

BALTIMORE HEALTHY START, INC.
Baltimore, Maryland

FINANCIAL STATEMENTS
June 30, 2013 and 2012

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Independent Auditors' Report

Board of Directors
Baltimore Healthy Start, Inc.
Baltimore, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of Baltimore Healthy Start, Inc. (the Organization), which comprise the statements of financial position as of June 30, 2013 and 2012, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditors' 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 the Organization as of June 30, 2013 and 2012, and the changes in its net assets, its functional expenses and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Other Information – Schedule of Expenditures of Federal Awards*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis 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 report dated March 19, 2014, on our consideration of the Organization'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 result 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 the Organization's internal control over financial reporting and compliance.

**CliftonLarsonAllen LLP**

Baltimore, Maryland
March 19, 2014

FINANCIAL STATEMENTS

BALTIMORE HEALTHY START, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 490,537	\$ 528,008
Grants receivable	439,037	234,078
Prepaid expenses	5,122	1,275
Other current assets	8,870	8,870
Total current assets	943,566	772,231
PROPERTY AND EQUIPMENT		
Building	1,384,168	1,384,168
Leasehold improvements	360,713	343,263
Vehicles	102,436	100,128
Computer equipment	818,426	818,426
Office equipment and furniture	1,027,164	1,027,164
Total property and equipment	3,692,907	3,673,149
Less: accumulated depreciation	2,282,032	2,229,099
Net property and equipment	1,410,875	1,444,050
TOTAL ASSETS	\$ 2,354,441	\$ 2,216,281
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 21,565	\$ 34,182
Notes payable, current portion	30,046	29,693
Mortgage payable, current portion	26,294	24,746
Deferred rent expense	5,986	5,903
Deferred revenue	148,800	-
Accrued expenses	164,410	145,624
Total current liabilities	397,101	240,148
LONG-TERM LIABILITIES		
Notes payable, net of current portion	184,473	197,715
Mortgage payable, net of current portion	864,176	890,471
Total long-term liabilities	1,048,649	1,088,186
Total liabilities	1,445,750	1,328,334
NET ASSETS		
Unrestricted	908,691	887,947
Total net assets	908,691	887,947
TOTAL LIABILITIES AND NET ASSETS	\$ 2,354,441	\$ 2,216,281

The accompanying notes are an integral part of the financial statements.

BALTIMORE HEALTHY START, INC.
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2013 and 2012

	2013		2012		
	Unrestricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT					
Public and other support:					
Federal and state grant revenue	\$ 2,976,104	\$ 2,976,104	\$ 3,440,730	\$ -	\$ 3,440,730
Foundations and local support	92,946	92,946	128,891	-	128,891
Net assets released from restriction	-	-	49,866	(49,866)	-
Total public and other support	<u>3,069,050</u>	<u>3,069,050</u>	<u>3,619,487</u>	<u>(49,866)</u>	<u>3,569,621</u>
Other revenue	<u>88,475</u>	<u>88,475</u>	<u>164,295</u>	<u>-</u>	<u>164,295</u>
Total revenues, gains and other support	<u>3,157,525</u>	<u>3,157,525</u>	<u>3,783,782</u>	<u>(49,866)</u>	<u>3,733,916</u>
OPERATING EXPENSES					
Program services:					
Healthy Start	2,034,965	2,034,965	1,897,483	-	1,897,483
Community Child Health Network (CCHN)	59,071	59,071	412,845	-	412,845
Greenmount	182,024	182,024	287,562	-	287,562
Satellite Project	319,363	319,363	337,600	-	337,600
Other programs	317,895	317,895	368,981	-	368,981
Total program services	<u>2,913,318</u>	<u>2,913,318</u>	<u>3,304,471</u>	<u>-</u>	<u>3,304,471</u>
Supporting services:					
Management and general	210,765	210,765	351,240	-	351,240
Fundraising	12,698	12,698	13,804	-	13,804
Total expenses	<u>3,136,781</u>	<u>3,136,781</u>	<u>3,669,515</u>	<u>-</u>	<u>3,669,515</u>
CHANGES IN NET ASSETS	20,744	20,744	114,267	(49,866)	64,401
NET ASSETS, BEGINNING OF YEAR	<u>887,947</u>	<u>887,947</u>	<u>773,680</u>	<u>49,866</u>	<u>823,546</u>
NET ASSETS, END OF YEAR	<u>\$ 908,691</u>	<u>\$ 908,691</u>	<u>\$ 887,947</u>	<u>\$ -</u>	<u>\$ 887,947</u>

The accompanying notes are an integral part of the financial statements.

BALTIMORE HEALTHY START, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2013

	Program Services					Total	Supporting Services		Totals
	Healthy Start	CCHN	Greater Greenmount	Satellite Project	Other Programs		Management & General Adm	Fundraising	
Salaries	\$ 1,182,994	\$ 27,817	\$ 104,681	\$ 181,787	148,150	1,645,429	915	\$ -	\$ 1,646,344
Payroll taxes and fringe benefits	395,602	8,329	41,144	70,394	38,775	554,244	(26,462)	-	527,782
Bank charges and other fees	-	-	-	-	-	-	655	-	655
Client transportation	5,055	-	388	1,771	106	7,320	427	-	7,747
Computer expenses	-	213	-	2,651	-	2,864	4,333	-	7,197
Conferences	8,003	-	3,846	7,399	2,928	22,176	14,415	-	36,591
Consultants	111,178	22,440	-	2,244	82,198	218,060	715	735	219,510
Equipment rental	48,629	-	-	-	-	48,629	1,036	-	49,665
Evaluation	18,750	-	-	-	-	18,750	-	-	18,750
Incentives	3,779	-	1,475	15,348	1,055	21,657	-	-	21,657
Insurance	45,055	-	-	-	-	45,055	-	-	45,055
Interest	-	-	-	-	-	-	67,875	-	67,875
Legal and accounting	19,800	-	-	-	-	19,800	15,000	-	34,800
Marketing	-	-	-	-	-	-	2,217	-	2,217
Medical supplies	13,141	-	-	-	9,383	22,524	-	-	22,524
Membership dues	-	-	441	-	-	441	8,434	-	8,875
Office expense/supplies	15,133	202	50	751	3,559	19,695	1,633	142	21,470
Office maintenance	31,781	-	-	-	14,943	46,724	2,363	-	49,087
Payroll processing	6,116	-	-	-	-	6,116	1,231	-	7,347
Personnel and hiring	-	-	-	-	-	-	1,524	-	1,524
Printing/postage	10,137	63	1,382	1,348	1,156	14,086	330	4,338	18,754
Program supplies and expenses	14,250	-	359	4,004	2,954	21,567	9,019	-	30,586
Rent	34,201	-	15,393	15,445	8,132	73,171	-	-	73,171
Special activity	-	-	-	-	-	-	7,464	7,483	14,947
Telephone	35,045	-	429	7,518	338	43,330	12,727	-	56,057
Training	760	-	6,320	7,636	3,909	18,625	350	-	18,975
Travel	6,162	7	974	1,067	309	8,519	964	-	9,483
Utilities and maintenance	29,697	-	5,142	-	-	34,839	11,938	-	46,777
Vehicle expense	(303)	-	-	-	-	(303)	-	-	(303)
Depreciation	-	-	-	-	-	-	71,662	-	71,662
TOTAL	\$ 2,034,965	\$ 59,071	\$ 182,024	\$ 319,363	\$ 317,895	\$ 2,913,318	\$ 210,765	\$ 12,698	\$ 3,136,781

The accompanying notes are an integral part of the financial statements.

BALTIMORE HEALTHY START, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2012

	Program Services					Total	Supporting Services		Totals
	Healthy Start	CCHN	Greater Greenmount	Satellite Project	Other Programs		Management & General Adm	Fundraising	
Salaries	\$ 1,192,030	\$ 166,322	\$ 149,013	\$ 228,348	\$ 110,151	\$ 1,845,864	\$ (6,442)	\$ -	\$ 1,839,422
Payroll taxes and fringe benefits	341,808	60,462	54,428	81,119	30,231	568,048	(7,510)	-	560,538
Bank charges and other fees	24	-	-	-	-	24	1,739	-	1,763
Client transportation	6,307	-	-	-	752	7,059	286	-	7,345
Computer expenses	-	9,286	-	-	2,632	11,918	-	599	12,517
Conferences	1,907	712	-	-	3,070	5,689	8,244	-	13,933
Consortium	-	29,102	-	-	-	29,102	-	-	29,102
Consultants	86,954	107,063	27,447	-	165,398	386,862	26,928	2,350	416,140
Equipment rental	37,136	6,025	-	-	500	43,661	1,171	300	45,132
Evaluation	15,000	-	-	-	-	15,000	-	-	15,000
Incentives	930	16,445	2,071	1,855	250	21,551	658	-	22,209
Insurance	42,414	-	8,789	-	250	51,453	297	-	51,750
Interest	-	-	-	-	-	-	71,340	-	71,340
Legal and accounting	15,500	-	-	-	250	15,750	100,209	-	115,959
Marketing	-	-	-	-	-	-	5,469	-	5,469
Medical supplies	-	-	-	-	5,582	5,582	3,258	-	8,840
Membership dues	-	-	-	-	-	-	6,505	-	6,505
Office expense/supplies	16,103	854	5,070	450	3,988	26,465	1,661	89	28,215
Office maintenance	34,153	-	-	-	7,564	41,717	11,358	-	53,075
Payroll processing	6,094	-	-	-	24	6,118	968	-	7,086
Personnel and hiring	750	-	-	-	-	750	442	-	1,192
Printing/postage	5,504	538	1,386	150	3,487	11,065	3,408	5,858	20,331
Program supplies and expenses	5,089	3,986	200	1,273	16,671	27,219	18,143	-	45,362
Rent	25,872	-	26,938	14,520	7,500	74,830	-	-	74,830
Special activity	-	-	-	-	178	178	4,146	4,137	8,461
Telephone	26,335	4,624	-	5,739	5,155	41,853	10,906	-	52,759
Travel	8,214	7,426	650	4,146	2,841	23,277	788	-	24,065
Utilities and maintenance	27,692	-	11,570	-	2,507	41,769	15,396	471	57,636
Vehicle expense	1,667	-	-	-	-	1,667	-	-	1,667
Depreciation	-	-	-	-	-	-	71,872	-	71,872
TOTAL	\$ 1,897,483	\$ 412,845	\$ 287,562	\$ 337,600	\$ 368,981	\$ 3,304,471	\$ 351,240	\$ 13,804	\$ 3,669,515

The accompanying notes are an integral part of the financial statements.

BALTIMORE HEALTHY START, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 20,744	\$ 64,401
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	71,662	71,872
Gain on sale of property and equipment	7,935	-
Effects of changes in operating assets and liabilities:		
Grants receivable	(204,959)	190,176
Prepaid expenses	(3,847)	6,600
Other current assets	-	5,050
Accounts payable	(12,617)	(21,003)
Deferred rent expense	83	5,903
Accrued expenses	18,786	(36,041)
Deferred revenue	148,800	-
	<u>46,587</u>	<u>286,958</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(46,422)</u>	<u>(36,657)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes payable	(30,278)	(28,214)
Principal payments on mortgage payable	(24,747)	(23,087)
Proceeds from note payable	<u>17,389</u>	<u>-</u>
	<u>(37,636)</u>	<u>(51,301)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(37,471)	199,000
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>528,008</u>	<u>329,008</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 490,537</u>	<u>\$ 528,008</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	<u>\$ 67,875</u>	<u>\$ 71,340</u>

The accompanying notes are an integral part of the financial statements.

BALTIMORE HEALTHY START, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Baltimore Healthy Start, Inc. (the Organization) is a quasi-public organization created by the Baltimore City Health Department and incorporated under the general laws of the State of Maryland in 1991. During the year ended June 30, 2010, the Organization changed its name from Baltimore City Healthy Start, Inc. to Baltimore Healthy Start, Inc.

The Organization's overriding goal is to reduce the growing infant mortality rate in Baltimore City. The Organization's programs have been set to address problems relating to three components: health status/services, service systems and management, governance and community mobilization and commitment. The Organization's programs provide services that include, but are not limited to, intensive outreach, risk assessment and development of individually tailored case management plans for each Healthy Start enrollee, health education, family planning and maternal lifestyle interventions.

Basis of Accounting

The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Basis of Presentation

The financial statements have been prepared utilizing the principles outlined in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, which requires the Organization 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 - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. The Organization had no temporarily restricted net assets at June 30, 2013 and 2012.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. The Organization had no permanently restricted net assets at June 30, 2013 and 2012.

BALTIMORE HEALTHY START, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of bank deposits, short-term federal agency discounted notes (fully collateralized), interest-bearing money market accounts and short-term repurchase agreements carried at cost, which approximate market value. All investments which have original maturity dates of three months or less at the time of purchase are considered cash equivalents for the purposes of the statement of cash flows.

Grants Receivable

Support and revenue under grants with federal, state, and local agencies and private foundations is recorded as government grants or private grants and donations in the appropriate program when the related direct costs are incurred. Grants receivable represent amounts due for expenditures incurred prior to year-end. When received in advance, government grant awards are classified as deferred revenue until expended. Allowances for grants receivable are based on management's assessment of collectability. There was no allowance at June 30, 2013 and 2012.

Property and Equipment

Purchased property and equipment are carried at cost with a capitalization policy of individual capital assets with a cost of \$1,000. Depreciation is computed using the straight-line basis over the estimated useful lives of the capitalized assets.

The estimated useful lives are as follows:

Building	40 years
Leasehold improvements	7 years
Equipment and furniture	5-7 years
Computer equipment	5 years
Vehicles	5 years

BALTIMORE HEALTHY START, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment, in accordance with ASC 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets*. ASC 360-10 requires that whenever events or changes in circumstances indicate, the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an 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 fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor-imposed restriction. 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 a purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Donated assets are recognized as contribution revenue at their estimated fair market value on the date of donation.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and Functional Expenses. Accordingly, certain supporting general and administrative costs have been allocated among the programs and supporting services benefited.

Income Tax Status

The Organization is exempt from federal taxation as a charitable organization under Section 501(c)(3) of the Internal Revenue Code.

BALTIMORE HEALTHY START, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 2 – GRANTS RECEIVABLE

Grants receivable consisted of amounts due for the following programs at June 30:

	<u>2013</u>	<u>2012</u>
Healthy Start Core & Expansion	\$ 155,851	\$ 14,285
Community Child Health Network (CCHN)	19,765	19,564
Satellite Project	102,763	91,720
Improving Pregnancy Outcomes	61,158	23,756
Chrysalis	44,445	20,259
Healthy Start Greenmount	40,000	46,475
Other	15,055	18,019
Total	<u>\$ 439,037</u>	<u>\$ 234,078</u>

NOTE 3 – CONTRIBUTED SERVICES

During the years ended June 30, 2013 and 2012, the Organization received legal services for normal business operations. The estimated fair value of contributed services recognized as revenue is \$15,000 and \$96,709 for the years ended June 30, 2013 and 2012, respectively.

NOTE 4 – LEASES

The Organization leases its corporate office facility, satellite offices, and certain equipment under operating leases that expire at various dates through August 2015. Rent expense under these leases was \$73,171 and \$74,830 for the years ended June 30, 2013 and 2012, respectively.

Future minimum rental payments under these non-cancellable operating leases are as follows:

2014	\$ 74,329
2015	76,402
2016	6,084
2017	<u>4,320</u>
Total	<u>\$ 161,135</u>

BALTIMORE HEALTHY START, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 5 – LONG-TERM DEBT

Long-term debt consisted of the following at June 30:

	2013	2012
Mortgage payable - The Harbor Bank of Maryland, entered into September 2009 for \$976,000. Monthly principal and interest payments of \$6,645. Interest accrues at an annual rate of 6% and matures September 2034. Secured by a Deed of Trust covering the property located in Baltimore City, Maryland.	\$ 890,470	\$ 915,217
Note payable - MRK Services, LLLP, entered into September 2009 for \$280,000. Monthly principal and interest payments of \$2,776 through December 2010 then monthly payments of \$3,168 until maturity. Interest accrues at an annual rate of 6% and matures September 2019. Secured by a Deed of Trust on real and personal property.	197,716	223,036
Note payable - Ford Motor Credit, entered into June 2008 for \$20,000. Monthly principal and interest payments of \$411. Interest accrues at an annual rate of 8.49% and matured June 2013.	-	4,372
Note payable - Ford Motor Credit, entered into May 2013 for \$17,389. Monthly principal and interest payments of \$330. Interest accrues at an annual rate of 5.24% and matures May 2018.	16,803	-
Total	1,104,989	1,142,625
Less: current maturities	56,340	54,439
Long-term portion	\$ 1,048,649	\$ 1,088,186

Future maturities of mortgages and notes payable are as follows:

2014	\$ 56,340
2015	59,812
2016	63,361
2017	67,407
2018	70,754
Thereafter	787,315
Total	\$ 1,104,989

Interest expense was \$67,875 and \$71,340 for the years ended June 30, 2013 and 2012, respectively.

BALTIMORE HEALTHY START, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 6 – RETIREMENT PLAN

The Organization offers employees the opportunity to participate in a 401(k) retirement plan (the Plan). The Plan is held with a third party custodian. The Plan is directed by employees and funded 100% with their contributions. The Organization does not contribute to the Plan and does not incur any risk of loss associated with the Plan. As directed by employees, contributions are withheld and deposited into the third party custodian's account.

NOTE 7 – FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash in a bank deposit account at two banks which are insured by the FDIC up to specified limits and which, at times, may exceed federally insured limits. As of June 30, 2013 and 2012, the Organization's deposits at these banks were \$531,887 and \$539,165, respectively.

NOTE 8 – CONTINGENCIES

The Organization receives significant financial assistance from the federal government in the form of grants and subsidies. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the agreements, and is subject to audit by the grantor agencies. Any disallowance claims resulting from such audits could become liabilities of the Organization. However, in the opinion of management, any such disallowance claims would not have a material effect on the overall financial position of the Organization as of June 30, 2013 and 2012.

NOTE 9 – INCOME TAXES

The Organization has adopted the provisions of FASB ASC 740-10, previously known as FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. Management has determined that the Organization has no material uncertain tax positions that would require recognition under FASB ASC 740-10. The federal and state income tax returns for the Organization for the years ended June 30, 2012, 2011, and 2010 are subject to examination by the IRS and state taxing authorities, generally for three years after they were filed.

NOTE 10 – SUBSEQUENT EVENTS

Management evaluated subsequent events through March 19, 2014, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2013, but prior to March 19, 2014 that provided additional evidence about conditions that existed at June 30, 2013, have been recognized in the financial statements for the year ended June 30, 2013. Events or transactions that provided evidence about conditions that did not exist at June 30, 2013 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2013.

SUPPLEMENTAL INFORMATION

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

Board of Directors
Baltimore Healthy Start, Inc.
Baltimore, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Baltimore Healthy Start, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated March 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2013-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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*.

Baltimore Healthy Start, Inc.'s Response to Findings

Baltimore Healthy Start, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Baltimore Healthy Start, Inc's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

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

CliftonLarsonAllen LLP

Baltimore, Maryland
March 19, 2014



**Independent Auditors' Report on Compliance with Requirements That
Could Have a Direct and Material Effect on Each Major Federal Program, on
Internal Control over Compliance, and on the Schedule of Expenditures of
Federal Awards in Accordance with OMB Circular A-133**

Board of Directors
Baltimore Healthy Start, Inc.
Baltimore, Maryland

Report on Compliance for Each Major Federal Program

We have audited Baltimore Healthy Start, Inc.'s (the Organization) 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 Organization's major federal programs for the year ended June 30, 2013. The Baltimore Healthy Start, Inc.'s major federal program is identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Baltimore Healthy Start, 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 Baltimore Healthy Start, 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 Baltimore Healthy Start, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Baltimore Healthy Start, Inc. 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 program for the year ended June 30, 2013.

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 items 2013-003 and 2013-004. Our opinion on each major federal program is not modified with respect to these matters.

Baltimore Healthy Start, Inc.'s response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Baltimore Healthy Start, Inc.'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 Baltimore Healthy Start, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Baltimore Healthy Start, Inc.'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 Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 items 2013-002, 2013-003 and 2013-004, that we consider to be significant deficiencies.

Baltimore Healthy Start, Inc.'s response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Baltimore Healthy Start, Inc.'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 result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
March 19, 2014

BALTIMORE HEALTHY START, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

	<u>Federal CFDA Number</u>	<u>Passthrough Entity Identifying Number</u>	<u>Federal Expenditures</u>
Department of Health & Human Services (HHS),			
Direct Funding			
Healthy Start Expansion	93.926	N/A	\$ 769,111
Healthy Start Core	93.926	N/A	<u>1,322,127</u>
			2,091,238
Department of Health & Human Services (HHS),			
passed through National Institute of Health			
Child Health Grant (Community Child Health Network)	93.865	2U01HD044207-05	<u>59,071</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 2,150,309</u>

This schedule should be read only in connection with the accompanying notes to the schedule.

BALTIMORE HEALTHY START, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

NOTE 1 – REPORTING ORGANIZATION

The accompanying schedule of expenditures of federal awards presents the expenditures of all federal award programs of Baltimore Healthy Start, Inc. (the Organization) for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying schedule of expenditures of federal awards has been prepared using the accrual basis of accounting as fully described in the summary of significant accounting policies accompanying the Organization's basic financial statements.

NOTE 3 – RELATION TO BASIC FINANCIAL STATEMENTS AND FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule of expenditures of federal awards agree with amounts reported in the Organization's basic financial statements and the related federal financial reports submitted by the Organization.

BALTIMORE HEALTHY START, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X 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? _____ Yes X No

Identification of Major Programs

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number(s)</u>
Healthy Start Core/Expansion	93.926

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

BALTIMORE HEALTHY START, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

II. FINANCIAL STATEMENT FINDINGS

***Finding No. 2013-001* Repeat finding in 2012 as 2012-01**

Condition: The Organization relies on the auditors to prepare its annual financial statements as well as to assess new accounting pronouncements and to determine the financial reporting impact on the Organization related to new pronouncements. This issue is common in entities similar in size to the Organization.

Criteria: The Internal Control-Integrated Framework (COSO Report) requires adequate internal controls over financial reporting to ensure that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and demonstrate compliance with laws, regulations and other compliance requirements.

Cause: The Organization is constrained in its abilities to prepare financial statements due to its size.

Effect: The ability of management to analyze GAAP basis financial statements and detect errors and irregularities may be limited.

Recommendation: Management should consider the resources available within the Organization and its Board to assess their ability to prepare and/or review GAAP basis statements.

Response: We are assessing the available internal resources within the Organization to be able to prepare/analyze the necessary reports as required.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

***Finding No. 2013-002* Procurement, suspension and debarment
(Internal control)**

Federal Program: Healthy Start Initiative – Expansion & Core; CFDA# 93.926

Condition/Context: During our audit of the Schedule of Expenditures of Federal Awards (SEFA), we noted that there was a lack of documentation to support that suspended or debarred status of vendors was reviewed before entering into a contract. However, during the audit procedures, we noted that the vendor tested was not suspended or debarred.

Criteria: The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards (i.e. auditee management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Internal Control-Integrated Framework (COSO Report), published by the Committee of Sponsoring

BALTIMORE HEALTHY START, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements. When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the System for Award Management (SAM), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR sections 180.300). Grant purchases over \$24,999 indicates that EPLS screening should be conducted and a print screen produced and provided to finance department.

Questioned Costs: None noted.

Effect: The Organization could inappropriately contract with vendors which are not allowed to receive money from federally funded sources.

Cause: The Organization does not have proper procedures in place to review the suspended and debarred status of vendors.

Recommendation: We recommend that the Organization implement and follow a procedure to check for suspension and debarment of vendors before entering into contracts.

**Views of the Responsible
Officials and Corrective**

Action Plan: The Organization has contracted with the same vendors for a number of years, however, we revised our procedures to include documentation of an annual search of vendor status.

***Finding No. 2013-003* Allowable costs – Time and Effort**
(Internal control, noncompliance)

Federal Program: Healthy Start Initiative – Expansion & Core; CFDA# 93.926

Condition/Context: During our audit of the Schedule of Expenditures of Federal Awards (SEFA), we noted that 6 of the 30 employee's Time and Effort were not properly documented and approved. Employee Time and Effort is entered on a spreadsheet prepared by the CFO and this spreadsheet is updated on a rolling basis and there is no approval or documentation process for changes.

BALTIMORE HEALTHY START, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

Criteria: Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of work performed by the employee (OMB Circular A-122, Attachment B.8.h.3). Where employees work on multiple activities or cost objectives, a distribution of their salaries will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods; and (d) they must be signed by the employee (OMB Circular A-87, Attachment B.8.h.4).

Questioned Costs: Not determined.

Effect: The Organization is not in compliance with federal allowability guidelines to allocate time to grants based on actual time spent working on each grant. In addition, BCHS may fail to detect and/or prevent the occurrence of non-compliance program activity. The entity may be required to pay questioned costs for unallowed activity.

Cause: The Organization did not maintain proper documentation to support the employee's Time and Effort.

Recommendation: We recommend that the Organization implement procedures and controls to ensure that time and effort certifications are obtained from employees on at least a monthly basis for those who are split-funded and a semi-annual basis for those charged 100%, stating the percentage of time worked related to the program during the period covered by the certification. In addition, we recommend BCHS reiterate their procedures for documenting the review process and stress the importance of consistent reviews and approvals.

**Views of the Responsible
Officials and Corrective**

Action Plan: The Organization has policy and procedures in place to ensure that employee's Time and Effort is properly reflected with the payroll allocation. Due to the change in Human Resource staff, this was an oversight that has been addressed and corrected.

BALTIMORE HEALTHY START, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

Finding No. 2013-004 **Reporting**
(Internal control, noncompliance)

Federal Program: All federal programs

Condition/Context: The Organization did not file the data clearing house reporting package within nine months of its year-end.

Criteria: *Internal Control-Integrated Framework* (COSO Report) requires the entity to have adequate internal controls over compliance requirements to ensure compliance with the requirement. OMB Circular A-133, subpart C-Auditees, section .320 requires the single audit reporting package to be submitted the earlier of 30 days after receipt of the auditor's report(s), or nine months after the year end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Questioned Costs: None were related to the reporting requirement.

Effect: The Organization was no in compliance with Circular A-133 reporting requirements.

Cause: The Organization did not maintain proper controls to ensure timely reporting to the data clearing house.

Recommendation: The Organization met the federal reporting requirements for FY2011, and should continue the current procedures to ensure that internal controls over the reporting process are consistently performed.

Views of the Responsible Officials and Corrective Action Plan: In the past the external auditor submitted the audited financial statements to the Clearinghouse, the CFO will communicate this request to the external auditors after the audit is finalized.

BALTIMORE HEALTHY START, INC.
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

None