

INNER CITY HEALTH CENTER

FINANCIAL STATEMENTS

* * * * *

JUNE 30, 2015

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activity and Changes in Net Assets	3
Statements of Functional Expenses	4
Statements 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, 2015 & 2014, 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

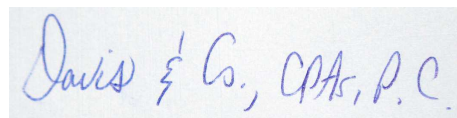
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2015 & 2014 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
November 24, 2015

INNER CITY HEALTH CENTER
 Statements of Financial Position
 June 30, 2015 & 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2015 Total</u>	<u>2014 Total</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 828,811	\$ 146,791	\$ 975,602	\$ 905,091
Accounts receivable	152,363		152,363	110,705
Grants receivable	245,702		245,702	176,959
Prepaid expenses	17,851		17,851	16,994
Loan origination fees, net	<u>22,116</u>		<u>22,116</u>	<u>22,116</u>
	1,266,843	146,791	1,413,634	1,231,865
Property, Plant and Equipment				
Furniture and equipment	1,068,274		1,068,274	1,083,852
Buildings and improvements	4,301,306	206,250	4,507,556	4,485,738
Land	<u>630,000</u>		<u>630,000</u>	<u>630,000</u>
	5,999,580	206,250	6,205,830	6,199,590
Less: accumulated depreciation	<u>(1,249,846)</u>		<u>(1,249,846)</u>	<u>(1,206,846)</u>
	<u>4,749,734</u>	<u>206,250</u>	<u>4,955,984</u>	<u>4,992,744</u>
	<u>\$6,016,577</u>	<u>\$353,041</u>	<u>\$6,369,618</u>	<u>\$6,224,609</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 186,976	\$ --	\$ 186,976	\$ 265,490
Accrued payroll liabilities	41,296		41,296	40,915
Deposits and advance rents	21,685		21,685	22,116
Loans payable to bank, current	57,074		57,074	50,691
Accrued compensated absences	<u>82,955</u>		<u>82,955</u>	<u>69,398</u>
	389,986		389,986	448,610
Loans payable to bank, long-term	1,872,959	--	1,872,959	1,956,026
Net Assets	<u>3,753,632*</u>	<u>353,041</u>	<u>4,106,673</u>	<u>3,819,973</u>
	<u>\$6,016,577</u>	<u>\$353,041</u>	<u>\$6,369,618</u>	<u>\$6,224,609</u>

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

The accompanying notes are an integral part of these statements.

INNER CITY HEALTH CENTER
Statements of Activity and Changes in Net Assets
For the Years Ended June 30, 2015 & 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2015 Total</u>	<u>2014 Total</u>
SUPPORT AND REVENUE				
Public support				
Direct and indirect contributions	\$ 361,393	\$ --	\$ 361,393	\$ 284,057
Government grants	950,053		950,053	910,273
In-kind donations	339,223		339,223	279,064
Foundation and corporate grants	<u>820,006</u>	<u>214,359</u>	<u>1,034,365</u>	<u>1,024,895</u>
Total public support	2,470,675	214,359	2,685,034	2,498,289
Other revenue				
Service fees from clients and insurers (net of \$1,158,750 of "Uncompensated Care")	1,554,454		1,554,454	1,477,500
Rental income	222,249		222,249	231,641
Gain on asset sales & other	143,913		143,913	43,141
Interest and dividend income	<u>1,472</u>	<u>-</u>	<u>1,472</u>	<u>1,191</u>
Total revenue	<u>1,922,088</u>	<u>-</u>	<u>1,922,088</u>	<u>1,753,473</u>
Total public support and revenue	4,392,763	214,359	4,607,122	4,251,762
Net assets released from restrictions due to satisfaction of program or time restrictions	<u>467,898</u>	<u>(467,898)</u>	<u>--</u>	<u>--</u>
Total public support and revenue and reclassifications	4,860,661	(253,539)	4,607,122	4,251,762
FUNCTIONAL EXPENSES				
Program services				
Medical services	2,043,591		2,043,591	1,756,294
Dental services	1,180,519		1,180,519	1,167,734
Community outreach programs	<u>253,415</u>	<u>-</u>	<u>253,415</u>	<u>198,870</u>
Total program services	3,477,525		3,477,525	3,122,898
Supporting services				
Management and general	245,646		245,646	213,572
Financial development	<u>380,022</u>	<u>-</u>	<u>380,022</u>	<u>302,257</u>
Total supporting services	<u>625,668</u>	<u>-</u>	<u>625,668</u>	<u>515,829</u>
Total functional expenses	<u>4,103,193</u>	<u>-</u>	<u>4,103,193</u>	<u>3,638,727</u>
Rental expenses	<u>217,229</u>	<u>-</u>	<u>217,229</u>	<u>189,210</u>
Total expenses	<u>4,320,422</u>	<u>-</u>	<u>4,320,422</u>	<u>3,827,937</u>
Change in net assets	540,239	(253,539)	286,700	423,825
Net assets, beginning of year	<u>3,213,393</u>	<u>606,580</u>	<u>3,819,973</u>	<u>3,396,148</u>
Net assets, end of year	<u>\$3,753,632</u>	<u>\$353,041</u>	<u>\$4,106,673</u>	<u>\$3,819,973</u>

The accompanying notes are an integral part of these statements.

INNER CITY HEALTH CENTER
 Statements of Functional Expenses
 For the Years Ended June 30, 2015 & 2014

	<u>Program Services</u>				<u>Supporting Services</u>		<u>2015 Total</u>	<u>2014 Total</u>
	<u>Medical</u>	<u>Dental</u>	<u>Outreach Programs</u>	<u>Total</u>	<u>Management and General</u>	<u>Resource Development</u>		
Personnel expenses	\$1,137,761	\$ 834,555	\$ 198,372	\$2,170,688	\$ 174,404	\$ 309,300	\$2,654,392	\$2,435,736
Contributed services & medicines	306,167	33,056	--	339,223	--	--	339,223	279,065
Consultants & professional services	--	--	--	--	38,421	6,637	45,058	8,170
Marketing & fundraising	47,008	10,544	1,757	59,309	1,828	38,680	99,817	29,312
Outside lab tests	73,268	77,761	--	151,029	--	--	151,029	138,511
Program supplies	126,603	47,507	12,002	186,112	--	--	186,112	157,705
Occupancy costs	104,216	48,100	8,017	160,333	10,456	10,455	181,244	202,824
Operating supplies	16,801	9,987	1,537	28,325	3,462	6,189	37,976	36,301
Postage & delivery	3,685	1,701	283	5,669	298	808	6,775	8,252
Client needs & outreach	204	95	15,456	15,755	--	--	15,755	16,678
Telephone & T1 service	8,339	3,848	641	12,828	--	--	12,828	13,098
Computers & technology	31,854	18,082	2,436	52,372	99	4,724	57,195	43,590
Insurance expense	21,374	2,627	51	24,052	2,941	--	26,993	33,235
Equipment lease & repair	9,900	19,780	540	30,220	--	1,005	31,225	20,677
Memberships & professional dues	5,745	2,106	--	7,851	2,417	1,282	11,550	11,557
Volunteer support	2,059	1,816	1,337	5,212	--	415	5,627	7,175
Education, conferences & meetings	<u>13,621</u>	<u>6,653</u>	<u>602</u>	<u>20,876</u>	<u>11,320</u>	<u>527</u>	<u>32,723</u>	<u>33,030</u>
Sub-total	1,908,605	1,118,218	243,031	3,269,854	245,646	380,022	3,895,522	3,474,916
Depreciation & amortization	<u>134,986</u>	<u>62,301</u>	<u>10,384</u>	<u>207,671</u>	<u>--</u>	<u>--</u>	<u>207,671</u>	<u>163,811</u>
Total expenses	<u>\$2,043,591</u>	<u>\$1,180,519</u>	<u>\$253,415</u>	<u>\$3,477,525</u>	<u>\$245,646</u>	<u>\$380,022</u>	<u>\$4,103,193</u>	<u>\$3,638,727</u>

The accompanying notes are an integral part of these statements.

INNER CITY HEALTH CENTER
Statements of Cash Flows
For the Years Ended June 30, 2015 & 2014

	<u>For the year ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 286,700	\$ 423,825
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation & amortization	207,671	163,811
Depreciation included in rental expenses	40,606	40,902
Other non-cash (net)	--	--
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(41,658)	(38,840)
Decrease (increase) in grants receivable	(68,743)	49,455
Decrease (increase) in prepaid expenses	(857)	688
Increase (decrease) in accounts payable	(78,514)	52,880
Increase in accrued payroll liabilities	381	6,656
(Decrease) in deposits & advance rents	(431)	(7,871)
Increase in accrued compensated absences	<u>13,557</u>	<u>15,563</u>
Net cash flow from operating activities	358,712	707,069
CASH FLOW FROM INVESTING ACTIVITIES:		
Book basis of sold building	--	417,059
Purchase of long-lived fixed assets	<u>(211,517)</u>	<u>(271,566)</u>
	(211,517)	145,493
CASH FLOW FROM FINANCING ACTIVITIES:		
Deferred loan origination fees, net	--	--
Payment of debt principal	<u>(76,684)</u>	<u>(340,337)</u>
	(76,684)	(340,337)
CHANGE IN CASH AND CASH EQUIVALENTS	70,511	512,225
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>905,091</u>	<u>392,866</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$975,602</u>	<u>\$905,091</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest income – cash basis	<u>\$1,472</u>	<u>\$1,191</u>

The accompanying notes are an integral part of these statements.

INNER CITY HEALTH CENTER

Notes to Financial Statements

June 30, 2015

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 22,390 patient encounters during the last fiscal year. Another 1,869 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 \$336,527, all account balances as of June 30, 2015 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, 2015

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 \$171,746 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 \$167,477 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, 2015

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 \$82,955 and \$69,398 at June 30, 2015 and 2014, 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 November 24, 2015, 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, 2014 and 2015 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 at June 30, 2013. After prior year expenses associated with the sale of the property, the Center realized a gain in the year ended June 30, 2014 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, 2015

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 \$1,930,033 at June 30, 2015, 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 \$100,578 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>
2016	\$ 57,074
2017	58,711
2018	60,684
2019	62,779
2020	65,012
Thereafter (in total)	<u>1,625,773</u>
	<u>\$1,930,033</u>

(Continued)

INNER CITY HEALTH CENTER
Notes to Financial Statements
June 30, 2015

Note 5: Temporarily Restricted Net Asset Activity

The Center's \$353,041 of temporarily restricted net assets represent donor restricted contributions that are available for the following purposes at June 30, 2015 (along with a summary of activity for the current year):

<u>Donor/Purpose</u>	<u>Balance at June 30, 2014</u>	<u>FY 2014/2015</u>		<u>Balance at June 30, 2015</u>
		<u>Increase</u>	<u>Decrease</u>	
Time restricted CDBG funding	\$ 247,500	\$ --	\$ (41,250)	\$206,250
Restricted for capital expansion	--	100,000	--	100,000
Donations with timing restrictions	87,021	114,359	(154,589)	46,791
Colorado Health Foundation - Digitized Health Records	<u>272,059</u>	<u>--</u>	<u>(272,059)</u>	<u>--</u>
	<u>\$606,580</u>	<u>\$214,359</u>	<u>\$(467,898)</u>	<u>\$353,041</u>