Total Health Care, Inc.

Financial Report
(In Accordance With OMB Circular A-133)
June 30, 2014

Contents

McGladrey

Independent Auditor's Report

To the Board of Directors
Total Health Care, Inc.
Baltimore, Maryland

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Total Health Care, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is also 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 not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 2, 2015 and March 14, 2014, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

McGladrey LLP

Baltimore, Maryland
March 2, 2015

Total Health Care, Inc.

Balance Sheets
June 30, 2014 and 2013

Assets	**2014**	2013
Current Assets		
Cash and cash equivalents	**$ 3,236,810**	$ 2,635,721
Accounts receivable, net	**3,771,631**	1,949,433
Grants receivable	**1,449,544**	847,206
Dividends receivable	**275,425**	95,425
Investments	**12,761,372**	14,651,022
Inventory	**300,995**	341,445
Prepaid expenses	**196,024**	205,493
Current assets	**21,991,801**	20,725,745
Property and Equipment		
Land	**782,000**	782,000
Building and improvements	**12,397,380**	12,182,970
Furniture and equipment	**4,370,952**	3,991,335
Computer software	**921,113**	500,696
Leasehold improvements	**1,268,537**	1,256,184
Construction in progress	**10,720**	6,660
	19,750,702	18,719,845
Less accumulated depreciation	**(14,363,441)**	(13,201,276)
Property and equipment, net	**5,387,261**	5,518,569
Other Assets		
Restricted cash	**187,997**	178,482
Deposits and other assets	**38,195**	40,990
Investment in equity securities carried at cost	**3,000,000**	3,000,000
Total other assets	**3,226,192**	3,219,472
Total assets	**$ 30,605,254**	$ 29,463,786

See Notes to Financial Statements.

Liabilities and Net Assets		2014		2013
Liabilities				
Accounts payable and accrued expenses	$	**1,827,886**	$	1,795,343
Accrued payroll and related liabilities		**1,434,258**		1,343,086
Deferred revenue		**137,416**		51,453
Deferred lease incentive income		**16,105**		20,133
Deferred rent		**207,449**		204,253
Total liabilities		**3,623,114**		3,414,268
Commitments and Contingencies				
Net Assets				
Unrestricted				
Undesignated		**24,706,197**		23,773,575
Board designated		**2,275,943**		2,275,943
Total net assets		**26,982,140**		26,049,518
Total liabilities and net assets	**$**	**30,605,254**	$	29,463,786

Total Health Care, Inc.

Statements of Operations and Changes in Net Assets
Years Ended June 30, 2014 and 2013

	2014	2013
Revenue and Support		
Patient service revenue		
Fees for service	**$ 26,214,936**	$ 25,749,427
Pharmacy	**10,459,744**	9,959,742
Less provision for uncollectible accounts	**(1,594,277)**	(1,170,388)
Net patient service revenue	**35,080,403**	34,538,781
Grants/contracts from governmental agencies and contributions	**5,772,747**	5,054,234
Total revenue and support	**40,853,150**	39,593,015
Expenses		
Salaries and wages	**20,144,266**	20,027,705
Pharmaceuticals	**6,525,674**	6,609,526
Fringe benefits	**3,739,242**	3,579,873
Consultants and contractual fees	**3,031,646**	2,008,903
Occupancy and utilities	**1,807,870**	1,746,136
Licenses and fees	**1,373,882**	843,200
Depreciation and amortization	**1,242,312**	1,328,320
Miscellaneous	**887,974**	831,811
Consumable supplies	**731,348**	699,377
Professional fees	**331,911**	202,111
Telephone	**300,426**	267,718
Repairs and maintenance	**296,720**	300,649
Insurance	**267,053**	257,089
Travel, conferences and meetings	**260,389**	331,924
Advertising and public relations	**248,418**	230,628
Printing, postage and publications	**97,084**	142,409
Information technology	**93,944**	99,994
Total expenses	**41,380,159**	39,507,373
(Deficiency) excess of revenue and support over expenses	**(527,009)**	85,642
Nonoperating Income		
Rental income	**-**	25,988
Investment income	**1,321,072**	820,173
Other income	**138,559**	104,573
Total nonoperating income	**1,459,631**	950,734
Change in net assets	**932,622**	1,036,376
Net Assets		
Beginning of year	**26,049,518**	25,013,142
End of year	**$ 26,982,140**	$ 26,049,518

See Notes to Financial Statements.

Total Health Care, Inc.

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

		2014		2013
Cash Flows From Operating Activities				
Change in net assets	**$**	**932,622**	$	1,036,376
Adjustments to reconcile change in net assets				
to net cash (used in) provided by operating activities:				
Depreciation and amortization		**1,242,312**		1,328,320
Amortization of deferred lease incentive		**(4,028)**		(4,027)
Provision for bad debts		**1,594,277**		1,170,388
Net realized and unrealized gains on investments		**(461,946)**		(381,720)
Loss on disposal of fixed assets		**81,039**		4,800
Change in restricted cash		**(9,515)**		(6,996)
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable		**(3,416,475)**		(1,808,644)
Grants receivable		**(602,338)**		(82,822)
Dividends receivable		**(180,000)**		(95,425)
Inventory		**40,450**		110,321
Prepaid expenses		**9,469**		120,630
Increase (decrease) in:				
Accounts payable and accrued expenses		**32,543**		154,219
Accrued payroll and related liabilities		**91,172**		69,943
Deferred revenue		**85,963**		(150,194)
Deferred rent		**3,196**		32,114
Net cash (used in) provided by operating activities		**(561,259)**		1,497,283
Cash Flows From Investing Activities				
Purchase of investment in equity securities		**(6,666,258)**		(6,163,548)
Proceeds from sale of investments		**9,017,854**		2,908,604
Change in deposits and other assets		**2,795**		4,524
Acquisition of property and equipment		**(1,192,043)**		(615,849)
Net cash provided by (used in) investing activities		**1,162,348**		(3,866,269)
Net increase (decrease) in cash and cash equivalents		**601,089**		(2,368,986)
Cash and Cash Equivalents				
Beginning of year		**2,635,721**		5,004,707
End of year	**$**	**3,236,810**	$	2,635,721

See Notes to Financial Statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities: Total Health Care, Inc. (the Center) has been recognized by the Internal Revenue Service (IRS) as a tax-exempt organization, as defined by §501(c)(3) of the Internal Revenue Code (IRC), that is publicly supported and, therefore, is not a private foundation. The Center was incorporated under the laws of Maryland on May 16, 1971.

The Center provides high-quality primary care and related services for medically underserved persons, and promotes access to health services in the greater Baltimore area. The Center operates seven health centers located in Baltimore.

A summary of the Center's significant accounting policies follows:

Basis of Accounting: The Center prepares its financial statements on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Basis of Presentation: The Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets: Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets are composed of the following:

- Operating – Represents resources available for support of operations.
- Board Designated – Represents all other unrestricted net assets, designated for purposes defined by the Board of Directors.

Temporarily restricted net assets: Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Center pursuant to these stipulations. Net assets may be temporarily restricted for various purposes, such as use in future periods or use for specified purposes. At June 30, 2014 and 2013, the Center did not have any temporarily restricted net assets.

Permanently restricted net assets: Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Center's actions. At June 30, 2014 and 2013, the Center did not have any permanently restricted net assets.

Revenue Recognition and Deferred Revenue: Approximately 14% and 13% of the Center's total revenue and support for the years ended June 30, 2014 and 2013, respectively, was derived from conditional grants and contracts from governmental agencies, which are recognized as revenue in proportion to the related expenses incurred. All other revenue, including patient fees, managed care capitation payments, and investment income, is recognized as revenue when earned.

Any conditional grants or contract proceeds in excess of the related expenses incurred are classified as deferred revenue in the balance sheets.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Patient Service Revenue: Revenue for service fees is recognized when the service is provided to clients who have third-party payor coverage on the basis of contractual rates for the services provided. The Center has arrangements with certain third-party payors that provide for payments to the Center at amounts different than its established rates. For uninsured clients that do not qualify for charity care, the Center recognizes revenue on the basis of its predetermined fee schedules or on the basis of discount rates, if negotiated or provided by policy. Service fees are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. The Center provides care to certain patients under Medicaid payment arrangements. Laws and regulations governing the Medicaid program are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. Self-pay revenue is recorded as published charges with charitable allowances based on a sliding-fee scale deducted to arrive at net self-pay revenue.

Pharmacy medication sales are recorded when dispensed, along with the associated cost of those medications.

On the basis of historical experience, a significant portion of the Center's uninsured patients will be unable or unwilling to pay for services provided. Thus, the Center records a significant provision for bad debt related to uninsured patients in the period the services are provided. Patient service revenue excluding pharmacy revenue, net of contractual allowance and discounts (but before provisions for bad debts) recognized in the period from these major payor service is as follows for the years ended June 30, 2014 and 2013:

	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)			
June 30, 2014	**$ 25,882,727**	**$ 332,209**	**$ 26,214,936**
June 30, 2013	25,173,423	576,004	25,749,427

Cash and Cash Equivalents: The Center considers all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents. Periodically, during the year, the cash balances may have exceeded the federally insured limits. The Center has not experienced any losses in such accounts and management believes it is not exposed to significant risk on cash and cash equivalents.

Inventory: Inventory, consisting primarily of prescription drugs, is stated at the lower of cost or market using the first in, first-out (FIFO) method.

Property and Equipment: Property and equipment are carried at cost, if purchased, or at the approximate fair value at the date of donation, if donated. The Center capitalizes all items over $1,000 that have a useful life of at least one year. Depreciation is computed on a straight-line basis over the useful lives of the related assets as follows:

Building and improvements	5 – 30 years
Furniture and equipment	3 – 15 years
Computer software	3 years
Leasehold improvements	5 – 15 years

Depreciation expense for the years ended June 30, 2014 and 2013, was $1,242,312 and $1,328,320, respectively.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Valuation of Long-Lived Assets: The Center accounts for the valuation of long-lived assets under Accounting Standards Codification (ASC) 360-10, *Impairment or Disposal of Long-Lived Assets (ASC 360-10).* ASC 360-10 requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Receivables and Allowance for Doubtful Accounts: Accounts receivable arise from services rendered to patients, which are billed either to the patients, insurance companies or to governmental agencies. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for 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 Center 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 includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Center records a 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 if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. The Center records recoveries of receivables previously written off when received.

The Center’s allowance for doubtful accounts for self-pay patients decreased from $53,510 and 49% of self-pay accounts receivable at June 30, 2013, to $19,765 and 7% of self-pay accounts receivable at June 30, 2014. The decrease was the result of analysis performed by management during fiscal year 2014 surrounding outstanding self-pay patient balances in order to write-off uncollectible self-pay accounts earlier in the collections process. The Center has not changed its charity care or uninsured discount policies during fiscal years 2013 or 2014. The Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

At June 30, 2014 and 2013, the Center has established an estimate for doubtful receivables of $1,663,973 and $947,793, respectively, based on management’s evaluation of the collectability of receivables.

Investments in Marketable Securities: Investments with a readily determinable fair market value are reported at fair market value in the balance sheets. Investments, whose fair market values are not readily determinable, are recorded at cost. Gains and losses on investments are reported in the statements of operations and changes in net assets as part of investment income (see Note 2).

The Center invests in a professionally managed portfolio that contains mutual funds, money market funds, debt securities, certificates of deposit, and government and government agency obligations. Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Investment in Closely-Held Corporation: In December 2012, the Center made a $3,000,000 investment in Riverside Health, Inc. (Riverside). This investment has been recorded at cost, since the Center owns less than 20% of Riverside. The aggregate cost of the Center's cost method investments totaled $3,000,000 at June 30, 2014 and 2013. The Center has made no commitments for future investments as of June 30, 2014 and 2013.

Other-Than-Temporary Declines in Fair Value of Investment in Closely-Held Corporation: The investment in closely-held organization is measured at fair value on a non-recurring basis for purposes of indicating and measuring impairment. The fair values of this investment have been estimated by management in the absence of readily determinable fair values. Management's estimate is based on significant unobservable inputs (Level 3) in the form of information provided by the corporation including financial statements, corporation status reports and direct discussions with the corporation's management team and Board of Directors. A decline in the fair value of any investment below cost that is deemed to be other-than-temporary results in a reduction in the carrying amount of the investment to fair value. The reduction in the carrying amount is charged to income and a new cost basis for the investment is established. The Company analyzes its investment in closely held corporations when the fair value is below cost to determine if the decline is other-than-temporary. As of June 30, 2014 and 2013, there was no indication that the fair value of the closely-held corporation was below cost. As, such no other-than-temporary impairment analysis was deemed necessary by the Center.

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

Recognition of Donor 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. Upon the expiration of a restriction, temporarily restricted net assets are reclassified to unrestricted net assets on the statements of operations and changes in net assets.

Deferred Rent: Rents on operating leases are charged to operations on a straight-line basis over the term of the related leases.

Advertising: Advertising costs are charged to operations when incurred. The Center had no significant direct-response advertising. Advertising expense for the years ended June 30, 2014 and 2013, was $239,983 and $230,628, respectively.

Use of Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes: The Center is exempt from federal income taxes under IRC §501(c)(3). Accordingly, no provision for income taxes is reflected in these financial statements. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. The Center had no unrelated business income for the years ended June 30, 2014 and 2013.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The Center has adopted accounting guidance regarding the accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this policy, the Center may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position would be sustained on examination by taxing authorities, based on the technical merits of the position. Management has evaluated the Center's tax positions and has concluded that the Center has taken no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this guidance.

As of June 30, 2014 and 2013, there are no material unrecognized/derecognized tax benefits or tax penalties or interest. Generally, the Center is no longer subject to U.S. federal, state or local tax examinations by tax authorities for years ended before June 30, 2011.

Charity Care: The Center is a Federally Qualified Health Center (FQHC), which is a type of provider defined by Section 330 of the Public Health Services Act. The Center provides care to patients utilizing a sliding-fee scale with discounts based on patient family size and income in accordance with federal poverty guidelines. The Center is open to all, regardless of their ability to pay. The amount not recovered under the sliding-fee scale is not reported as revenue as it is not expected to be paid. The Center maintains records to identify and monitor the level of charity care it provides.

In August 2010, the FASB issued ASU 2010-23, *Measuring Charity Care for Disclosure*, which prescribes that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing charity care. The amount of charity care provided during the years ended June 30, 2014 and 2013, was $2,685,336 and $3,530,920, respectively, and was estimated by allocating total expenses incurred by the Center to the gross revenue earned serving patients under the sliding-fee scale.

Results of Operations: The statements of operations and changes in net assets include the excess of revenue over expenses that represent the results of operations. Changes in unrestricted net assets which are excluded from excess of revenue over expenses, consistent with industry practice, includes contributions of long-lived assets (including contributed assets which by donor restriction are to be used for the purpose of acquiring such assets).

Subsequent Events: The Center evaluated subsequent events through March 2, 2015, which is the date the financial statements were available to be issued.

Note 2. Investments

Investments at June 30, 2014 and 2013, consisted of the following:

	2014		2013	
	Fair Value	**Cost**	Fair Value	Cost
Mutual funds	**$ 8,348,459**	**$ 7,163,493**	$ 6,991,230	$ 6,229,019
Corporate debt securities	**2,845,162**	**2,880,299**	3,733,319	3,777,471
U.S. Government and agency obligations	**1,237,852**	**1,235,876**	1,915,207	1,924,483
Foreign bonds	**252,625**	**258,898**	1,268,553	1,294,747
Cash and money market funds	**77,274**	**77,274**	641,890	641,890
Other fixed income securities	**-**	**-**	100,823	99,826
	$ 12,761,372	**$ 11,615,840**	$ 14,651,022	$ 13,967,436

Investment income was composed of the following for the years ended June 30, 2014 and 2013:

	2014	2013
Dividends and interest	**$ 935,105**	$ 494,649
Net realized and unrealized gains	**461,946**	381,720
Investment expenses	**(75,979)**	(56,196)
	$ 1,321,072	$ 820,173

Note 3. Investment in Closely-Held Corporation

On December 20, 2012, the Center made a $3,000,000 investment in Riverside. The Center accounts for this investment under the cost method. Riverside is a start-up public sector managed healthcare company based in Baltimore, Maryland. Riverside launched its first Medicaid Managed Care Organization (MCO) in the state of Maryland in February 2013 and plans to expand regionally over the next three years.

The Center owns 2,000,000 Series B Preferred Stock shares of Riverside with a purchase price of $1.50 per share. The shares are initially convertible, at the investors' option, on a 1:1 basis into shares of the Common Stock and subject to adjustment as outlined in the amended and restated articles of incorporation. The shares shall be automatically converted into Common Stock upon the prior written consent of a Series B Majority Interest, or the closing of an Initial Public Offering (IPO). These shares rank senior to Riverside's Common Stock with respect to dividends, liquidation, dissolution and redemption.

The holders of the Series B Preferred are entitled to receive cumulative dividends, in preference to any dividend on the Common Stock, at a rate of 6% of the original purchase price per year, payable in cash when and as declared by the Board of Directors. In the event of a conversion of Series B Preferred into Common Stock, other than with an IPO, accrued dividends that have been declared will be payable in cash to the Series B Preferred shareholders. The Center had a dividend receivable of $275,425 and $95,425 as of June 30, 2014 and 2013, respectively.

In the event of any liquidation, dissolution or winding up of Riverside, the holders of the Series B Preferred shall be entitled to receive, in preference to the holders of the Common Stock, a per share amount equal to the Original Purchase Price plus any accrued but unpaid dividends. The Series B Preferred has a senior liquidation preference with participation rights capped at two and one quarter times the initial investment.

Note 4. Commitments and Contingencies

Malpractice Risk: The Center is deemed an employee of the federal government for the purposes of malpractice protection and is thus covered under the Federal Tort Claims Act (FTCA). The FTCA provides malpractice coverage to eligible Public Health Service supported programs and applies to the Center and its employees while providing services within the scope of employment included under grant-related activities. The Attorney General, through the U.S. Department of Justice, has the responsibility for the defense of the individual and/or grantee for malpractices cases approved for FTCA coverage.

Regulatory Investigation: The U.S. Department of Justice and other federal agencies routinely conduct regulatory investigations and other compliance audits of healthcare providers. The Center is subject to these regulatory efforts. Management is currently unaware of any regulatory matters which may have a material effect on the Center's financial position or results of operations.

The Center's costs are subject to audit by the U.S. Department of Health and Human Services (DHHS), or their representatives. Management is of the opinion that disallowed costs, if any, will not be significant.

Operating Leases, Office and Clinic Space: The Center leases seven clinics at various locations. The lease agreements expire between August 2017 and October 2020.

The aggregate basic annual lease payments of the current long-term leases over the next five years and thereafter are as follows:

Year Ending June 30,	
2015	$ 721,791
2016	630,876
2017	559,800
2018	488,903
2019	102,029
Thereafter	362,350
	$ 2,865,749

Rent expense under these operating leases was $858,074 and $808,008 for the years ended June 30, 2014 and 2013, respectively.

Rental Income: The Center subleases a portion of one of its leased clinic locations to a hospital for its specialist physicians. For the year ended June 30, 2013, the Center generated rental income from this sublease in the amount of $25,988, which has been included in rental income in the statements of operations and changes in net assets. The sublease agreement ended during 2013, and as such, there was no rental income for the year ended June 30, 2014.

Unemployment Compensation Plan: The Center has elected to maintain a self-funded unemployment compensation plan, whereby it will pay qualified claims directly in lieu of submitting quarterly unemployment taxes to the state of Maryland (the State). In order to be eligible for self-funding, the State requires collateral to be held in the event that the Center would fail to pay claims. As of June 30, 2014 and 2013, the State required collateral of $187,739 and $177,737, respectively, which was in the form of a letter of credit. Unemployment claims paid were $195,795 and $167,765 for the years ended June 30, 2014 and 2013, respectively.

Letter of Credit: The Center has a letter of credit with Wells Fargo in the amount of $187,739 and $177,737 at June 30, 2014 and 2013, respectively, for the purpose of collateralizing the Center for any unpaid unemployment claims under the Center's self-funded unemployment compensation plan. This letter of credit was unused as of June 30, 2014 and 2013, and is secured by a restricted cash account.

Note 4. Commitments and Contingencies (Continued)

Line of Credit: The Center has an unsecured line of credit with a bank in the amount of $1,000,000, which bears interest at the bank's prime rate plus 0.3% (3.25% at June 30, 2014). As of June 30, 2014 and 2013, there were no outstanding borrowings against the line of credit. The line of credit has various covenants that the Center is required to maintain.

Pension Plan: The Center sponsors an annuity plan under IRC §403(b) for all of its eligible employees who are at least 21 years of age and have completed at least 1,000 hours of service as defined in the agreement. Under the terms of the plan, any eligible participant may contribute pre-tax dollars toward the purchase of the annuity. In turn, the employees are eligible to receive matching contributions of 25% of their contributions up to a maximum of 6% of compensation from the Center. In addition, the Center may make discretionary contributions to the Plan.

The Center's contribution to the plan was $73,060 and $70,673 for the years ended June 30, 2014 and 2013, respectively.

The Center was late in filing Forms 5500 with the Internal Revenue Service (IRS) for the years from 2008 through 2011. Due to the late filings, the Center paid approximately $20,000 in fines subsequent to the year ended June 30, 2013. As of June 30, 2013, all Forms 5500 currently due have been filed with the IRS.

Penalty for Debarred Employee: In July 2013, the Center learned that it employed an individual who was excluded from participation in a federal healthcare program, in violation of federal law, 42 U.S.C. §1320a-7(a)(6). Since the date the individual first became employed by the Center, it is estimated that the Center paid this individual approximately $200,000 in salary and benefits. The Center terminated the individual's employment and voluntarily disclosed the violation to federal and state governmental authorities. It is expected that the Center will need to refund the amount of the salary and benefits to the government, and it is probable that the government may assess a penalty of double damages. It is possible that the government may assess treble damages. As such, the Center has recorded accrued expenses for the $200,000 refund of salaries and benefits as well as an additional $200,000 to accrue for the double damages that are probable as of June 30, 2014. No penalties have been imposed as of June 30, 2014.

Billing Service Provider Agreement: The Center entered into a service agreement with a new billing and collections software service provider. The Center began utilizing the new provider effective November 2013. The agreement has a term of one year from the effective date and will be automatically extended for additional consecutive one year terms unless either party notifies the other party no less than 90 days prior to the agreement that the agreement is being terminated. Under the agreement, the Center is required to pay a minimum monthly service fee of $63,423. Total service fees are calculated based on 6.09% of collections plus $1 per closed-loop order and are capped at a maximum of 7.01% of collections. Service fees incurred for the year ended June 30, 2014 were $725,299.

Employment Agreement: The Center has an employment agreement with its Chief Executive Officer which expires on July 1, 2015.

Note 5. Board Designated Net Assets

The Center's Board of Directors has designated $2,275,943 of the Center's unrestricted net assets as of June 30, 2014 and 2013, to be set aside for future capital projects.

Note 6. Certain Significant Risks and Uncertainties

The Center receives revenue from Medicaid, private insurance, private patients, and other third-party payors. The healthcare industry is experiencing the effects of the federal and state governments' trend toward cost containment, as government and other third-party payors seek to impose lower reimbursement and utilization rates and negotiate reduced payment schedules with providers.

It is not possible to fully quantify the effect of recent legislation, the interpretation or administration of such legislation, or any other government initiatives on the Center's business. Accordingly, there can be no assurance that any future healthcare legislation will not adversely affect the Center's business. There can be no assurance that payments under government and private third-party payor programs will be timely, will remain at levels comparable to present levels, or will, in the future, be sufficient to cover the costs allocable to patients eligible for reimbursement pursuant to such programs. The Center's financial position and change in net assets may be effected by the reimbursement process, which in the Center's industry is complex and can involve lengthy delays between the time that revenue is recognized and the time that reimbursement amounts are settled.

Note 7. Deferred Lease Incentive Income

During July 2008, the Center entered into an operating lease for its office space. As part of the incentive for the amendment, the landlord agreed to pay the costs for leasehold improvements. The total cost paid by the landlord was $40,265. These costs were capitalized by the Center, are included in total property and equipment, and are being depreciated over the lease term (ten years). The Center also recorded these capitalized costs as deferred income and is amortizing this amount as an offset to rent expense over the lease-term (ten years). Total accumulated depreciation on the leasehold improvements as of June 30, 2014 and 2013, was $24,160 and $20,132, respectively.

Note 8. Concentrations of Credit Risk

The Center grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors at June 30, 2014 and 2013, was as follows:

	2014	2013
Medicaid	**82%**	77%
Other third-party payors	**7%**	7%
Medicare	**5%**	12%
Self-pay	**6%**	4%
	100%	100%

For the years ended June 30, 2014 and 2013, net patient revenue from services provided was comprised of the following payor types:

	2014	2013
Medicaid	**91%**	88%
Other third-party payors	**3%**	4%
Medicare	**4%**	5%
Self-pay	**2%**	3%
	100%	100%

Note 9. Fair Value Measurements

Valuation of Investments: The fair value of each investment is determined at the balance sheet date. Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. Fair value is based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the Center utilizes a fair value hierarchy that prioritizes the information used to develop those assumptions. Fair value measurements are separately disclosed by level within the fair value hierarchy.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 include listed equities and listed derivatives. The Center does not adjust the quoted price for these investments, even in situations where the Center may hold a large position and a sale could reasonably impact the quoted price.

Securities that are listed on the United States securities exchange are valued at their last sales price on the largest United States securities exchange on which such securities have traded.

Securities that are listed on an international exchange are valued at the last sales price from the largest exchange within the individual security's country of jurisdiction.

Level 2 Pricing inputs are other than quoted prices in active markets of comparable instruments, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives.

Level 3 Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies. The Center has no Level 3 financial instruments as of June 30, 2014 and 2013.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Center's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

Note 9. Fair Value Measurements (Continued)

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy.

	June 30, 2014			
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Mutual funds				
Bond	**$ 3,040,383**	**$ 3,040,383**	**$ -**	**$ -**
Growth	**2,405,103**	**2,405,103**	**-**	**-**
Global	**575,581**	**575,581**	**-**	**-**
Commodities	**664,152**	**664,152**	**-**	**-**
Focus	**1,326,234**	**1,326,234**	**-**	**-**
Value	**337,006**	**337,006**	**-**	**-**
Corporate debt securities	**2,845,162**	**-**	**2,845,162**	**-**
U.S. Government and agency obligations	**1,096,053**	**-**	**1,096,053**	**-**
Foreign bonds	**252,625**	**-**	**252,625**	**-**
Agency debt securities	**141,799**	**-**	**141,799**	**-**
	$ 12,684,098	**$ 8,348,459**	**$ 4,335,639**	**$ -**

	June 30, 2013			
Description	Total	Level 1	Level 2	Level 3
Mutual funds				
Bond	$ 1,071,378	$ 1,071,378	$ -	$ -
Appreciation and income	1,907,910	1,907,910	-	-
Growth	891,620	891,620	-	-
Floating rate	772,835	772,835	-	-
Global	488,035	488,035	-	-
Alternatives	339,443	339,443	-	-
Commodities	498,725	498,725	-	-
Focus	743,579	743,579	-	-
Value	277,705	277,705	-	-
Corporate debt securities	3,733,319	-	3,733,319	-
U.S. Government and agency obligations	1,714,942	-	1,714,942	-
Foreign bonds	1,268,553	-	1,268,553	-
Agency debt securities	200,265	-	200,265	-
Other fixed income securities	100,823	-	100,823	-
	$ 14,009,132	$ 6,991,230	$ 7,017,902	$ -

Cash, money market funds and certificates of deposit are excluded from the fair value hierarchy as those items are generally measured at cost. As such, $77,274 and $641,890 of cash, money market funds and certificates of deposit held in the Center’s investment portfolio at June 30, 2014 and 2013, respectively, have been excluded from these tables.

Realized gains and losses on the sale of investments are recognized in the statements of operations and changes in net assets as the difference between gross proceeds and the cost basis of securities sold. The cost basis of mutual funds is calculated on an average cost method. The cost basis of other equity instruments sold is calculated based on the specific identification method.

Note 10. Functional Expenses

Expenses were incurred and allocated as follows for the years ended June 30, 2014 and 2013:

	2014	2013
Program services	**$ 32,247,943**	$ 32,161,961
Supporting services – management and general	**9,132,216**	7,345,412
	$ 41,380,159	$ 39,507,373

Note 11. Subsequent Events

On January 1, 2015, the Center entered into a lease agreement with Mercy Medical Center, Inc. (Mercy) for use of a building in Baltimore, Maryland at a rate of $1 per year over a 20-year term. The lease has two 5-year renewal options. The excess of the fair value of the building space provided by Mercy to the Center through the lease agreement over the $1 annual rental fee will be accounted for by the Center in accordance with FASB authoritative guidance on in-kind contributions. In addition, there are four active leases that Mercy assigned to the Center in conjunction with the commencement of the lease agreement. Subsequent to the January 1, 2015, the Center will have rights to all rental fees from the assigned leases and will recognize these fees as rental income on the Center's statements of operations and changes in net assets.

McGladrey

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

To the Board of Directors
Total Health Care, Inc.
Baltimore, Maryland

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Total Health Care, Inc. (the Center), a not-for-profit organization, which comprise the balance sheet as of June 30, 2014, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated March 2, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule and findings and questioned costs as Finding 2014-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2014-002 to be a significant deficiency.

Compliance and Other Matters

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

The Center's Responses to Findings

The Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Center's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

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

McGladrey LLP

Baltimore, Maryland
March 2, 2015

McGladrey

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

To the Board of Directors
Total Health Care, Inc.
Baltimore, Maryland

Report on Compliance for Each Major Federal Program

We have audited Total Health Care, Inc.'s (the Center) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2014. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2014-005 and 2014-006. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 Center's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Findings 2014-003 and 2014-004 that we consider to be significant deficiencies.

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.

McGladrey LLP

Baltimore, Maryland
March 2, 2015

Total Health Care, Inc.

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

EIN: 23-7267007

Federal Grantor/ Pass-Through Grantor Program Title	Pass Through/ Identifying Number	Federal CFDA Number	Federal Disbursements/ Expenditures Allowable
U.S. Department of Health and Human Services			
Consolidated Health Centers	N/A	93.224	$ 2,161,388
Affordable Care Act (ACA) Grant for New and Expanded Services'		93.527	211,010
Health Centers Cluster			2,372,398
Ryan White C – Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease	N/A	93.918	512,844
U.S. Department Of Health And Human Services			
Passed-through Baltimore City Health Department			
Ryan White Title B – HIV Care Formula Grants	035508/035507/035506	93.917	364,943
Passed-through Baltimore City Health Department			
Passed-through Associated Black Charities, Inc.			
Ryan White Title A – HIV Emergency Relief Project Grants	13-2463/12-2463	93.914	788,949
Total Federal Awards			$ 4,039,134

See Note to Schedule of Expenditures of Federal Awards.

Total Health Care, Inc.

Note to Schedule of Expenditures of Federal Awards

Note A. Significant Accounting Policies

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

Total Health Care, Inc.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
· Material weaknesses identified?	X Yes ___ No
· Significant deficiency(ies) identified that are not considered to be material weaknesses?	X Yes ___ None Reported
Noncompliance material to financial statements noted?	___ Yes X No

Federal Awards:

Internal control over major programs:	
· Material weaknesses identified?	___ Yes X No
· Significant deficiency(ies) identified that are not considered to be material weaknesses?	X Yes ___ None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
· Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	X Yes ___ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.224/93.527	Health Centers Cluster
93.914	Ryan White Title A – HIV Emergency Relief Project Grants
93.917	Ryan White Title B – HIV Care Formula Grants

Dollar threshold used to distinguish between Type A and Type B programs	$300,000
Auditee qualified as low risk auditee?	___ Yes X No

(Continued)

Section II – Financial Statement Findings

A: Significant Deficiencies or Material Weaknesses in Internal Control

2014-001 Financial Reporting, Journal Entries, Timeliness of Reconciliations, Month and Year-End Closing Processes and Procedures, and Lack of Supervisory Review (Material Weakness)

Criteria: The internal controls around the year-end financial reporting, journal entry and close processes should provide written procedures that are followed in order to allow for timely preparation of major schedules and accurate reconciliations that have been subjected to formal review procedures as of and for the year ended June 30, 2014.

Condition: Many of the year-end reconciliations and corresponding journal entries, including but not limited to grants receivable, fixed assets, patient receivables and revenue had not been finalized or reviewed during the course of initial audit fieldwork. Additionally, several of the reconciliations noted did not agree to the general ledger accounts. As such, errors were identified and reconciliations required rework by the Center. Corrected reconciliations for the accounts with errors were not completed until approximately six months after the Center's year-end. Also, there was no evidence written policies and procedures regarding the year-end financial reporting and closing process were being followed and no evidence that a formalized management review process taking place.

Effect: The lack of journal entry review was a contributing factor to the inaccurate reconciliations prepared by management. Erroneous journal entries were noted during the course of the year including duplicate entries that were made to revenue. As such, adjustments of approximately $252,000 were required to reverse duplicate entries made to grant revenue and other adjustments of approximately $79,000 were required in order to correct other grants receivable and revenue reconciliations. Audit adjustments with an impact on the statements of operations and changes in net assets of approximately $167,000 and with an impact on the balance sheet of $491,000 were required in order to properly reconcile fixed assets to agree with the fixed asset management system, to record disposal of assets improperly left on the general ledger, and to properly adjust depreciation expense. Due to issues with the capabilities and configuration of the newly implemented billing system, millions of dollars in balance sheet adjustments were recorded by management late in the financial close process in order to manually apply cash receipts to proper patient, dental and pharmacy receivable balances, as well as to make corresponding adjustments to related contractual allowances and bad debt reserves.

Lack of formalized and documented financial reporting and closing process procedures that are being followed creates risks such as inaccurate reconciliations, inaccurate financial reporting and could cause findings regarding timely external reporting requirements such as the data collection form required to be submitted to the Federal Audit Clearinghouse on an annual basis.

Cause: The Center does not follow formalized policies and procedures regarding the financial reporting and close process including policies addressing preparation and review of reconciliations in order to ensure that all reconciliations are prepared timely and accurately.

Recommendation: We recommend that management enhances and follows the Center's formalized year-end close procedures and assignment of responsibilities in the Finance Department to ensure all reconciliations are prepared accurately and reviewed in a timely manner. Lastly, we recommend that any formal reviews require support for authorized review such as initials of reviewer.

Corrective action planned or taken and responsible official: Written month-end close procedures will be updated for appropriate timing and review of all processes. All balance sheet accounts are to be reconciled on a monthly schedule according to a published closing schedule. All reconciliations and journal entries will be approved and signed off on a monthly basis by the CFO. Further, a quarterly grant rollforward will be prepared to ensure appropriate timing of grant revenue. The Center will hire a full time accountant to post all cash activity on a daily basis.

2014-002 Payroll Cycle and Personnel Files (Significant Deficiency)

Criteria: Internal controls surrounding the payroll transaction cycle should provide for proper authorization and approval of employee payroll expenses. To ensure all payroll expenses are recorded properly, each employee should have an approved payroll rate recorded in their file and each employee should have their timecards approved by their appropriate supervisor. Additionally, controls should be in place to ensure that personnel files include support for personnel history including supporting new hire documentation, pay rate change documentation and any documentation regarding termination or severance arrangements.

Per Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations*, Paragraph 8m, charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in Subparagraph 2, except when a substitute system has been approved in writing by the cognizant agency. Subparagraph 2 states that reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate. Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards:

(a) The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.

(b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.

(c) The reports must be signed by the individual employee, or by a responsible supervisory official having firsthand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

(d) The reports must be prepared at least monthly and must coincide with one or more pay periods.

Condition: From the sample of 60 payroll transactions selected for testing, we noted 3 employee timesheets were not properly authorized by the employee's supervisor (2 of which were deemed to be compliance findings). Two employee personnel files that were tested were incomplete as they were missing a combination of employment applications, offer letters, employee evaluations and employment agreements. Additionally, for five employees tested, their pay rates per the payroll report did not agree with support for the respective employee's latest authorized salary. For three employees that left the Center during fiscal year 2014, their severance agreements were unable to be located and provided.

Effect: As a result of the missing documentation in the payroll files, $8,325 of known questioned costs were identified in the payroll sample related to the Ryan White A grant, which projects to the population as a magnitude of $68,928 in potential questioned payroll costs.

In addition, not having formalized and documented payroll process procedures that are being followed creates risks such as inaccurate reconciliations, inaccurate timesheets, unauthorized payroll transactions, inaccurate financial reporting and additional compliance findings. Incomplete personnel files may also lead to inappropriate authorizations, unauthorized payroll transactions and could have the potential for legal and financial ramifications in the event of a dispute over an employment agreement.

Cause: The Center does not have a proper system in place to ensure all timesheets are properly reviewed and approved by supervisors. In addition, the Center does not always maintain approved pay rate documentation for each employee to validate an employee's salary. The Center does not have a proper policies and procedures in place to ensure that all employee personnel files are complete and include necessary support such as authorized adjustments to salaries and wages, signed employment agreements and severance agreements.

Recommendation: We recommend that management implement documentation policies requiring each employee's personnel record contains the employee's new hire agreement, most recent pay rate adjustments, termination and severance agreements as well as any other pertinent human resources documents. We also recommend that each supervisor approve their subordinates' timecards and that in order for payroll to be processed, each supervisor must submit approved timesheets.

Corrective action planned or taken and responsible official: All personnel files are to be reviewed for proper documentation of current rates of pay and all other required documents such as: employment application, offer letter, evaluations, etc. For each pay period, a listing of all employee's missing supervisor approvals will be prepared by the Payroll Staff and approved by Director of Finance. A manual file will be maintained to support if exceptions are made and employees are paid.

B: Compliance Findings

None noted.

Section III – Findings and Questioned Costs for Federal Awards

A: Significant Deficiencies or Material Weaknesses in Internal Control

2014-003 Allowable Cost Requirements – U.S. Department of Health and Human Services, CFDA #93.914 – HIV Emergency Relief Project Grants (Ryan White HIV/AIDS Program Part A) & U.S. Department of Health and Human Services, CFDA #93.224 – Consolidated Health Centers (Significant Deficiency)

See Finding at 2014-002

2014-004 Program Income Requirements – U.S. Department of Health and Human Services, CFDA #93.224 – Consolidated Health Centers (Significant Deficiency)

Criteria: Health centers must have a schedule of fees or payments for the provision of their health services consistent with locally prevailing rates or charges and designed to cover their reasonable costs of operation. They are also required to have a corresponding schedule of discounts applied and adjusted based on the patient's ability to pay (42 USC 254b(k)(3)(G)(i)). The patient's ability to pay is determined based on the official poverty guideline, as revised annually by HHS (42 CFR Sections 51c.107(b)(5), 56.108(b)(5), and 56.303(g)).

Condition: For 16 patient encounters selected for sliding fee scale testing in a sample of 40, the income documentation was not available in order to support the accuracy of the patient's ability to pay.

Effect: The condition results in regulatory non-compliance for the Consolidated Health Center grant under CFDA #93.224 for OMB Circular A-133. Not having supporting documentation for patients treated based on fees determined in accordance with the sliding fee scale, could cause patients to be charged amounts not in accordance with 42 CFR Sections 51c.107(b)(5), 56.108(b)(5), and 56.303(g)).

Cause: The Center did not maintain electronic or hard copies of income documentation utilized to support accuracy of sliding fee scale charges.

Recommendation: We recommend that the Center maintains income documentation to support amounts charged to patients in accordance with the sliding fee scale. The Center should maintain electronic copies of all documentation with formal backup procedures.

Corrective action planned or taken and responsible official: Job descriptions of front desk and medical assistant staff will be revised to include responsibility for the collection and maintenance of sliding fee documentation. Existing front staff will be trained on documentation requirements. Additionally, copies of all sliding fee schedule documentation for FY 2015 will be sent to Finance for review to perform random audits on individuals identified in the billing software. The audit results will be included in the annual performance review of front desk staff.

B: Compliance Findings

2014-005 Allowable Cost Requirements – U.S. Department of Health and Human Services, CFDA #93.914 – HIV Emergency Relief Project Grants (Ryan White HIV/AIDS Program Part A)

See Finding 2014-002.

2014-006 Program Income Requirements – U.S. Department of Health and Human Services, CFDA #93.224 – Consolidated Health Centers

See Finding 2014-004.

Total Health Care, Inc.

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014

CF2013-01 Allowable Costs – U.S. Department of Health and Human Services, CFDA #93.917 – HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B)

Condition: During the year ended June 30, 2013, the Center identified one employee was receiving part of his/her salary through federal grants although he/she was listed on the Office of Inspector General exclusion list. The Center immediately terminated the employee and voluntarily disclosed the violation to the federal and state governmental authorities. There is a liability on the Center's balance sheet as of June 30, 2013, of approximately $200,000 related to unallowable costs. In addition, the Center may be subjected to a penalty by the federal government related to the compliance violation.

Current status: No debarred vendors or employees were identified as a result of the compliance procedures performed for the year ended June 30, 2014.

CF2013-02 Special Tests and Provisions Requirements – U.S. Department of Health and Human Services, CFDA #93.224 – Consolidated Health Centers

Condition: For the year ended June 30, 2013, only 7 of the 14 board members received services from the Center. The number of members receiving services from the Center does not constitute a majority of the governing board.

Current status: As of June 30, 2014, the Center was in compliance with the special tests and provisions section of the compliance regulations governing the number of board members required to be patients of the organization.

CF2013-03 Reporting Requirements – U.S. Department of Health and Human Services, CFDA #93.224 – Consolidated Health Centers

Condition: For the year ended June 30, 2013, one of the quarterly reports due January 1, 2013, was submitted on January 4, 2013.

Current status: For the year ended June 30, 2014, all quarterly reports were submitted in a timely manner.

CF2013-04 Program Income Requirements – U.S. Department of Health and Human Services, CFDA #93.224 – Consolidated Health Centers

Condition: For 2 patient encounters selected for sliding fee scale testing in a sample of 60, the income documentation was not available in order to support the accuracy of the patient's ability to pay.

Current status: See Finding 2014-004 and 2014-006.