

Chase Brexton Health Services, Inc.

Independent Auditor's Reports and Consolidated Financial Statements

June 30, 2014 and 2013

Chase Brexton Health Services, Inc.
June 30, 2014 and 2013

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Independent Auditor's Report

Board of Directors
Chase Brexton Health Services, Inc.
Baltimore, Maryland

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Chase Brexton Health Services, Inc. (the "Organization"), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chase Brexton Health Services, Inc. as of June 30, 2014 and 2013, and the results of its operations, 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.

Supplementary Information

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

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2014, on our consideration of the Organization's internal control over financial reporting and 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* in considering Chase Brexton Health Services, Inc.'s internal control over financial reporting and compliance.

BKD, LLP

Springfield, Missouri
November 7, 2014

Chase Brexton Health Services, Inc.
Consolidated Balance Sheets
June 30, 2014 and 2013

Assets

	2014	2013
Current Assets		
Cash and cash equivalents	\$ 6,627,826	\$ 9,484,363
Short-term investments	155,871	62,807
Patient accounts receivable, net of allowance; 2014 - \$608,000, 2013 - \$188,000	3,767,271	3,178,332
Grants and other receivables	1,682,561	4,520,466
Contributions receivable - current	284,218	113,251
Supplies	501,373	451,189
Prepaid expenses and other	327,962	527,583
Total current assets	<u>13,347,082</u>	<u>18,337,991</u>
Notes Receivable	<u>6,241,100</u>	<u>6,241,100</u>
Assets Limited As To Use		
Internally designated	7,092,160	8,570,586
Externally restricted for construction	87,625	6,059,962
	<u>7,179,785</u>	<u>14,630,548</u>
Property and Equipment, At Cost		
Land and land improvements	1,500,000	1,500,000
Buildings and leasehold improvements	42,602,358	4,017,169
Equipment	4,633,931	4,737,778
Furniture and fixtures	1,110,651	164,037
Asset held for sale	-	1,237,004
Construction in progress	573,299	29,468,227
	<u>50,420,239</u>	<u>41,124,215</u>
Less accumulated depreciation	4,462,512	4,389,818
	<u>45,957,727</u>	<u>36,734,397</u>
Other Assets		
Contributions receivable	51,833	153,873
Deferred financing costs	355,713	420,389
Total other assets	<u>407,546</u>	<u>574,262</u>
Total assets	<u>\$ 73,133,240</u>	<u>\$ 76,518,298</u>

Liabilities and Net Assets

	2014	2013
Current Liabilities		
Current maturities of long-term debt	\$ 1,384,830	\$ 400,000
Accounts payable	2,853,540	2,190,878
Accrued expenses	<u>3,020,684</u>	<u>10,352,933</u>
Total current liabilities	7,259,054	12,943,811
Accrued Rent Payable	369,327	123,966
Long-Term Debt	<u>10,158,769</u>	<u>8,952,000</u>
Total liabilities	<u>17,787,150</u>	<u>22,019,777</u>
Net Assets		
Unrestricted	55,035,190	53,999,083
Temporarily restricted	<u>310,900</u>	<u>499,438</u>
Total net assets	<u>55,346,090</u>	<u>54,498,521</u>
Total liabilities and net assets	<u>\$ 73,133,240</u>	<u>\$ 76,518,298</u>

Chase Brexton Health Services, Inc.
Consolidated Statements of Operations
Years Ended June 30, 2014 and 2013

	2014	2013
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	\$ 12,622,466	\$ 8,085,704
Provision for uncollectible accounts	705,505	366,075
Net patient service revenue less provision for uncollectible accounts	11,916,961	7,719,629
Pharmacy revenue	41,757,625	35,387,595
Capitation revenue	207,406	1,954,583
Grant revenue	6,625,449	6,776,696
Contribution revenue	197,684	540,203
Other	-	3,636
Net assets released from restrictions used for operations	266,896	333,718
	60,972,021	52,716,060
Expenses and Losses		
Salaries and wages	21,512,653	16,965,830
Employee benefits	3,622,554	3,022,569
Purchased services and professional fees	1,280,752	1,243,366
Supplies and other	6,676,518	5,255,986
Pharmacy expenses	26,972,600	22,706,107
Rent	979,969	922,046
Depreciation and amortization	3,122,169	794,928
Interest expense	397,356	-
Loss on impairment	-	719,822
Loss on disposal of property and equipment	370,362	13,323
	64,934,933	51,643,977
	Operating Income (Loss)	1,072,083
Other Income		
Investment return	996,974	845,404
Partnership income	1,080,311	941,051
	2,077,285	1,786,455
Excess (Deficiency) of Revenues over Expenses	(1,885,627)	2,858,538
Grants for acquisition of property and equipment	828,862	5,696,139
Contributions for acquisition of property and equipment	104,999	-
Net assets released from restriction used for purchase of property and equipment	1,987,873	-
	1,987,873	-
Increase in Unrestricted Net Assets	\$ 1,036,107	\$ 8,554,677

Chase Brexton Health Services, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2014 and 2013

	2014	2013
Unrestricted Net Assets		
Excess (deficiency) of revenues over expenses	\$ (1,885,627)	\$ 2,858,538
Contributions of or for acquisition of property and equipment	104,999	-
Grant for acquisition of property and equipment	828,862	5,696,139
Net assets released from restriction used for purchase of property and equipment	1,987,873	-
Increase in unrestricted net assets	1,036,107	8,554,677
Temporarily Restricted Net Assets		
Contributions	2,066,231	542,793
Net assets released from restriction	(2,254,769)	(333,718)
Increase (decrease) in temporarily restricted net assets	(188,538)	209,075
Change in Net Assets	847,569	8,763,752
Net Assets, Beginning of Year	54,498,521	45,734,769
Net Assets, End of Year	\$ 55,346,090	\$ 54,498,521

Chase Brexton Health Services, Inc.

Consolidated Statements of Cash Flows

Years Ended June 30, 2014 and 2013

	2014	2013
Operating Activities		
Change in net assets	\$ 847,569	\$ 8,763,752
Items not requiring (providing) cash		
Depreciation and amortization	3,122,169	794,928
Loss on impairment	-	719,822
Loss on disposal of property and equipment	370,362	13,323
Net realized and unrealized gain on investments	(616,978)	(724,800)
Contributions for acquisition of property and equipment	(104,999)	-
Grants for acquisition of property and equipment	(828,862)	(5,696,139)
Gain on investment in equity investee	(1,080,311)	(941,051)
Restricted contributions received for acquisition of property and equipment	(1,987,873)	-
Changes in		
Patient accounts receivable, net	(588,939)	(723,689)
Grants and other receivables	2,837,905	(1,894,116)
Contributions receivable	(68,927)	(126,744)
Prepaid expenses and other	199,621	(109,403)
Supplies	(50,184)	84,009
Accounts payable and accrued expenses	1,539,460	(309,680)
Net cash provided by (used in) operating activities	<u>3,590,013</u>	<u>(149,788)</u>
Investing Activities		
Purchase of investments	(78,284)	(58,846)
Proceeds from disposition of investments	-	500,677
Net change in assets limited as to use	8,052,961	12,150,390
Distributions from equity investee	1,080,311	941,051
Purchase of property and equipment	(18,765,874)	(16,519,912)
Proceeds from sale of property and equipment	1,237,004	114,239
Net cash used in investing activities	<u>(8,473,882)</u>	<u>(2,872,401)</u>
Financing Activities		
Proceeds from contributions for acquisition of property and equipment	104,999	-
Proceeds from grants for acquisition of property and equipment	828,862	5,696,139
Restricted contributions received for acquisition of property and equipment	1,987,873	-
Payment of deferred financing costs	-	(452,727)
Proceeds from issuance of long-term debt	-	8,640,000
Principal payments on long-term debt	(894,402)	-
Issuance of notes receivable	-	(6,241,100)
Net cash provided by financing activities	<u>2,027,332</u>	<u>7,642,312</u>
Increase (Decrease) in Cash and Cash Equivalents	(2,856,537)	4,620,123
Cash and Cash Equivalents, Beginning of Year	<u>9,484,363</u>	<u>4,864,240</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,627,826</u>	<u>\$ 9,484,363</u>
Supplemental Cash Flows Information		
Interest paid (net of amount capitalized)	\$ 358,195	\$ -
Property and equipment acquisitions included in accounts payable and accrued expenses	\$ 406,521	\$ 8,370,207
Property and equipment acquired through capital leases	\$ 3,086,001	\$ -

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Chase Brexton Health Services, Inc. (the “Health Center”) primarily earns revenues by providing primarily medical care, pharmaceuticals, mental health services and dental services through clinics located in Baltimore City, Baltimore County, Howard County and Talbot County, Maryland.

Chase Brexton Realty (CBR), a 501(c)3 nonprofit organization was formed in September 2012. The Health Center is the controlling entity of CBR as it operates exclusively for the benefit of the Health Center. CBR was formed in conjunction with the New Market Tax Credit transaction (see *Note 17*).

Principles of Consolidation

The consolidated financial statements include the accounts and transactions of the Health Center and CBR (collectively, the “Organization”). All significant intercompany transactions and balances have been eliminated in consolidation.

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 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.

Cash and Cash Equivalents

The Organization considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At June 30, 2014 and 2013, cash equivalents consisted primarily of money market accounts with brokers. At June 30, 2014, the Organization’s cash accounts exceeded federally insured limits by approximately \$5,324,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. The investment in equity investee is reported on the equity method of accounting. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited as to Use

Assets limited as to use include assets restricted by third parties for construction and assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes.

Patient Accounts Receivable

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

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

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for uncollectible accounts in the period of services 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 if negotiated or provided by the sliding fee or other policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Organization's allowance for doubtful accounts for self-pay patients is 90% and 60% of self-pay accounts receivable at June 30, 2014 and 2013, respectively. In addition, the Organization's write-offs decreased approximately \$13,000 from approximately \$299,000 for the year ended June 30, 2013, to approximately \$286,000 for the year ended June 30, 2014.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Supplies

The Organization states supply inventories at the lower of cost, determined using the first-in, first-out method, or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

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

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

The Organization capitalizes interest costs as a component of construction in progress, based on the weighted average rates paid for long-term borrowing. Total interest incurred during 2014 was \$424,933, of which \$27,577 was capitalized into building and leasehold improvements. Total interest incurred during 2013 was \$64,597, all of which was capitalized into building and leasehold improvements.

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

An impairment loss of \$719,822 was recognized related to the Eager Street building during the year ended June 30, 2013. There were no such impairment losses recognized during the year ended June 30, 2014.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are amortized over the term of the respective debt using the straight-line method.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose.

Net Patient Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Capitation Revenue

The Organization has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the Organization receives monthly capitation payments based on the number of each HMO's participants, regardless of the services actually performed by the Organization. In addition, the HMOs make fee-for-service payments to the Organization for certain covered services based upon discounted fee schedules. The HMO from which the Organization received primarily all of their capitation revenue ceased operations in January, 2014.

Pharmacy Revenue

Pharmacy revenue is recognized as pharmaceuticals are dispensed. The Health Center has a network of participating pharmacies that dispense the pharmaceuticals to its patients under contract arrangement with the Health Center as well as three in-house pharmacies. The Health Center participates in the 340B "Drug Discount Program" which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Pricing Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Health Center earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. Reported 340B revenue consists of the pharmacy reimbursements, net of the initial purchase price of the drugs.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

	2014	2013
Gross receipts	\$ 22,329,417	\$ 20,695,894
Drug replenishment costs	(10,738,661)	(9,537,889)
Administrative and filling fees	(29,671)	(7,000)
Net revenue	\$ 11,561,085	\$ 11,151,005

The 340B gross receipts are included in pharmacy revenue on the statement of operations. The drug replenishment costs and administrative and filling fees are included in pharmacy expenses on the statement of operations. The net 340B pharmacy revenue from this program is used in furtherance of the Organization's mission.

Government Grants

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Contributions

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions of professional medical and legal services. The Health Center also receives donated rent from a Maryland limited liability company. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its financial statements and similarly increase contribution revenue by a like amount. During the years ended June 30, 2014 and 2013, the Organization received in-kind contributions of \$0 and \$228,424.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
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Income Taxes

The Health Center and CBR have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Health Center and CBR are subject to federal income tax on any unrelated business taxable income.

The Health Center and CBR files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Health Center and CBR are no longer subject to U.S. federal examinations by taxing authorities for the years before 2011.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible organizations that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to six years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Organization continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Organization recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

The Organization recorded revenues of \$238,000 and \$212,500 for the year ended June 30, 2014 and 2013, respectively, which is included in grant revenue in the statement of operations.

Excess (Deficiency) of Revenues Over Expenses

The statement of operations includes excess (deficiency) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions and grants of long-lived assets including assets acquired using contributions or grants which by donor or granting agency restriction are to be used for the purpose of acquiring such assets.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on the change in net assets.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note 2: Grant Revenue

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of the grants is to provide expanded primary health care service delivery for residents of Baltimore, Maryland, and the surrounding areas. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended June 30, 2014 and 2013, the Organization recognized \$1,843,587 and \$1,658,336 in CHC grant revenue, respectively. The Organization's present CHC grant award covers the grant period ending December 31, 2014, and is approved at \$3,272,755.

As part of the *Patient Protection and Affordable Care Act*, the federal government passed legislation appropriating grant dollars to community health centers under the Capital Development (CD) grant program. The Organization was awarded \$5,000,000 for the May 1, 2012, to April 30, 2015, period to fund improvements to existing facilities. During the years ended June 30, 2014 and 2013, the Organization recognized \$828,861 and \$4,171,139 in CD grant revenue, respectively.

In addition to the above grants, the Organization receives additional financial support from other federal, state and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis.

Note 3: Net Patient Service Revenue

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for the sliding fee program, the Organization recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Organization's uninsured patients who do not qualify for the sliding fee program will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for uncollectible accounts related to uninsured patients who do not qualify for the sliding fee program in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of net patient service revenue.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

The Organization is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Organization and audit thereof by the Medicare fiscal intermediary. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medicaid. Covered FQHC services rendered to Medicaid program beneficiaries are paid on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for all services under the plan. Services not covered under the FQHC benefit are paid based on established fee schedules.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates and discounts from established charges.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended June 30, 2014 and 2013, was approximately:

	2014	2013
Medicaid	\$ 8,281,381	\$ 4,954,187
Medicare	1,056,345	718,770
Self-pay	1,462,663	1,196,438
Other third-party payers	1,822,077	1,216,309
	<hr/>	<hr/>
Total	<u>\$ 12,622,466</u>	<u>\$ 8,085,704</u>

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note 4: Concentrations of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2014 and 2013, was:

	2014	2013
Medicare	5%	5%
Medicaid	57%	33%
Other third-party payers	36%	56%
Self-pay	2%	6%
	<u>100%</u>	<u>100%</u>

Note 5: Investments and Investment Return

Assets Limited as to Use

Assets limited to use, at June 30, 2014 and 2013, include:

	2014	2013
Internally designated for capital improvements		
Cash and cash equivalents	\$ 1,567,330	\$ 5,577,235
Small cap equity mutual funds	405,614	202,123
Equity income mutual funds	4,326,458	2,392,743
Diversified equity mutual funds	792,758	398,485
	<u>\$ 7,092,160</u>	<u>\$ 8,570,586</u>
Externally restricted for construction		
Cash	<u>\$ 87,625</u>	<u>\$ 6,059,962</u>

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Short-Term Investments

Short-term investments, at June 30, 2014 and 2013, include:

	2014	2013
Money market funds	\$ 6,701	\$ 10,151
Equity income mutual funds	36,294	11,220
Diversified equity mutual funds	112,876	41,436
	<u>\$ 155,871</u>	<u>\$ 62,807</u>

Total investment return, at June 30, 2014 and 2013, is comprised of the following:

	2014	2013
Interest and dividend income	\$ 379,996	\$ 120,604
Unrealized gains (losses) on trading securities	616,978	(77,844)
Realized gains on trading securities	-	802,644
	<u>\$ 996,974</u>	<u>\$ 845,404</u>

Note 6: Conditional Gifts

The Organization received a conditional promise during the year ended June 30, 2013, in the amount of \$2,000,000. The conditional promise would be received if the Organization maintains various prior commitments totaling approximately \$17,000,000 as well as new matching contributions totaling \$500,000, both of which were to be used for the Organization's Charles Street Capital Project. During 2014, these conditions were met and the promise was considered unconditional and recorded in temporarily restricted net assets. The Organization released \$1,750,000 from restrictions during 2014 and \$250,000 remains in temporarily restricted net assets at June 30, 2014 related to the finalization of the Organization's plans for the 1960's building.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note 7: Investment in Equity Investees

The Health Center has a 12.375% limited partnership interest in Maryland Community Health Systems Limited Liability Limited Partnership (the "Partnership"). The Partnership is composed of eight community health centers, each of which is a not-for-profit, tax-exempt organization. The eight health centers are the limited partners and MCHS, Inc. is the general partner. The Health Center owns 12.5% (one share) of MCHS, Inc., a Maryland for-profit corporation. At June 30, 2014 and 2013, the investments in the Partnership and MCHS, Inc. were \$10,582 and \$100, respectively, and are included in prepaid expenses and other on the consolidated balance sheet. Financial position and results of operations of the investees for 2014 and 2013 are summarized below:

	2014		2013	
	MCHS, Inc.	Partnership	MCHS, Inc.	Partnership
Current assets	\$ -	\$ 585,588	\$ -	\$ 284,989
Total assets	28,008	585,588	29,383	284,989
Current liabilities	-	465,284	-	59,303
Total liabilities	-	465,284	-	59,303
Equity	\$ 28,008	\$ 120,304	\$ 29,383	\$ 225,686
Revenues	\$ -	\$ 9,376,501	\$ -	\$ 8,830,196
Net income (loss)	\$ (1,375)	\$ 8,926,076	\$ (1,390)	\$ 8,416,045

The Partnership owns a 50% interest in Priority Partners, a Maryland corporation, which is a joint venture with John Hopkins Healthcare (JHHC), for the purpose of operating an authorized managed care organization under the terms of HealthChoice. JHHC has assumed sole responsibility for the expenses of Priority Partners, including any capital calls to fund any operating deficiencies. By agreement, Priority Partners pays the Partnership 1% of the revenue received from the state of Maryland. Partnership income earned by the Health Center from the limited partnership was \$1,080,311 and \$941,051 for the years ending June 30, 2014 and 2013, respectively.

The Health Center had a managed care contract with Priority Partners that ended on December 31, 2012, with which the Health Center earned revenue during 2013 totaling \$1,547,496. This revenue is included in capitation revenue on the consolidated statement of operations. There was no such revenue earned during 2014.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note 8: Notes Receivable

In conjunction with the New Market Tax Credit transaction (see *Note 17*), the Health Center issued an unsecured note receivable. The balance of the note receivable at June 30, 2014 and 2013, was \$6,241,100. The note matures on June 10, 2039, and interest accrues monthly at a rate of 0.25%. Interest-only payments are due monthly for seven years. Beginning on March 10, 2020, principal and interest payments of \$88,169 are payable monthly.

Note 9: Long-Term Debt

	<u>2014</u>	<u>2013</u>
Note payable (A)	\$ 6,241,100	\$ 6,241,100
Note payable (B)	2,398,900	2,398,900
CDBG loan (C)	-	400,000
CDBG loan (D)	312,000	312,000
Capital lease obligations (E)	2,591,599	-
	<u>11,543,599</u>	<u>9,352,000</u>
Less current maturities	<u>1,384,830</u>	<u>400,000</u>
	<u>\$ 10,158,769</u>	<u>\$ 8,952,000</u>

- (A) This note payable is due to NFF New Markets Fund XIX, LLC on December 1, 2042. Interest-only payments of \$24,559 are to be made quarterly until December 1, 2019, at a rate of 1.574%, thereafter, quarterly payments of principal and interest in the amount of \$80,989 are to be made at a rate of 1.574%; secured by certain property and equipment.
- (B) This note payable is due to NFF New Markets Fund XIX, LLC on December 1, 2042. Interest-only payments of \$9,440 are to be made quarterly until December 1, 2019, at a rate of 1.574%, thereafter, quarterly payments of principal and interest in the amount of \$31,129.71 are to be made at a rate of 1.574%; secured by certain property and equipment.
- (C) The Organization received \$400,000 under the Community Development Block Grant (CDBG) Program in May 2002 that were used for the acquisition of the Organization's property at 10 West Eager Street. The loan was collateralized by a subordinate deed of trust on the property located at 10 West Eager Street. This property was sold during 2014 and the loan was repaid during closing.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

- (D) The Organization received \$312,000 under the CDBG Program in December 1994. The CDBG funds were used for the acquisition of the Organization's property at 1001 Cathedral Street. If the Organization maintains the property and uses it to operate a community based health clinic and AIDS treatment center in compliance with the CDBG Program, no interest will accrue or be payable. The CDBG loan will be forgiven if the Organization owns and uses the property as a community-based health clinic and AIDS treatment center for a 20-year period ending March 2015. The loan was collateralized by a subordinate deed of trust on the property located at 1001 Cathedral Street; however, in December 2012, the subordinate deed of trust was transferred to the property located at 1111 N. Charles Street.
- (E) At varying rates of imputed interest from 1.65% to 2.02%, due through September, 2017; collateralized by property and equipment. Property and equipment included the following equipment under capital leases:

	2014	2013
Construction in progress	\$ 217,979	\$ -
Equipment	2,868,022	-
	3,086,001	-
Less accumulated depreciation	254,188	-
	\$ 2,831,813	\$ -

Aggregate annual maturities of long-term debt and capital leases at June 30, 2014, are:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2015	\$ 312,000	\$ 1,130,940
2016	-	1,155,912
2017	-	429,597
2018	-	-
2019	-	-
Thereafter	8,640,000	-
	\$ 8,952,000	2,716,449
Less amount representing interest		124,850
Present value of future minimum lease payments		2,591,599
Less current maturities		1,072,830
Noncurrent portion		\$ 1,518,769

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note 10: Medical Malpractice Claims

The U.S. Department of Health and Human Services has deemed the Organization and its participating physicians and other licensed or certified health care practitioners, covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon the Organization's claim experience, no accrual has been made for the Organization's medical malpractice costs for the years ended June 30, 2014 and 2013. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

Note 11: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purpose or periods:

	2014	2013
Case management	\$ -	\$ 33,162
Health care services	23,400	40,877
Chronic illnesses	37,500	187,526
Capital projects	250,000	237,873
	<u>\$ 310,900</u>	<u>\$ 499,438</u>

During 2014 and 2013, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes in the amount of \$2,254,769 and \$333,718, respectively.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note 12: Functional Expenses

The Organization provides health care services to residents within its service area. Expenses related to providing these services are as follows:

	<u>2014</u>	<u>2013</u>
Health care services	\$ 52,181,603	\$ 43,870,497
General and administrative	12,443,025	6,718,303
Fundraising	<u>310,305</u>	<u>1,055,177</u>
	<u>\$ 64,934,933</u>	<u>\$ 51,643,977</u>

Note 13: Operating Leases

Noncancellable operating leases for primary care outpatient offices expire in various years through 2025. These leases generally contain renewal options for periods ranging from 5 to 10 years and require the Organization to pay the majority of all executory costs (property taxes, maintenance and insurance).

Future minimum lease payments at June 30, 2014, were:

2015	\$ 791,347
2016	990,551
2017	1,007,087
2018	1,009,304
2019	1,035,371
Thereafter	<u>3,232,987</u>
Future minimum lease payments	<u>\$ 8,066,647</u>

Note 14: Retirement Plan

The Organization has a 403(b) defined contribution plan covering substantially all employees who have two years of service and make elective deferral contributions greater than 3% of their salary. The Organization matches each participant's deferral up to 5% of annualized compensation. Retirement plan expenses for the years ended June 30, 2014 and 2013, were \$293,289 and \$243,278, respectively.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note 15: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2014 and 2013:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2014				
Cash equivalents - money market funds	\$ 1,574,031	\$ 1,574,031	\$ -	\$ -
Investments - small cap equity mutual funds	405,614	405,614	-	-
Investments - equity income mutual funds	4,362,752	4,362,752	-	-
Investments - diversified mutual funds	905,634	905,634	-	-
June 30, 2013				
Cash equivalents - money market funds	\$ 5,587,386	\$ 5,587,386	\$ -	\$ -
Investments - small cap equity mutual funds	202,123	202,123	-	-
Investments - equity income mutual funds	2,403,963	2,403,963	-	-
Investments - diversified mutual funds	439,921	439,921	-	-

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2014.

Cash Equivalents and Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Note 16: Asset Retirement Obligations

Accounting principles generally accepted in the United States of America require that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The Organization had \$936,750 recorded as a liability at June 30, 2013, for conditional asset retirement obligations related to asbestos contained in a building at 1111 North Charles Street that the Organization owns for which environmental regulations exist that require the Organization to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. The Organization completed their renovation of the building at 1111 North Charles Street during 2014 and fully remediated all asset retirement obligations in full. There were no such asset retirement obligations at June 30, 2014.

Note 17: New Market Tax Credits

On December 10, 2012, the Health Center and CBR entered into a transaction which generated "New Market Tax Credits" (NMTCs) under Section 45D of Internal Revenue Code of 1986, as amended (Section 45D). The transaction was initiated by JPMorgan Chase Bank (Investor Member) who contributed \$9,000,000 to an investment fund established for the transaction. The investment fund also secured a loan from the Health Center of \$6,241,100 (see *Note 8*).

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

The investment fund used the loan proceeds to return equity to the Investor Member in the amount of \$6,227,377. The remaining contributions and loan proceeds were used to pay certain transaction fees and the remaining funds were contributed to a third-party Qualified Community Development Entity (CDE) as the Qualified Equity Investment (QEI) under Section 45D. The CDE then funded loans totaling \$8,640,000 to CBR, the Qualified Active Low-Income Business (QALICB) under Section 45D. The transaction was structured as 30-year debt financing with a 7-year NMTC compliance period, at the end of which time the Health Center will have the option to acquire all membership rights of the investment fund and forgive the related debt.

CBR used the \$8,640,000 loan proceeds for substantial rehabilitation of 2 buildings of a 4-building complex (Property) of approximately 80,000 sq. ft. of clinical and administrative space for use by the Health Center. The Property is located at 1111 North Charles Street in Baltimore, Maryland. The debt is guaranteed and secured by the Property. The Property qualifies as low-income property under Section 45D. As such, the financing arrangements between CBR and the lenders qualify as a “qualified low-income community investment” (QLICI) and generate NMTCs.

During 2014 and 2013, the Health Center also contributed land, building and cash totaling an additional \$27,277,762 and \$8,584,123, respectively, directly to CBR, which was eliminated in the consolidated financial statements. The Health Center and CBR entered into a rental agreement on December 10, 2012, for which, upon completion of the building, the Health Center rents the building from CBR for \$38,750 per quarter through February 29, 2020. The rent from March 1, 2020 through December 31, 2042, will be \$122,000 per quarter. Rental expense and rental income in the amount of \$155,000 was eliminated for purposes of the consolidated financial statements. All future rental expense and rental income between the Health Center and CBR will be eliminated for the purposes of the consolidated financial statements.

Note 18: Construction in Progress

As of June 30, 2014, the Organization had approximately \$573,000 of construction in progress primarily related to an upgrade to their electronic medical records system. The upgrade was completed in August, 2014, at a total cost of approximately \$605,000. The upgrade was funded by approximately \$265,000 of capital lease financing and \$340,000 of internally designated assets limited to use.

Note 19: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerability due to certain concentrations. Those matters include the following:

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Grant Revenues

A concentration of revenues related to grant awards and other support is described in *Note 2*.

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *3*.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 10*.

Litigation

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance; for example, allegations regarding employment practices, performance of contracts or medical malpractice claims not covered under FTCA (*Note 10*). The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Investments

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying balance sheets.

Current Economic Conditions

The current economic environment presents community health centers with difficult circumstances and challenges. As employers make adjustments to health insurance plans or more patients become unemployed, certain patients may find it difficult to pay for services rendered. The upcoming implementation of the *Affordable Care Act*, including the health insurance exchanges and the decision by the state regarding Medicaid expansion, will directly impact community health centers' net revenues. Further, the effect of economic conditions on federal and state budgets could adversely impact the grant revenues available to community health centers and the programs they administer. Each of these factors could have an adverse impact on the Organization's future operating results.

Chase Brexton Health Services, Inc.
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Note 20: Subsequent Events

On July 7, 2014, the Organization obtained a \$3,000,000 operating line of credit expiring on July 6, 2014 at an interest rate of LIBOR plus 1.45%. The operating line of credit is collateralized by substantially all of the Organization's assets.

On July 8, 2014, the Organization entered into a capital lease agreement for an amount up to \$1,500,000 for the purchase of planned fiscal year 2015 capital purchases. Interest in the amount of LIBOR plus 2.35% will incur until the commencement of the base rent term begins. Capital lease is collateralized by property and equipment.

On July 29, 2014, the Organization opened a site located in Glen Burnie, Maryland. The site is expected to generate additional revenues and costs of approximately \$1,400,000 through its first twelve months of operations. The Organization was awarded an additional \$1,187,869 through its CHC grant (*Note 2*) in support for the anticipated increase in costs.

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Supplementary Information

Chase Brexton Health Services, Inc.
Consolidating Schedule – Balance Sheet Information
June 30, 2014

	Chase Brexton Health Services, Inc.	CB Realty	Eliminations	Total
Current Assets				
Cash and cash equivalents	\$ 6,563,155	\$ 64,671	\$ -	\$ 6,627,826
Short-term investments	155,871	-	-	155,871
Patient accounts receivable, net of allowance - \$608,000	3,767,271	-	-	3,767,271
Grants and other receivables	1,682,561	-	-	1,682,561
Contributions receivable - current	284,218	-	-	284,218
Due from related party	33,998	1,692,165	(1,726,163)	-
Supplies	501,373	-	-	501,373
Prepaid expenses and other	327,962	-	-	327,962
Total current assets	<u>13,316,409</u>	<u>1,756,836</u>	<u>(1,726,163)</u>	<u>13,347,082</u>
Assets Limited As To Use				
Internally designated	7,092,160	-	-	7,092,160
Externally restricted for construction	-	87,625	-	87,625
	<u>7,092,160</u>	<u>87,625</u>	<u>-</u>	<u>7,179,785</u>
Property and Equipment, At Cost				
Land and land improvements	-	1,500,000	-	1,500,000
Building and leasehold improvements	1,840,209	40,762,149	-	42,602,358
Equipment	4,633,931	-	-	4,633,931
Furniture, fixtures and equipment	1,110,651	-	-	1,110,651
Asset held for sale	-	-	-	-
Construction in progress	573,299	-	-	573,299
	<u>8,158,090</u>	<u>42,262,149</u>	<u>-</u>	<u>50,420,239</u>
Less accumulated depreciation	2,417,944	2,044,568	-	4,462,512
	<u>5,740,146</u>	<u>40,217,581</u>	<u>-</u>	<u>45,957,727</u>
Other Assets				
Contributions receivable	51,833	-	-	51,833
Deferred financing costs	-	355,713	-	355,713
	<u>51,833</u>	<u>355,713</u>	<u>-</u>	<u>407,546</u>
Notes Receivable	<u>6,241,100</u>	<u>-</u>	<u>-</u>	<u>6,241,100</u>
Total assets	<u>\$ 32,441,648</u>	<u>\$ 42,417,755</u>	<u>\$ (1,726,163)</u>	<u>\$ 73,133,240</u>

Chase Brexton Health Services, Inc.
Consolidating Schedule – Balance Sheet Information
June 30, 2014

	Chase Brexton Health Services, Inc.	CB Realty	Eliminations	Total
Liabilities and Net Assets				
Current Liabilities				
Current maturities of long-term debt	\$ 1,384,830	\$ -	\$ -	\$ 1,384,830
Accounts payable	2,819,542	33,998	-	2,853,540
Accrued expenses	3,003,904	16,780	-	3,020,684
Due to related party	1,726,163	-	(1,726,163)	-
	<u>8,934,439</u>	<u>50,778</u>	<u>(1,726,163)</u>	<u>7,259,054</u>
Total current liabilities	8,934,439	50,778	(1,726,163)	7,259,054
Accrued Rent Payable	369,327	-	-	369,327
Long-Term Debt	<u>1,518,769</u>	<u>8,640,000</u>	<u>-</u>	<u>10,158,769</u>
Total liabilities	<u>10,822,535</u>	<u>8,690,778</u>	<u>(1,726,163)</u>	<u>17,787,150</u>
Net Assets				
Unrestricted	21,308,213	33,726,977	-	55,035,190
Temporarily restricted	310,900	-	-	310,900
	<u>21,619,113</u>	<u>33,726,977</u>	<u>-</u>	<u>55,346,090</u>
Total net assets	21,619,113	33,726,977	-	55,346,090
Total liabilities and net assets	<u>\$ 32,441,648</u>	<u>\$ 42,417,755</u>	<u>\$ (1,726,163)</u>	<u>\$ 73,133,240</u>

Chase Brexton Health Services, Inc.
Consolidating Schedule – Statement of Operations Information
Year Ended June 30, 2014

	Chase Brexton Health Services, Inc.	CB Realty	Eliminations	Total
Unrestricted Revenues, Gains and Other Support				
Patient service revenue (net of contractual discounts and allowances)	\$ 12,622,466	\$ -	\$ -	\$ 12,622,466
Provision for uncollectible accounts	705,505	-	-	705,505
Net patient service revenue less provision for uncollectible accounts	11,916,961	-	-	11,916,961
Pharmacy revenue	41,757,625	-	-	41,757,625
Capitation revenue	207,406	-	-	207,406
Grant revenue	6,625,449	-	-	6,625,449
Contribution revenue	197,684	-	-	197,684
Other revenue	-	155,000	(155,000)	-
Net assets released from restrictions used for operations	266,896	-	-	266,896
Total unrestricted revenues, gains and other support	<u>60,972,021</u>	<u>155,000</u>	<u>(155,000)</u>	<u>60,972,021</u>
Expenses and Losses				
Salaries and wages	21,512,653	-	-	21,512,653
Employee benefits	3,622,554	-	-	3,622,554
Purchased services and professional fees	1,278,077	2,675	-	1,280,752
Supplies and other	6,645,574	30,944	-	6,676,518
Pharmacy expenses	26,972,600	-	-	26,972,600
Rent	1,134,969	-	(155,000)	979,969
Depreciation and amortization	1,010,702	2,111,467	-	3,122,169
Interest expense	288,938	108,418	-	397,356
Loss on impairment	-	-	-	-
Loss on sale of property and equipment	370,362	-	-	370,362
Total expenses and losses	<u>62,836,429</u>	<u>2,253,504</u>	<u>(155,000)</u>	<u>64,934,933</u>
Operating Income (Loss)	<u>(1,864,408)</u>	<u>(2,098,504)</u>	<u>-</u>	<u>(3,962,912)</u>
Other Income (Expenses)				
Investment return	992,664	4,310	-	996,974
Change in interest in net assets of equity investee	1,080,311	-	-	1,080,311
Total other income	<u>2,072,975</u>	<u>4,310</u>	<u>-</u>	<u>2,077,285</u>
Excess of Revenues Over Expenses	208,567	(2,094,194)	-	(1,885,627)
Grants for acquisition of property and equipment	828,862	-	-	828,862
Transfers to Chase Brexton Realty	(8,584,123)	-	8,584,123	-
Contributions for acquisition of property and equipment	104,999	-	-	104,999
Net assets released from restriction used for purchase of property and equipment	1,987,873	-	-	1,987,873
Transfers from Chase Brexton Health Services, Inc.	-	8,584,123	(8,584,123)	-
Increase in Unrestricted Net Assets	<u>\$ (5,453,822)</u>	<u>\$ 6,489,929</u>	<u>\$ -</u>	<u>\$ 1,036,107</u>

Chase Brexton Health Services, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	6 H80CS 00734-12-03	\$ 866,362
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	U.S. Department of Health and Human Services	93.527	6 H80CS 00734-12-03	<u>977,225</u>
Total Health Centers Cluster				<u>1,843,587</u>
HIV Care Formula Grants	U.S. Department of Health and Human Services/City of Baltimore Health Department	93.917	36067 36069 36068 36071 36070 36072 36066	70,075 320,585 80,625 78,000 49,348 50,508 62,090
HIV Care Formula Grants	U.S. Department of Health and Human Services/ Maryland Department of Health and Mental Hygiene	93.917	OCPMP - 10-10264	<u>231,199</u>
Total HIV Care Formula Grants				<u>942,430</u>
Special Projects of National Significance	U.S. Department of Health and Human Services	93.928	1 H97HA25068-01-00 5 H97HA22719-02-00	14,352 <u>16,040</u>
Total Special Projects of National Significance Cluster				<u>30,392</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	U.S. Department of Health and Human Services	93.918	H76HA00080-20-01 1 P06HA25082-01-00	1,071,354 <u>26,357</u>
Total Ryan White Early Intervention Cluster				<u>1,097,711</u>
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	U.S. Department of Health and Human Services	93.526	6 C8ACS23655-01-06	<u>828,861</u>
HIV Emergency Relief Project Grants	U.S. Department of Health and Human Services/City of Baltimore Health Department/Associated Black Charities, Inc.	93.914	14-2434	<u>1,562,732</u>
ARRA - Community Health Applied Research Network	U.S. Department of Health and Human Services/Fenway Community Health Center, Inc.	93.420	U82HA20233	<u>25,325</u>
Total forward				6,331,038

Chase Brexton Health Services, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Total forward				<u>\$ 6,331,038</u>
Centers for Disease Control and Prevention - Investigations and Technical Assistance	U.S. Department of Health and Human Services/ Maryland Department of Health and Mental Hygiene	93.283	PHPA-G1342	<u>45,689</u>
Housing Opportunities for Persons with AIDS	Department of Housing and Urban Development/ City of Baltimore Mayor's Office of Human Services	14.241	35927	<u>98,902</u>
HIV Prevention Activities Health Department Based	U.S. Department of Health and Human Services/City of Baltimore Health Department	93.940	36244	<u>111,979</u>
Drug Abuse and Addiction Research Programs	U.S. Department of Health and Human Services/ Friends Research Institute, Inc.	93.279	5R01DA030771-04	<u>62,463</u>
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	U.S. Department of Health and Human Services/Healthcare Access Maryland, Inc.	93.525	01-002-13	93,169
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	U.S. Department of Health and Human Services/ Healthy Howard, Inc.	93.525		<u>46,050</u>
Total State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges				<u>139,219</u>
Community Development Block Grants/Entitlement Grants	U.S. Department of Housing and Urban Development/ City of Baltimore	14.218		<u>312,000</u>
				<u><u>\$ 7,101,290</u></u>

Notes to Schedule

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

Chase Brexton Health Services, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

2. Of the federal expenditures presented in the schedule, Chase Brexton Health Services, Inc. provided federal awards to subrecipients as follows:

Program	CFDA Number	Subrecipient	Amount Provided
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	John Hopkins University	\$ 299,552

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

Board of Directors
Chase Brexton Health Services, Inc.
Baltimore, Maryland

We have audited, 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, the consolidated financial statements of Chase Brexton Health Services, Inc. (the “Organization”), which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 7, 2014.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Organization’s internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’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 Organization’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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Board of Directors
Chase Brexton Health Services, Inc.

Compliance and Other Matters

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

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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
November 7, 2014

Report on Compliance for Each Major Program and on Internal Control Over Compliance

Independent Auditor's Report

Board of Directors
Chase Brexton Health Services, Inc.
Baltimore, Maryland

Report on Compliance for Each Major Federal Program

We have audited the compliance of Chase Brexton Health Services, Inc. (the "Organization"), 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 its major federal programs for the year ended June 30, 2014. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Chase Brexton Health Services, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization'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 Organization's compliance.

Board of Directors
Chase Brexton Health Services, Inc.

Opinion on Each Major Federal Program

In our opinion, Chase Brexton Health Services, 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, 2014.

Report on Internal Control Over Compliance

Management of Chase Brexton Health Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each of the major federal programs 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 Organization'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
November 7, 2014

Chase Brexton Health Services, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Summary of Auditor's Results

1. The opinion expressed in the independent auditor's report was:
 Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:
Significant deficiency(ies)? Yes None reported
Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:
Significant deficiency(ies)? Yes None reported
Material weakness(es)? Yes No

5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:
 Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by OMB Circular A-133? Yes No

Chase Brexton Health Services, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

7. The Organization's major programs were:

Cluster/Program	CFDA Number
Health Centers Cluster	93.224 and 93.527
Affordable Care Act (ACA) Grants for Capital Development in Health Centers	93.526
HIV Emergency Relief Project Grants	93.914

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133?

Yes

No

Chase Brexton Health Services, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Cost
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No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Cost
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No matters are reportable.

Chase Brexton Health Services, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014

Reference Number	Finding	Status
	No matters are reportable.	