

SILOAM FAMILY HEALTH CENTER
CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014

SILOAM FAMILY HEALTH CENTER

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Siloam Family Health Center
Nashville, Tennessee

We have audited the accompanying consolidated financial statements of Siloam Family Health Center (a non-profit organization) and its subsidiary (collectively, Siloam), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Siloam Family Health Center and its subsidiary as of June 30, 2014, and the changes in their net assets and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on 2013 Financial Statements

The consolidated financial statements of Siloam as of and for the year ended June 30, 2013, were audited by other auditors, whose report dated September 27, 2013, expressed an unmodified opinion on those statements.

A handwritten signature in black ink that reads "Joseph DeCarlo and Company, PLLC". The signature is written in a cursive, flowing style.

Nashville, Tennessee
September 24, 2014

SILOAM FAMILY HEALTH CENTER
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		ASSETS	
		June 30,	
		2014	2013
ASSETS			
Cash		\$ 1,156,751	\$ 1,149,602
Prepaid expenses		21,446	24,255
Receivables		321,969	431,178
Inventory		7,089	-
Investments -			
Cash held by investment firm		51,043	121,963
Marketable securities, at fair value		1,829,644	1,577,296
Property and equipment, net		2,048,235	2,151,788
Total assets		<u>\$ 5,436,177</u>	<u>\$ 5,456,082</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable		\$ 112,762	\$ 232,679
Accrued compensated absences		109,365	95,094
Total liabilities		<u>222,127</u>	<u>327,773</u>
NET ASSETS			
Unrestricted		4,910,056	4,831,081
Temporarily restricted		303,994	297,228
Total net assets		<u>5,214,050</u>	<u>5,128,309</u>
Total liabilities and net assets		<u>\$ 5,436,177</u>	<u>\$ 5,456,082</u>

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

SILOAM FAMILY HEALTH CENTER
CONSOLIDATED STATEMENTS OF ACTIVITIES

	For the Years Ended June 30,	
	2014	2013
CHANGE IN UNRESTRICTED NET ASSETS		
Public support and revenue:		
Contributions	\$ 1,695,977	\$ 1,399,346
Service contracts	1,471,531	1,437,503
Donated services	459,299	378,541
Patient fees	196,842	190,614
Interest	3,895	7,338
Net endowment income	48,459	47,256
Unrealized endowment earnings	182,969	139,166
	<u>4,058,972</u>	<u>3,599,764</u>
 Total public support and revenue	 4,058,972	 3,599,764
 Net assets released from restrictions:		
Satisfaction of donor restrictions	2,768	1,501
	<u>2,768</u>	<u>1,501</u>
 Total public support and revenue and net assets released from restrictions	 <u>4,061,740</u>	 <u>3,601,265</u>
 Expenses:		
Program services	3,421,817	3,246,641
General and administrative	303,130	235,427
Fundraising	257,818	257,135
	<u>3,982,765</u>	<u>3,739,203</u>
 Total expenses	 3,982,765	 3,739,203
 Change in unrestricted net assets	 <u>78,975</u>	 <u>(137,938)</u>
 CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	9,534	12,483
Net assets released from restrictions	(2,768)	(1,501)
	<u>6,766</u>	<u>10,982</u>
 Change in temporarily restricted net assets	 <u>6,766</u>	 <u>10,982</u>
 CHANGE IN NET ASSETS	 85,741	 (126,956)
 Net assets - beginning of year	 <u>5,128,309</u>	 <u>5,255,265</u>
 Net assets - end of year	 <u>\$ 5,214,050</u>	 <u>\$ 5,128,309</u>

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

SILOAM FAMILY HEALTH CENTER
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2014

	Program Services	General and Administrative	Fundraising	Total
Salaries	\$ 1,549,926	\$ 216,865	\$ 144,206	\$ 1,910,997
Employee benefits	178,422	27,211	23,074	228,707
Payroll taxes	111,842	16,068	10,536	138,446
Donated patient care	459,299	-	-	459,299
Contracted services	291,372	6,459	288	298,119
Medical and lab supplies	263,863	-	-	263,863
Lab fees	127,185	-	-	127,185
Interpreter services	110,376	-	-	110,376
Medical waste disposal	3,666	-	-	3,666
Facilities	46,912	1,172	823	48,907
Utilities	24,802	353	403	25,558
Computer and equipment expense	51,473	2,176	3,415	57,064
Insurance	30,674	4,486	446	35,606
Continuing education	2,555	53	-	2,608
Dues and licenses	1,525	3,195	360	5,080
Development	-	-	32,326	32,326
Volunteer development	3,330	68	182	3,580
Communications	3,099	110	35,184	38,393
Institute programs	15,215	-	-	15,215
Office expense	8,314	1,214	1,238	10,766
Telephone	11,321	222	150	11,693
Accounting	-	7,000	-	7,000
Meetings, workshop and travel	4,471	3,044	449	7,964
Contingencies and miscellaneous	7,951	9,363	99	17,413
Depreciation	114,224	4,071	4,639	122,934
	<u>\$ 3,421,817</u>	<u>\$ 303,130</u>	<u>\$ 257,818</u>	<u>\$ 3,982,765</u>

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

SILOAM FAMILY HEALTH CENTER
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2013

	Program Services	General and Administrative	Fundraising	Total
Salaries	\$ 1,476,163	\$ 154,175	\$ 125,614	\$ 1,755,952
Employee benefits	172,375	12,764	16,397	201,536
Payroll taxes	106,443	11,875	9,609	127,927
Donated patient care	378,541	-	-	378,541
Contracted services	280,534	-	-	280,534
Medical and lab supplies	289,443	-	-	289,443
Lab fees	121,371	-	-	121,371
Interpreter services	88,504	-	-	88,504
Medical waste disposal	3,137	-	-	3,137
Facilities	39,850	926	567	41,343
Utilities	22,332	519	317	23,168
Computer and equipment expense	39,269	3,089	1,765	44,123
Insurance	28,920	5,919	1,336	36,175
Continuing education	1,461	-	-	1,461
Dues and licenses	395	3,199	660	4,254
Development	-	-	84,650	84,650
Volunteer development	17,203	-	-	17,203
Communications	-	-	-	-
Institute programs	13,697	-	-	13,697
Office expense	10,828	5,617	809	17,254
Telephone	13,401	1,282	640	15,323
Accounting	650	6,365	-	7,015
Meetings, workshop and travel	9,722	4,038	1,373	15,133
Contingencies and miscellaneous	5,456	4,664	2,295	12,415
Depreciation	126,946	20,995	11,103	159,044
	<u>\$ 3,246,641</u>	<u>\$ 235,427</u>	<u>\$ 257,135</u>	<u>\$ 3,739,203</u>

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

SILOAM FAMILY HEALTH CENTER
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 85,741	\$ (126,956)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	122,934	159,044
Unrealized investment gains	(182,969)	(139,166)
Loss on disposal of assets	456	-
(Increase) decrease in:		
Prepaid expenses	2,809	3,438
Receivables	109,209	(180,261)
Inventory	(7,089)	-
Increase (decrease) in:		
Accounts payable	(119,917)	106,893
Accrued compensated absences	14,271	(6,870)
Net cash flows from operating activities	<u>25,445</u>	<u>(183,878)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of marketable securities	85,209	125,020
Purchases of marketable securities	(154,588)	(152,006)
Furniture and equipment acquired	<u>(19,837)</u>	<u>(129,392)</u>
Net cash flows from investing activities	<u>(89,216)</u>	<u>(156,378)</u>
NET CHANGE IN CASH	(63,771)	(340,256)
Cash - beginning of year	<u>1,271,565</u>	<u>1,611,821</u>
Cash - end of year	<u><u>\$ 1,207,794</u></u>	<u><u>\$ 1,271,565</u></u>
Cash consists of the following -		
Cash	\$ 1,156,751	\$ 1,149,602
Cash held by investment firm	<u>51,043</u>	<u>121,963</u>
	<u><u>\$ 1,207,794</u></u>	<u><u>\$ 1,271,565</u></u>

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

SILOAM FAMILY HEALTH CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF ACTIVITIES

Siloam Family Health Center (Siloam) is a nonprofit Tennessee corporation that exists to share the love of Christ by providing high-quality, affordable health care to the uninsured and underserved in Middle Tennessee. Siloam provides health care that addresses the physical, mental, spiritual and social detriments of health in a culturally sensitive and compassionate manner in its medical clinic in Nashville, Tennessee.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting principles

Siloam's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Financial Accounting Standards Board has established the Accounting Standards Codification as the sole source of authoritative GAAP.

Principles of consolidation

The consolidated financial statements include the accounts of Siloam and its wholly-owned subsidiary, Siloam Health Services, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

Financial statement presentation

Siloam reports information regarding its consolidated financial position and activities according to three classes of net assets as follows:

Unrestricted Net Assets – include those assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.

Temporarily restricted net assets – include those contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets. For contributions restricted to the acquisition of property and equipment, the restrictions are released when the asset is placed in service unless the donor has provided more explicit requirements.

Permanently restricted net assets - include contributions that donors have restricted in perpetuity. The investment return is available to support operations.

SILOAM FAMILY HEALTH CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Revenues are reported as increases in unrestricted net assets unless they are restricted by donor-imposed stipulations. Expenses are generally reported as decreases in unrestricted net assets.

Support

Contributions received and unconditional promises to give are measured at their fair values and are reported as increases in net assets. Siloam reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Service contracts

Siloam recognizes revenues from fee for service contracts/grants from the State of Tennessee and Catholic Charities of Tennessee, Inc.

Donated services

Various physicians, nurses, pharmacists and medical support personnel donate services to Siloam. These services are accounted for at fair market value and totaled \$459,299 and \$378,541 in the years ended June 30, 2014 and 2013, respectively.

Significant medical services including, but not limited to, hospital and laboratory testing and pharmaceutical supplies are donated to patients of Siloam by other providers at little or no cost to the patient. These services and products are often given at the urging of Siloam. Since Siloam does not directly make the contributions, the value of such services and products are not reflected in the accompanying consolidated financial statements.

Patient fees

Patient services are provided by Siloam at fees based on a sliding scale tied to the federal poverty level. However, no patient is turned away due to inability to pay. Since Siloam does not pursue collection of patient fees, they are recognized as revenue only when received.

Functional allocation of expenses

Expenses are charged directly to program services, general and administrative or fundraising categories based on specific identification. Indirect expenses have been allocated based on estimates made by Siloam's management.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Cash

Siloam maintains at various financial institutions cash accounts which may at times exceed federally insured amounts and which may at times significantly exceed statement of financial position amounts due to outstanding checks. As of June 30, 2014, Siloam's cash balances consisted of \$61,938 in excess of federally insured limits. However, management periodically evaluates the credit-worthiness of the financial institutions, and Siloam has not experienced any losses on such deposits. There were no cash balances in excess of federally insured limits as of June 30, 2013.

Receivables

Receivables consist of promises to give, amounts due under service contracts and other receivables. Management considers all accounts collectible and, therefore, an allowance for doubtful accounts has not been recognized in the consolidated financial statements.

Inventory

Inventory represents purchased pharmaceuticals held for use and is stated at the lower of cost or market. Cost is determined on a first-in, first-out (FIFO) method.

Investments

Siloam's investment securities are considered available-for-sale securities and, accordingly, are carried at fair value. The unrealized endowment earnings included in the statements of activities consist of the net change in unrealized gain or loss during the year.

Realized gains and losses on sales of securities are recognized on the trade date using the specific identification method. Market values are determined based on quoted prices and significant other observable inputs.

Interest income is recognized as earned. Dividends are recognized on the ex-dividend date.

Property and equipment

Property and equipment are stated at cost, or fair value at date of donation if contributed, less accumulated depreciation. Expenditures for repairs and maintenance are charged to expense as incurred and additions and improvements that significantly extend the lives of assets are capitalized. Upon the sale or other retirement of depreciable property, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in operations.

Depreciation is provided using the straight-line method over the estimated useful lives of the depreciable assets.

SILOAM FAMILY HEALTH CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Long-lived assets

The carrying value of long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that 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 estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. During the years ended June 30, 2014 and 2013, Siloam recognized no impairment losses on long-lived assets.

Income taxes

Siloam is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and relevant state regulations. Siloam's federal exempt organization tax returns for the years ended June 30, 2011, 2012, and 2013, are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

Fair value measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Generally accepted accounting principles establish a fair value hierarchy as described below:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3 – Inputs that are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. These inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

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

Estimates and uncertainties

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Subsequent events

Siloam has evaluated subsequent events for potential recognition and disclosure through September 24, 2014, the date the consolidated financial statements were available to be issued.

3. RECEIVABLES

Receivables consist of the following:

	2014	2013
Promises to give	\$ 50,000	\$ -
Service contracts	264,067	415,314
Other	<u>7,902</u>	<u>15,864</u>
	<u>\$321,969</u>	<u>\$431,178</u>

4. ENDOWMENT FUND

As of June 30, 2014 and 2013, the board-designated endowment fund, which consists of cash and marketable securities (classified as available-for-sale), is summarized as follows:

	2014		2013	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash	<u>\$ 51,043</u>	<u>\$ 51,043</u>	<u>\$ 121,963</u>	<u>\$ 121,963</u>
Common equities	791,543	1,182,500	776,416	1,013,464
Corporate bonds	534,611	554,803	462,269	480,651
CMO and asset backed securities	22,489	21,434	24,566	21,882
Mutual funds	<u>61,421</u>	<u>70,907</u>	<u>61,421</u>	<u>61,299</u>
	<u>1,410,064</u>	<u>1,829,644</u>	<u>1,324,672</u>	<u>1,577,296</u>
	<u>\$1,461,107</u>	<u>\$1,880,687</u>	<u>\$1,446,635</u>	<u>\$1,699,259</u>

SILOAM FAMILY HEALTH CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes in unrestricted endowment net assets for the years ended June 30, 2014 and 2013, are as follows:

	2014	2013
Balance, beginning of year	<u>\$1,699,259</u>	<u>\$1,512,837</u>
Investment return:		
Investment income	48,459	47,256
Unrealized endowment earnings	<u>182,969</u>	<u>139,166</u>
	<u>231,428</u>	<u>186,422</u>
Contributions	<u>-</u>	<u>-</u>
Appropriation for expenditure and other	<u>(50,000)</u>	<u>-</u>
	<u>\$1,880,687</u>	<u>\$1,699,259</u>

The net unrealized gains on investment securities increased by \$166,956 and \$137,249 as of June 30, 2014 and 2013, respectively. The change in unrealized gains is classified as unrealized endowment earnings. Realized gains included in net endowment income for the years ended June 30, 2014 and 2013 total \$27,129 and \$1,917, respectively.

The board may authorize disbursement up to 5% of the total value of the fund annually for use in operating activities. In the year ending June 30, 2014, \$50,000 was disbursed from the fund. The fund is managed by an investment advisor and held by an investment firm.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following major classifications:

	2014	2013
Land	\$ 291,560	\$ 291,560
Building	2,123,486	2,123,486
Furniture and equipment	<u>779,162</u>	<u>873,156</u>
	3,194,208	3,288,202
Accumulated depreciation	<u>(1,145,973)</u>	<u>(1,136,414)</u>
	<u>\$2,048,235</u>	<u>\$2,151,788</u>

Depreciation expense totaled \$122,934 and \$159,044 for 2014 and 2013, respectively.

SILOAM FAMILY HEALTH CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	2014	2013
Building maintenance fund	\$291,333	\$294,101
Komen Foundation	8,194	512
Other	<u>4,467</u>	<u>2,615</u>
	<u>\$303,994</u>	<u>\$297,228</u>

Siloam has no permanently restricted net assets.

7. PENSION PLAN

Siloam has a Savings Incentive Match Plan for Employees (SIMPLE) plan covering substantially all full-time employees. Siloam matches employee contributions up to 3% of qualifying compensation. Siloam's contributions under this plan totaled \$37,581 and \$35,352 for the years ended June 30, 2014 and 2013, respectively.

8. FAIR VALUE MEASUREMENTS

The following table presents Siloam's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2014:

	<u>Total</u>	<u>Fair Value Measurements Using</u>	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Cash held by investment firm	\$ 51,043	\$ 51,043	\$ -
Common equities	1,182,500	1,182,500	-
Corporate bonds	554,803	-	554,803
CMO and asset backed securities	21,434	-	21,434
Mutual funds	<u>70,907</u>	<u>-</u>	<u>70,907</u>
	<u>\$1,880,687</u>	<u>\$1,233,543</u>	<u>\$ 647,144</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents Siloam's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2013:

	<u>Fair Value Measurements Using</u>		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	<u>Total</u>		
Cash held by investment firm	\$ 121,963	\$ 121,963	\$ -
Common equities	1,013,464	1,013,464	-
Corporate bonds	480,651	-	480,651
CMO and asset backed securities	21,882	-	21,882
Mutual funds	<u>61,299</u>	<u>-</u>	<u>61,299</u>
	<u>\$1,699,259</u>	<u>\$1,135,427</u>	<u>\$ 563,832</u>

Siloam uses the market approach to determine the fair value of investments measured using level 2 inputs.

Proceeds from sales of marketable securities were \$85,209 and \$125,020 for the years ended June 30, 2014 and 2013, respectively, with realized gains of \$27,129 and \$1,917.

Cash, prepaid expenses, receivables, accounts payable and accrued compensated absences – The carrying amounts approximate their fair values due to the short-term maturity of these instruments.

9. CONCENTRATION OF FUNDING

Siloam receives a significant portion of its funds used for operations from a contract with Catholic Charities of Tennessee, Inc. A major reduction of funds from this contract, should it occur, would have a material effect on the programs and the financial position of Siloam.