Generations Family Health Center, Inc.

Financial Statements
and Independent Auditor's Report

June 30, 2019 and 2018

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Generations Family Health Center, Inc.

Index

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Generations Family Health Center, Inc., which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Generations Family Health Center, Inc. as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated November 14, 2019 on our consideration of Generations Family Health Center, Inc.'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 solely 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 effectiveness of Generations Family Health Center, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Generations Family Health Center, Inc.'s internal control over financial reporting and compliance.

CohnReznick LLP

Hartford, Connecticut
November 14, 2019

Generations Family Health Center, Inc.

Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	$ 4,306,658	$ 1,968,277
Short-term investments	-	1,150,000
Patient services receivable, net	1,904,804	1,728,146
Prepaid expenses and other current assets	1,067,323	961,467
Total current assets	7,278,785	5,807,890
Property and equipment, net	17,229,442	16,430,723
Other assets		
Investment, at cost	83,333	83,333
Total other assets	83,333	83,333
Total assets	$ 24,591,560	$ 22,321,946
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 402,368	$ 418,146
Accrued compensation	708,883	690,183
Refundable advances	276,624	543,511
Deferred bonding revenue, current portion	383,876	434,438
Current maturities of long-term debt	102,414	98,561
Total current liabilities	1,874,165	2,184,839
Long-term debt, less current maturities	6,219,638	6,321,570
Deferred bonding revenue, net of current portion	2,533,218	2,093,530
Total liabilities	10,627,021	10,599,939
Commitments and contingencies		
Net assets without donor restrictions	13,964,539	11,722,007
Total liabilities and net assets	$ 24,591,560	$ 22,321,946

See Notes to Financial Statements.

Generations Family Health Center, Inc.

Statements of Activities and Changes in Net Assets
Years Ended June 30, 2019 and 2018

	2019	2018
Revenues and support		
Patient services revenue, net of contractual allowances and discounts	$ 13,292,677	$ 13,105,384
Provision for uncollectible accounts	(476,998)	(484,170)
Net patient services revenue	12,815,679	12,621,214
DHHS grants	4,340,052	4,075,892
Contract services and other grants	1,209,294	1,231,899
Donated vaccines	247,224	246,076
Pharmacy revenue	4,428,742	2,168,922
Other revenue	504,549	785,205
Total revenues and support	23,545,540	21,129,208
Expenses		
Salaries and benefits	16,441,437	15,841,785
Other than personnel services	4,520,565	3,713,381
Interest	250,240	251,852
Total expenses	21,212,242	19,807,018
Operating income before depreciation and amortization	2,333,298	1,322,190
Depreciation and amortization	609,094	658,811
Operating income before nonoperating activities	1,724,204	663,379
Nonoperating activities		
Interest income and other	8,436	47,381
Asset management fees	-	(20,657)
Loss on the collapse of the new market tax credit structure	-	(9,512,351)
Forgiveness of debt	-	12,022,465
Interest expense	-	(41,684)
Contributions and other revenue	509,892	443,367
Total nonoperating activities	518,328	2,938,521
Change in net assets	2,242,532	3,601,900
Net asset transfer	-	654,818
Net assets, beginning	11,722,007	7,465,289
Net assets, end	$ 13,964,539	$ 11,722,007

See Notes to Financial Statements.

Generations Family Health Center, Inc.

Statement of Functional Expenses
Year Ended June 30, 2019

	Program services	General and administrative	Total
Salary and wages	$ 10,753,861	$ 2,087,292	$ 12,841,153
Fringe benefits	3,016,368	583,916	3,600,284
Consumable supplies	2,366,109	107,186	2,473,295
Other	553,114	242,509	795,623
Occupancy	273,253	206,010	479,263
Equipment rental and maintenance	278,795	39,565	318,360
Non patient care related contractual services	-	128,670	128,670
Patient care related contractual services	256,323	-	256,323
Travel, conferences and meetings	54,132	14,899	69,031
Interest	-	250,240	250,240
	17,551,955	3,660,287	21,212,242
Depreciation and amortization	474,241	134,853	609,094
Total functional expenses	$ 18,026,196	$ 3,795,140	$ 21,821,336

See Notes to Financial Statements.

Generations Family Health Center, Inc.

Statement of Functional Expenses
Year Ended June 30, 2018

	Program services	General and administrative	Total
Salary and wages	$ 10,411,305	$ 2,029,704	$ 12,441,009
Fringe benefits	2,950,695	450,081	3,400,776
Consumable supplies	1,644,608	64,398	1,709,006
Other	432,542	94,083	526,625
Occupancy	299,136	169,607	468,743
Equipment rental and maintenance	169,054	26,755	195,809
Non patient care related contractual services	-	253,928	253,928
Patient care related contractual services	480,106	-	480,106
Travel, conferences and meetings	63,842	15,322	79,164
Interest	-	251,852	251,852
	16,451,288	3,355,730	19,807,018
Depreciation and amortization	512,950	145,861	658,811
Total functional expenses	$ 16,964,238	$ 3,501,591	$ 20,465,829

See Notes to Financial Statements.

Generations Family Health Center, Inc.

Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	$ 2,242,532	$ 3,601,900
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	609,094	658,811
Net asset transfer	-	654,818
Provision for uncollectible accounts	476,998	484,170
Forgiveness of debt	-	(12,022,465)
Loss on the collapse of the new market tax credit structure	-	9,512,351
Write off of note receivable	-	(507,226)
Deferred bonding revenue	(383,876)	(383,876)
Changes in operating assets and liabilities		
Patient services receivable	(653,656)	(1,288,416)
Prepaid expenses and other current assets	(105,856)	(35,734)
Accounts payable and accrued expenses	(15,778)	(76,718)
Accrued compensation	18,700	(20,640)
Refundable advances	(266,887)	65,761
Net cash provided by operating activities	1,921,271	642,736
Cash flows from investing activities		
Change in restricted cash and cash equivalents	-	20,675
Sales (purchases) of short-term investments	1,150,000	(20,000)
Purchases of property and equipment	(1,407,813)	(857,438)
Net cash used in investing activities	(257,813)	(856,763)
Cash flows from financing activities		
Proceeds from bonding funds	773,002	690,842
Repayments of long-term debt	(98,079)	(162,047)
Net cash provided by financing activities	674,923	528,795
Net increase in cash and cash equivalents	2,338,381	314,768
Cash and cash equivalents, beginning	1,968,277	1,653,509
Cash and cash equivalents, end	$ 4,306,658	$ 1,968,277
Supplemental disclosure of cash flow data		
Interest paid	$ 250,240	$ 293,536

See Notes to 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.

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

Basis of presentation

The accompanying 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 Center reports information regarding its financial position and activities according to the following net asset categories:

Net assets without donor restrictions - Net assets without donor restrictions represent available resources other than donor-restricted contributions. Included in net assets without donor restrictions are funds that may be earmarked for specific purposes.

Net assets with donor restrictions - Net assets subject to donor- (or certain grantor-) imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Performance indicator

The statements of activities and changes in net assets include operating income before nonoperating activities as the performance indicator.

Concentrations of credit risk

The Center's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, patient services receivable and revenue and grant revenue and receivables.

The Center maintains cash and cash equivalents in bank accounts which, at times, may exceed federally insured limits. As of June 30, 2019, the Center had cash and cash equivalents in excess of federally insured limits of approximately $4,199,000. The Center has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and cash equivalents

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

Short-term investments

The Center holds investments in certificates of deposit accounts that have a maturity period exceeding three months, but will mature in less than one year. These are classified as short-term investments in the statements of financial position. These investments are reported at their current fair values and any appreciation is recorded in the accompanying statements of activities and changes in net assets as interest income.

Patient services receivable

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

Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under the Center'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 Center considers accounts past due when they are outstanding beyond 60 days for patient balances and 120 days for insurance balances with no payment. The Center does not charge interest on past due accounts.

The provision for uncollectible accounts is increased when patient services receivable are deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of provision for uncollectible accounts when received.

Property and equipment

The Center 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 are carried at cost less accumulated depreciation and amortization. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets which range from 3 to 40 years. Leasehold improvements are amortized on a straight-line basis over the estimated useful life of the improvement or the term of the lease, whichever is less.

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

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

The Center 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 Center 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 assets' 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 Center does not believe that any material impairment currently exists related to its long-lived assets.

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. Cash received in excess of revenue recognized is recorded as refundable advances. These grants and contracts require the Center to provide certain healthcare services during specified periods. If such services are not provided during the periods, the governmental entities are not obligated to expend the funds allocated under the grants and contracts.

Patient services revenue

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

The Center 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.

In January 2017, the Center began participation in the new Department of Social Service PCMH+ initiative to improve health outcomes and care experience for Medicaid beneficiaries. Federally qualified health centers receive add-on payments to provide enhanced care coordination activities. For the years ended June 30, 2019 and 2018, the Center received $515,995 and $225,066, respectively, in add-on payments that are recorded in the statements of activities and changes in net assets as net patient services revenue.

340B Pharmacy

The Center participates in Section 340B of the Public Health Service Act ("PHS Act"), *Limitation on Prices of Drugs Purchased by Covered Entities*. Participation in this program allows the Center to purchase pharmaceuticals at a discounted rate for prescriptions to eligible patients. The Center has outsourced the administration of this program to contracted pharmacies. The Center records revenue based on the price of the pharmaceuticals dispensed.

Charity care and community benefit

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

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

Based on the cost of patient services, charity care approximated $1,354,000 and $1,241,000 and community benefit approximated $4,626,000 and $4,468,000 for the years ended June 30, 2019 and 2018, respectively.

Meaningful use incentives

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under the Medicare and Medicaid programs for certain professionals that: (1) meaningfully use certified Electronic Health Record ("EHR") technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of healthcare, 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 six years and be paid out based on a transitional schedule. During the years ended June 30, 2019 and 2018, approximately $0 and $599,000, respectively, was recognized as revenue and is included in other revenue on the statements of activities and changes in net assets.

Contributions

Contributions are recorded at fair value when received or pledged. Amounts are recorded as revenue with or without donor restriction, depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restriction are reclassified as net assets without donor restriction and are reported in the statements of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions expire during the same fiscal year are recognized as revenue without donor restriction. Conditional contributions are recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions on the statements of activities and changes in net assets.

Donated goods and services

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

In-kind contributions

In-kind contributions consist primarily of medical supplies and are recorded at the fair value of the supplies provided. The fair value of those goods as provided by the funding sources was $247,224 and $246,076 for the years ended June 30, 2019 and 2018, respectively, and is recorded as donated vaccines on the statements of activities and changes in net assets, along with a corresponding charge to consumable supplies in the accompanying statements of functional expenses.

Interest income

Interest earned on nonfederal funds is recorded as income on an accrual basis. Interest earned on federal funds in excess of $500 per year is recorded as a payable to the Public Health Service ("PHS") in compliance with Office of Management and the Uniform Guidance. For the years ended June 30, 2019 and 2018, interest earned on federal funds was below the threshold of $500 and, therefore, no payable was recorded.

Functional expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, equipment rental and maintenance, insurance, and deprecation which are allocated on a square footage basis. The Center allocates salaries and wages, donated supplies, rent, and travel, conferences, and meetings based on actual expenses incurred. Weighted average methodology is used for employee benefits, contracted services, professional services, postage and supplies, interest and other expenses.

Income taxes
The Center is incorporated as not-for-profit entity and is exempt from federal and state income tax under the provisions of the Internal Revenue Code Section 501(c)(3).

The Center has no unrecognized tax benefits at June 30, 2019 and 2018. The Center's federal and state tax returns prior to fiscal year 2016 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If the Center 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 statements of financial position.

Cost settlement
The Center is subject to cost settlement procedures prescribed by various state agencies. No cost settlement payable was required for the years ended June 30, 2019 and 2018.

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.

New accounting pronouncement
During 2019, the Center adopted the provisions of Financial Accounting Standards Board Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The provisions improve the usefulness and reduce the complexities of information provided to donors, grantors, creditors, and other users of the financial statements by eliminating the distinction between resources with permanent restrictions and those with temporary restrictions from the face of the financial statements. Enhanced disclosures in the notes to the financial statements will provide useful information about the nature, amounts and effects of the various types of donor-imposed restrictions, which often include limits on the purposes for which resources can be used as well as the time frame for their use. The guidance also enhances disclosures for board-designated amounts, composition of net assets without donor restrictions, liquidity and expenses by both their nature and functional classification. While the adoption of ASU 2016-14 requires net assets to be presented with and without donor restrictions, the ASU had no effect on the Center's total net assets. The changes required by the update have been applied retrospectively to all periods presented.

Subsequent events
The Center has evaluated events and transactions for potential recognition or disclosure through November 14, 2019, which is the date the financial statements were available to be issued.

Note 2 - Liquidity

The Center regularly monitors liquidity required to meet its annual operating needs and other contractual commitments. As of June 30, 2019, the Center has the following financial assets available to meet annual operating needs for fiscal year 2020 as follows:

Cash and cash equivalents	$ 4,306,658
Receivables	
Patient services receivable, net	1,904,804
Grants	55,989
Other	688,635
Total financial assets available to meet general expenditures over the next 12 months	$ 6,956,086

As part of the Center's liquidity management, the Center keeps its financial assets available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Center has a committed line of credit of $800,000, which it could draw upon.

Note 3 - Patient services receivable, net

The Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables, net from patients and third-party payors as of June 30, 2019 and 2018 is as follows:

	2019	2018
Medicaid	$ 847,266	$ 768,595
Medicare	360,277	390,967
Third-party payors	674,175	566,203
Self-pay	594,693	610,109
	2,476,411	2,335,874
Less allowance for doubtful accounts	571,607	607,728
	$ 1,904,804	$ 1,728,146

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

For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectable accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Center records a provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates provided by the Center's policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

The Center's allowance for doubtful accounts was 23% and 26% of gross patient receivables at June 30, 2019 and 2018, respectively. The Center has not changed its charity care or uninsured discount policies during 2019 and 2018. The Center had $513,119 and $501,028 of write-offs during the years ended June 30, 2019 and 2018, respectively.

Note 4 - Grants

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

The Center receives a significant amount of grants from DHHS. As with all government funding, these grants are subject to reduction or termination in future years. For the years ended June 30, 2019 and 2018, grants from DHHS consisted of 75% and 73%, respectively.

Note 5 - Property and equipment, net

Property and equipment, net, consists of the following at June 30, 2019 and 2018:

	2019	2018
Land	$ 1,322,380	$ 1,322,380
Condominium	1,009,942	1,009,942
Building and building improvements	18,297,063	16,099,595
Equipment	2,109,757	2,087,757
Leasehold improvements	805,772	835,312
Total property and equipment	23,544,914	21,354,986
Less accumulated depreciation and amortization	6,326,722	5,717,112
	17,218,192	15,637,874
Construction in progress	11,250	792,849
	$ 17,229,442	$ 16,430,723

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

Note 6 - Investments

The Center is a member of a not-for-profit health plan, Community Health Network of Connecticut, Inc. ("CHNCT"). As of January 1, 2012, CHNCT now functions as the state's Administrative Service Organization (ASO) for the HUSKY Health program. The Center has purchased an interest in CHNCT. The Center's investment in CHNCT, as of June 30, 2019 and 2018, amounted to $83,333 and is recognized based on cost due to ownership of less than 20%.

Note 7 - New Market Tax Credit financing

The Center entered into a financing agreement with various entities for the purpose of receiving financing for the Project. The New Market Tax Credit (“NMTC”) structure consisted of NMTC investors and other lenders that provided qualified equity investments to community development entities ("CDE") who in turn provided debt financing to qualified active low income community businesses ("QALICB").

The Center was a lender in this process and held a note with Generations Investment Fund, LLC. The Center was also the managing and majority member of Generations Willimantic, LLC, through capital contributions of $1,650,000 which were made during fiscal year 2011. An additional $181,329 of capital contribution was made in fiscal year 2013. All capital contributions to Generations Willimantic, LLC, were transferred to Generations Holdings, Inc., during 2016. 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 had provided debt financing to the LLC. The LLC, who qualified as a QALICB, received debt financing of $12,022,465 from MHIC for the qualified purpose of constructing a community health center in a low-income area, as required by the terms of the agreements. All agreements under the LLC were assigned to Holdings during 2016.

This structure stayed in effect for a period of seven years, until August 7, 2017, when the NMTC period expired and Generations Holdings, Inc. was dissolved. As a result of the NMTC period expiring, the Center recorded a loss on the collapse of the NMTC structure of $9,512,351. The majority of this loss relates to the write off of the note receivable. In addition, the secured note payable was forgiven, which resulted in a gain of $12,022,465.

Note 8 - Line of credit

The Center has a revolving line of credit of $800,000, which is payable in full on demand effective April 1, 2020. This agreement requires interest to be charged at the bank's prime rate plus .50% with a floor of 5.5% per annum (6.00% at June 30, 2019). The line of credit is secured by the Center's business accounts receivable. Interest is payable monthly on any outstanding balance. As of June 30, 2019 and 2018, the Center had no outstanding balances on the revolving line of credit. The line of credit does include certain financial and nonfinancial covenants.

Note 9 - Long-term debt

Long-term debt consists of the following at June 30, 2019 and 2018:

	2019	2018
Promissory note - $7,000,000 face amount. This promissory note is with the Rural Housing Service of the United States Department of Agriculture. The note bears interest at 3.75%, matures in 2051 and is collateralized by all assets of the Center. This note does include certain financial and nonfinancial debt covenants.	$ 6,322,052	$ 6,420,131
	6,322,052	6,420,131
Less current maturities	102,414	98,561
Long-term portion	$ 6,219,638	$ 6,321,570

Principal payments on long-term debt during each of the five years subsequent to June 30, 2019 and thereafter are as follows:

2020	$ 102,414
2021	106,322
2022	110,378
2023	114,589
2024	118,961
Thereafter	5,769,388
	$ 6,322,052

Note 10 - Deferred bonding revenue

The Center has received bond funds for capital projects. The provider of the bond funds places a 10-year lien on the applicable property when the project is completed or when the grant funds are received, depending on the terms of the related agreement. If the property is not utilized by the Center, 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 10-year period that the location was utilized. For each full year that the property is utilized by the Center, 10% of the deferred revenue will be reclassified to revenue and recorded in the statements of activities and changes in net assets. Deferred revenue relating to bond funds, as of June 30, 2019 and 2018, was $2,917,094 and $2,527,968, respectively, and is included on the statements of financial position. Amortization of bond funds totaled $383,876 for the years ended June 30, 2019 and 2018, and are recorded as contributions and other revenue in the statements of activities and changes in net assets.

Note 11 - Patient services revenue, net

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

For the years ended June 30, 2019 and 2018, patient services revenue (net of contractual allowances and discounts but before the provision for uncollectible accounts) consists of the following:

	2019	2018
Medicaid	$ 9,090,107	$ 8,940,040
Medicare	1,695,380	1,621,000
Third-party payors	1,450,773	1,448,746
Self-pay	1,056,417	1,095,598
	$ 13,292,677	$ 13,105,384

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

Note 12 - Pension plan

The Generations Family Health Center Annuity Plan qualifies as an Internal Revenue Service 403(b) plan, also known as a tax-sheltered annuity. Employees, who meet certain eligible requirements, may make tax-deferred contributions to a retirement account. In addition, the Center makes discretionary non-elective contributions. Pension expense for the years ended June 30, 2019 and 2018 amounted to $292,735 and $245,789, respectively.

Note 13 - Collective bargaining agreement

Approximately 60% of the Center's labor force is covered by two collective bargaining agreements, which expire in 2021.

Note 14 - 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 Center 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 Center 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 Center 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 Center 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 Center maintains gap insurance for claims that are not covered by the FTCA.

The Center 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 Center or its results of operations.

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Generations Family Health Center, Inc.

Federal Awards in Accordance with the Uniform Guidance and Independent Auditor's Reports

June 30, 2019

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Generations Family Health Center, Inc.

Index

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Generations Family Health Center, Inc. (the "Center") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

CohnReznick LLP

Hartford, Connecticut
November 14, 2019

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Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited Generations Family Health Center, Inc.'s ("the Center") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2019. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Center as of and for the year ended June 30, 2019, and have issued our report thereon dated November 14, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

CohnReznick LLP

Hartford, Connecticut
November 14, 2019

Generations Family Health Center, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Agency or pass-through grantor's number	Passed through to subrecipients	Total federal expenditures
U.S. Department of Health and Human Services				
Health Center Program Cluster				
Health Center Program	93.224	N/A	$ -	$ 1,353,158
Passed through the Massachusetts League of Community Health Centers				
Health Center Program	93.224	CRVFHP	-	84,107
Total CFDA 93.224			-	1,437,265
Grants for New and Expanded Services under the Health Center Program	93.527	N/A	-	2,702,257
Total Health Center Program Cluster			-	4,139,522
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	-	284,637
Passed through the State of Connecticut Department of Public Health				
Immunization Cooperative Agreements	93.268	Not available	-	210,740
Passed through the State of Connecticut Office of Early Childhood				
Maternal, Infant, and Early Childhood Home Visiting Cluster				
Maternal, Infant, and Early Childhood Home Visiting Grant Program	93.870	19OECMHV01GFH	-	316,617
Passed through United Community & Family Services, Inc.				
Maternal and Child Health Services Block Grant to the States	93.994	2015-0038	-	60,059
Passed through the Community Health Center Association of Connecticut				
Affordable Care Act - Transforming Clinical Practice Initiative: Practice Transformation Networks (PTNs)	93.638	1L1CMS331459-02-00	-	191,470
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	5 H12HA248590700	-	30,935
			-	222,405
Total U.S. Department of Health and Human Services			-	5,233,980
Total Expenditures of Federal Awards			$ -	$ 5,233,980

See Notes to Schedule of Expenditures of Federal Awards.

Generations Family Health Center, Inc.

Notes to Schedule of Expenditures of Federal Awards
June 30, 2019

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Center under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Center.

Note 2 - Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Center has elected to not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Noncash assistance

The Center received and used vaccines with a fair value of $210,740 under Federal CFDA Number 93.268, passed through the State of Connecticut Department of Public Health. Such noncash assistance has been included in the Schedule.

Note 4 - Loan program

The following is a summary of the loan program activity for the year ended June 30, 2019:

United States Department of Agriculture

Community Facilities Loans and Grants (CFDA #10.766)

Issue date		12/21/2011
Interest rate		3.75%
Original amount	$	7,000,000
Balance, beginning of year	$	6,420,131
Paid during fiscal year		98,079
Balance, end of year	$	6,322,052

Generations Family Health Center, Inc.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements were prepared in accordance with GAAP	Unmodified opinion
Internal control over financial reporting:	
Material weakness(es) identified?	____ yes ✓ no
Significant deficiency(ies) identified?	____ yes ✓ none reported
Noncompliance material to financial statements noted?	____ yes ✓ no

Federal Awards

Internal control over major programs	
Material weakness(es) identified?	____ yes ✓ no
Significant deficiency(ies) identified?	____ yes ✓ none reported
Type of auditor's report issued on compliance for major programs:	Unmodified opinion
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	____ yes ✓ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
	U.S. Department of Health and Human Services
	Health Center Program Cluster
93.224	Health Center Program
93.527	Grants for New and Expanded Services under the Health Center Program

Dollar threshold used to distinguish between type A and type B programs	$750,000
Auditee qualified as low-risk auditee?	✓ yes ____ no

Generations Family Health Center, Inc.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

II. Financial Statement Findings

None.

III. Federal Award Findings and Questioned Costs

None.

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GENERATIONS

FAMILY HEALTH CENTER

Generations Family Health Center, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019

Finding 2018.001

Condition - The Center did not always appropriately apply the sliding fee discount based on income levels.

Recommendation - The Center should ensure that internal controls are in place to effectively prevent ineligible patients from receiving a sliding fee discount.

Current Status –

Actions Taken

1. Sliding Fee Scale Determination Policy and Procedures were reviewed and revised as needed.
2. Training and resource tools were developed for front-line supervisors with training sessions held for both managers and front end staff.
3. Tasks and workflows for staff responsible for sliding fee determination function were revised to assure prioritization of this duty.
4. Monthly monitoring and self-audit tools were be developed and assigned to front-line supervisors for completion.
5. Subsequently, supervision of all Patient Account Representatives was reassigned to the Billing Manager in October 2019 to promote consistency and accountability.

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