

**INNER CITY HEALTH CENTER**

**FINANCIAL STATEMENTS**

\* \* \* \* \*

**JUNE 30, 2013**

## CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activity	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 10

## 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, 2013 & 2012, 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, 2013 & 2012 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.

*Davis & Co., CPAs, P.C.*

Highlands Ranch, Colorado  
October 16, 2013

**INNER CITY HEALTH CENTER**  
Statement of Financial Position  
June 30, 2013  
(With Comparative Totals for 2012)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2013 Total</u>	<u>2012 Total</u>
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents	\$ 363,914	\$ 28,952	\$ 392,866	\$453,809
Accounts receivable	71,865		71,865	70,380
Grants & donations receivable	226,414		226,414	4,261
Prepaid expenses	17,682		17,682	21,191
Loan origination fees, net	26,898		26,898	28,434
Building held for resale	<u>417,059</u>		<u>417,059</u>	<u>417,059</u>
	1,123,832	28,952	1,152,784	995,134
Property, Plant and Equipment				
Furniture and equipment	812,286		812,286	807,415
Buildings and improvements	4,196,988	288,750	4,485,738	4,485,738
Land	<u>630,000</u>		<u>630,000</u>	<u>630,000</u>
	5,639,274	288,750	5,928,024	5,923,153
Less: accumulated depreciation	<u>(1,006,915)</u>		<u>(1,006,915)</u>	<u>(793,594)</u>
	<u>4,632,359</u>	<u>288,750</u>	<u>4,921,109</u>	<u>5,129,559</u>
	<u>\$5,756,191</u>	<u>\$317,702</u>	<u>\$6,073,893</u>	<u>\$6,124,693</u>
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities				
Accounts payable	\$ 212,610	\$ --	\$ 212,610	\$ 238,087
Accrued payroll liabilities	34,259		34,259	20,651
Deposits and advance rents	29,987		29,987	24,843
Loans payable to bank, current	48,165		48,165	80,311
Accrued compensated absences	<u>53,835</u>		<u>53,835</u>	<u>65,543</u>
	378,856		378,856	429,435
Loans payable to bank, long-term	2,298,889	--	2,298,889	2,381,359
Net Assets	<u>3,078,446*</u>	<u>317,702</u>	<u>3,396,148</u>	<u>3,313,899</u>
	<u>\$5,756,191</u>	<u>\$317,702</u>	<u>\$6,073,893</u>	<u>\$6,124,693</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  
For the Year Ended June 30, 2013  
(With Comparative Totals for 2012)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>2013 Total</u>	<u>2012 Total</u>
<b>SUPPORT AND REVENUE</b>				
Public support				
Direct and indirect contributions	\$ 346,577	\$ --	\$ 346,577	\$ 428,916
Government grants	819,998		819,998	359,724
In-kind donations	151,729		151,729	312,598
Foundation and corporate grants	<u>701,426</u>	<u>28,952</u>	<u>730,378</u>	<u>941,005</u>
Total public support	2,019,730	28,952	2,048,682	2,042,243
Other revenue				
Service fees from clients and insurers (net of \$1,190,741 of "Uncompensated Care")	1,255,560		1,255,560	1,198,635
Rental income	214,520		214,520	142,714
(Loss) on asset disposals & other income	--		--	(16,244)
Interest and dividend income	<u>788</u>	<u>-</u>	<u>788</u>	<u>2,414</u>
Total revenue	<u>1,470,868</u>	<u>-</u>	<u>1,470,868</u>	<u>1,327,519</u>
Total public support and revenue	3,490,598	28,952	3,519,550	3,369,762
Net assets released from restrictions due to satisfaction of program or time restrictions	<u>54,352</u>	<u>(54,352)</u>	<u>--</u>	<u>--</u>
Total public support and revenue and reclassifications	3,544,950	(25,400)	3,519,550	3,369,762
<b>FUNCTIONAL EXPENSES</b>				
Program services				
Medical services	1,486,389		1,486,389	1,648,142
Dental services	1,049,317		1,049,317	1,190,731
Community outreach programs	<u>173,678</u>	<u>-</u>	<u>173,678</u>	<u>170,418</u>
Total program services	2,709,384		2,709,384	3,009,291
Supporting services				
Management and general	248,950		248,950	205,380
Financial development	<u>290,016</u>	<u>-</u>	<u>290,016</u>	<u>223,647</u>
Total supporting services	<u>538,966</u>	<u>-</u>	<u>538,966</u>	<u>429,027</u>
Total functional expenses	<u>3,248,350</u>	<u>-</u>	<u>3,248,350</u>	<u>3,438,318</u>
Rental expenses	<u>188,951</u>	<u>-</u>	<u>188,951</u>	<u>223,082</u>
Total expenses	<u>3,437,301</u>	<u>-</u>	<u>3,437,301</u>	<u>3,661,400</u>
<b>Change in net assets</b>	107,649	(25,400)	82,249	(291,638)
<b>Net assets, beginning of year</b>	<u>2,970,797</u>	<u>343,102</u>	<u>3,313,899</u>	<u>3,605,537</u>
<b>Net assets, end of year</b>	<u>\$3,078,446</u>	<u>\$317,702</u>	<u>\$3,396,148</u>	<u>\$3,313,899</u>

The accompanying notes are a part of this statement.

**INNER CITY HEALTH CENTER**  
Statement of Functional Expenses  
For the Year Ended June 30, 2013  
(With Comparative Totals for 2012)

	Program Services			Supporting Services			2012 Total
	Medical	Dental	Outreach Programs	Management and General	Resource Development	2013 Total	
Personnel expenses	\$ 989,348	\$ 709,293	\$ 129,976	\$ 241,370	\$ 164,436	\$ 2,234,423	\$ 2,228,311
Contributed services	97,352	54,377	--	--	--	151,729	205,665
Contract & professional services	--	181	--	7,775	24,305	32,261	30,855
Marketing & public relations	3,880	1,791	298	1,040	19,775	26,784	23,634
Outside lab tests	34,990	64,835	--	--	--	99,825	89,936
Program supplies	106,053	46,316	13,945	--	--	166,314	246,256
Occupancy costs	106,576	45,727	7,621	9,808	9,808	179,540	245,265
Operating supplies	16,780	7,744	1,305	645	4,209	30,683	25,393
Postage & delivery	3,558	1,643	274	209	2,672	8,356	9,530
Client needs & outreach	6,660	--	10,094	--	--	16,754	15,392
Telephone and internet	6,591	4,723	867	1,607	1,095	14,883	15,685
Computers & technology	15,935	10,550	1,225	876	4,812	33,398	35,343
Insurance expense	21,241	5,335	--	2,941	--	29,517	36,091
Equipment lease & repair	5,367	8,571	454	1,816	2,270	18,478	19,310
Memberships & affiliations	3,881	1,264	--	710	4,594	10,449	13,669
Volunteer support	959	443	74	5,137	414	7,027	3,806
Education, conferences & meetings	<u>4,352</u>	<u>1,795</u>	<u>285</u>	<u>2,611</u>	<u>1,380</u>	<u>10,423</u>	<u>12,623</u>
Sub-total	1,423,523	964,588	166,418	276,545	239,770	3,070,844	3,256,764
Depreciation & amortization	<u>62,866</u>	<u>84,729</u>	<u>7,260</u>	<u>13,471</u>	<u>9,180</u>	<u>177,506</u>	<u>181,554</u>
Total expenses	<u>\$1,486,389</u>	<u>\$1,049,317</u>	<u>\$173,678</u>	<u>\$290,016</u>	<u>\$248,950</u>	<u>\$3,248,350</u>	<u>\$3,438,318</u>

The accompanying notes are a part of this statement.

**INNER CITY HEALTH CENTER**  
Statement of Cash Flows  
For the Year Ended June 30, 2013  
(With Comparative Totals for 2012)

	<u>For the year ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 82,249	\$(291,638)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation & amortization	177,506	181,554
Depreciation included in rental expenses	38,974	38,975
Loss on asset disposals, other non-cash (net)	(3,159)	22,828
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(1,485)	7,056
Decrease (increase) in grants & donations receivable	(222,153)	65,584
(Increase) decrease in prepaid expenses	3,509	(4,506)
Increase (decrease) in accounts payable	(25,477)	25,281
(Decrease) increase in accrued payroll liabilities	13,608	(21,552)
Increase in deposits & advance rents	5,144	8,209
(Decrease) in accrued compensated absences	<u>(11,708)</u>	<u>(21,176)</u>
Net cash flow from operating activities	57,008	10,615
 <b>CASH FLOW FROM INVESTING ACTIVITIES:</b>		
Purchase of long-lived fixed assets	(4,871)	(34,025)
 <b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Deferred loan origination fees, net	1,536	(7,042)
Payment of debt principal	<u>(114,616)</u>	<u>(38,330)</u>
	(113,080)	(45,372)
 <b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(60,943)	(68,782)
 <b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>453,809</u>	<u>522,591</u>
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$392,866</u>	<u>\$453,809</u>
 <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Interest income – cash basis	<u>\$788</u>	<u>\$2,414</u>

The accompanying notes are a part of this statement.

**INNER CITY HEALTH CENTER**  
Notes to Financial Statements  
June 30, 2013

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 low income families living in Denver, Colorado. 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 21,475 patient encounters during the last fiscal year. Another 1,754 unduplicated individuals were afforded nonclinical 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 provided they are not legally restricted as to withdrawal. All account balances as of June 30, 2013 were fully insured.

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 normal

(Continued)



**INNER CITY HEALTH CENTER**  
Notes to Financial Statements  
June 30, 2013

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

d. Property and equipment (continued)

operations. 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 and 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 \$151,729 of services provided by volunteer doctors, dentists, and nurses met these requirements and are recorded under "Contributed Services" in the Statement of Functional Expenses, herein. The same total for the prior year was \$205,665.

Recorded under "Occupancy Costs" in the prior year is the \$10,933 discounted fair value of the free use of space that the Center received at its New Hope Dental Clinic up until the facility was closed on October 31, 2011. Recorded under "Program Supplies" in the prior year is the \$96,000 value of free immunizations received from the State of Colorado.

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, 2013

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 balance of the liability \$53,835 and \$65,543 at June 30, 2013 and 2012, 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 16, 2013, 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, 2012 and 2013 of \$200,000.

The proceeds from the eventual sale of the Center's former facility (prior to May 2009) are designated by the board for debt reduction. Until that point in time, the remaining \$417,059 net book value of the facility is reflected in the statement of financial position, herein, as "Building held for sale".

(Continued)

# INNER CITY HEALTH CENTER

## Notes to Financial Statements

June 30, 2013

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, is due July 10, 2014, carries interest at WSJ prime plus 1% and requires minimum payments of 10% of principal next year and "interest only" monthly. The second loan, with a balance of \$2,054,846, 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 \$106,188 is included as a component of "Occupancy Costs" in the statement of functional expenses, herein. The minimum principal payments required under these agreements over the next five years are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2014	\$ 48,165
2015	342,898
2016	57,074
2017	55,325
2018	58,711
Thereafter (in total)	<u>1,784,881</u>
	<u>\$2,347,054</u>

(Continued)

**INNER CITY HEALTH CENTER**

Notes to Financial Statements

June 30, 2013

Note 5: Temporarily Restricted Net Asset Activity

The Center's \$317,702 of temporarily restricted net assets represent donor restricted contributions and other designations that are available for the following purposes at June 30, 2013 (along with a summary of activity for the current year):

<u>Donor/Purpose</u>	<u>Balance at June 30, 2012</u>	<u>FY 2012/2013</u>		<u>Balance at June 30, 2013</u>
		<u>Increase</u>	<u>Decrease</u>	
Time restricted CDBG funding	\$330,000	\$ --	(41,250)	\$288,750
Restricted donations for FY 2013/14	--	28,952	--	28,952
Donations restricted for future years' malpractice insurance premiums	<u>13,102</u>	<u>--</u>	<u>(13,102)</u>	<u>--</u>
	<u>\$343,102</u>	<u>\$28,952</u>	<u>\$(54,352)</u>	<u>\$317,702</u>