

INNER CITY HEALTH CENTER

FINANCIAL STATEMENTS

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JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Inner City Health Center

We have audited the accompanying financial statements of Inner City Health Center (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 & 2013, and the related statements of activity, functional expenses and changes in 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

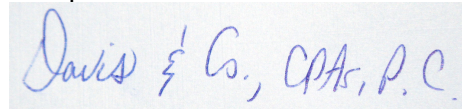
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 Inner City Health Center as of June 30, 2014 & 2013 and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Highlands Ranch, Colorado
October 24, 2014

INNER CITY HEALTH CENTER
Statement of Financial Position
June 30, 2014
(With Comparative Totals for 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 546,011	\$ 359,080	\$ 905,091	\$392,866
Accounts receivable	110,705		110,705	71,865
Grants & donations receivable	176,959		176,959	226,414
Prepaid expenses	16,994		16,994	17,682
Loan origination fees, net	22,116		22,116	26,898
Building held for resale	--		--	417,059
	<u>872,785</u>	<u>359,080</u>	<u>1,231,865</u>	<u>1,152,784</u>
Property, Plant and Equipment				
Furniture and equipment	1,083,852		1,083,852	812,286
Buildings and improvements	4,238,238	247,500	4,485,738	4,485,738
Land	630,000		630,000	630,000
	<u>5,952,090</u>	<u>247,500</u>	<u>6,199,590</u>	<u>5,928,024</u>
Less: accumulated depreciation	<u>(1,206,846)</u>		<u>(1,206,846)</u>	<u>(1,006,915)</u>
	<u>4,745,244</u>	<u>247,500</u>	<u>4,992,744</u>	<u>4,921,109</u>
	<u>\$5,618,029</u>	<u>\$606,580</u>	<u>\$6,224,609</u>	<u>\$6,073,893</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 265,490	\$ --	\$ 265,490	\$ 212,610
Accrued payroll liabilities	40,915		40,915	34,259
Deposits and advance rents	22,116		22,116	29,987
Loans payable to bank, current	50,691		50,691	48,165
Accrued compensated absences	69,398		69,398	53,835
	<u>448,610</u>		<u>448,610</u>	<u>378,856</u>
Loans payable to bank, long-term	1,956,026	--	1,956,026	2,298,889
Net Assets	<u>3,213,393*</u>	<u>606,580</u>	<u>3,819,973</u>	<u>3,396,148</u>
	<u>\$5,618,029</u>	<u>\$606,580</u>	<u>\$6,224,609</u>	<u>\$6,073,893</u>

* Includes \$200,000 of internal designations by the Board of Directors (See Note 2).

The accompanying notes are a part of this statement.

INNER CITY HEALTH CENTER
Statement of Activity and Changes in Net Assets
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
SUPPORT AND REVENUE				
Public support				
Direct and indirect contributions	\$ 284,057	\$ --	\$ 284,057	\$ 346,577
Government grants	910,273		910,273	819,998
In-kind donations	279,064		279,064	151,729
Foundation and corporate grants	<u>637,874</u>	<u>387,021</u>	<u>1,024,895</u>	<u>730,378</u>
Total public support	2,111,268	387,021	2,498,289	2,048,682
Other revenue				
Service fees from clients and insurers (net of \$1,257,722 of "Uncompensated Care")	1,477,500		1,477,500	1,255,560
Rental income	231,641		231,641	214,520
Gain on sale of building	43,141		43,141	--
Interest and dividend income	<u>1,191</u>	<u>-</u>	<u>1,191</u>	<u>788</u>
Total revenue	<u>1,753,473</u>	<u>-</u>	<u>1,753,473</u>	<u>1,470,868</u>
Total public support and revenue	3,864,741	387,021	4,251,762	3,519,550
Net assets released from restrictions due to satisfaction of program or time restrictions	<u>98,143</u>	<u>(98,143)</u>	<u>--</u>	<u>--</u>
Total public support and revenue and reclassifications	3,962,884	288,878	4,251,762	3,519,550
FUNCTIONAL EXPENSES				
Program services				
Medical services	1,756,294		1,756,294	1,486,389
Dental services	1,167,734		1,167,734	1,049,317
Community outreach programs	<u>198,870</u>	<u>-</u>	<u>198,870</u>	<u>173,678</u>
Total program services	3,122,898		3,122,898	2,709,384
Supporting services				
Management and general	213,572		213,572	248,950
Financial development	<u>302,257</u>	<u>-</u>	<u>302,257</u>	<u>290,016</u>
Total supporting services	<u>515,829</u>	<u>-</u>	<u>515,829</u>	<u>538,966</u>
Total functional expenses	<u>3,638,727</u>	<u>-</u>	<u>3,638,727</u>	<u>3,248,350</u>
Rental expenses	<u>189,210</u>	<u>-</u>	<u>189,210</u>	<u>188,951</u>
Total expenses	<u>3,827,937</u>	<u>-</u>	<u>3,827,937</u>	<u>3,437,301</u>
Change in net assets	134,947	288,878	423,825	82,249
Net assets, beginning of year	<u>3,078,446</u>	<u>317,702</u>	<u>3,396,148</u>	<u>3,313,899</u>
Net assets, end of year	<u>\$3,213,393</u>	<u>\$606,580</u>	<u>\$3,819,973</u>	<u>\$3,396,148</u>

The accompanying notes are a part of this statement.

INNER CITY HEALTH CENTER
Statement of Functional Expenses
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)

	Program Services				Supporting Services		2014 Total	2013 Total
	Medical	Dental	Outreach Programs	Total	Management and General	Resource Development		
Personnel expenses	\$1,096,909	\$ 791,061	\$ 153,578	\$2,041,548	\$ 145,520	\$ 248,668	\$2,435,736	\$2,234,423
Contributed services & medicines	208,807	70,258	--	279,065	--	--	279,065	151,729
Contract & professional services	--	--	--	--	8,170	--	8,170	32,261
Marketing & public relations	5,615	2,592	432	8,639	5,028	15,645	29,312	26,784
Outside lab tests	56,474	82,037	--	138,511	--	--	138,511	99,825
Program supplies	97,223	51,053	9,429	157,705	--	--	157,705	166,314
Occupancy costs	129,144	46,070	7,678	182,892	9,966	9,966	202,824	179,540
Operating supplies	18,951	9,724	1,436	30,111	594	5,596	36,301	30,683
Postage & delivery	3,137	1,533	241	4,911	34	3,307	8,252	8,356
Client needs & outreach	1,702	533	14,443	16,678	--	--	16,678	16,754
Telephone and internet	8,514	3,929	655	13,098	--	--	13,098	14,883
Computers & technology	24,792	14,320	1,836	40,948	--	2,642	43,590	33,398
Insurance expense	28,271	2,023	--	30,294	2,941	--	33,235	29,517
Equipment lease & repair	6,954	13,308	415	20,677	--	--	20,677	18,478
Memberships & affiliations	2,899	2,844	--	5,743	2,924	2,890	11,557	10,449
Volunteer support	1,228	1,432	346	3,006	3,149	1,020	7,175	7,027
Conferences & meetings	8,406	4,200	200	12,806	18,609	1,615	33,030	10,423
Sub-total	1,699,026	1,096,917	190,689	2,986,632	196,935	291,349	3,474,916	3,070,844
Depreciation & amortization	57,268	70,817	8,181	136,266	16,637	10,908	163,811	177,506
Total expenses	<u>\$1,756,294</u>	<u>\$1,167,734</u>	<u>\$198,870</u>	<u>\$3,122,898</u>	<u>\$213,572</u>	<u>\$302,257</u>	<u>\$3,638,727</u>	<u>\$3,248,350</u>

The accompanying notes are a part of this statement.

INNER CITY HEALTH CENTER
Statement of Cash Flows
For the Year Ended June 30, 2014
(With Comparative Totals for 2013)

	<u>For the year ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 423,825	\$ 82,249
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation & amortization	163,811	177,506
Depreciation included in rental expenses	40,902	38,974
Other non-cash (net)	--	(3,159)
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(38,840)	(1,485)
Decrease (increase) in grants & donations receivable	49,455	(222,153)
Decrease in prepaid expenses	688	3,509
Increase (decrease) in accounts payable	52,880	(25,477)
Increase in accrued payroll liabilities	6,656	13,608
Increase (decrease) in deposits & advance rents	(7,871)	5,144
(Decrease) increase in accrued compensated absences	<u>15,563</u>	<u>(11,708)</u>
Net cash flow from operating activities	707,069	57,008
CASH FLOW FROM INVESTING ACTIVITIES:		
Book basis of sold building	417,059	--
Purchase of long-lived fixed assets	<u>(271,566)</u>	<u>(4,871)</u>
	145,493	(4,871)
CASH FLOW FROM FINANCING ACTIVITIES:		
Deferred loan origination fees, net	--	1,536
Payment of debt principal	<u>(340,337)</u>	<u>(114,616)</u>
	(340,337)	(113,080)
CHANGE IN CASH AND CASH EQUIVALENTS	512,225	(60,943)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>392,866</u>	<u>453,809</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$905,091</u>	<u>\$392,866</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest income – cash basis	<u>\$1,191</u>	<u>\$788</u>

The accompanying notes are a part of this statement.

INNER CITY HEALTH CENTER

Notes to Financial Statements

June 30, 2014

Note 1: Summary of Significant Accounting Policies

Significant accounting policies are as follows:

a. Organization

Inner City Health Center (the "Center") is a Colorado non-profit corporation organized in December of 1983 for the purpose of providing health care at substantially reduced rates to uninsured and underserved families living in the Denver, Colorado metropolitan area. The Center provides medical, dental, counseling, and other outreach services. The fees paid by clients are determined on a sliding fee scale based on their respective income levels. Contributions from individuals, churches, and corporations as well as grants from foundations and government agencies are relied upon to make up the difference. During January of 2009 the Center moved into new facilities which it had purchased and started renovating two years prior (See Note 4). The move to the new facility increased the Center's capacity to provide services. The Center recorded 22,484 patient encounters during the last fiscal year. Another 2,049 unduplicated individuals were provided non-clinical services.

b. Financial statement presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, support and revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and the changes therein are classified and reported as follows:

Unrestricted – Resources not subject to donor-imposed restrictions.

Temporarily restricted – Resources subject to donor-imposed restrictions that will be satisfied by actions of the Organization or the passage of time.

c. Cash and cash equivalents

The Center considers all demand deposits, savings accounts and highly liquid investments purchased with an original maturity of six months or less to be cash equivalents. Except for \$310,827, all account balances as of June 30, 2014 were fully insured by the FDIC.

d. Property and equipment

The Center follows the practice of capitalizing all expenditures for property and equipment in excess of \$2,500 at cost. The fair value of donated assets is similarly capitalized. Expenditures for maintenance, repairs and other renewals of items are charged to expense. When items are disposed of, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is included in the results of its normal operations.

(Continued)

INNER CITY HEALTH CENTER

Notes to Financial Statements

June 30, 2014

Note 1: Summary of Significant Accounting Policies (Continued):

d. Property and equipment (continued)

The provision for depreciation is calculated using the straight-line method over estimated useful lives of 5 years for computers, technology and office equipment; 10 - 15 years for furniture and program equipment; and, 39 years for buildings and building improvements.

e. Revenue recognition

All contributions are considered to be available for unrestricted use unless specifically indicated otherwise by the donor. Amounts received that are restricted by the donor for specific purposes or future periods are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Center reports the support as unrestricted. The Center receives substantial revenue from the sliding-scale fees received from clients and insurers, which are recorded as income in the period the underlying services are performed.

f. Donated services, use of space and materials

Contributions of donated services that require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation, are recorded at their fair value in the period received. During the current year a total of \$175,644 of services provided by volunteer doctors, dentists, and nurses met these requirements and are recorded under "Contributed Services & Medicines" in the Statement of Functional Expenses, herein.

Donated supplies are recorded at fair value if they would have been purchased if not otherwise received via donation. The \$103,420 fair value of immunizations received from the State of Colorado is recorded under "Contributed Services & Medicines" in the Statement of Functional Expenses, herein.

g. Functional expenses

Expenses directly identified with a functional area are charged to such area. If an expense affects more than one area, it is allocated by the time expended or another reasonable basis.

(Continued)

INNER CITY HEALTH CENTER

Notes to Financial Statements

June 30, 2014

Note 1: Summary of Significant Accounting Policies (Continued)

h. Compensated absences

In accordance with generally accepted accounting principles of the U.S., the Center accrues vacation pay when earned. The balances of the liability were \$69,398 and \$53,835 at June 30, 2014 and 2013, respectively.

i. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles of the U.S. requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

j. Tax status

The Internal Revenue Service recognizes the tax-exempt status of the Center under Section 501(c)(3) of the Internal Revenue Code. In addition the Center receives no revenue which is unrelated to its exempt purpose. The Center believes that it has conducted its operations in accordance with, and has properly maintained, its tax-exempt status.

k. Subsequent events

Management has evaluated the impact of subsequent events through October 24, 2014, the date that the auditor's opinion, herein, was released.

Note 2: Designated Net Assets

During previous years leading up to the campaign (See Note 4) the Center's board of directors designated a total of \$450,000 to be a reserve for unanticipated operating, capital or extra-ordinary needs. During the early phases of the campaign the Center's board of directors authorized the use of \$250,000 of these net assets for the Capital Campaign, resulting in a balance at both June 30, 2013 and 2014 of \$200,000.

The Center sold its former facility on May 14, 2014 for \$490,000. The building's carrying basis of \$417,059 was recorded as "Building held for resale" in the Statement of Financial Position, herein, at June 30, 2013. After current year expenses associated with the sale of the property, the Center realized a gain of \$43,141. In accordance with prior board resolutions, \$292,208 of the proceeds were used to reduce bank debt (See Note 4).

(Continued)

INNER CITY HEALTH CENTER

Notes to Financial Statements

June 30, 2014

Note 3: Employee Retirement Plan

All of the employees of the Center are eligible to participate in a tax-sheltered 403(b) annuity program whereby each employee may contribute up to 20% of his/her gross salary, subject to an inflation adjusted maximum per year, on a tax-deferred basis. The Center is not required to make any employer contributions to this plan.

Note 4: Facility Purchase and Renovation and Loan Commitments

On December 7, 2007 the Center purchased buildings and land at 3800 York Street, within the neighborhoods it serves, from the City & County of Denver for \$2,150,000. The purpose of the acquisition was to significantly increase the Center's capacity to deliver program services. The building was in need of an additional \$2,811,141 in renovations, which were substantially completed by December of 2008. The Center took complete occupancy of the new facility in January of 2009.

In June of 2008 the Center obtained construction loan financing from a local bank. The loan, due on June 10, 2010 and carrying an interest rate of WSJ prime plus ¼%, had a balance outstanding at June 30, 2009 of \$2,988,643. During the fiscal year ended June 30, 2010 the Center made \$488,643 of principal payments, resulting in a loan balance of \$2,500,000; and, modified the loan agreement with the lender. The modified loan was due on June 10, 2011 and carried an interest rate of WSJ prime plus 1%.

On July 7, 2011 the above loan was refinanced under two new loan agreements with the same lender. The first loan, with a balance of \$292,208 at June 30, 2014, was due July 10, 2014 but paid off in full on May 14, 2014 when the Center sold its former facility (See Note 3). The second loan, with a balance of \$2,006,717 at June 30, 2014, is due June 10, 2021, carries interest at 5.05% and requires minimum monthly payments of \$12,689. Interest incurred last year under these loans of \$104,133 is included as a component of "Occupancy Costs" in the statement of functional expenses, herein. The minimum principal payments required under the remaining loan agreement over the next five years (and thereafter in total) are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2015	\$ 50,691
2016	57,074
2017	55,325
2018	58,711
2019	62,379
Thereafter (in total)	<u>1,722,537</u>
	<u>\$2,006,717</u>

(Continued)

INNER CITY HEALTH CENTER
Notes to Financial Statements
June 30, 2014

Note 5: Temporarily Restricted Net Asset Activity

The Center's \$606,580 of temporarily restricted net assets represent donor restricted contributions that are available for the following purposes at June 30, 2014 (along with a summary of activity for the current year):

<u>Donor/Purpose</u>	<u>Balance at June 30, 2013</u>	<u>FY 2013/2014</u>		<u>Balance at June 30, 2014</u>
		<u>Increase</u>	<u>Decrease</u>	
Time restricted CDBG funding	\$ 288,750	\$ --	\$ (41,250)	\$247,500
Donations with timing restrictions	28,952	87,021	(28,952)	87,021
Colorado Health Foundation - Digitized Health Records	<u> --</u>	<u>300,000</u>	<u>(27,941)</u>	<u>272,059</u>
	<u>\$317,702</u>	<u>\$387,021</u>	<u>\$(98,143)</u>	<u>\$606,580</u>