

Greater Baden Medical Services, Inc.

**Financial Statements
(With Supplementary Information)
and Independent Auditors' Report**

June 30, 2012 and 2011

Greater Baden Medical Services, Inc.

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Independent Auditors' Report

Board of Directors
Greater Baden Medical Services, Inc.

We have audited the accompanying statements of financial position of Greater Baden Medical Services, Inc. as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated January 22, 2013 on our consideration of Greater Baden Medical Services, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Greater Baden Medical Services, Inc. taken as a whole. The accompanying supplementary information on pages 27 through 29 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Company. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is also not a required part of the basic 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CohnReznick LLP

Baltimore, Maryland
January 22, 2013

Greater Baden Medical Services, Inc.

Statements of Financial Position

June 30, 2012 and 2011

Assets

	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$ 115,653	\$ 405,664
Accounts receivable, net of allowance for doubtful accounts of \$400,000 and \$350,000, respectively	432,977	315,313
Grants receivable	980,936	364,706
Prepaid expenses	<u>6,250</u>	<u>1,250</u>
Total current assets	<u>1,535,816</u>	<u>1,086,933</u>
Property and equipment, net of accumulated depreciation and amortization of \$1,661,038 and \$1,293,586, respectively	<u>6,844,458</u>	<u>6,851,186</u>
Other assets		
Investments	2,263,515	2,466,541
Investment in MCHS, Inc.	100	100
Security deposits	16,026	16,026
Deferred financing fees, net of accumulated amortization of \$4,443 and \$-0-, respectively	16,062	20,505
Escrow - unemployment insurance	<u>53,983</u>	<u>46,036</u>
Total other assets	<u>2,349,686</u>	<u>2,549,208</u>
Total assets	<u><u>\$ 10,729,960</u></u>	<u><u>\$ 10,487,327</u></u>

Liabilities and Net Assets

Current liabilities		
Accounts payable	\$ 207,629	\$ 110,748
Accrued expenses	373,942	315,949
Mortgage payable, current maturity	75,160	56,975
Other liabilities	<u>12,200</u>	<u>12,200</u>
Total current liabilities	668,931	495,872
Long-term liabilities		
Mortgages payable	5,147,616	5,237,235
Fair market value of interest rate swap	<u>112,076</u>	<u>40,974</u>
Total long-term liabilities	5,259,692	5,278,209.00
Commitments and contingencies	-	-
Total liabilities	<u>5,928,623</u>	<u>5,774,081</u>
Net assets		
Unrestricted - board designated	1,000,000	1,000,000
Unrestricted	<u>3,801,337</u>	<u>3,713,246</u>
Total net assets	<u>4,801,337</u>	<u>4,713,246</u>
Total liabilities and net assets	<u><u>\$ 10,729,960</u></u>	<u><u>\$ 10,487,327</u></u>

See notes to financial statements

Greater Baden Medical Services, Inc.

Statements of Activities

Years ended June 30, 2012 and 2011

	2012		2011	
Unrestricted net assets				
Revenue and support				
Net patient service revenue	\$ 3,725,265	38.0%	\$ 3,145,049	34.7%
Grants and allocations				
Department of Health & Human Services PHS - 330 Grant	1,408,696	14.4%	1,265,617	14.0%
Ryan White Part A Grant	884,040	9.0%	1,030,880	11.4%
Community Development Block Grant - Health Care for the Homeless	29,266	0.3%	35,000	0.4%
Maryland Primary Care	11,682	0.1%	8,787	0.1%
Ryan White Part C Grant	286,950	2.9%	336,950	3.7%
American Recovery and Reinvestment Act - Development Block Grant	161,925	1.6%	-	0.0%
Primary Care Coalition	50,900	0.5%	30,000	0.3%
Family Health Administration Grant	200,000	2.0%	205,000	2.3%
Maryland Community Health Resources Commission	200,000	2.0%	200,000	2.2%
Washington Aids Partnership	40,000	0.4%	40,000	0.4%
EXPO - Advertiser Healthcare	-	0.0%	5,000	0.1%
March of Dimes	-	0.0%	12,000	0.1%
Meyer Foundation	45,000	0.5%	47,500	0.5%
Community Foundation	-	0.0%	15,000	0.2%
Federal Transportation Administration	-	0.0%	37,176	0.4%
Community Development Block Grant - HVAC	-	0.0%	22,800	0.3%
Bilingual/Bicultural Grant	-	0.0%	29,234	0.3%
Consumer Health Foundation	112,000	1.1%	65,500	0.7%
Kaiser Permanente	93,000	0.9%	46,500	0.5%
American Recovery and Reinvestment Act - Services	-	0.0%	103,372	1.1%
American Recovery and Reinvestment Act - Capital Improvements	-	0.0%	428,830	4.7%
WIC	868,750	8.9%	899,900	9.9%
WIC - Breastfeeding Peer Counselor	51,480	0.5%	52,206	0.6%
Walmart Grant Share	-	0.0%	5,400	0.1%
Strategic Community Services	-	0.0%	11,000	0.1%
United Way allocations	5,686	0.1%	6,536	0.1%
Weinberg	220,000	2.2%	-	0.0%
Kaiser - Prince Georges County Coordination Council	75,000	0.8%	-	0.0%
Capital Campaign	56,500	0.6%	-	0.0%
Southern Maryland Hospital	37,260	0.4%	-	0.0%
Community Partnership Grant	69,059	0.7%	-	0.0%
Prince Georges County Eligibility Worker	27,529	0.3%	-	0.0%
Community Clinic	100,000	1.0%	-	0.0%
Incentive Program	19,365	0.2%	-	0.0%
Meaningful Use	42,500	0.4%	-	0.0%
Contributions	4,802	0.0%	6,180	0.1%
Interest and dividend income	19	0.0%	22	0.0%
Investment income	978,464	9.9%	963,891	10.6%
Miscellaneous income	9,336	0.1%	3,411	0.0%
Total revenue and support	9,814,474	100.0%	9,058,741	100.0%
Operating expenses				
Clinic services	8,035,600	83.2%	7,259,618	81.7%
Management and general	1,628,304	16.8%	1,624,849	18.3%
Total operating expenses	9,663,904	100.0%	8,884,467	100.0%
Changes in net assets from operations	150,570		174,274	
Realized loss on investments	(49,007)		-	
Unrealized gain on investments	57,630		368,842	
Unrealized loss on interest rate swap	(71,102)		(40,974)	
Change in net assets	88,091		502,142	
Net assets, at beginning of year	4,713,246		4,211,104	
Net assets, at end of year	<u>\$ 4,801,337</u>		<u>\$ 4,713,246</u>	

See notes to financial statements

Greater Baden Medical Services, Inc.

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	\$ 88,091	\$ 502,142
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	371,895	155,958
Unrealized loss on interest rate swap	71,102	40,974
Unrealized gain on investments	(57,630)	(327,868)
Realized loss on investments	49,007	
Changes in assets and liabilities		
Increase in accounts receivable	(117,664)	(159,430)
(Increase) decrease in grants receivable	(616,230)	17,050
Increase in escrow - unemployment insurance	(7,947)	(4,198)
Increase in prepaid expenses	(5,000)	-
Decrease in security deposits	-	42,167
Decrease in deferred revenue	-	(46,500)
Increase (decrease) in accounts payable and accrued expenses	154,874	(154,624)
Decrease in fair market value of interest rate swap	-	(40,974)
	<u>(69,502)</u>	<u>24,697</u>
Net cash (used in) provided by operating activities		
Cash flows from investing activities		
Purchases of investments	(700,000)	-
Sale of investments	911,649	-
Purchase of property and equipment	(360,724)	(5,837,341)
	<u>(149,075)</u>	<u>(5,837,341)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from mortgages payable	-	5,300,000
Payments on mortgages payable	(71,434)	(5,790)
Financing fees paid	-	(20,505)
	<u>(71,434)</u>	<u>5,273,705</u>
Net cash (used in) provided by financing activities		
Net decrease in cash and cash equivalents	(290,011)	(538,939)
Cash and cash equivalents, beginning of year	405,664	944,603
Cash and cash equivalents, end of year	<u>\$ 115,653</u>	<u>\$ 405,664</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 142,911</u>	<u>\$ 12,935</u>

See notes to financial statements

Greater Baden Medical Services, Inc.

Notes to Financial Statements

June 30, 2012 and 2011

Note 1 - Organization and Summary of Significant Accounting Policies

Greater Baden Medical Services, Inc. (the Company) incorporated on March 14, 1972 and is a non-profit corporation in the State of Maryland. The Company's goal is to provide access to primary healthcare to medically underserved areas and populations within the community, regardless of ability to pay. The Company provides services at seven facilities located in Brandywine, Capitol Heights, Nanjemoy, Leonardtown, Oxon Hill, Suitland, and Laplata, Maryland. The Company provides services to women, infants and children in Prince George's County. The Company also provides outreach services to two homeless shelters in Prince George's County, Maryland and services to migrant farm workers in Southern Maryland.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Net Patient Service Revenue

Net Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered.

Provisions for estimated government payer settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and subsequent settlements are recorded in operations in the year of settlement. In the opinion of management, retroactive adjustments, if any, would not be material to the financial position or statements of activities of the Company.

Grants

Grant revenue is earned under the grants based on expenditures and/or when services related to the grant are provided.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Greater Baden Medical Services, Inc.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Some federal grant awards are recognized as assets and revenue as allowable costs are incurred since they are considered conditional promises to give until qualifying costs are incurred. Patient services revenue is recognized on a fee for service basis. Revenue received for the purpose of acquiring capital assets is recognized in the year received, or in the year the capital asset is placed in service, which may in some cases be the year in which the grant is received. The net assets of the Company are all unrestricted in the current year.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance. Based on its assessment of the current status of individual accounts, balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Property and Equipment

It is the Company's policy to capitalize property and equipment with a cost of over \$2,000. Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to ten years.

The building is amortized over the estimated useful life using the straight-line method. Maintenance and repair, which do not extend the useful life, are expensed as incurred.

Leasehold improvements are amortized using the straight-line method over their estimated useful lives or the remaining lease term, whichever is less. Maintenance and repairs which do not extend the lives of the respective assets are expensed as incurred.

Greater Baden Medical Services, Inc.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Impairment of Long-Lived Assets

In accordance with accounting guidance, the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicated that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying value of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized for the years ended June 30, 2012 and 2011.

Intangible Assets

Financing fees of \$20,505 related to permanent loan financing are amortized on a straightline basis over the life of the loan. Accounting principles generally accepted in the United States of America require that the effective interest method be used to recognize amortization; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective interest method. Total amortization expense for the years ended June 30, 2012 and 2011 was \$4,443 and \$-0-, respectively.

Annual estimated amortization expense for each of the next four years is as follows:

2013	\$	4,101
2014		4,101
2015		4,101
2016		<u>3,759</u>
Total	\$	<u><u>16,062</u></u>

Derivative Instruments and Hedging Activities

The Company uses derivatives to manage the risks related to interest rate movements. The Company does not enter into derivative transactions for trading or other speculative purposes. Interest rate swap contracts designated and qualifying as cash flow hedges are reported at fair value. The gain or loss on the ineffective portion of the hedge is reflected in the statement of operations in the period of change. The Company is expected to document its risk management strategy and hedge effectiveness at the inception of, and during the term of, each hedge. The Company's interest rate risk management strategy is to stabilize cash flow requirements by maintaining interest rate swap contracts of convert variable-rate debt to a fixed rate.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of

Greater Baden Medical Services, Inc.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

financial position. Unrealized gains and losses are included in the change in net assets.

Investments in Limited Partnership and Corporation

Investments in which the Company has less than a 20% interest are carried at cost. Dividends received (investment return) are included in revenue and support.

Geographic Information

The Company derives substantially all of its patient service revenue and its grants from the federal government with some federal funds passed through from Prince George's County. Some grants are directly disbursed from Prince George's County, Maryland.

Income Taxes

The Company has received a determination letter from the Internal Revenue Service (IRS) to be treated as a tax-exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code and did not have any unrelated business income for the years ended June 30, 2012 and 2011. The Company files annual information returns with the IRS.

Open tax years subject to IRS audit are the years ended June 30, 2011, 2010, and 2009.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all short-term debt securities purchased with original maturities of three months or less to be cash equivalents.

Reclassifications

Reclassifications have been made to the prior year balances to conform to the current year presentation.

Greater Baden Medical Services, Inc.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Note 2 - Investments in Limited Partnership and Corporation

As of June 30, 2012 and 2011, the Company had an investment in a corporation as follows:

	Investment balance	% of Ownership
Maryland Community Health System (MCHS), Inc.	\$ 100	12.50%
Maryland Community Health System, LP	-	12.375%
	\$ 100	

The Company, in collaboration with other Maryland community health centers, has entered into a joint venture with John Hopkins HealthCare, LLP to form Priority Partners MCO for participating in the Maryland Mandatory Medicaid Managed Care Program.

The community health centers participating in the joint venture formed Maryland Community Health System LP for the purpose of holding the health centers' interest in Priority Partners MCO, paying distributions, and providing other services to the limited partners in connection with their interest in Priority Partners MCO. The Company has a 12.375% limited partnership interest in Maryland Community Health System, LP.

In addition, the limited partners in Maryland Community Health System, LP have formed MCHS, Inc., a for-profit corporation, for the purpose of acting as the general partner of Maryland Community Health System, LP and facilitating the limited partners' ability to participate in managed care contracting. The Company owns one share of MCHS, Inc.'s common stock, representing a 12.5% ownership interest.

Note 3 - Investments

Investments measured at fair value are summarized as follows at June 30, 2012 and 2011:

	2012		2011		Unrealized gain
	Cost	Fair value	Cost	Fair value	
Mutual funds	\$ 1,444,032	\$ 2,263,515	\$ 1,636,829	\$ 2,466,541	\$ 57,630

Greater Baden Medical Services, Inc.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Note 4 - Property and Equipment

Property and equipment are stated at cost and are comprised of the following:

	June 30,	
	2012	2011
Building	\$ 6,077,336	\$ 5,901,664
Furniture and equipment	981,735	913,075
Leasehold improvements	1,330,683	1,302,733
Predevelopment cost	115,742	27,300
	<u>8,505,496</u>	<u>8,144,772</u>
Less accumulated depreciation and amortization	<u>1,661,038</u>	<u>1,293,586</u>
	<u>\$ 6,844,458</u>	<u>\$ 6,851,186</u>

Note 5 - Line of Credit

On June 26, 2009, the Company established a line of credit with SunTrust Bank in the amount of \$500,000. This loan is an open end revolving line of credit with interest equal to the Prime Rate plus 2.00% per annum (5.25% at June 30, 2012 and 2011). The note is secured by all assets of the Company. A nonrefundable annual service fee of \$300 is due for each year the credit line is open. As of June 30, 2012 and 2011, no amount has been drawn on the line of credit.

Note 6 - Mortgages Payable

During May 2011, the Company received a mortgage loan from SunTrust Bank in the original amount of \$3,500,000. The loan bears interest at the greater of LIBOR plus 2.75% or 3.00% (3.00% at June 30, 2012 and 2011) and matures May 2016. The loan is secured by the property at 7450 Albert Road, Brandywine, Maryland. Interest expense for the years ended June 30, 2012 and 2011 was \$142,911 and \$12,935, respectively. The outstanding principal balance at June 30, 2012 and 2011 is \$3,422,776 and \$3,494,210, respectively. In accordance with the financial covenants of the loan, the Company is required to maintain a debt service coverage ratio of not less than 1.20 to 1.00 and a current ratio of not less than 2.75 to 1.00. The Company was in compliance with such covenants at June 30, 2012.

The Company received \$1,800,000 from the Maryland Department of Health and Mental Hygiene to assist in the cost of acquiring the real estate at 7450 Albert Road, Brandywine, Maryland. Under the terms of the loan, the property is required to be

Greater Baden Medical Services, Inc.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

maintained as a federally qualified healthcare center. Additionally, the property cannot be sold or transferred to any person, agency, or organization that would not qualify as an applicant, and any sale or transfer is required to be approved by the Board of Public Works. If the terms of the agreement are adhered to, the loan will be forgiven 30 years after completion or May 2041. The loan is secured by the property at 7450 Albert Road, Brandywine, Maryland. No interest accrues on the balance. As of June 30, 2012 and 2011, the principal balance is \$1,800,000.

Aggregate maturities of the mortgages payable for each of the next four years and thereafter are as follows:

2013	\$	75,160
2014		79,084
2015		83,213
2016		3,185,319
Thereafter		<u>1,800,000</u>
Total	\$	<u>5,222,776</u>

Note 7 - Fair Value Measurements

The Company has entered into an interest rate swap agreement with SunTrust Bank to manage its risk relating to the changes in interest rates of its variable rate first mortgage. The agreement provides a fixed rate of interest payment on the notional amount, as provided in the agreement, in exchange for a variable rate. The swap contract became effective May 17, 2011. The following are the terms under the swap:

Fixed swap - notional amount	\$	1,750,000
Fixed rate		5.10%
Variable rate at June 30, 2012		2.9953%
Termination		May 26, 2016

Pursuant to guidance on the "Accounting for Derivative Instruments and Hedging Activities" and subsequent amendments, derivative instruments not meeting the criteria for hedge accounting are recorded at fair value on the balance sheet with any change in fair value reflected in the statement of activities in the period of change. If the swap was terminated by the Company at June 30, 2012, the Company would owe \$112,076, which represents the present value of the future payment for the difference between the fixed rate and the variable rate. During 2012 and 2011, \$71,102 and \$40,974, respectively, was reflected as unrealized loss on the statement of activities. The fair value of the swap was determined using Level 2 inputs as of June 30, 2012.

Greater Baden Medical Services, Inc.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

The accounting standard for fair value measurement and disclosures defines fair value, establishes a framework for measuring fair value, and provides for expanded disclosure about fair value measurements. The accounting standard was applied to the Company's financial assets and liabilities effective January 1, 2008 and to certain nonfinancial assets liabilities effective January 1, 2009. Fair value is defined by the accounting standard for fair value measurement and disclosures as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels. The following summarizes the three levels of inputs and hierarchy of fair value the Company uses when measuring fair value:

- A) Level 1 inputs utilize quoted prices (unadjusted) in market for identical assets or liabilities that the Company has the ability to access;
- B) Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as interest rates and yield curves that are observable at commonly quoted intervals; and
- C) Level 3 inputs are unobservable inputs for the asset or liability that are typically based on an entity's own assumptions as there is little, if any, related market activity.

At June 30, 2012:

	Quoted prices in active markets for identical market approach (Level 1)	Significant other observable cost approach (Level 2)	Unobservable inputs income approach (Level 3)
Mutual funds	\$ 2,263,515	\$ -	\$ -
Interest rate swap	-	112,076	-
	<u>\$ 2,263,515</u>	<u>\$ 112,076</u>	<u>\$ -</u>

Greater Baden Medical Services, Inc.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

At June 30, 2011:

	Quoted prices in active markets for identical market approach (Level 1)	Significant other observable cost approach (Level 2)	Unobservable inputs income approach (Level 3)
	<u> </u>	<u> </u>	<u> </u>
Mutual funds	\$ 2,466,541	\$ -	\$ -
Interest rate swap	<u>-</u>	<u>40,974</u>	<u>-</u>
	<u>\$ 2,466,541</u>	<u>\$ 40,974</u>	<u>\$ -</u>

On a recurring basis, the Company measures its interest rate swap at its estimated fair value. In determining the fair value of the derivative, the Company uses the present value of expected cash flows based on market observable interest rate yield curve commensurate with the term of the instrument. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and that of the respective counterparty in the fair value measurement. The credit valuation adjustments utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by either the respective counterparty or the Company. However, the Company determined that as of June 30, 2012 and 2011, the impact of the credit valuation adjustments were not significant to the overall valuation of the swap. As a result, the fair value of the swap is considered to be primarily based on Level 2 inputs.

The Company values its mutual fund accounts based upon quoted prices within the open market. These inputs are considered Level 1 because they have quoted prices in markets for identical assets and liabilities.

Note 8 - Contracts and Grants

Patient Service Revenue

The Company received revenue for patient services from Medicare, Medicaid, and private insurers.

Community Development Block Grant

Under a Community Development Block Grant for Health Care for the Homeless, the Company earned \$29,266 and \$35,000 for each of the years ended June 30, 2012 and 2011, respectively, from Prince George's County Department of Housing and Community Development by providing health care services. Such funds were used to support healthcare for the homeless. The proceeds for all grants were provided

Greater Baden Medical Services, Inc.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

on a reimbursement basis after reporting requirements under the agreements were met.

The Company was awarded a Community Development Block Grant for HVAC improvements from the Prince George's County Department of Housing and Community Development. The Company earned \$-0- and \$22,800 under the grant for the years ended June 30, 2012 and 2011, respectively.

Department of Health and Human Services - PHS - Section 330 Grant

In September 1994, the Company was awarded a grant from the United States Department of Health and Human Services under a PHS - Section 330 Grant Program. This grant was awarded to the Company to develop and operate community health centers located in Prince George's County, Maryland and Charles County, Maryland.

The Company earned \$1,408,696 and \$1,265,617 under the program for the years ended June 30, 2012 and 2011, respectively.

Ryan White Part A Grant

The Company was awarded a grant from Prince George's County to provide support and comprehensive primary medical care, case management, and oral health care to indigent, uninsured, and underinsured persons who are HIV-infected and living in Southern Maryland. The Company earned \$884,040 and \$1,030,880 under this grant for the years ended June 30, 2012 and 2011, respectively.

Ryan White Part C Grant

The Company was awarded a grant from the United States Department of Health and Human Services. The grant has been extended every year. This grant was awarded to the Company to provide early intervention services and primary care related to HIV. For the years ended June 30, 2012 and 2011, the Company was awarded and earned \$286,950 and \$336,950, respectively.

American Recovery and Reinvestment Act - Community Development Block Grant

The Company received a grant from the Prince George's County Health Department. These funds are to be used to renovate the Company's Brandywine medical office building, including the construction of 3,000 square feet of clinical space. The health center will provide comprehensive care services to individuals from throughout Prince George's County. The Company earned \$161,925 and \$-0- under the program for the years ended June 30, 2012 and 2011, respectively.

Greater Baden Medical Services, Inc.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Primary Care Coalition

The Company received a grant from Primary Care Coalition of Montgomery County, Maryland to improve breast health delivery systems. The Company earned \$50,900 and \$30,000 under this grant for the years ended June 30, 2012 and 2011, respectively.

Family Health Administration Grant

The Company received a grant from the Department of Health and Mental Hygiene, Family Health Administration, Center for Maternal and Child Health for the purpose of promoting health services for women of childbearing age in Prince George's County. The Company earned \$200,000 and \$205,000 under this grant for the years ended June 30, 2012 and 2011, respectively.

Community Health Resources

The Company received a grant from the Maryland Community Health Resources Commission. The Company earned \$200,000 and \$200,000 under this grant for the years ended June 30, 2012 and 2011, respectively.

Washington AIDS Partnership

The Company received a grant from the Washington AIDS Partnership to address public policy issues that negatively affect HIV/AIDS prevention, testing, and care services in Prince George's County. The Company earned \$40,000, under this grant for each of the years ended June 30, 2012 and 2011, respectively.

Meyer Foundation

The Company received a grant from the Meyer Foundation to support its general operations. The Company earned \$35,000 and \$47,500 under this grant for the years ended June 30, 2012 and 2011, respectively.

The Company received a grant from the Meyer Foundation to support the establishment of an infrastructure for a Coordinating Council in Prince George's County. The Company earned \$10,000 and \$-0- under this grant for the years ended June 30, 2012 and 2011, respectively.

The Community Foundation

The Company received a grant from the Neighbors in Need Fund. The Company earned \$-0- and \$15,000 under this grant for the years ended June 30, 2012 and 2011, respectively.

Greater Baden Medical Services, Inc.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Federal Transit

The Company was awarded a vehicle from the Maryland Transit Administration under the Federal Transit Administration grant program. The Company earned \$-0- and \$37,176 under this grant for the years ended June 30, 2012 and 2011, respectively.

Bilingual and Bicultural Grant

The Company was awarded a grant from the United States Department of Health and Human Services to provide increased access to health care for low-income and uninsured patients that have language or cultural barriers by providing suitable interpreter services at their Lanham site. The Company earned \$-0- and \$29,234 under this grant for the years ended June 30, 2012 and 2011, respectively. All revenue is earned as expenses for the program are incurred.

Consumer Health Foundation Grant

The Company was awarded a grant from the Consumer Health Foundation to support its bilingual education and outreach efforts. The Company earned \$-0- and \$65,500 under this grant for the years ended June 30, 2012 and 2011, respectively.

The Company was awarded a grant from the Consumer Health Foundation to support the development of a Health Care Coordinating Council that will guide the development of a community-based system of primary care in Prince George's County, MD. The Company earned \$75,000 and \$-0- under this grant for the years ended June 30, 2012 and 2011, respectively.

The Company was awarded a grant from the Consumer Health Foundation to support its general operations. The Company earned \$35,000 and \$-0- under this grant for each of the years ended June 30, 2012 and 2011, respectively.

The Company was awarded a contribution from the Consumer Health Foundation of \$2,000 for the year ended June 30, 2012.

Kaiser-Permanente Grant

The Company was awarded a grant from Kaiser-Permanente under the safety net provider grant program to increase primary care visits and improve data collection methodology for low-income, uninsured Prince George's County residents with HIV, diabetes, and cardiovascular disease. The Company earned \$93,000 and \$46,500 under this grant for the years ended June 30, 2012 and 2011, respectively. All revenue is earned as expenses for the program are incurred.

Greater Baden Medical Services, Inc.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

The Company was awarded a grant from Kaiser-Permanente to be used for the Prince George's County Coordinating Health Council project. The Company earned \$75,000 and \$-0- under this grant for the years ended June 30, 2012 and 2011, respectively.

American Recovery and Reinvestment Act - Increase Services to Health Centers

The Company was awarded a grant from the Department of Health and Human Services. The grant was awarded to the Company to allow the performance of increased services to the patient population. The Company earned \$-0- and \$103,372 under this grant for the years ended June 30, 2012 and 2011, respectively. All revenue is earned as expenses for the program are incurred.

American Recovery and Reinvestment Act - Capital Improvement Program

The Company was awarded a grant from the Department of Health and Human Services. The grant was awarded to the Company to expand and renovate its Walker Mill location. The Company earned \$-0- and \$428,830 under this grant for the years ended June 30, 2012 and 2011, respectively. All revenue is earned as expenses for the program are incurred.

Department of Agriculture - Women, Infants and Children Grant

In March 2004, the Company was awarded a grant from the Maryland Department of Health and Mental Hygiene to provide WIC program services to eligible residents in targeted areas of Prince George's County. The initial grant period was from 2003 through 2006; however, the grant was extended through 2011 because both options incorporated into the grant were exercised. The Company provides nutritional education and related WIC services to eligible residents of Prince George's county. The Company earned \$920,230 and \$952,106 under the program for the years ended June 30, 2012 and 2011, respectively.

Weinberg

The Company was awarded a grant from the Harry and Jeanette Weinberg Foundation, Inc. The grant was awarded to the Company to provide capital funding to relocate and expand access to the Company's primary care into a new building with 21,000 square feet. The Company earned \$220,000 and \$-0- under this grant for the years ended June 30, 2012 and 2011, respectively.

Greater Baden Medical Services, Inc.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Community Partnership Grant Program

The Company was awarded a grant from the Community Partnership Grant Program. The grant was awarded to the Company to provide expanded access to primary care at the Walker Mill Shopping Center in Capitol Heights by building out approximately 5,000 square feet for a Women and Children's Center. The Company earned \$69,059 and \$-0- under this grant for the years ended June 30, 2012 and 2011.

Prince George's County Eligibility Worker Grant

The Company was awarded a grant from Prince George's County. The grant was awarded to the Company to hire an individual to assist clients with enrolling in the Maryland Medicaid Program and/or other public medical assistance programs. The Company earned \$27,529 and \$-0- under this grant for the years ended June 30, 2012 and 2011, respectively.

Community Health Clinic, Inc.

Community Health Clinic, Inc. (CHC) was awarded a grant from Carefirst to prepare to become a patient centered medical home. CHC partnered with the Company and passed through \$100,000 of their funding. The Company earned \$100,000 and \$-0- under this grant for the years ended June 30, 2012 and 2011, respectively.

Meaningful Use Grant

The Company was awarded a grant from The Centers for Medicare and Medicaid Services. The grant was awarded to the Company as a bonus for utilizing electronic health records. The Company earned \$42,500 and \$-0- under this grant for the years ended June 30, 2012 and 2011, respectively.

Note 9 - Retirement Plan

The Company has a defined contribution retirement plan that covers both full-time and part-time employees who have completed at least two years of service. The Company contributes 5% of the employees' base compensation. Such expense incurred for the years ended June 30, 2012 and 2011 was \$169,331 and \$149,028, respectively.

Greater Baden Medical Services, Inc.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Note 10 - Lease Commitments

Operating Leases

The Company had an operating lease with the Board of Education of Prince George's County. The lease called for monthly payments of \$2,000 with annual rent increases. The lease was noncancelable for a five-year period through March 2005 and was renewed for a five-year period, at which point the lease went month to month. The lease was terminated effective January 2011. Rental expense under the lease was \$-0- and \$18,000 for the years ended June 30, 2012 and 2011, respectively.

In April 1999, the Company executed an operating lease for its site in Capitol Heights, Maryland and in 2001 negotiated for additional space. Each lease called for monthly payments of \$1,000 and \$1,050, respectively, which began on July 1, 1999 and May 1, 2001, respectively. The lease had annual increases and was noncancelable for an initial period of eight years with a renewal option of one five-year term. In 2007, a lease modification agreement was executed calling for rent of \$2,990 commencing July 1, 2007, with annual 3% increases. In May 2010, a second lease modification agreement was executed, calling for annual rent of \$71,760 commencing June 1, 2010, continuing through August 31, 2020. The Company is responsible for rooftop HVAC unit repair and maintenance and the payment of common area costs and real estate taxes. Rental expense under this lease was \$98,755 and \$92,610 for the years ended June 30, 2012 and 2011, respectively.

In November 2002, the Company executed an operating lease for its site in Leonardtown, Maryland. The lease calls for monthly payments of \$1,500 commencing on November 1, 2002 and ending on October 31, 2005, with a renewal option of one five-year term. In addition to the minimum rental payments, the Company is responsible for the payment of common area operating costs and real estate taxes. The Company renewed the lease on November 1, 2010 for one year ending on October 31, 2011. The Company further extended the lease on November 1, 2011 for one year ending on October 31, 2012. Rental expense under these leases was \$21,900 and \$21,619 for the years ended June 30, 2012 and 2011, respectively.

The Company executed an operating lease for its administrative site in Melwood. The lease calls for monthly payments of \$5,660 with annual 4% increases and extends through December 2011. The Company is responsible for payment of common area costs and real estate taxes. Rental expense under these leases was \$31,032 and \$91,528 for the years ended June 30, 2012 and 2011, respectively.

Greater Baden Medical Services, Inc.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

In September 2003, the Company executed an operating lease for its Women, Infants and Children's program at a new location at the Walker-Mill Center. The lease calls for initial payments of \$2,100 per month beginning September 1, 2003, with annual increases and the lease terms extends through August 31, 2013, with a renewal option of one five-year term. In addition to the minimum rent, the Company is also responsible for payment of common area operating costs and real estate taxes.

In September 2005, the Company executed an operating lease for its Women, Infants and Children's program at a new location at the Oxon Hill Center. The lease calls for initial payments of \$4,722 per month beginning October 1, 2005, with annual increases, and the lease terms extending through August 31, 2010. On September 14, 2010 the Company renewed the lease for five more years. The lease calls for monthly payments of \$5,472 beginning September 1, 2010.

Rent expense for the WIC locations totals \$118,784 and \$114,291 for the years ended June 30, 2012 and 2011, respectively.

In April 2009, the Company entered into a capital lease with 301 Commercial Center LLC to take a leasehold interest in a building designated to be administrative offices and clinical space of the Company. The lease calls for initial monthly payments of \$42,167 with annual increase of 2.5% commencing on the date of substantial completion, as defined in the lease, and ending on the earlier of 10 years thereafter or the settlement date of the Company's purchase of the building. The building reached substantial completion on December 7, 2010. The Company purchased the building on May 25, 2011, and the lease was terminated at this time. Rent expense totaled \$-0- and \$244,839 for the years ended June 30, 2012 and 2011, respectively.

In May 2012, the Company executed an operating lease for its site in La Plata, Maryland for a term of 15 years. The lease calls for initial monthly payments of \$5,858 with annual increases equal to the lesser of 2% or the annual CPI adjustment as defined by the lease agreement. In addition to the minimum rent, the Company is also responsible for payment of common area operating costs and real estate taxes. Rent expense for the La Plata location was \$9,567 for the year ended June 30, 2012.

Greater Baden Medical Services, Inc.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Future minimum lease payments under the noncancelable operating leases for each of the ensuing years through June 30, 2017 are as follows:

Years	St. Mary's	Walker-Mill WIC	Oxon Hill WIC	Capitol Heights	Laplata	Total
2013	\$ 7,300	\$ 33,859	\$ 65,660	\$ 71,760	\$ 70,290	\$ 248,869
2014	-	5,683	65,660	71,760	70,290	213,393
2015	-	-	65,660	71,760	70,290	207,710
2016	-	-	10,943	71,760	70,290	152,993
2017	-	-	-	71,760	70,290	142,050
	<u>\$ 7,300</u>	<u>\$ 39,542</u>	<u>\$ 207,923</u>	<u>\$ 358,800</u>	<u>\$ 351,450</u>	<u>\$ 965,015</u>

Note 11 - Board Designated

During 2002, the Board of Directors allocated \$1,000,000 for future land and building development. The land and building will be developed to maintain a new medical facility for the Company. The funds were placed into a mutual fund until the Company can utilize the funds. The amount is included in Board designated - unrestricted net assets.

Note 12 - Commitments and Contingencies

The Company receives 80% of its support from various federal, state and local agencies. A significant reduction in the level of this support, if it were to occur, may have a significant effect on the Company's programs and activities.

During 2012, the Company entered into a construction contract in the amount of \$160,000 to construct a call center at the Company's Brandywine, Maryland facility. As of June 30, 2012, costs incurred on the contract totaled \$31,000, which is included in property and equipment.

During 2012, the Company entered into a construction contract in the amount of \$450,000 to construct a call center at the Company's Oxen Hill, Maryland facility. As of June 30, 2012, costs incurred on the contract totaled \$74,100, which is included in property and equipment.

Note 13 - Concentration of Credit Risk

The Company maintains its cash with two banks where its balances at times may exceed the Federal Deposit Insurance Corporation (FDIC) limit; however, the Company has not experienced any losses in such accounts and monitors the creditworthiness of the financial institutions with which it conducts business.

Greater Baden Medical Services, Inc.

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Note 14 - Subsequent Events

Events that occur after the statement of financial position date, but before the financial statements were available to be issued, must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of financial position date require disclosure in the accompanying notes. Management evaluated the activity of the Company through January 22, 2013 (the date the financial statements were available to be issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

Supplementary Information

Greater Baden Medical Services, Inc.

Supplementary Schedules of Functional Expenses

Years ended June 30, 2012 and 2011

	2012				2011			
	Clinic Services	Management and General	Totals	Percent	Clinic Services	Management and General	Totals	Percent
Salaries	\$ 4,644,757	\$ 962,184	\$ 5,606,941	58.0%	\$ 4,053,974	\$ 1,009,462	\$ 5,063,436	57.0%
Employee benefits	598,574	123,998	722,572	7.5%	484,394	120,617	605,011	6.8%
Payroll taxes	342,003	70,848	412,851	4.3%	296,416	73,809	370,225	4.2%
Professional fees	980,746	128,625	1,109,371	11.5%	925,675	190,868	1,116,543	12.6%
Medical supplies	229,654	-	229,654	2.4%	192,194	-	192,194	2.2%
Office supplies	95,453	65,288	160,741	1.7%	129,712	27,029	156,741	1.8%
Telephone	58,938	38,292	97,230	1.0%	74,106	17,215	91,321	1.0%
Postage and shipping	9,747	2,413	12,160	0.1%	412	10,524	10,936	0.1%
Utilities	41,162	11,913	53,075	0.5%	46,309	-	46,309	0.5%
Insurance	81,183	2,528	83,711	0.9%	92,185	-	92,185	1.0%
Repair and maintenance	192,145	20,348	212,493	2.2%	161,493	16,261	177,754	2.0%
Printing and publications	17,917	2,146	20,063	0.2%	5,300	2,036	7,336	0.1%
Travel	12,624	6,511	19,135	0.2%	17,219	-	17,219	0.2%
Meetings	1,929	7,716	9,645	0.2%	12,084	-	12,084	0.1%
Rent	249,006	31,032	280,038	2.9%	491,359	91,528	582,887	6.6%
Recruitment	3,828	-	3,828	0.0%	16,699	-	16,699	0.2%
Education and training	16,345	-	16,345	0.2%	48,750	-	48,750	0.5%
Medical waste removal	9,526	-	9,526	0.1%	13,606	-	13,606	0.2%
Membership dues	20,554	2,924	23,478	0.3%	7,568	-	7,568	0.1%
Storage space	-	2,093	2,093	0.0%	-	2,118	2,118	0.0%
Permits and licenses	16,551	2,363	18,914	0.2%	850	-	850	0.0%
Interest expense	95,274	47,637	142,911	1.5%	12,935	-	12,935	0.1%
Miscellaneous	37,544	7,690	45,234	0.5%	83,802	-	83,802	0.9%
Depreciation and amortization	280,140	91,755	371,895	3.8%	92,576	63,382	155,958	1.8%
Total expenses	<u>\$ 8,035,600</u>	<u>\$ 1,628,304</u>	<u>\$ 9,663,904</u>	<u>100.0%</u>	<u>\$ 7,259,618</u>	<u>\$ 1,624,849</u>	<u>\$ 8,884,467</u>	<u>100.0%</u>

Greater Baden Medical Services, Inc.

Schedule of Expenditures of Federal Awards

June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Period	Total Award	Expenditures
<u>U.S. Department of Health and Human Services</u>				
PHS - Section 330 Grant	93.224	5/1/11 - 4/30/12 5/1/12 - 4/30/13	\$ 1,391,089 1,405,396	\$ 1,174,496 234,200
Ryan White Part C Early Intervention Program	93.918	7/1/11 - 6/30/12	286,950	286,950
Total U.S. Department of Health and Human Services			<u>3,083,435</u>	<u>1,695,646</u>
<u>U.S. Department of Housing and Urban Development (HUD)</u>				
Community Development Block Grant Health Care for the Homeless	14.218	7/1/11 - 6/30/12	29,266	29,266
Pass-through from Prince George's County Health Department				
American Recovery and Reinvestment Act - Community Development Block Grant	14.253	10/1/09-9/30/12	161,925	161,925
<u>U.S. Department of Agriculture</u>				
Women, Infants and Children	10.557	7/1/11 - 6/30/12	868,750	868,750
WIC Breastfeeding Peer Counselor Program	10.557	7/1/11 - 6/30/12	51,480	51,480
Total U.S. Department of Agriculture			<u>920,230</u>	<u>920,230</u>
<u>U.S. Department of Health and Human Services</u>				
Pass-through from Prince George's County Health Department				
Ryan White - Part A HIV Program	93.914	3/1/11 - 2/28/12 3/1/12 - 2/28/13	812,716 855,335	544,576 339,464
Total Ryan White - Part A HIV Program pass-through			<u>1,668,051</u>	<u>884,040</u>
			<u>\$ 5,862,907</u>	<u>\$ 3,691,107</u>

See notes to schedule of expenditures of federal awards

Greater Baden Medical Services, Inc.

Notes to Schedule of Expenditures of Federal Awards

June 30, 2012

Note 1 - Scope of Audit Pursuant To OMB Circular A-133

All federal financial assistance programs of Greater Baden Medical Services, Inc. are included in the scope of the OMB Circular A-133 audit.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes all federal grants of the Greater Baden Medical Services, Inc., which had financial activity during the fiscal year. This schedule has been prepared in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Independent Auditors' 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**

Board of Directors
Greater Baden Medical Services, Inc.

We have audited the financial statements of Greater Baden Medical Services, Inc. (the Company) as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated January 22, 2013. 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.

Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as item 2012-1.

The Company's response to the finding identified in our audit is described in the accompanying schedule of findings and questions costs. We did not audit the Company's response and, accordingly, we express no opinion on it.

This report is intended for the information of the audit committee, board of directors, management, the federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

A handwritten signature in cursive script that reads "CohnReznick LLP".

Baltimore, Maryland
January 22, 2013

**Independent Auditors' Report on Compliance with Requirements
that Could Have a Direct and Material Effect on Each Major Program
and on Internal Control over Compliance in Accordance with
OMB Circular A-133**

Board of Directors
Greater Baden Medical Services, Inc.

Compliance

We have audited the compliance of Greater Baden Medical Services, Inc. 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 years ended June 30, 2012 and 2011. Greater Baden Medical Services, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Greater Baden Medical Services, Inc.'s management. Our responsibility is to express an opinion on the Greater Baden Medical Services, Inc.'s compliance based on our audits.

We conducted our audits 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 audits 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 Greater Baden Medical Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Greater Baden Medical Services, Inc.'s compliance with those requirements.

As described in item 2012-1 in the accompanying schedule of findings and questioned costs, the Company did not comply with the requirements to maintain controls surrounding one of its federal programs. Compliance with such requirements is necessary, in our opinion, for the Company to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Greater Baden Medical 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 years ended June 30, 2012 and 2011. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Company's compliance with those requirements.

Internal Control Over Compliance

Management of Greater Baden Medical Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audits, we considered Greater Baden Medical Services, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance, described in the accompanying Status of Current Year Findings, that we consider to be a significant deficiency in internal control over compliance (Finding 2012-1). 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.

Greater Baden Medical Services, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questions costs. We did not audit the Greater Baden Medical Services, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended for the information of the audit committee, board of directors, management, the federal awarding agencies, and pass-through entities and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

CohnReznick LLP

Baltimore, Maryland
January 22, 2013

Greater Baden Medical Services, Inc.

Schedule of Findings and Questioned Costs

June 30, 2012

A. Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the financial statements of Greater Baden Medical Services, Inc.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of Greater Baden Medical Services, Inc. were disclosed during the audit.
4. Significant deficiencies identified during the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Greater Baden Medical Services, Inc. expresses a qualified opinion.
6. There is one audit finding relative to the major federal award programs for Greater Baden Medical Services, Inc.
7. The programs tested as major programs include:
 - PHS - Section 330 Grant
Federal CFDA Number: 93.224
Expenditures - \$1,408,696
 - American Recovery and Reinvestment Act - Community Development Block Grant
Federal CFDA Number: 14.253
Expenditures - \$161,925
 - Community Development Block Grant Health Care for the Homeless
Federal CFDA Number: 14.218
Expenditures - \$29,266
8. The threshold for distinguishing type A and B programs was \$300,000.
9. Greater Baden Medical Services, Inc. was qualified to be a low-risk auditee.

Greater Baden Medical Services, Inc.

Schedule of Findings and Questioned Costs - Continued

June 30, 2012

B. Findings - Financial Statement Audit

NONE

C. Findings - A-133 Compliance Audit

See Finding 2012-1

Findings and Questioned Costs - Major Federal Programs Audit

2012-1

Condition:

The Company is not following the controls it has in place to properly ensure that patients receiving sliding scale fee discounts are properly qualified to receive the discount. Patients were given sliding fee scale discounts when they did not qualify based on income level or the patients were given a sliding scale fee discount when their eligibility could not be properly determined due to lack of completion of pertinent information on sliding fee scale application.

Criteria:

The conditions of the grant award state that health centers are required to have a schedule of discounts applied and adjusted based on the patient's ability to pay. The patient's ability to pay is determined based on the official poverty guideline, as revised annually by HHS.

Cause:

The Company is not following the controls it has in place to ensure that sliding scale fee discounts are given accordance with patient's ability to pay as determined based on the official poverty guideline.

Effect:

Sliding scale fee discounts are not supported based upon federal poverty guidelines.

Questioned Costs:

None

Greater Baden Medical Services, Inc.

Schedule of Findings and Questioned Costs - Continued

June 30, 2012

Recommendation:

We recommend that management implement a review process for employees to ensure all employees are obtaining the necessary documentation and including it in the patient files for the eligibility of patients receiving sliding scale discounts.

Auditee Response and Corrective Action Plan:

Greater Baden will review the requirements of the Bureau of Primary Health Care for sliding fee schedules, and update its current policies. The agency will also initiate compliance monitoring of sliding fee applications for completeness and accuracy.