been reclassified to conform with the current year presentation.

Concentration of credit risk:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and patient services receivable. The Organization maintains its cash and cash equivalents with high-credit quality financial institutions, which at times, may exceed Federally insured limits. At June 30, 2012, the Organization had cash in excess of the Federally insured limits of \$918,668.

Patient services receivable are reported at their outstanding unpaid balances reduced by an allowance for doubtful accounts. The Organization estimates doubtful accounts based on historical bad debts, factors related to specific payors' ability to pay and current economic trends.

Subsequent events:

The Organization has evaluated events and transactions for potential recognition or disclosure through December 3, 2012, which is the date the consolidated financial statements were available to be issued.

Note 2 - Patient services receivable, net

Patient services receivable, net, consist of the following at June 30, 2012 and 2011:

	2012	2011
Medicaid	\$ 449,011	\$ 417,650
Medicare	377,574	187,864
Private insurance	251,635	132,174
Self-pay	394,239	466,054
	1,472,459	1,203,742
Less allowance for doubtful accounts	697,717	455,874
	\$ 774,742	\$ 747,868

Note 3 - Property and equipment, net

Property and equipment, net, consists of the following at June 30, 2012 and 2011:

	2012	2011
Land	\$ 1,281,030	\$ 1,200,280
Condominium	1,009,942	1,009,942
Building	11,913,168	98,700
Equipment	1,972,860	1,044,683
Construction in progress	3,258,405	6,734,262
Leasehold improvements	121,597	538,772
	19,557,002	10,626,639
Less accumulated depreciation and amortization	1,949,626	1,912,479
	\$17,607,376	\$ 8,714,160

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.

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 - Note receivable:

As a result of the new market tax credit financing structure as described in Note 6, 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, 2012 and 2011 totaled \$382,997 and \$348,953, respectively, and is included in the consolidated statements of activities as non-operating revenue.

Note 5 - 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, 2012 and 2011, amounted to \$83,333 and is recognized based on cost due to ownership of less than 20%.

Note 6 - 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 4). 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. 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 \$12,022,466 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 7 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 would be the balance due on an original \$7,000,000 loan payable to the Rural Housing Service of the United States Department of Agriculture.

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 - Line of credit:

The Organization has a revolving line of credit of \$800,000, which is payable in full on demand effective April 2, 2013. This agreement requires interest to be charged at the bank's prime rate (3.25% at June 30, 2012) 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, 2012 and 2011, the Organization had an outstanding balance of \$390,000 and \$125,000, respectively.

Note 8 - Long-term debt:

Long-term debt consists of the following at June 30, 2012 and 2011:

	2012	2011
<p>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.</p>	\$ 81,553	\$ 84,050
<p>Promissory note - \$7,800,000 face amount matured upon completion of the Project described in Note 1. The Organization is required to pay interest-only payments using the greater of The Wall Street Journal prime rate plus one percent, or 5%. During December 2011, upon completion of the Project, the principal balance was transferred to a permanent loan with the Rural Housing Service of the United States Department of Agriculture. The note bears interest at 3.75% and matures in 2051.</p>	6,961,692	7,000,000
<p>Secured note payable - \$12,022,465 face amount. During the introductory period which terminates on March 2018, interest-only payments are due in equal amounts of \$33,813, 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 on August 2050. This note requires the Organization to comply with certain financial, non-financial and construction-related covenants, once the construction project is completed.</p>	12,022,465	12,022,465

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 - Long-term debt (concluded):

	<u>2012</u>	<u>2011</u>
Mortgage payable - \$475,000 face amount maturing on December 1, 2029, payable in equal monthly payments of \$3,683 including interest of 7.00% with the remaining balance due at the maturity date. The note is collateralized by real property located in Putnam, Connecticut. The mortgage was paid in full during fiscal year 2012.	\$ -	\$ 458,128
Unsecured installment note - \$55,000 face amount maturing on December 3, 2011, payable in equal monthly payments of \$2,450 on the 3rd day of the month including interest of 6.50%.	-	14,426
	<u>19,065,710</u>	<u>19,579,069</u>
Less current maturities	81,557	59,371
Long-term portion	<u>\$ 18,984,153</u>	<u>\$ 19,519,698</u>

Principal payments on long-term debt during each of the five years subsequent to June 30, 2012 and thereafter are as follows:

<u>Year ending June 30,</u>	<u>Total</u>
2013	\$ 81,557
2014	84,741
2015	88,050
2016	91,491
2017	95,069
Thereafter	18,624,802
	<u>\$19,065,710</u>

Note 9 - Deferred revenue:

The Organization has received bond funds for the Project. The provider of the bond funds placed a ten year lien on the property when the Project was completed. The Project was completed in fiscal year 2012. 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 Project is utilized by the Organization, 10% of the deferred revenue will be reclassified to revenue and recorded in the consolidated statements of activities. The total funds received as of June 30, 2012 and 2011 were \$2,628,103 and \$778,103, respectively, and are classified as deferred revenue in the accompanying consolidated statements of financial position.

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 - 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 note. At June 30, 2012, the required reserve for asset management fees totaled \$191,410. This required reserve was included as a due from Generations Family Health Center, Inc. and transferred into GW's cash accounts in July 2012. This amount was combined with amounts owed to the Center from GW and eliminated in consolidation.

Note 11 - Construction period interest reserve:

GW was required to hold, or direct the escrow agent to hold, loan proceeds in the amount of \$434,985, which was applied to make interest payments during the construction of the Project. As a result of the completion of the construction, this reserve is no longer required.

Note 12 - Guarantee:

GW's note payable with MHIC is guaranteed by the Center. This guarantee includes completion of the Project in accordance with applicable provisions of the agreement, liability for any insufficient funds necessary to complete the Project, and liability for any non-payment or non-performance of GW during the term of the note.

Note 13 - DHHS grants:

For the year ended June 30, 2012, the Organization received the following grants from the DHHS:

<u>Award Number</u>	<u>Grant Period</u>	<u>Total Grant</u>	<u>Revenue Recognized</u>
2H80CS00155-10	03/01/11- 12/31/11	\$ 2,175,339	\$ 1,290,758
5H80CS00155-11	01/01/12- 12/31/12	2,619,520	1,311,029
5H76HA00787-09	04/01/11- 03/31/12	321,750	245,119
1C8ACS21267-01	10/01/10- 09/30/12	5,000,000*	1,724,762
6C81CS13519-01	06/29/09- 06/30/12	768,210*	393,683
5H76HA00787-10	04/01/12- 03/31/13	321,750	80,152
Total DHHS grants			5,045,503
Less: Grant funds used for capital expenditures			(2,084,281)
Total DHHS funds used for operations			<u>\$ 2,961,222</u>

* Grants include both operating and capital expenditures.

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 13 - DHHS grants (concluded):

For the year ended June 30, 2011, the Organization received the following grants from the DHHS:

<u>Award Number</u>	<u>Grant Period</u>	<u>Total Grant</u>	<u>Revenue Recognized</u>
6H80CS00155-09	01/01/10- 02/28/11	\$2,275,453	\$ 1,300,251
6H80CS00155-10	03/01/11- 12/31/11	2,140,339	650,142
1C8ACS21267-01	10/01/10- 09/30/12	5,000,000*	2,257,000
6H76HA00787-08	04/01/10- 03/31/11	321,750	258,131
5H76HA00787-09	04/01/11- 03/31/12	321,750	76,631
1H8ACS11306-01	03/01/09- 04/30/11	1,125,000	835,826
6C81CS13519-01	06/29/09- 06/28/11	768,210*	374,527
6H8BCS11773-01	03/27/09- 03/26/11	262,264	136,559
Total DHHS grants			<u>5,889,067</u>
Less: Grant funds used for capital expenditures			<u>(2,313,470)</u>
Total DHHS funds used for operations			<u>\$ 3,575,597</u>

* Grants include both operating and capital expenditures.

Note 14 - Patient services revenue, net:

For the years ended June 30, 2012 and 2011, patient services revenue, net, consists of the following:

	<u>2012 Net Revenue</u>	<u>2011 Net Revenue</u>
Medicaid	75%	75%
Medicare	10	10
Private insurance	11	7
Self-pay	4	8
	<u>100 %</u>	<u>100 %</u>

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

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 15 - Contract services and other grants:

Contract services and other grants consist of the following for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
State of Connecticut Department of Public Health:		
Community Health Services	\$ 666,020	\$ 517,119
United Community and Family Services - Children and Youth with Special Health Care Needs	83,540	83,539
Tobacco Use Cessation (Male)	6,058	24,324
Department of Social Services, Children's Trust Fund:		
Nurturing Families	223,650	223,650
United Community and Family Services - Healthy Start	50,446	60,446
State of Connecticut Department of Children and Families:		
Foster Care Clinic	68,289	68,289
Community Health Center Association of Connecticut:		
Ryan White Title IV Outreach Services	53,523	60,557
Medicaid Outreach	34,356	36,164
Children's Health Insurance Program Reauthorization Act	5,272	16,603
Colorectal Cancer Screening	13,987	13,963
SBM Charitable Foundation - Pediatric Dentistry Program	27,917	20,084
City of Norwich - CDBG - Soar	-	11,600
Other	51,936	34,723
	<u>\$ 1,284,994</u>	<u>\$ 1,171,061</u>

Note 16 - Pension plan:

The Generations Family Health Center Annuity Plan qualifies as an Internal Revenue Service ("IRS") 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, 2012 and 2011 amounted to \$87,542 and \$76,433, respectively.

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 17 - Leases:

The Organization leases space and various office equipment, which either expire at various times through November 2014 or are on a month-to-month basis. For the years ended June 30, 2012 and 2011, rent expense amounted to \$308,583 and \$471,189, respectively. Future minimum lease payments under these leases are as follows:

<u>Year ending June 30,</u>	
2013	\$ 68,853
2014	22,188
2015	9,245
	<u>\$ 100,286</u>

Note 18 - 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.

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.

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 18 - Commitments and contingencies (concluded):

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 AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2012

ASSETS

	GFHC	GW LLC	Total	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	\$ 1,051,387	\$ 175,604	\$ 1,226,991	\$ -	\$ 1,226,991
Patient services receivable, net	774,742	-	774,742	-	774,742
Due from related party	149,810	75,023	224,833	(224,833)	-
Interest receivable	31,916	-	31,916	-	31,916
Prepaid expenses and other current assets	543,157	-	543,157	(4,766)	538,391
Total current assets	<u>2,551,012</u>	<u>250,627</u>	<u>2,801,639</u>	<u>(229,599)</u>	<u>2,572,040</u>
Property and equipment, net	<u>5,653,775</u>	<u>13,202,922</u>	<u>18,856,697</u>	<u>(1,249,321)</u>	<u>17,607,376</u>
Other assets:					
Restricted cash and cash equivalents	-	289,631	289,631	-	289,631
Note receivable	9,005,125	-	9,005,125	-	9,005,125
Investment, at cost	83,333	-	83,333	-	83,333
Deferred financing costs, net	23,026	-	23,026	-	23,026
Equity investment in subsidiary	1,524,683	-	1,524,683	(1,524,683)	-
Total other assets	<u>10,636,167</u>	<u>289,631</u>	<u>10,925,798</u>	<u>(1,524,683)</u>	<u>9,401,115</u>
Total assets	<u>\$ 18,840,954</u>	<u>\$ 13,743,180</u>	<u>\$ 32,584,134</u>	<u>\$ (3,003,603)</u>	<u>\$ 29,580,531</u>

LIABILITIES AND NET ASSETS

Current liabilities:					
Accounts payable and accrued expenses	\$ 952,733	\$ 26,623	\$ 979,356	\$ (4,766)	\$ 974,590
Accrued compensation	681,583	-	681,583	-	681,583
Due to related party	224,833	-	224,833	(224,833)	-
Refundable advances	509,068	-	509,068	-	509,068
Line of credit	390,000	-	390,000	-	390,000
Current maturities of long-term debt	81,557	-	81,557	-	81,557
Current maturities of capital lease obligations	7,182	-	7,182	-	7,182
Total current liabilities	<u>2,846,956</u>	<u>26,623</u>	<u>2,873,579</u>	<u>(229,599)</u>	<u>2,643,980</u>
Long-term debt, less current maturities	6,961,688	12,022,465	18,984,153	-	18,984,153
Deferred revenue	2,628,103	-	2,628,103	-	2,628,103
Capital lease obligations, less current maturities	<u>2,395</u>	<u>-</u>	<u>2,395</u>	<u>-</u>	<u>2,395</u>
Total liabilities	<u>12,439,142</u>	<u>12,049,088</u>	<u>24,488,230</u>	<u>(229,599)</u>	<u>24,258,631</u>
Net assets:					
Unrestricted consolidated net assets	6,401,812	-	6,401,812	(1,249,321)	5,152,491
Non-controlling interest in Generations Willimantic, LLC	-	1,694,092	1,694,092	(1,524,683)	169,409
Total net assets	<u>6,401,812</u>	<u>1,694,092</u>	<u>8,095,904</u>	<u>(2,774,004)</u>	<u>5,321,900</u>
Total liabilities and net assets	<u>\$ 18,840,954</u>	<u>\$ 13,743,180</u>	<u>\$ 32,584,134</u>	<u>\$ (3,003,603)</u>	<u>\$ 29,580,531</u>

See Report of Independent Public Accountants.

GENERATIONS FAMILY HEALTH CENTER, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES JUNE 30, 2012

	GFHC	GW LLC	Total	Eliminations	Consolidated
Unrestricted revenue:					
DHHS grants	\$ 2,961,222	\$ -	\$ 2,961,222	\$ -	\$ 2,961,222
Patient services revenue, net	8,404,801	-	8,404,801	-	8,404,801
Contract services and other grants	1,284,994	-	1,284,994	-	1,284,994
Donated vaccines and other	176,168	-	176,168	-	176,168
Other revenue	729,683	-	729,683	-	729,683
Total unrestricted revenue	<u>13,556,868</u>	<u>-</u>	<u>13,556,868</u>	<u>-</u>	<u>13,556,868</u>
Expenses:					
Salaries and benefits	10,884,887	-	10,884,887	-	10,884,887
Other than personnel services	3,239,222	12,360	3,251,582	(212,000)	3,039,582
Provision for bad debts	721,640	-	721,640	-	721,640
Interest	27,464	201,797	229,261	-	229,261
Deferred financing costs, net	<u>14,873,213</u>	<u>214,157</u>	<u>15,087,370</u>	<u>(212,000)</u>	<u>14,875,370</u>
Operating loss before depreciation and amortization	(1,316,345)	(214,157)	(1,530,502)	212,000	(1,318,502)
Depreciation and amortization	<u>241,619</u>	<u>164,631</u>	<u>406,250</u>	<u>-</u>	<u>406,250</u>
Operating loss before nonoperating activities	<u>(1,557,964)</u>	<u>(378,788)</u>	<u>(1,936,752)</u>	<u>212,000</u>	<u>(1,724,752)</u>
Nonoperating activities:					
Grant funds used for capital expenditures	2,084,281	-	2,084,281	-	2,084,281
Developer fees	339,321	-	339,321	(339,321)	-
Change in investment in LLC	(145,012)	-	(145,012)	145,012	-
Interest income	382,997	5,664	388,661	-	388,661
Rental income	-	212,000	212,000	(212,000)	-
Interest expense	(309,716)	-	(309,716)	-	(309,716)
Loss on disposal of property and equipment	(64,158)	-	(64,158)	-	(64,158)
Contribution and other revenue	253,676	-	253,676	-	253,676
Total nonoperating activities	<u>2,541,389</u>	<u>217,664</u>	<u>2,759,053</u>	<u>(406,309)</u>	<u>2,352,744</u>
Change in consolidated net assets	983,425	(161,124)	822,301	(194,309)	627,992
Change in net assets attributable to non-controlling interest	-	16,112	16,112	-	16,112
Increase in net assets attributable to Generations Family Health Center Inc. and Subsidiary	<u>\$ 983,425</u>	<u>\$ (145,012)</u>	<u>\$ 838,413</u>	<u>\$ (194,309)</u>	<u>\$ 644,104</u>

See Independent Auditors' Report.

Generations Family Health Center, Inc.

**Report on Federal Awards in
Accordance with Circular A-133**

Year Ended June 30, 2012

GENERATIONS FAMILY HEALTH CENTER, INC.

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS 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 the consolidated financial statements of Generations Family Health Center, Inc. and Subsidiary as of and for the year ended June 30, 2012, and have issued our report thereon dated December 3, 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 Generations Family Health Center, Inc. and Subsidiary is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Generations Family Health Center, Inc. and Subsidiary's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Generations Family Health Center, Inc. and Subsidiary'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 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.

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 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*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and 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.

A handwritten signature in cursive script that reads "Cohn Reznick LLP".

Glastonbury, Connecticut
December 3, 2012

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS 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**

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

Compliance

We have audited Generations Family Health Center, Inc.'s compliance with the types of compliance requirements described in 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, 2012. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Generations Family Health Center, Inc.'s management. Our responsibility is to express an opinion on Generations Family Health Center, Inc.'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 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. Our audit does not provide a legal determination of Generations Family Health Center, Inc.'s compliance with those requirements.

In our opinion, Generations Family Health Center, Inc. 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 June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Items 2012-1 and 2012-2.

Internal Control over Compliance

Management of Generations Family Health Center, Inc. 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 Generations Family Health Center, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the 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 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.

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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as Items 2012-1 and 2012-2. 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.

Generations Family Health Center, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Generations Family Health Center Inc.'s responses and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the consolidated financial statements of Generations Family Health Center, Inc. and Subsidiary as of and for the year ended June 30, 2012, and have issued our report thereon dated December 3, 2012, which contained an unqualified opinion on those consolidated financial statements. Our audit was performed 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.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and 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.



Glastonbury, Connecticut
December 3, 2012

GENERATIONS FAMILY HEALTH CENTER, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through ID/ Grantor's Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services:			
Health Center Cluster:			
Consolidated Health Centers Program	93.224	N/A	\$ 1,290,758
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	N/A	<u>1,311,029</u>
Total Health Center Cluster			<u>2,601,787</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	<u>322,998</u>
ARRA – Grants to Health Center Programs (CIP Program)	93.703	N/A	<u>393,682</u>
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526	N/A	<u>1,724,762</u>
Passed through State of Connecticut Department of Public Health:			
Immunization Cooperation Agreements	93.268	N/A	175,449
Affordable Care Act (ACA) Maternal, Infant and Early Childhood Home Visiting Program	93.505	2012-0145	200,676
Affordable Care Act (ACA): Centers for Disease Control and Prevention - Investigation and Technical Assistance	93.283	N/A	<u>2,900</u>
			<u>379,025</u>
Passed through Community Health Center Association of Connecticut:			
State Children's Insurance Program	93.767	07DSS1201GB/ 064-MED-02	5,272
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130	N/A	1,000
Coordinated Services and Access to Research for Women, Infants, Children and Youth	93.153	H12 HA 00008	<u>53,758</u>
			<u>60,030</u>
U.S. Department of Agriculture Rural Housing Service:			
Community Facilities Loans and Grants	10.766	N/A	<u>7,000,000</u>
Total Federal Awards			<u>\$12,482,284</u>

See Notes to Schedule of Expenditures of Federal Awards.

GENERATIONS FAMILY HEALTH CENTER, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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 recognized grants to the extent that eligible grant costs are incurred.

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the Center, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with 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 consolidated financial statements.

Note 2 - Noncash assistance:

The Center received and used vaccines with a fair value of \$175,449 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.

GENERATIONS FAMILY HEALTH CENTER, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

**I. Summary of Auditor's Results:
Financial Statements**

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u> </u> yes <u> X </u> no
Significant deficiency(ies) identified?	<u> X </u> yes <u> </u> none reported
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</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 <u> </u> 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 Centers Cluster:
93.224	Consolidated Health Centers Program
93.527	Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program
93.526	Affordable Care Act (ACA) Grants for Capital Development in Health Centers
93.703	ARRA – Grants to Health Center Programs (CIP Program)
	U.S. Department of Agriculture and Rural Housing Service:
10.766	Community Facilities Loans and Grants

Dollar threshold used to distinguish between type A and type B programs	<u>\$374,469</u>
Auditee qualified as low-risk auditee?	<u> X </u> yes <u> </u> no

GENERATIONS FAMILY HEALTH CENTER, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

II. Schedule of findings in accordance with *Government Auditing Standards*:

None

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

2012-1 - Time and Effort Reporting:

Grantor: U.S Department of Health and Human Services

Federal Program Names: Health Centers Cluster: Consolidated Health Centers Program and Affordable Care Act Grants for New and Expanded Services Under the Health Centers Program

CFDA Numbers: 93.224 and 93.527

Criteria:

As prescribed by OMB Circular A-122, written after-the-fact time and effort reporting should be maintained that accounts for the total activity of employees and the programs/funding sources charged. These reports should be prepared as stipulated in DHHS regulations.

The reports must be signed by the individual employee or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee, indicating that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

Condition:

There were instances where hourly employees did not have proper approval by their supervisors and instances where time and effort reporting was not completed for time worked.

Questioned Cost:

None

Effect:

Certain personnel costs allocated to funding sources are not supported by approved after-the-fact time and effort reports.

Cause:

Time and effort reporting procedures were not consistently performed by the Center during the course of the year.

Recommendation:

We recommend that the Center update and maintain its policies and procedures to include time and effort reporting and approval of time worked.

GENERATIONS FAMILY HEALTH CENTER, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

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

Management Response:

Processes are being put in place regarding the tracking and follow up of Time and Effort reports. Reports that have not been received are escalated to the Controller who in turn follows up directly with the manager/director and their supervisor. The Center is looking into a document management system that can workflow and track where the time and effort reports are in the review and sign off process.

2012-2 - Eligibility:

Grantor: U.S. Department of Health and Human Services

Federal Program Names: Health Centers Cluster: Consolidated Health Centers Program and Affordable Care Act Grants for New and Expanded Services under the Health Centers Program

CFDA Numbers: 93.224 and 93.527

Criteria:

The award agreement stipulates, under compliance requirement E, the Center must have approved policies in place related to the sliding fee scale for self-pay patients.

Condition:

We noted one instance where the sliding fee discount was improperly calculated for an eligible patient, resulting in an error in the discount applied.

Questioned Cost:

None

Effect:

The sliding fee discount on one of the self-pay transactions tested was improperly calculated.

Cause:

The income earned for the patient tested was improperly updated in the system, resulting in the difference of approximately \$17 in the sliding fee discount for the transaction tested.

GENERATIONS FAMILY HEALTH CENTER, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012**

**IV. Schedule of findings and questioned costs in accordance with Circular A-133
(concluded):**

Recommendation:

The policies should be emphasized to front desk staff who are involved with patient intake processes. Patient billing staff should implement periodic checks to ensure that self-pay patients have adequate documentation within practice management to support the sliding fee scale granted to patients.

Management's Response:

Management has communicated to the responsible staff members the importance of accurate input of this information. Periodic checks are already implemented in the day to day processes.