

Greater Baden Medical Services, Inc.

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

June 30, 2014 and 2013

Greater Baden Medical Services, Inc.

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Independent Auditor's Report

Board of Directors
Greater Baden Medical Services, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Greater Baden Medical Services, Inc. which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greater Baden Medical Services, Inc. as of June 30, 2014 and 2013, 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.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 23 and 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2015, 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 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 Greater Baden Medical Services Inc.'s internal control over financial reporting and compliance.



Baltimore, Maryland
February 6, 2015

Greater Baden Medical Services, Inc.

**Statements of Financial Position
June 30, 2014 and 2013**

	<u>Assets</u>	
	<u>2014</u>	<u>2013</u>
Current assets		
Cash and cash equivalents	\$ 676,810	\$ 480,410
Accounts receivable, net of allowance for doubtful accounts of \$575,000 and \$400,000, respectively	928,903	439,786
Grants receivable	1,039,834	734,599
Contributions receivable	99,950	-
Prepaid expenses	-	1,250
Total current assets	<u>2,745,497</u>	<u>1,656,045</u>
Property and equipment, net of accumulated depreciation and amortization of \$2,472,818 and \$2,071,261, respectively	<u>7,206,481</u>	<u>7,164,803</u>
Other assets		
Investments	1,832,316	2,307,694
Investment in MCHS, Inc.	100	100
Security deposits	16,026	16,026
Deferred financing fees, net of accumulated amortization of \$13,443 and \$8,943, respectively	7,062	11,562
Escrow - unemployment insurance	64,085	55,920
Total other assets	<u>1,919,589</u>	<u>2,391,302</u>
Total assets	<u>\$ 11,871,567</u>	<u>\$ 11,212,150</u>
	<u>Liabilities and Net Assets</u>	
Current liabilities		
Accounts payable	\$ 245,755	\$ 200,018
Accrued expenses	448,541	429,784
Mortgage payable, current maturity	83,213	79,084
Capital lease obligation - current maturity	55,342	-
Other liabilities	12,200	12,200
Deferred rent	32,207	20,741
Deferred revenue	35,000	99,950
Total current liabilities	912,258	841,777
Long-term liabilities		
Mortgages payable	4,985,654	5,068,532
Capital lease obligations - long term	240,220	-
Fair market value of interest rate swap	59,654	81,028
Total long-term liabilities	5,285,528	5,149,560
Commitments and contingencies	-	-
Total liabilities	<u>6,197,786</u>	<u>5,991,337</u>
Net assets		
Unrestricted - board designated	1,000,000	1,000,000
Unrestricted	4,673,781	4,220,813
Total net assets	<u>5,673,781</u>	<u>5,220,813</u>
Total liabilities and net assets	<u>\$ 11,871,567</u>	<u>\$ 11,212,150</u>

See Notes to Financial Statements.

Greater Baden Medical Services, Inc.

Statements of Activities Years Ended June 30, 2014 and 2013

	2014		2013	
Unrestricted net assets				
Revenue and support				
Patient services revenue (net of contractual allowances)	\$ 5,401,233		\$ 3,973,043	
Provision for bad debts	(175,000)		-	
	5,226,233	50.0%	3,973,043	41.4%
Grants and allocations				
Department of Health & Human Services PHS - 330 Grant	1,825,821	17.5%	1,454,096	15.1%
Ryan White Part A Grant	936,016	9.0%	961,742	10.0%
Ryan White Part C Grant	299,160	2.9%	286,950	3.0%
Women, Infant and Children	938,744	9.0%	949,800	9.9%
Women, Infant and Children - Breastfeeding Peer Counselor	29,791	0.3%	43,335	0.5%
State of Maryland Department of Health and Mental Hygiene Administration	150,000	1.4%	371,250	3.9%
American Recovery and Reinvestment Act - Community Development Block Grant	-	0.0%	160,000	1.7%
Community Development Block Grant - Capital Heights II	100,000	1.0%	105,600	1.1%
Community Development Block Grant - Helping Marylanders Connect	26,835	0.3%	-	0.0%
Family Health Administration Grant	200,000	1.8%	200,000	2.0%
Maryland Community Health Resources Commission Grant	-	0.0%	200,000	2.1%
American Cancer Society	47,500	0.5%	40,000	0.4%
Miscellaneous Grants	-	0.0%	10,250	0.1%
Prince George's County Health Enterprise Zone	25,000	0.2%	-	0.0%
Institute for Public Health Innovation	15,000	0.1%	-	0.0%
Kaiser Permanente	25,000	0.2%	-	0.0%
Meaningful Use incentive income	117,830	1.0%	208,250	2.2%
Contributions				
Susan G. Komen	199,900	1.9%	199,900	2.1%
Community Clinic	100,000	1.0%	100,000	1.0%
Amerigroup Foundation	-	0.0%	76,000	0.8%
Philip L. Graham Fund	-	0.0%	75,000	0.8%
Miscellaneous Contributions	47,580	0.5%	71,640	0.7%
Consumer Health Foundation	80,000	0.8%	36,600	0.4%
Dr. Francis P. Chiramonte Private Foundation	30,000	0.3%	30,000	0.3%
United Way allocations	3,878	0.0%	23,993	0.2%
Maryland Primary Care - Medical Homes	18,702	0.2%	19,530	0.2%
Delta Dental Foundation	5,000	0.0%	-	0.0%
Miscellaneous income	10,010	0.1%	9,671	0.1%
	10,458,000	100.0%	9,606,650	100.0%
Operating expenses				
Clinic services	9,273,614	82.5%	8,611,715	82.8%
Management and general	1,960,555	17.5%	1,785,497	17.2%
	11,234,169	100.0%	10,397,212	100.0%
Changes in net assets from operations	(776,169)		(790,562)	
Investment income	885,488		945,788	
Realized gain on investments	80,837		113,393	
Unrealized gain on investments	241,438		119,809	
Unrealized gain on interest rate swap	21,374		31,048	
Change in net assets	452,968		419,476	
Net assets, beginning of year	5,220,813		4,801,337	
Net assets, end of year	\$ 5,673,781		\$ 5,220,813	

See Notes to Financial Statements.

Greater Baden Medical Services, Inc.

Statements of Functional Expenses Years Ended June 30, 2014 and 2013

	2014				2013			
	Clinic Services	Management and General	Totals	Percentage	Clinic Services	Management and General	Totals	Percentage
Salaries	\$ 5,349,930	\$ 1,164,722	\$ 6,514,652	58.0%	\$ 4,814,582	\$ 1,117,562	\$ 5,932,144	57.1%
Employee benefits	690,025	150,223	840,248	7.5%	620,163	143,952	764,115	7.3%
Payroll taxes	394,403	85,865	480,268	4.3%	356,404	82,729	439,133	4.2%
Professional fees	951,919	239,531	1,191,450	10.6%	1,143,011	144,902	1,287,913	12.4%
Medical supplies	258,257	-	258,257	2.3%	164,544	-	164,544	1.6%
Office supplies	124,551	60,398	184,949	1.6%	122,971	59,342	182,313	1.8%
Telephone	85,932	19,639	105,571	0.9%	69,079	35,403	104,482	1.0%
Postage and shipping	15,025	2,716	17,741	0.2%	13,758	3,440	17,198	0.2%
Utilities	63,585	13,279	76,864	0.7%	47,298	11,048	58,346	0.6%
Insurance	83,120	4,368	87,488	0.8%	81,843	2,742	84,585	0.8%
Repair and maintenance	246,610	31,589	278,199	2.5%	190,453	17,398	207,851	2.0%
Printing and publications	11,921	532	12,453	0.1%	16,768	1,231	17,999	0.2%
Travel	9,701	14,499	24,200	0.2%	10,719	7,360	18,079	0.2%
Meetings	9,174	36,693	45,867	0.4%	2,143	8,574	10,717	0.1%
Rent	436,974	-	436,974	3.9%	420,515	-	420,515	4.0%
Recruitment	1,971	-	1,971	0.0%	3,967	-	3,967	0.0%
Education and training	28,423	-	28,423	0.3%	29,788	-	29,788	0.3%
Medical waste removal	13,831	-	13,831	0.1%	11,976	-	11,976	0.1%
Membership dues	18,229	795	19,024	0.2%	25,482	2,084	27,566	0.3%
Marketing	19,720	4,039	23,759	0.2%	23,492	4,812	28,304	0.3%
Storage space	-	1,320	1,320	0.0%	-	2,010	2,010	0.0%
Permits and licenses	4,660	-	4,660	0.0%	660	-	660	0.0%
Interest expense	93,418	46,708	140,126	1.2%	93,169	46,585	139,754	1.3%
Miscellaneous	32,869	6,948	39,817	0.4%	23,680	4,850	28,530	0.3%
Amortization	3,000	1,500	4,500	0.0%	3,000	1,500	4,500	0.0%
Depreciation	326,366	75,191	401,557	3.5%	322,250	87,973	410,223	4.2%
Total expenses	\$ 9,273,614	\$ 1,960,555	\$ 11,234,169	100.0%	\$ 8,611,715	\$ 1,785,497	\$ 10,397,212	100.0%

See Notes to Financial Statements.

Greater Baden Medical Services, Inc.

**Statements of Cash Flows
Years Ended June 30, 2014 and 2013**

	2014	2013
Cash flows from operating activities		
Change in net assets	\$ 452,968	\$ 419,476
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Bad debt expense	175,000	-
Depreciation	401,557	410,223
Amortization	4,500	4,500
Straight-line rent adjustment	11,466	20,741
Unrealized gain on interest rate swap	(21,374)	(31,048)
Unrealized gain on investments	(241,438)	(119,809)
Realized gain on investments	(80,837)	(113,393)
Changes in assets and liabilities		
Increase in accounts receivable (net)	(664,117)	(6,809)
(Increase) decrease in grants/contributions receivable	(405,185)	246,337
Increase in escrow - unemployment insurance	(8,165)	(1,937)
Decrease in prepaid expenses	1,250	5,000
(Decrease) increase in deferred revenue	(64,950)	99,950
Increase in accounts payable and accrued expenses	64,494	48,231
	<u>(374,831)</u>	<u>981,462</u>
Net cash (used in) provided by operating activities		
Cash flows from investing activities		
Purchases of investments	(181,324)	(904,202)
Sale of investments	978,977	1,093,225
Purchase of property and equipment	(138,660)	(730,568)
	<u>658,993</u>	<u>(541,545)</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities		
Payments on mortgages payable	(78,749)	(75,160)
Payments on lease payable	(9,013)	-
	<u>(87,762)</u>	<u>(75,160)</u>
Net cash used in financing activities		
Net increase in cash and cash equivalents	196,400	364,757
Cash and cash equivalents, beginning of year	480,410	115,653
Cash and cash equivalents, end of year	<u>\$ 676,810</u>	<u>\$ 480,410</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 140,126</u>	<u>\$ 139,754</u>
Supplemental noncash investing and financing activities		
Capital lease asset	<u>\$ (304,575)</u>	<u>\$ -</u>

See Notes to Financial Statements.

Greater Baden Medical Services, Inc.

**Notes to Financial Statements
June 30, 2014 and 2013**

Note 1 - Organization and summary of significant accounting policies

Greater Baden Medical Services, Inc. (the "Company") incorporated on March 14, 1972 and is a nonprofit 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 the following seven facilities: Brandywine, Capitol Heights I, Capital Heights II, Beltsville, St. Mary's, Oxon Hill, and La Plata.

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.

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

Grants

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

Meaningful use incentives

The American Recovery and Reinvestment Act of 2009 ("ARRA") amended the Social Security Act to establish one-time incentive payments under Medicare and Medicaid programs for certain professionals that: (1) meaningfully use certified Electronic Health Record ("EHR") technology, (2) use the certified EHR technology for electronic exchange of health information to improve quality of healthcare, and (3) use the certified EHR technology to submit clinical and quality measures. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Clinical and Economic Health ("HITECH") Act. The Company has earned \$117,830 and \$208,250 for the years ended June 30, 2014 and 2013, respectively.

Greater Baden Medical Services, Inc.

Notes to Financial Statements June 30, 2014 and 2013

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. Restricted contributions whose restrictions expire during the same fiscal year are recognized as unrestricted revenue. Conditional contributions are recognized in the period when expenditures have been incurred in compliance with the grantor's restrictions.

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. The net assets of the Company are all unrestricted in the current periods.

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.

Patient services receivable

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

Receivables due directly from patients are carried at the original charge for the service provided less discounts provided under the Company's charity care policy, less amounts covered by third-party payors and less an estimated allowance for doubtful receivables. Management determines the allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Company considers accounts past due when they are outstanding beyond 90 days with no payment. The Company generally does not charge interest on past due accounts. Patient receivables are written off against the allowance for doubtful accounts when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Greater Baden Medical Services, Inc.

Notes to Financial Statements June 30, 2014 and 2013

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.

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, 2014 and 2013.

Intangible assets

Financing fees of \$20,505 related to permanent loan financing are amortized on a straight-line 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, 2014 and 2013 was \$4,500 and \$4,500, respectively.

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

2015	\$	4,101
2016		<u>2,961</u>
Total	\$	<u><u>7,062</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 statements of activities 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.

Greater Baden Medical Services, Inc.

Notes to Financial Statements June 30, 2014 and 2013

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 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.

Concentration

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, 2014 and 2013. The Company files annual information returns with the IRS.

Open tax years subject to IRS audit are the years ended June 30, 2013, 2012, and 2011.

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.

Deferred rent

Rent expense is recognized on a straight-line basis over the term of the lease. A deferred rent liability is recorded for the cumulative difference between cash paid to date and straight-line rent expense incurred since the inception of the lease.

Greater Baden Medical Services, Inc.

**Notes to Financial Statements
June 30, 2014 and 2013**

Note 2 - Patient services receivable

As of June 30, 2014 and 2013, patient services receivable, net, consisted of the following:

	June 30,	
	2014	2013
Medicaid	\$ 668,283	\$ 238,876
Medicare	191,977	91,728
Other third-party	193,561	213,584
Self-pay	450,082	295,598
	<u>1,503,903</u>	<u>839,786</u>
Less allowance for doubtful accounts	<u>575,000</u>	<u>400,000</u>
Total	<u><u>\$ 928,903</u></u>	<u><u>\$ 439,786</u></u>

Patient services receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of patient services receivable, the Company analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Company analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Company records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates or the discounted rates provided by the Company's policy and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

Greater Baden Medical Services, Inc.

**Notes to Financial Statements
June 30, 2014 and 2013**

Note 3 - Investments in limited partnership and corporation

As of June 30, 2014 and 2013, the Company had an investment in a corporation as follows:

	Investment balance	% of Ownership
Maryland Community Health System ("MCHS"), Inc.	\$ 100	12.500%
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 4 - Investments

Investments measured at fair value are summarized as follows at June 30, 2014 and 2013:

	2014		2013		Unrealized gain
	Cost	Fair value	Cost	Fair value	
Mutual funds	\$ 1,379,764	\$ 1,832,316	\$ 1,457,603	\$ 2,307,694	\$ 241,438
Total	\$ 1,379,764	\$ 1,832,316	\$ 1,457,603	\$ 2,307,694	\$ 241,438

Greater Baden Medical Services, Inc.

**Notes to Financial Statements
June 30, 2014 and 2013**

Note 5 - Property and equipment

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

	June 30,	
	2014	2013
Building	\$ 6,237,336	\$ 6,237,336
Furniture and equipment	1,520,780	1,204,295
Leasehold improvements	1,921,183	1,794,433
	9,679,299	9,236,064
Less accumulated depreciation and amortization	2,472,818	2,071,261
	\$ 7,206,481	\$ 7,164,803

Note 6 - Capital lease obligations

	2014
The Company entered into a capital lease on May 1, 2014 with Dell Financial Services for eighty three desktops and ten laptops, in the original amount of \$304,575, requiring monthly payments of \$5,759 through maturity in April 2019.	\$ 295,562
Less current portion	(55,342)
Total long term-lease payable	\$ 240,220

Future minimum lease payments for the remaining years are as follows:

2015	\$ 69,114
2016	69,114
2017	69,114
2018	69,114
2019	57,595
Total minimum lease payments	334,051
Less amount representing interest payments	(38,489)
Present value of net minimum lease payments	\$ 295,562

Principal and Interest paid under capital lease obligations were \$9,013 and \$2,205, respectively, for the year ended June 30, 2014.

Greater Baden Medical Services, Inc.

**Notes to Financial Statements
June 30, 2014 and 2013**

Note 7 - Line of credit

On June 26, 2009, the Company established a line of credit with SunTrust Bank in the amount of \$500,000. In June 2013, the line of credit was increased to \$1,000,000. 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, 2014 and 2013). 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. During 2013, the Company paid fees totaling \$2,800 to increase the line of credit. As of June 30, 2014 and 2013, no amount has been drawn on the line of credit.

Note 8 - 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, 2014 and 2013) 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, 2014 and 2013 was \$137,921 and \$139,754, respectively. The outstanding principal balance as of June 30, 2014 and 2013 is \$3,268,867 and \$3,347,616, 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 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 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, 2014 and 2013, the principal balance is \$1,800,000.

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

2015	\$	83,213
2016		3,185,654
Thereafter		<u>1,800,000</u>
Total	\$	<u><u>5,068,867</u></u>

Greater Baden Medical Services, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note 9 - 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, 2014		2.9020%
Termination		May 25, 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 statement of financial position 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, 2014, the Company would owe \$59,654, which represents the present value of the future payment for the difference between the fixed rate and the variable rate. During 2014 and 2013, \$21,374 and \$31,048, respectively, were reflected as unrealized gain on the statements of activities. The fair value of the swap was determined using Level 2 inputs as of June 30, 2014.

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

Greater Baden Medical Services, Inc.

**Notes to Financial Statements
June 30, 2014 and 2013**

- 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, 2014:

	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	\$ 1,832,316	\$ -	\$ -
Interest rate swap	-	59,654	-
	<u>\$ 1,832,316</u>	<u>\$ 59,654</u>	<u>\$ -</u>

At June 30, 2013:

	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	\$ 2,307,694	\$ -	\$ -
Interest rate swap	-	81,028	-
	<u>\$ 2,307,694</u>	<u>\$ 81,028</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, 2014 and 2013, 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.

Greater Baden Medical Services, Inc.

**Notes to Financial Statements
June 30, 2014 and 2013**

Note 10 - Patient services revenue (net of contractual allowances)

The Company recognizes patient service revenue associated with services provided to patients who have Medicaid, Medicare, third-party payor and managed care plans coverage on the basis of contractual rates for services rendered. For uninsured patients that do not qualify for charity care, the Company recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated or provided by policy. Charity care services are computed using a sliding fee scale based on patient income and family size. On the basis of historical experience, a significant portion of the Company's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Company records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient services revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized for the years ended June 30, 2014 and 2013 from these major payor sources, is as follows:

	June 30,	
	2014	2013
Medicaid	\$ 3,941,838	\$ 2,654,344
Medicare	442,165	289,167
Other third-party	497,584	505,365
Self-pay	519,646	524,167
Total	<u>\$ 5,401,233</u>	<u>\$ 3,973,043</u>

Note 11 - Contracts and grants

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 \$1,825,821 and \$1,454,096 under the program for the years ended June 30, 2014 and 2013, 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 \$936,016 and \$961,742 under this grant for the years ended June 30, 2014 and 2013, respectively.

Greater Baden Medical Services, Inc.

Notes to Financial Statements June 30, 2014 and 2013

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. The Company earned \$299,160 and \$286,950 under this grant for the years ended June 30, 2014 and 2013, respectively.

Department of Agriculture - Women, Infants and Children ("WIC") Grant

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 Company provides nutritional education, breast feeding education and related WIC services to eligible residents of Prince George's County. The Company earned \$968,535 and \$993,135 under the program for the years ended June 30, 2014 and 2013, 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 under this grant for each of the years ended June 30, 2014 and 2013.

Note 12 - 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, 2014 and 2013 was \$189,430 and \$206,934, respectively.

Note 13 - Lease commitments

Operating leases

In April 1999, an operating lease was executed for Capital Heights; it was modified in May 2010. The modification called 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 \$102,701 and \$99,521 for the years ended June 30, 2014 and 2013, respectively.

The Company executed an operating lease for its site in Leonardtown, Maryland. Since expiration of the original five-year renewal term on October 31, 2010, the Company has renewed the lease in one year increments. The Company further extended the lease on November 1, 2014 for one year ending on October 31, 2015. Rental expense under these leases was \$24,898 and \$21,900 for the years ended June 30, 2014 and 2013, respectively.

Greater Baden Medical Services, Inc.

**Notes to Financial Statements
June 30, 2014 and 2013**

In September 2003, the Company executed an operating lease for its WIC program at the Walker-Mill Center location. The lease calls for initial payments of \$2,100 per month beginning September 1, 2003, with annual increases and the lease terms extend through September 30, 2013. The Company exercised a renewal option of one five-year term to continue the lease through September 30, 2018. 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 WIC program at the Oxon Hill Center location. The lease terms were extended through August 31, 2010. On September 14, 2010, the Company renewed the lease for five more years (ending August 31, 2015). The lease now calls for monthly payments of \$5,472 with annual increases.

Rent expense for the WIC locations totals \$126,823 and \$127,646 for the years ended June 30, 2014 and 2013, respectively.

In May 2012, the Company executed an operating lease for its site in La Plata, Maryland for a term of 15 years (ending May 2026). 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 \$77,289 and \$76,722 for the years ended June 30, 2014 and 2013, respectively.

In August 2012, the Company executed an operating lease for its Capital Heights II location for a term of 15 years. The lease calls for initial monthly payments of \$5,201 with a rent abatement of 50% for the first four months of the lease, with annual increases equal to the greater of 2.5% or the annual CPI adjustment as defined by the lease agreement, not to exceed 3.5%. In addition to the minimum rent, the Company is also responsible for payment of common area operating costs and real estate taxes. Rent expenses for the Capital Heights II location was \$105,263 and \$94,726, respectively, for the years ended June 30, 2014 and 2013. As of June 30, 2014 and 2013, deferred rent totaled \$32,207 and \$20,741, respectively.

Future minimum lease payments under the noncancelable operating leases for each of the ensuing years through June 30, 2019 are as follows:

Years	St. Mary's	Walker-Mill WIC	Oxon Hill WIC	Capitol Heights	Capital Heights II	La Plata	Total
2015	\$ 7,519	\$ 34,268	\$ 73,547	\$ 71,760	\$ 65,604	\$ 72,869	\$ 325,567
2016	-	35,667	12,318	71,760	67,434	74,326	261,505
2017	-	36,737	-	71,760	69,315	75,813	253,625
2018	-	37,839	-	71,760	71,249	77,329	258,177
2019	-	9,529	-	71,760	73,237	78,875	233,401
	<u>\$ 7,519</u>	<u>\$ 154,040</u>	<u>\$ 85,865</u>	<u>\$ 358,800</u>	<u>\$ 346,839</u>	<u>\$ 379,212</u>	<u>\$ 1,332,275</u>

Greater Baden Medical Services, Inc.

Notes to Financial Statements June 30, 2014 and 2013

Note 14 - 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 15 - Commitments and contingencies

The Company receives 46% 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.

The Company is a self-insured for workmen's compensation claims. If a loss occurs, the Company would be liable for any amounts over the amount funded in the unemployment insurance escrow. The Company has not had any claims brought against them and believe the escrow is sufficient to cover any potential claims.

Note 16 - Concentration of credit risk

The Company maintains its cash with two banks where its balances at times may exceed the Federal Deposit Insurance Corporation 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.

Note 17 - 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 February 6, 2015 (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.

**Schedule of Expenditures of Federal Awards
June 30, 2014**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Grant Period	Total Award	Expenditures
<u>U.S. Department of Health and Human Services</u>					
Direct programs:					
Consolidated Health Centers - PHS 330 Grant	93.224		5/1/13 - 4/30/14	\$ 1,614,127	\$ 1,386,227
Consolidated Health Centers - PHS 330 Grant	93.224		5/1/14 - 4/30/15	1,525,721	439,594
				<u>3,139,848</u>	<u>1,825,821</u>
Ryan White HIV/AIDS Program Part C	93.918		7/1/13 - 6/30/14	299,160	299,160
Subtotal U.S. Department of Health and Human Services direct programs				<u>3,439,008</u>	<u>2,124,981</u>
Pass-through programs from:					
Prince George's County Health Department:					
Ryan White HIV/AIDS Program Part A	93.914	0505-1109-2011 (Y23)	3/1/13 - 2/28/14	934,122	604,386
Ryan White HIV/AIDS Program Part A	93.914	0505-1109-2011 (Y24)	3/1/14 - 2/28/15	926,518	331,630
Subtotal U.S. Department of Health and Human Services pass-through programs				<u>1,860,640</u>	<u>936,016</u>
Total U.S. Department of Health and Human Services				<u>5,299,648</u>	<u>3,060,997</u>
<u>U.S. Department of Housing and Urban Development ("HUD")</u>					
Pass-through programs from:					
Prince George's County Health Department:					
Community Development Block Grant - Capitol Heights Women and Children's Helping Marylanders Connect	14.218	PY 39	7/1/13 - 6/30/14	26,835	26,835
Security Shutters Capitol Heights	14.218	PY 39	7/1/13 - 12/31/14	100,000	100,000
Total U.S. Department of Housing and Urban Development ("HUD") and total CDBG - Entitlement Grants Cluster				<u>126,835</u>	<u>126,835</u>
<u>U.S. Department of Agriculture</u>					
Direct programs:					
Women, Infants and Children	10.557		7/1/13 - 6/30/14	938,744	938,744
WIC Breastfeeding Peer Counselor Program	10.557		7/1/13 - 6/30/14	29,791	29,791
Total U.S. Department of Agriculture				<u>968,535</u>	<u>968,535</u>
Total expenditures of federal awards				<u>\$ 6,395,018</u>	<u>\$ 4,156,367</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, 2014**

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards (the "SEFA") 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.

Note 2 - Summary of significant accounting policies

- (1) Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, "Cost Principles for Non-Profit Organizations," wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.

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

Board of Directors
Greater Baden Medical Services, Inc.

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 financial statements of Greater Baden Medical Services, Inc. (the "Company"), which comprise the statements of financial position as of June 30, 2014 and 2013, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 6, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CohnReznick LLP". The signature is written in a cursive, flowing style.

Baltimore, Maryland
February 6, 2015

Independent Auditor's Report on Compliance for Each Major Program
and on Internal Control over Compliance Required by OMB Circular A-133

Board of Directors
Greater Baden Medical Services, Inc.

Report on Compliance for Each Major Federal Program

We have audited Greater Baden Medical Services, Inc.'s compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Greater Baden Medical Services, Inc.'s major federal programs for the year ended June 30, 2014. Greater Baden Medical Services, Inc.'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 Greater Baden Medical 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Greater Baden Medical Services, Inc.'s compliance.

Basis for Qualified Opinion on PHS - Section 330 Grant and Ryan White Type A

As described in findings 2014-1, 2014-2, 2014-3 and 2014-4 in the accompanying schedule of findings and questioned costs, Greater Baden Medical Services, Inc. (the "Company") did not comply with requirements regarding the following:

Finding #	CFDA #	Program (or Cluster) Name	Compliance Requirement
2014-1	93.224	Consolidated Health Centers - PHS - 330 Grant	Program income
2014-2	93.224	Consolidated Health Centers - PHS - 330 Grant	Special tests
2014-3	93.914	Ryan White HIV/AIDS Program Part A	Eligibility
2014-4	93.914	Ryan White HIV/AIDS Program Part A	Program income

Compliance with such requirements is necessary, in our opinion, for the Company to comply with the requirements applicable to that program.

Qualified Opinion on PHS - Section 330 Grant and Ryan White Type A

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on PHS - Section 330 Grant and Ryan White Type A for the year ended June 30, 2014.

Unmodified Opinion on Women, Infants and Children Grant

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Women, Infants, and Children and Women, Infants, and Children Breastfeeding Peer Counseling Program identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

Other Matters

The Company's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Company's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Company 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 Company's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Company's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-1, 2014-2, 2014-3 and 2014-4 to be material weaknesses.

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.

The Company's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Company's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

A handwritten signature in black ink that reads "Cohn Reznick LLP". The signature is written in a cursive, flowing style.

Baltimore, Maryland
February 6, 2015

Greater Baden Medical Services, Inc.

Schedule of Findings and Questioned Costs
June 30, 2014

Summary of Auditor's Results

Financial Statements

1. Type of auditor's report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified? _____ Yes X No
3. Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

4. Internal control over major programs:
- Material weakness(es) identified? X Yes _____ No
- Significant deficiency(ies) identified? _____ Yes X No
5. Type of auditor's report issued on compliance for all major programs: Qualified
6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? X Yes _____ No

7. The programs tested as major programs include:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
93.224	Consolidated Health Centers - PHS - 330 Grant
93.914	Ryan White HIV/AIDS Program Part A Women, Infants and Children and Women, Infants and Children Breastfeeding Peer Counselor Program
10.557	

8. Dollar threshold used to distinguish between type A and type B programs: \$500,000
9. Auditee qualified as low-risk auditee? _____ Yes X No

Greater Baden Medical Services, Inc.

**Schedule of Findings and Questioned Costs
June 30, 2014**

Findings - Financial Statement Audit

None

Findings and Questioned Costs - Major Federal Award Programs Audit

2014-1 Consolidated Health Centers - PHS - 330 Grant
CFDA No. 93.224; Grant No. H80CS00549
Grant period: Year ended June 30, 2014

Condition:

The Company is not following the controls it has in place to properly ensure that sliding scale fee discounts provided to patients are determined in accordance with federal poverty levels. Patients were (1) given sliding scale fee discounts when they did not qualify based on income level, (2) given sliding scale fee discounts when their eligibility could not be properly determined due to lack of completion of pertinent information on sliding scale fee application, or (3) charged the incorrect level of sliding scale discount based upon income level.

Criteria:

The program income 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.

Context:

A sample of 25 sliding scale transactions were tested from a population of sliding scale transactions. (1) patient transaction tested was missing a sliding scale fee application and was missing pertinent data needed to calculate household income level, therefore a sliding scale fee discount could not be supported for these patients. (1) patient transaction tested was charged a discount but did not qualify for the discount. Additionally, (6) transactions tested resulted in the wrong level of fee discount being charged to a patient based upon family income level.

Cause:

The Company is not following the controls it has in place to ensure that sliding scale fee discounts are given in accordance with a patient's ability to pay as determined based on the official poverty guideline. Sliding scale fee applications were either not on file or were not completed sufficiently to determine household income level.

Greater Baden Medical Services, Inc.

**Schedule of Findings and Questioned Costs
June 30, 2014**

Effect:

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

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.

Views of Responsible Officials and Planned Corrective Actions:

Greater Baden will review and revise its sliding fee policy. It will also change work flow processes at check in, and designate a specially trained person to review financial information, as well as eligibility for benefits, with each uninsured patient. Periodic audits will be conducted by designated staff.

2014-2 Department of Health and Human Services
Consolidated Health Centers - PHS - 330 Grant
CFDA No. 93.224; Grant No. H80CS00549
Grant period: Year ended June 30, 2014

Condition:

The Company is not following the grant requirement to ensure that the board is composed of individuals, a majority of whom are being served by the Company and who, as a group, represent the individuals being served by the center.

Criteria:

The special test conditions of the grant award state that the board must be composed of individuals, a majority of whom are being served by the Company and who, as a group, represent the individuals being served by the center.

Context:

There are 15 board members at Greater Baden Medical Services. Only 47% or seven of the board members were patients of the Company over the last two years.

Cause:

The Company is not following the controls it has in place to ensure that at least 50% of its board members are patients of the center.

Greater Baden Medical Services, Inc.

**Schedule of Findings and Questioned Costs
June 30, 2014**

Effect:

The board members as a group do not represent the individuals being served by the center as the majority of the board members are not using the center for care.

Recommendation:

We recommend that management implement a review process for the board members to ensure a 51% of the board members are being served by the Company and who as a group represent the individuals being served by the center.

Views of Responsible Officials and Planned Corrective Actions:

Greater Baden will conduct internal audits to ensure that the majority of the Board of Directors are being served by the Company and to ensure the Company is compliant with grant requirements. Periodic audits will be conducted by the designated staff.

2014-3 Ryan White HIV/AIDS Program Part A
CFDA No. 93.914; Grant No. 0505-1109-2011
Grant period: Year ended June 30, 2014

Condition:

The Company is not following the controls it has in place to properly ensure that patients charged to the Ryan White Part A grant are eligible based upon the grant eligibility

Criteria:

The patient eligibility conditions of the grant award state that proof of the following eligibility criteria must be maintained: (1) the HIV/AIDS status of the patient, (2) residency of patient in eligible county, (3) patient's income level must be below 500% of federal poverty guideline and (4) the grant must be a use of last resort.

Context:

A sample of 25 Ryan White transactions were tested for eligibility from the population of Ryan White patients. The sampled transactions tested resulted in (4) eligibility exceptions. (2) patient transactions tested had proof of residency on file for an ineligible county and (1) transaction tested had no proof of residency on file for the patient. Additionally, (1) patient transaction tested was ineligible for the grant due to having evidence on file of income in excess of 500% of the federal poverty level.

Greater Baden Medical Services, Inc.

**Schedule of Findings and Questioned Costs
June 30, 2014**

Cause:

The Company is not following the controls it has in place to ensure that patients charged to the grant meet all of its eligibility requirements.

Effect:

Patients charged to the grant do not meet its eligibility requirements.

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 charged to the grant. Additionally, employees should review the information obtained to ensure that patients meet the necessary eligibility requirements.

Views of Responsible Officials and Planned Corrective Actions:

Training will be conducted with case management and financial personnel to ensure that only eligible patients are charged to the Ryan White grant. Periodic audits will be conducted by the Compliance Department.

2014-4 Ryan White HIV/AIDS Program Part A
CFDA No. 93.914; Grant No. 0505-1109-2011
Grant period: Year ended June 30, 2014

Condition:

The Company is not following the controls it has in place to properly ensure that Ryan White A sliding scale fee discounts provided to patients are determined in accordance with federal poverty levels. Patients were (1) given sliding scale fee discounts when they did not qualify based on income level, (2) given sliding scale fee discounts when their eligibility could not be properly determined due to lack of completion of pertinent information on sliding scale fee applications, or (3) charged the incorrect level of sliding scale discount based upon income level.

Criteria:

The patient program income conditions of the grant award state that patient income must be verified every 6 months and that such proof of income should be maintained. Additionally, patients should be charged fees in accordance with federal poverty guidelines.

Greater Baden Medical Services, Inc.

**Schedule of Findings and Questioned Costs
June 30, 2014**

Context:

A sample of 25 sliding scale transactions was tested from a population of sliding scale patients. (9) patient transactions tested resulted in exceptions due to not having their income level verified within 6 months of their visit and/or the sliding scale fee discount charged to the patient was calculated incorrectly based upon income levels on file.

Cause:

The Company is not following the controls it has in place to ensure that (1) Ryan White A sliding scale fee discounts are given in accordance with a patient's ability to pay as determined based on the official poverty guideline and (2) patient's income is verified every 6 months.

Effect:

Ryan White A sliding scale fee discounts are not supported based upon federal poverty guidelines and timely verification of patient income.

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. We also recommend that management implement a monitoring process over the timeliness of patient income verification.

Views of Responsible Officials and Planned Corrective Actions:

Greater Baden will review and revise its sliding fee policy. It will also change work flow processes at check in, and designate a specially trained person to review financial information, as well as eligibility for benefits, with each uninsured patient. Periodic audits will be conducted by designated staff.

Greater Baden Medical Services, Inc.

**Summary Schedule of Prior Audit Findings
June 30, 2014**

Finding 2013-1

Condition:

The Company is not following the controls it has in place to properly ensure that sliding scale fee discounts provided to patients are determined in accordance with federal poverty levels. Patients were (1) given sliding scale fee discounts when they did not qualify based on income level, (2) given sliding scale fee discounts when their eligibility could not be properly determined due to lack of completion of pertinent information on sliding scale fee application, or (3) charged the incorrect level of sliding scale discount based upon income level.

Recommendation:

It was recommended 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 and revise its sliding fee policy. It will also change workflow processes at check in, and designate a specially trained person to review financial information as well as eligibility for benefits with each uninsured patient. Periodic audits will be conducted by designated staff.

Current Status:

The Company updated its sliding fee scale policies; however, it is still in the process of implementing compliance monitoring of sliding fee applications for completeness and accuracy.

Finding 2013-2

Condition:

The Company is not following the controls it has in place to properly ensure that patients charged to the Ryan White Part A grant are eligible based upon the eligibility criteria.

Recommendation:

It was recommended 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 charged to the grant. Additionally, employees should review the information obtained to ensure that patients meet the necessary eligibility requirements

Greater Baden Medical Services, Inc.

**Summary Schedule of Prior Audit Findings
June 30, 2014**

Auditee Response and Corrective Action Plan:

Greater Baden will provide training will with case management and financial personnel to ensure that only eligible patients are charged to the Ryan White grant. Periodic audits will be conducted by the Compliance Department.

Current Status:

The Company provided training to the case management and financial personnel; however, it is still in the process of implementing compliance monitoring of Ryan White Grant.

Finding 2013-3

Condition:

The Company is not following the controls it has in place to properly ensure that Ryan White A sliding scale fee discounts provided to patients are determined in accordance with federal poverty levels. Patients were (1) given sliding scale fee discounts when they did not qualify based on income level, (2) given sliding scale fee discounts when their eligibility could not be properly determined due to lack of completion of pertinent information on sliding scale fee applications, or (3) charged the incorrect level of sliding scale discount based upon income level.

Recommendation:

It was recommended 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. It was also recommended that management implement a monitoring process over the timeliness of patient income verification.

Auditee Response and Corrective Action Plan:

Greater Baden will review and revise its sliding fee policy. It will also change work flow processes at check in, and designate a specially trained person to review financial information, as well as eligibility for benefits, with each uninsured patient. Periodic audits will be conducted by designated staff.

Current Status:

The Company updated its sliding fee scale policies; however, it is still in the process of implementing compliance monitoring of sliding fee applications for completeness and accuracy.