



**FINANCIAL STATEMENTS IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS AND
OMB CIRCULAR A-133
JUNE 30, 2012
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

FAMILY HEALTH CENTER OF WORCESTER, INC.

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JUNE 30, 2012 AND 2011**

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Where Every Client Is A Valued Client

**UNQUALIFIED OPINION ON FINANCIAL STATEMENTS AND SUPPLEMENTARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS -
NOT-FOR-PROFIT ORGANIZATION**

Independent Auditor's Report

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

We have audited the accompanying statements of financial position of Family Health Center of Worcester, Inc. (a Massachusetts corporation, not for profit) (the Health Center) as of June 30, 2012 and 2011, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Family Health Center of Worcester, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2012, on our consideration of the Health Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors of
Family Health Center of Worcester, Inc.
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Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedule of expenditures of federal awards – not-for-profit organization for the year ended June 30, 2012, is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of expenditures of federal awards – not-for-profit organization is fairly stated in all material respects in relation to the financial statements as a whole.

Alexander, Chessen, Finning & Co., P.C.

Worcester, Massachusetts
November 12, 2012

FAMILY HEALTH CENTER OF WORCESTER, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

<u>ASSETS</u>	2012			2011		
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
CURRENT ASSETS:						
Cash and cash equivalents	\$ 1,275,117	\$ 155,558	\$ 1,430,675	\$ 1,188,540	\$ 347,688	\$ 1,536,228
Patient accounts receivable, net of reserve for contractual allowance and doubtful accounts of approximately \$1,827,000 and \$1,862,000 at June 30, 2012 and 2011, respectively	1,677,725	-	1,677,725	1,939,466	-	1,939,466
Contracts, grants and other receivables	766,350	-	766,350	517,100	50,000	567,100
Pharmacy inventory	122,800	-	122,800	127,166	-	127,166
Prepaid expenses	50,823	-	50,823	60,547	-	60,547
Total current assets	3,892,815	155,558	4,048,373	3,832,819	397,688	4,230,507
PROPERTY AND EQUIPMENT , net of accumulated depreciation	2,653,064	-	2,653,064	2,904,485	-	2,904,485
Total assets	<u>\$ 6,545,879</u>	<u>\$ 155,558</u>	<u>\$ 6,701,437</u>	<u>\$ 6,737,304</u>	<u>\$ 397,688</u>	<u>\$ 7,134,992</u>
<u>LIABILITIES AND NET ASSETS</u>						
CURRENT LIABILITIES:						
Note payable to a bank	\$ 315,364	\$ -	\$ 315,364	\$ 348,912	\$ -	\$ 348,912
Accounts payable	963,164	-	963,164	1,068,405	-	1,068,405
Accrued expenses	1,554,829	-	1,554,829	1,479,824	-	1,479,824
Total current liabilities	2,833,357	-	2,833,357	2,897,141	-	2,897,141
NET ASSETS:						
Unrestricted:						
Operating	711,791	-	711,791	983,091	-	983,091
Board designated	344,377	-	344,377	283,931	-	283,931
Capital fund	30,000	-	30,000	-	-	-
Property and equipment	2,626,354	-	2,626,354	2,573,141	-	2,573,141
Total unrestricted	3,712,522	-	3,712,522	3,840,163	-	3,840,163
Temporarily restricted	-	155,558	155,558	-	397,688	397,688
Total net assets	3,712,522	155,558	3,868,080	3,840,163	397,688	4,237,851
Total liabilities and net assets	<u>\$ 6,545,879</u>	<u>\$ 155,558</u>	<u>\$ 6,701,437</u>	<u>\$ 6,737,304</u>	<u>\$ 397,688</u>	<u>\$ 7,134,992</u>

The accompanying notes are an integral part of these statements.

FAMILY HEALTH CENTER OF WORCESTER, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012					2011				
	UNRESTRICTED		TEMPORARILY RESTRICTED	TOTAL		UNRESTRICTED		TEMPORARILY RESTRICTED	TOTAL	
	OPERATING	PROPERTY AND EQUIPMENT (See Note 4)				OPERATING	PROPERTY AND EQUIPMENT (See Note 4)			
OPERATING REVENUES AND SUPPORT:										
Net patient service revenue	\$ 14,721,290	\$ -	\$ 14,721,290	\$ -	\$ 14,721,290	\$ 12,868,471	\$ -	\$ 12,868,471	\$ -	\$ 12,868,471
Grants and contracts	7,726,094	-	7,726,094	389,538	8,115,632	8,936,921	-	8,936,921	12,874	8,949,795
Donated goods and services	255,053	-	255,053	-	255,053	171,503	-	171,503	-	171,503
Performance and management fees	207,101	-	207,101	-	207,101	83,737	-	83,737	-	83,737
Special events, net	56,404	-	56,404	-	56,404	55,641	-	55,641	-	55,641
Contributions	45,565	-	45,565	-	45,565	31,280	-	31,280	-	31,280
Net assets released from purpose restrictions	537,237	-	537,237	(537,237)	-	197,061	-	197,061	(197,061)	-
Total operating revenues and support	23,548,744	-	23,548,744	(147,699)	23,401,045	22,344,614	-	22,344,614	(184,187)	22,160,427
OPERATING EXPENSES:										
Program services	19,148,110	-	19,148,110	-	19,148,110	19,156,643	-	19,156,643	-	19,156,643
Support services	4,291,881	-	4,291,881	-	4,291,881	4,012,542	-	4,012,542	-	4,012,542
Total operating expenses before depreciation	23,439,991	-	23,439,991	-	23,439,991	23,169,185	-	23,169,185	-	23,169,185
Depreciation	-	757,411	757,411	-	757,411	-	653,409	653,409	-	653,409
Total operating expenses	23,439,991	757,411	24,197,402	-	24,197,402	23,169,185	653,409	23,822,594	-	23,822,594
Changes in net assets from operations	108,753	(757,411)	(648,658)	(147,699)	(796,357)	(824,571)	(653,409)	(1,477,980)	(184,187)	(1,662,167)
OTHER REVENUE:										
Capital grants	-	373,059	373,059	52,000	425,059	-	412,738	412,738	200,000	612,738
Interest income	1,527	-	1,527	-	1,527	2,095	-	2,095	-	2,095
Net assets released from restrictions:										
Capital expenditures	-	146,431	146,431	(146,431)	-	-	128,390	128,390	(128,390)	-
Total other revenue	1,527	519,490	521,017	(94,431)	426,586	2,095	541,128	543,223	71,610	614,833
Changes in net assets	110,280	(237,921)	(127,641)	(242,130)	(369,771)	(822,476)	(112,281)	(934,757)	(112,577)	(1,047,334)
NET ASSETS, beginning of year	1,267,022	2,573,141	3,840,163	397,688	4,237,851	2,055,723	2,719,197	4,774,920	510,265	5,285,185
Transfer	(291,134)	291,134	-	-	-	33,775	(33,775)	-	-	-
NET ASSETS, end of year	<u>\$ 1,086,168</u>	<u>\$ 2,626,354</u>	<u>\$ 3,712,522</u>	<u>\$ 155,558</u>	<u>\$ 3,868,080</u>	<u>\$ 1,267,022</u>	<u>\$ 2,573,141</u>	<u>\$ 3,840,163</u>	<u>\$ 397,688</u>	<u>\$ 4,237,851</u>

The accompanying notes are an integral part of these statements.

FAMILY HEALTH CENTER OF WORCESTER, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (369,771)	\$ (1,047,334)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	757,411	653,409
Bad debt	161,455	269,283
Capital grants	(425,059)	(612,738)
Changes in operating assets and liabilities:		
Patient accounts receivable	100,286	1,245,275
Contracts, grants and other receivables	(199,250)	238,192
Pharmacy inventory	4,366	8,972
Prepaid expenses	9,724	119,662
Accounts payable	199,393	(58,132)
Accrued expenses	75,005	102,346
Deferred revenue	-	(4,765)
	313,560	914,170
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(810,624)	(507,353)
	(810,624)	(507,353)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital grants	425,059	665,933
Net payments and advances on note payable to a bank	(33,548)	(433,454)
	391,511	232,479
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(105,553)	639,296
CASH AND CASH EQUIVALENTS, beginning of year	1,536,228	896,932
CASH AND CASH EQUIVALENTS, end of year	\$ 1,430,675	\$ 1,536,228
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 23,357	\$ 30,002
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:		
Construction in process placed in service	\$ -	\$ 732,676
Disposal of fully depreciated property and equipment	\$ -	\$ 61,038
Property and equipment acquired through accounts payable	\$ 26,710	\$ 331,344

The accompanying notes are an integral part of these statements.

FAMILY HEALTH CENTER OF WORCESTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

(With Summarized Comparative Totals for the Year Ended June 30, 2011)

	2012										2011					
	PROGRAM SERVICES										SUPPORT SERVICES					
	MEDICAL	DENTAL	PHARMACY	LABORATORY	RADIOLOGY	MENTAL HEALTH	WOMEN, INFANTS AND CHILDREN	SCHOOL BASED HEALTH CENTER	OTHER PROGRAMS	TOTAL PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	PATIENT SUPPORT	FACILITIES	TOTAL SUPPORT SERVICES	TOTAL EXPENSES	TOTAL EXPENSES
OPERATING EXPENSES:																
Personnel and related costs:																
Salaries	\$ 7,026,346	\$ 909,551	\$ 655,123	\$ 304,971	\$ 201,543	\$ 386,956	\$ 868,256	\$ 929,837	\$ 1,059,388	\$ 12,341,971	\$ 983,970	\$ 846,372	\$ 48,752	\$ 1,879,094	\$ 14,221,065	\$ 14,300,240
Payroll taxes and fringe benefits	1,385,480	160,883	124,739	46,260	39,612	60,575	163,283	177,168	254,416	2,412,416	221,267	228,842	15,930	466,039	2,878,455	2,699,483
Contract labor	339,663	265,642	402	21,662	154,944	49,325	7,272	38,298	60,153	937,361	106,642	288,504	17,418	412,564	1,349,925	1,173,077
Total personnel and related costs	8,751,489	1,336,076	780,264	372,893	396,099	496,856	1,038,811	1,145,303	1,373,957	15,691,748	1,311,879	1,363,718	82,100	2,757,697	18,449,445	18,172,800
Medical supplies and services	305,069	148,284	1,408,922	133,484	40,277	5,933	340	14,707	5,744	2,062,760	2	-	254	256	2,063,016	1,987,843
Occupancy:																
Rent	51,870	-	-	-	-	-	58,830	-	9,000	119,700	3,120	10,460	452,980	466,560	586,260	565,246
Housekeeping services	8,673	-	-	-	-	-	7,653	-	1,420	17,746	-	-	159,517	159,517	177,263	215,125
Repairs and maintenance	24,623	20,592	8,173	3,417	7,163	675	5,270	8,504	7,386	85,803	1,329	2,441	59,487	63,257	149,060	116,024
Property insurance	876	-	-	-	-	-	-	-	-	876	-	-	63,469	63,469	64,345	62,461
Utilities and storage	11,185	788	61	172	413	1,677	4,841	6,695	15,650	41,482	1,005	7,661	12,663	21,329	62,811	59,891
Total occupancy	97,227	21,380	8,234	3,589	7,576	2,352	76,594	15,199	33,456	265,607	5,454	20,562	748,116	774,132	1,039,739	1,018,747
Other:																
Information systems	6,366	4,150	34,391	3,304	-	1,764	8,056	2,803	4,782	65,616	9,029	247,328	2,139	258,496	324,112	371,244
Subcontract expense	25,685	-	-	-	-	-	-	5,000	218,358	249,043	-	-	-	-	249,043	278,826
Office and computer supplies	61,149	11,129	15,405	1,176	4,600	796	36,695	7,544	21,635	160,129	14,328	9,019	56	23,403	183,532	171,043
Bad debt	104,207	36,463	-	9,822	5,844	2,614	-	2,505	-	161,455	-	-	-	-	161,455	269,283
Professional fees	3,033	-	-	-	-	-	-	-	-	3,033	155,320	-	-	155,320	158,353	164,507
Telephone	70,414	-	-	-	-	115	13,463	7,277	868	92,137	2,303	-	55,716	58,019	150,156	134,096
Dues and memberships	46,053	3,534	2,188	11,138	6,556	1,174	311	7,281	3,004	81,239	42,922	19,211	1,948	64,081	145,320	143,753
Printing and postage	13,950	9,972	-	-	3,084	1,229	13,993	2,784	3,163	48,175	44,545	19,275	-	63,820	111,995	119,045
Personnel training and recruiting	86,272	1,379	271	-	-	2,598	6,199	554	4,087	101,360	5,989	2,229	-	8,218	109,578	65,504
Patient education	6,062	117	-	-	774	-	49,021	3,928	10,598	70,500	-	-	-	-	70,500	52,603
General insurance	17,410	2,603	-	-	-	-	-	-	-	20,013	43,272	-	-	43,272	63,285	45,237
Travel and conferences	4,354	544	-	-	-	208	6,619	1,930	3,543	17,198	14,706	2,952	726	18,384	35,582	39,182
Miscellaneous	2,734	253	6,271	-	-	450	852	445	374	11,379	21,050	-	-	21,050	32,429	28,276
Equipment rental	7,981	286	-	1,125	1,125	1,142	3,554	1,944	3,021	20,178	9,592	1,428	32	11,052	31,230	30,922
Marketing	2,446	-	-	-	7,754	510	2,357	-	-	13,067	3,703	-	7,621	11,324	24,391	25,450
Interest	-	-	-	-	-	-	-	-	-	-	23,357	-	-	23,357	23,357	30,002
Patient transportation	5,722	-	-	-	-	23	-	5,838	1,890	13,473	-	-	-	-	13,473	20,822
Total other	463,838	70,430	58,526	26,565	29,737	12,623	141,120	49,833	275,323	1,127,995	390,116	301,442	68,238	759,796	1,887,791	1,989,795
Total operating expenses before depreciation and allocations	9,617,623	1,576,170	2,255,946	536,531	473,689	517,764	1,256,865	1,225,042	1,688,480	19,148,110	1,707,451	1,685,722	898,708	4,291,881	23,439,991	23,169,185
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	757,411	757,411	757,411	653,409
Total operating expenses before allocations	9,617,623	1,576,170	2,255,946	536,531	473,689	517,764	1,256,865	1,225,042	1,688,480	19,148,110	1,707,451	1,685,722	1,656,119	5,049,292	24,197,402	23,822,594
General and administrative allocation	906,781	148,606	212,698	50,586	44,661	48,816	118,501	115,501	159,196	1,805,346	(1,805,346)	-	-	(1,805,346)	-	-
Patient support allocation	737,709	208,602	-	532,237	64,223	112,954	-	78,631	-	1,734,356	-	(1,734,356)	-	(1,734,356)	-	-
Facilities allocation	801,142	74,420	48,153	67,414	65,536	43,578	144,458	156,497	108,392	1,509,590	97,895	48,634	(1,656,119)	(1,509,590)	-	-
Total operating expenses	\$ 12,063,255	\$ 2,007,798	\$ 2,516,797	\$ 1,186,768	\$ 648,109	\$ 723,112	\$ 1,519,824	\$ 1,575,671	\$ 1,956,068	\$ 24,197,402	\$ -	\$ -	\$ -	\$ -	\$ 24,197,402	\$ 23,822,594

The accompanying notes are an integral part of these statements.

FAMILY HEALTH CENTER OF WORCESTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	PROGRAM SERVICES									SUPPORT SERVICES					
	MEDICAL	DENTAL	PHARMACY	LABORATORY	RADIOLOGY	MENTAL HEALTH	WOMEN, INFANTS AND CHILDREN	SCHOOL BASED HEALTH CENTER	OTHER PROGRAMS	TOTAL PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	PATIENT SUPPORT	FACILITIES	TOTAL SUPPORT SERVICES	TOTAL EXPENSES
OPERATING EXPENSES:															
Personnel and related costs:															
Salaries	\$ 7,101,554	\$ 871,693	\$ 677,739	\$ 296,914	\$ 232,410	\$ 406,766	\$ 859,863	\$ 904,906	\$ 1,031,547	\$ 12,383,392	\$ 980,264	\$ 905,665	\$ 30,919	\$ 1,916,848	\$ 14,300,240
Payroll taxes and fringe benefits	1,295,995	143,184	126,570	51,020	39,390	88,419	151,770	163,674	220,517	2,280,539	195,266	220,432	3,246	418,944	2,699,483
Contract labor	326,797	358,870	1,695	13,186	132,602	33,718	6,575	66,176	98,698	1,038,317	50,143	74,617	10,000	134,760	1,173,077
Total personnel and related costs	8,724,346	1,373,747	806,004	361,120	404,402	528,903	1,018,208	1,134,756	1,350,762	15,702,248	1,225,673	1,200,714	44,165	2,470,552	18,172,800
Medical supplies and services	242,381	115,558	1,370,781	144,411	39,715	4,020	190	10,649	60,138	1,987,843	-	-	-	-	1,987,843
Occupancy:															
Rent	49,990	-	-	-	-	6,000	44,539	-	7,500	108,029	6,240	30,885	420,092	457,217	565,246
Housekeeping services	11,128	-	-	-	-	-	3,900	-	1,420	16,448	-	-	198,677	198,677	215,125
Repairs and maintenance	30,017	13,436	6,171	1,594	13,070	844	3,696	14,396	1,278	84,502	2,640	2,081	26,801	31,522	116,024
Property insurance	1,131	-	-	-	-	-	-	-	-	1,131	-	-	61,330	61,330	62,461
Utilities and storage	14,634	746	277	122	-	1,894	2,581	4,934	16,166	41,354	1,112	6,050	11,375	18,537	59,891
Total occupancy	106,900	14,182	6,448	1,716	13,070	8,738	54,716	19,330	26,364	251,464	9,992	39,016	718,275	767,283	1,018,747
Other:															
Information systems	5,617	-	41,512	231	-	-	3,389	6,544	7,079	64,372	1,980	304,654	238	306,872	371,244
Subcontract expense	8,500	-	-	-	-	-	-	125	270,201	278,826	-	-	-	-	278,826
Office and computer supplies	66,622	11,909	6,092	2,483	1,899	2,849	19,256	7,054	22,926	141,090	21,019	8,881	53	29,953	171,043
Bad debt	199,139	26,627	-	14,229	11,455	9,520	-	8,313	-	269,283	-	-	-	-	269,283
Professional fees	20,859	-	-	-	-	-	-	-	-	20,859	143,648	-	-	143,648	164,507
Telephone	67,494	423	-	-	-	95	7,312	8,641	308	84,273	2,267	316	47,240	49,823	134,096
Dues and memberships	62,582	4,035	2,404	16,970	3,208	1,029	984	7,130	1,762	100,104	39,764	3,585	300	43,649	143,753
Printing and postage	30,967	8,271	53	-	433	1,008	6,662	3,538	5,556	56,488	48,013	14,318	226	62,557	119,045
Personnel training and recruiting	41,133	1,702	369	-	-	1,787	6,271	2,466	1,254	54,982	9,574	753	195	10,522	65,504
Patient education	6,454	23	70	-	-	-	32,063	4,286	9,707	52,603	-	-	-	-	52,603
General insurance	1,400	-	-	-	-	-	-	-	-	1,400	43,462	-	375	43,837	45,237
Travel and conferences	3,393	667	-	362	63	54	8,685	3,083	5,717	22,024	14,298	2,695	165	17,158	39,182
Miscellaneous	1,633	-	5,647	-	82	545	507	375	493	9,282	18,776	53	165	18,994	28,276
Equipment rental	9,327	475	-	1,146	1,162	2,082	3,785	1,442	2,542	21,961	7,971	813	177	8,961	30,922
Marketing	3,395	-	1,544	-	-	-	10,127	-	1,653	16,719	971	350	7,410	8,731	25,450
Interest	-	-	-	-	-	-	-	-	-	-	30,002	-	-	30,002	30,002
Patient transportation	7,922	-	-	-	-	-	-	8,987	3,913	20,822	-	-	-	-	20,822
Total other	536,437	54,132	57,691	35,421	18,302	18,969	99,041	61,984	333,111	1,215,088	381,745	336,418	56,544	774,707	1,989,795
Total operating expenses before depreciation and allocations	9,610,064	1,557,619	2,240,924	542,668	475,489	560,630	1,172,155	1,226,719	1,770,375	19,156,643	1,617,410	1,576,148	818,984	4,012,542	23,169,185
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	653,409	653,409	653,409
Total operating expenses before allocations	9,610,064	1,557,619	2,240,924	542,668	475,489	560,630	1,172,155	1,226,719	1,770,375	19,156,643	1,617,410	1,576,148	1,472,393	4,665,951	23,822,594
General and administrative allocation	865,728	140,319	201,875	48,887	42,835	50,505	105,594	110,510	159,484	1,725,737	(1,725,737)	-	-	(1,725,737)	-
Patient support allocation	753,593	186,725	-	440,201	61,805	102,528	-	77,882	-	1,622,734	-	(1,622,734)	-	(1,622,734)	-
Facilities allocation	755,892	71,288	11,532	64,577	62,778	101,847	81,459	81,228	86,879	1,317,480	108,327	46,586	(1,472,393)	(1,317,480)	-
Total operating expenses	\$ 11,985,277	\$ 1,955,951	\$ 2,454,331	\$ 1,096,333	\$ 642,907	\$ 815,510	\$ 1,359,208	\$ 1,496,339	\$ 2,016,738	\$ 23,822,594	\$ -	\$ -	\$ -	\$ -	\$ 23,822,594

The accompanying notes are an integral part of these statements.

FAMILY HEALTH CENTER OF WORCESTER, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

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

The Health Center is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. The Health Center is also exempt from state income taxes. Donors may deduct contributions made to the Health Center within the Internal Revenue Code requirements.

SIGNIFICANT ACCOUNTING POLICIES

The Health Center prepares its financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these footnotes are to the FASB Accounting Standards Codification.

Cash and Cash Equivalents

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

Patient Accounts Receivable and Reserve for Doubtful Accounts

Accounts receivable are stated at unpaid balances, less reserves for doubtful accounts and contractual allowances. The Health Center provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of patients to meet their obligations. Receivables are considered impaired if full payments are not received in accordance with the contractual terms. It is the Health Center's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Grants Receivable

The Health Center receives grants from various donors. The allowance for doubtful accounts, if any, is based on management's best estimate of the amount of probable credit losses on grants receivable. There was no allowance as of June 30, 2012 and 2011.

Pharmacy Inventory

Pharmacy inventory is recorded at prevailing market cost and consists of pharmaceuticals on hand at the Health Center's pharmacy.

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost (see Note 4). Donated property and equipment are recorded at fair market value at the time of donation. Renewals and betterments are capitalized, while repairs and maintenance are expensed as they are incurred.

FAMILY HEALTH CENTER OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation (Continued)

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

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

Fair Value Measurements

The Health Center follows the *Fair Value Measurements and Disclosures* standards. These standards define fair value, establish a framework for measuring fair value under U.S. GAAP, and mandate disclosures about fair value measurements. This policy establishes a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value. The Health Center values its qualifying assets and liabilities using Level I inputs. Level I inputs reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Revenue Recognition

Patient service revenue is recorded as services are provided. The Health Center establishes fees for services to patients based upon the patient's ability to pay for these services. Net patient service revenue reflects the amounts to be collected after provisions for contractual allowances and free care. Contractual allowances are accrued on an estimated basis in the period the related services are rendered. Net patient service revenue is adjusted as required based on final settlements. Contractual allowances were approximately \$5,640,000 and \$5,590,000 for the years ended June 30, 2012 and 2011, respectively.

During fiscal year 2012, the Health Center adopted the accounting standard related to *Measuring Charity Care for Disclosure* under U.S. GAAP. The Health Center has a policy of providing free care services to patients who are unable to pay. Such patients are identified based upon financial information obtained from the patient prior to services being rendered. The Health Center provided approximately \$4,077,000 and \$3,802,000 of free care during the years ended June 30, 2012 and 2011, respectively. The approximate cost of providing these services was \$4,330,000 and \$4,306,000 for the years ended June 30, 2012 and 2011, respectively. The cost of providing free care was calculated by multiplying the percentage of gross free care charges to gross patient charges by the total cost of providing patient services. The Health Center adjudicates claims for these services; therefore, charges for free care have been included in net patient service revenue in the accompanying statements of activities and changes in net assets. The Health Center received partial reimbursement from a third party payor for free care services of approximately \$2,101,000 and \$1,508,000 during the years ended June 30, 2012 and 2011, respectively.

FAMILY HEALTH CENTER OF WORCESTER, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)**

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

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

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

The Commonwealth of Massachusetts provides vouchers to participants of the Health Center's Women, Infants and Children program. The value of these vouchers for fiscal years 2012 and 2011 was approximately \$4,990,000 and \$4,600,000, respectively. These amounts are not reflected in the accompanying financial statements.

Special Events

Special events revenue is shown in the accompanying statements of activities and changes in net assets as follows for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Corporate contributions	\$36,500	\$32,500
Auction proceeds	17,395	14,150
Individual contributions and foundation grants	<u>7,870</u>	<u>11,263</u>
Total special event grants and contributions	61,765	57,913
Special event ticket revenue	<u>2,646</u>	<u>4,970</u>
	64,411	62,883
Less - direct expenses	<u>8,007</u>	<u>7,242</u>
Total special events revenue, net	<u>\$56,404</u>	<u>\$55,641</u>

Donated Goods and Services

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

FAMILY HEALTH CENTER OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods and Services (Continued)

The value of these goods and services are as follows for the years ended June 30:

	<u>2012</u>	<u>2011</u>
Salaries	\$251,793	\$165,963
Medical supplies and services	<u>3,260</u>	<u>5,540</u>
	<u>\$255,053</u>	<u>\$171,503</u>

Advertising

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

Expense Allocation

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

Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates

Income Taxes

The Health Center follows the *Accounting for Uncertainty in Income Taxes* standard, which requires the Health Center to report uncertain tax positions, related interest and penalties, and to adjust its assets and liabilities related to unrecognized tax benefits and accrued interest and penalties accordingly. As of June 30, 2012, the Health Center determined that there are no material unrecognized tax benefits to report. The Health Center does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months.

Information returns generally remain subject to examination by the Internal Revenue Service and Massachusetts tax authorities for three years after filing.

Subsequent Events

Subsequent events have been evaluated through November 12, 2012, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

FAMILY HEALTH CENTER OF WORCESTER, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)**

(2) NET ASSETS

Unrestricted Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Health Center. The Health Center has grouped its unrestricted net assets into the following categories:

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

Board designated net assets bear no external restrictions, but have been designated by the Board of Directors for specific purposes. These amounts may only be used with the approval of the Board of Directors.

Capital fund net assets have been designated for capital purchases.

Property and equipment net assets reflect and account for the activities relating to the Health Center's property and equipment, net of related debt.

Temporarily Restricted Net Assets

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

	<u>2012</u>	<u>2011</u>
Capital restrictions and billing system implementation	\$21,151	\$199,734
Purpose restrictions	<u>134,407</u>	<u>197,954</u>
	<u>\$155,558</u>	<u>\$397,688</u>

(3) FUNDING

The Health Center receives a significant portion of its total operating revenues and support from the U.S. Department of Health and Human Services and the Commonwealth of Massachusetts, Department of Public Health. These amounts totaled approximately 21% and 22% of total operating revenues and support during fiscal years 2012 and 2011, respectively. Payments to the Health Center are subject to audit by the appropriate government agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the Health Center as of June 30, 2012 and 2011, or on its results of operations for the years then ended.

Charges made to most third party payors for patient services are periodically reviewed and adjusted based upon the submission of cost reports and possible subsequent audits. In the opinion of management, the effects of such determinations or adjustments, if any, will not have a material effect on the financial position of the Health Center as of June 30, 2012 and 2011, or on the changes in net assets for the years then ended.

FAMILY HEALTH CENTER OF WORCESTER, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011
(Continued)**

(4) PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Equipment and furniture	\$4,922,110	\$4,439,210
Leasehold improvements	1,896,529	1,887,725
Construction in process	14,286	-
	<u>6,832,925</u>	<u>6,326,935</u>
Less - accumulated depreciation	<u>4,179,861</u>	<u>3,422,450</u>
	<u>\$2,653,064</u>	<u>\$2,904,485</u>

Depreciation expense was \$757,411 and \$653,409 for the years ended June 30, 2012 and 2011, respectively, of which approximately \$390,000 and \$350,000 was depreciation of the practice management system during fiscal years 2012 and 2011, respectively, which began to be implemented during fiscal year 2010. These assets will be depreciated through fiscal year 2015.

Construction in process consists of predevelopment costs for the Health Center's main facility (see Note 12). These costs will not be depreciated until the project is complete and placed in service.

(5) LEASE AGREEMENTS

Facility

The Health Center leases its main facility under an agreement that expires on December 31, 2037. Beginning in calendar year 2012 through the end of the lease term, the Health Center is required to pay monthly rent based on an established percentage of the Landlord's reasonable costs to operate and maintain this facility. This percentage ranges from 90% to 100% of the aforementioned costs. Monthly payments under the terms of the agreement were \$38,663 in fiscal years 2012 and 2011. Under the terms of this agreement, the Health Center is required to maintain certain insurance coverage. The lease contains a mutual option to extend the agreement for an additional twenty years.

The Health Center also leases additional space in the same location under three separate lease agreements that expire at various dates through December 31, 2012. Aggregated monthly rent for these leases was \$1,593 and \$3,180 as of June 30, 2012 and 2011, respectively. The Health Center is required to maintain certain insurance coverage under the terms of these agreements.

The Health Center also leases additional space for its satellite clinic that expires May, 2015. Monthly payments under the terms of this agreement were \$4,175 and \$4,218 as of June 30, 2012 and 2011, respectively. The monthly rent increases annually as defined in the lease agreement. The Health Center has an option to extend this lease for an additional three-year term. Under the terms of this agreement, the Health Center is responsible for its share of operating costs, taxes and utilities.

The Health Center also rents other combined program spaces as a tenant-at-will. Monthly rent payments under these agreements totaled \$2,072 and \$2,322 for the years ended June 30, 2012 and 2011, respectively.

FAMILY HEALTH CENTER OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

(Continued)

(5) LEASE AGREEMENTS (Continued)

Equipment

The Health Center leases various office equipment under operating lease agreements. These agreements expire at various dates through September, 2014. Payments relating to these leases were \$13,279 and \$17,742 for fiscal years 2012 and 2011, respectively, and are included in equipment rental in the accompanying statements of functional expenses.

Remaining minimum lease payments for the next five years are as follows:

<u>Fiscal Years</u>	<u>Operating Leases</u>	
	<u>Equipment</u>	<u>Facilities</u>
2013	\$7,208	\$538,448
2014	\$3,197	\$514,056
2015	\$ 245	\$509,881
2016	\$ -	\$463,956
2017	\$ -	\$463,956

(6) NOTE PAYABLE TO A BANK

The Health Center has available up to \$1,250,000 under a line of credit agreement with a bank. Borrowings under the agreement are due on demand and interest is payable monthly at the bank's prime rate (3.25% at June 30, 2012 and 2011), plus 0.5%. The interest rate will not be less than 4% per annum or more than the maximum rate allowed by applicable law. The line of credit is secured by substantially all assets of the Health Center. This agreement is subject to renewal annually. As of June 30, 2012 and 2011, the outstanding balance under this agreement was \$315,364 and \$348,912, respectively.

(7) CONCENTRATION OF CREDIT RISK

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

The Health Center's contracts, grants and other receivables at June 30, 2012 and 2011, respectively, were due from the following sources:

	<u>2012</u>	<u>2011</u>
Massachusetts Department of Public Health	37%	49%
Non-profit organization	56%	31%

FAMILY HEALTH CENTER OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

(Continued)

(8) RETIREMENT PLAN

The Health Center maintains an Internal Revenue Code Section 401(k) Retirement Plan (the Plan) covering all eligible employees. All employees who are age 18 and over and have worked at least 500 hours prior to the Plan year are eligible to participate in the Plan. Employees may make contributions to the Plan up to the maximum allowed by statutory law. The Health Center has the right to make discretionary contributions to the Plan. The Health Center made safe harbor contributions of approximately \$360,000 and \$368,000 to this plan during 2012 and 2011, respectively, which are included in payroll taxes and fringe benefits in the accompanying statements of functional expenses. The Health Center did not make any additional discretionary contributions during fiscal year 2012 or 2011.

(9) CONDITIONAL GRANT

During 2009, the Health Center was awarded a grant commitment from a foundation to fund certain program costs during fiscal years 2011 and 2012 totaling \$150,000. During fiscal year 2011, the Health Center received \$75,000 from this foundation. The remaining balance was funded by the foundation during 2012 and an additional conditional commitment of \$75,000 for 2013 was received. Since this funding is conditional upon the Health Center meeting certain benchmarks, this grant has not been reflected in the accompanying financial statements.

(10) CONTINGENCIES

The Health Center, from time-to-time, is the defendant in lawsuits. It is management's belief that the Health Center will prevail in these lawsuits. Accordingly, no amounts have been reflected in the accompanying financial statements for any potential liability resulting from these lawsuits. The Health Center is adequately insured through the Federal Torts Claims Act, malpractice and the Board of Directors' liability insurance.

(11) RELATED PARTY TRANSACTIONS

A member of the Health Center's Board of Directors is employed by an organization that provides legal services to the Health Center. The Health Center paid this organization approximately \$11,750 for the year ended June 30, 2012 and had approximately \$2,000 outstanding at June 30, 2012. The Health Center paid this organization \$6,000 for the year ended June 30, 2011.

During fiscal years 2012 and 2011, a member of the Health Center's Board of Directors was employed by an organization that provides medical practice management software to the Health Center. The Health Center paid this organization approximately \$327,000 for the year ended June 30, 2012, and had approximately \$5,000 outstanding at June 30, 2012. The Health Center paid this organization approximately \$161,300 for the year ended June 30, 2011, and had approximately \$124,000 outstanding at June 30, 2011. This Board member was not employed by this organization as of June 30, 2012.

A member of the Health Center's Board of Directors is employed by an organization that provides medical training and health education to the Health Center. The Health Center paid this organization approximately \$16,458 during fiscal year 2012 and had \$2,000 outstanding at June 30, 2012. The Health Center paid this organization approximately \$24,000 during fiscal year 2011 and had \$6,900 outstanding at June 30, 2011.

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

FAMILY HEALTH CENTER OF WORCESTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

(Continued)

(12) CAPITAL PROJECT

During May, 2012, the Health Center was awarded a grant from the U.S. Department of Health and Human Services under the Affordable Care Act in the amount of \$5,000,000. The grant is restricted for the expansion of the Health Center's main facility. The Health Center incurred \$14,286 in predevelopment costs toward this project as of June 30, 2012, which is included in property and equipment (see Note 4).

(13) RECLASSIFICATIONS

Certain amounts in the 2011 financial statements have been reclassified to conform with the 2012 presentation.

FAMILY HEALTH CENTER OF WORCESTER, INC.

**SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS - NOT-FOR-PROFIT ORGANIZATION
FOR THE YEAR ENDED JUNE 30, 2012**

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>AGENCY OR PASS-THROUGH NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. Department of Health and Human Services:</u>			
Direct programs:			
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers) (Health Centers Cluster)	93.224	N/A	\$2,264,170
Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease	93.918	N/A	570,475
Health Care and Other Facilities	93.887	N/A	247,500
Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	93.501	N/A	125,559
Passed-Through Commonwealth of Massachusetts, Department of Public Health:			
Refugee and Entrant Assistance – State Administered Programs	93.566	5189MM36009	77,399
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	3406MM39008	148,700
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	3712MM32008	61,936
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	3212MO31068	25,000
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2351MM38021	3,996

FAMILY HEALTH CENTER OF WORCESTER, INC.

**SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS - NOT-FOR-PROFIT ORGANIZATION
FOR THE YEAR ENDED JUNE 30, 2012**

(Continued)

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>AGENCY OR PASS-THROUGH NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. Department of Health and Human Services:</u> (Continued)			
Passed-Through Edward M. Kennedy Community Health Center, Inc.			
Healthy Start Initiative	93.926	N/A	163,410
HIV Prevention Activities – Health Department Based	93.940	N/A	<u>104,468</u>
Total U.S. Department of Health and Human Services			<u>3,792,613</u>
<u>U.S. Department of Agriculture:</u>			
Passed-Through Commonwealth of Massachusetts, Department of Public Health -			
Special Supplemental Nutrition Program for Women, Infants, and Children – Food vouchers	10.557	3500J106010	4,989,157
Special Supplemental Nutrition Program for Women, Infants, and Children – Nutrition program	10.557	3502M037009	<u>994,724</u>
Total U.S. Department of Agriculture, total CFDA 10.557			<u>5,983,881</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$9,776,494</u>

NOTE 1. BASIS OF PRESENTATION

The accompanying Supplementary Schedule of Expenditures of Federal Awards - Not-For-Profit Organization includes the Federal assistance activity of the Health Center and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

FAMILY HEALTH CENTER OF WORCESTER, INC.
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS - NOT-FOR-PROFIT ORGANIZATION
FOR THE YEAR ENDED JUNE 30, 2012
(Continued)

NOTE 2. SUBRECIPIENTS

Of the federal expenditures presented in the above schedule, the Health Center provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
93.918	Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease	\$218,358
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	\$ 19,766
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	\$ 5,919
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	\$ 5,000

Where Every Client Is A Valued Client

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

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

We have audited the financial statements of Family Health Center of Worcester, Inc. (the Health Center) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 12, 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

In planning and performing our audit, we considered the Health Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Center'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 Health Center'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.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Health Center in a separate letter dated November 12, 2012.

This report is intended solely for the information and use of the Board of Directors, management, others within the Health Center, 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 black ink that reads "Alexander, Chonson, Finney & Co., P.C." The signature is written in a cursive, flowing style.

Worcester, Massachusetts
November 12, 2012

Where Every Client Is A Valued Client

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

Independent Auditor's Report

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

Compliance

We have audited Family Health Center of Worcester, Inc.'s (the Health Center) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Health Center's major Federal programs for the year ended June 30, 2012. The Health Center'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 the Health Center's management. Our responsibility is to express an opinion on the Health Center'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 the Health Center'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 the Health Center's compliance with those requirements.

In our opinion, Family Health Center of Worcester, 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.

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

Internal Control Over Compliance

Management of the Health Center 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 the Health Center'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 the Health Center'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.

This report is intended solely for the information and use of management, the Board of Directors, 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 black ink that reads "Alexander, Ahnson, Finning & Co., P.C." The signature is written in a cursive, flowing style.

Worcester, Massachusetts
November 12, 2012

FAMILY HEALTH CENTER OF WORCESTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

An unqualified opinion was issued on the financial statements of the auditee.

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

An unqualified opinion was issued on compliance for major programs.

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

Identification of major programs:

<u>Program or Cluster Title</u>	<u>Federal CFDA Number</u>
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557
Health Care and Other Facilities	93.887

FAMILY HEALTH CENTER OF WORCESTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012
(Continued)

I. SUMMARY OF AUDITOR'S RESULTS (Continued)

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

Auditee qualified as low-risk auditee? X Yes No

II. FINANCIAL STATEMENT FINDINGS IN ACCORDANCE WITH GAS

None

III. FINDINGS AND QUESTIONS COSTS FOR FEDERAL AWARDS

None