

Annex Teen Clinic, Inc.
Robbinsdale, Minnesota

Financial Statements
Auditor's Report
For the Years Ended
December 31, 2014 and 2013

Carpenter *Evert*
Certified Public Accountants



CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1-2
EXHIBIT A: Statements of Activities and Changes in Net Assets – For the Years Ended December 31, 2014 and 2013	3
EXHIBIT B: Statement of Functional Expense – For the Year Ended December 31, 2014 with Comparative Totals for 2013	4
EXHIBIT C: Statement of Functional Expense – For the Year Ended December 31, 2013	5
EXHIBIT D: Statements of Financial Position – December 31, 2014 and 2013	6
EXHIBIT E: Statements of Cash Flows – For the Years Ended December 31, 2014 and 2013	7
NOTES TO FINANCIAL STATEMENTS	8-14

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Carpenter *Evert*

Independent Auditor's Report

Board of Directors
Annex Teen Clinic, Inc.
Robbinsdale, Minnesota

We have audited the accompanying financial statements of Annex Teen Clinic, Inc., which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and changes in net assets, functional expense, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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.

Independent Auditor's Report (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Annex Teen Clinic, Inc. as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Carpenter Hunt & Associates, P.A.
Certified Public Accountants

Minneapolis, Minnesota
June 9, 2015

EXHIBIT B

ANNEX TEEN CLINIC, INC.
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2014
WITH COMPARATIVE TOTALS FOR 2013

	2014					2013	
	Program Services			Support Services		Total All Services	Total All Services
	Health Clinic	Health Education	Total Program Services	Management & General	Fund-raising	Total Support Services	Total All Services
Salaries	\$ 436,743	\$ 743,611	\$ 1,180,354	\$ 27,909	\$ 51,110	\$ 79,019	\$ 1,259,373
Employee Benefits	54,499	92,011	146,510	3,524	6,437	9,961	156,471
Payroll Taxes	39,109	64,540	103,649	2,941	4,370	7,311	110,960
Total Personnel Costs	530,351	900,162	1,430,513	34,374	61,917	96,291	1,526,804
Professional Fees	55,041	87,495	142,536	181,018	648	181,666	324,202
Participant Expense	230,458	75,647	306,105	-	-	-	306,105
Occupancy	20,276	40,093	60,369	823	1,546	2,369	62,738
Office Expense	26,273	26,909	53,182	1,030	1,436	2,466	55,648
Miscellaneous	13,267	4,336	17,603	2,425	3,844	6,269	23,872
Travel	703	17,846	18,549	391	100	491	19,040
Staff and Volunteer Development	2,427	10,744	13,171	941	587	1,528	14,699
Depreciation	13,433	26,703	40,136	493	1,218	1,711	41,847
Total Expense	\$ 892,229	\$ 1,189,935	\$ 2,082,164	\$ 221,495	\$ 71,296	\$ 292,791	\$ 2,374,955
							\$ 2,324,228

The accompanying Notes to Financial Statements are an integral part of this statement.

ANNEX TEEN CLINIC, INC.
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2013

	Program Services			Support Services			Total All Services
	Health Clinic	Health Education	Total Program Services	Management & General	Fund-raising	Total Support Services	
Salaries	\$ 428,699	\$ 646,223	\$ 1,074,922	\$ 28,726	\$ 52,025	\$ 80,751	\$ 1,155,673
Employee Benefits	56,767	83,847	140,614	4,261	6,819	11,080	151,694
Payroll Taxes	34,981	52,940	87,921	2,397	4,317	6,714	94,635
Total Personnel Costs	520,447	783,010	1,303,457	35,384	63,161	98,545	1,402,002
Professional Fees	67,141	167,741	234,882	153,112	479	153,591	388,473
Participant Expense	179,415	142,068	321,483	-	-	-	321,483
Occupancy	17,520	35,713	53,233	785	1,714	2,499	55,732
Office Expense	28,959	29,775	58,734	2,221	1,756	3,977	62,711
Miscellaneous	9,413	1,102	10,515	5,842	3,534	9,376	19,891
Travel	1,022	13,710	14,732	83	157	240	14,972
Staff and Volunteer Development	4,261	11,434	15,695	814	874	1,688	17,383
Depreciation	14,354	25,327	39,681	520	1,380	1,900	41,581
Total Expense	\$ 842,532	\$ 1,209,880	\$ 2,052,412	\$ 198,761	\$ 73,055	\$ 271,816	\$ 2,324,228

The accompanying Notes to Financial Statements are an integral part of this statement.

ANNEX TEEN CLINIC, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash and Cash Equivalents	\$ 319,444	\$ 216,282
Accounts Receivable (Net of Allowance for Doubtful Accounts of \$0 in 2014 and \$236,000 in 2013)	277,418	310,554
Pledges and Grants Receivable	-	15,782
Inventory	31,479	47,422
Prepaid Expenses	59,883	29,078
Total Current Assets	688,224	619,118
Noncurrent Assets:		
Property and Equipment - Net	835,644	877,491
TOTAL ASSETS	\$ 1,523,868	\$ 1,496,609
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts Payable	\$ 8,558	\$ 25,266
Accrued Expense and Payroll Withholding	121,743	143,463
Notes Payable	12,890	16,075
Total Current Liabilities	143,191	184,804
Notes Payable	279,215	293,756
Total Liabilities	422,406	478,560
Net Assets:		
Unrestricted	1,016,214	1,013,249
Temporarily Restricted	85,248	4,800
Total Net Assets	1,101,462	1,018,049
TOTAL LIABILITIES AND NET ASSETS	\$ 1,523,868	\$ 1,496,609

The accompanying Notes to Financial Statements
are an integral part of these statements.

ANNEX TEEN CLINIC, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
<u>Increase (Decrease) in Cash and Cash Equivalents</u>		
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 83,413	\$ (28,166)
Total Adjustments	<u>37,475</u>	<u>89,400</u>
Net Cash Provided by Operating Activities	120,888	61,234
Cash Flows from Investing Activities:		
Purchase of Property and Equipment	-	(1,599)
Cash Flows from Financing Activities:		
Principal Payments on Notes Payable	<u>(17,726)</u>	<u>(23,695)</u>
Net Increase in Cash and Cash Equivalents	103,162	35,940
Cash and Cash Equivalents - Beginning of Year	<u>216,282</u>	<u>180,342</u>
Cash and Cash Equivalents - End of Year	<u>\$ 319,444</u>	<u>\$ 216,282</u>
 <u>Supplemental Disclosures of Cash Flow Information</u>		
Cash Paid for:		
Interest	<u>\$ 13,236</u>	<u>\$ 15,670</u>

The accompanying Notes to Financial Statements
are an integral part of these statements.

ANNEX TEEN CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

1. Summary of Significant Accounting Policies

Organizational Purpose

Annex Teen Clinic, Inc. (The Organization) is a Minnesota nonprofit corporation. The purpose of the Organization is to provide primary health care services and health care education to young people in the northern suburbs of Minneapolis.

The Organization's programs are as follows:

Health Clinic – This program provides sexuality related health care for adolescents and young adults including pregnancy tests, sexually transmitted disease testing and treatment, HIV testing and contraceptive services.

Health Education – This program provides health education services to youth in the community related to healthy relationships, communication skills and sexual health issues. The program also provides education programming for parents and youth serving professionals. The program provides support and education services for pregnant and parenting adolescents, psychosocial support groups and counseling services.

Fund Accounting

In order to observe the limitation and restrictions placed on resources available to the Organization, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure whereby resources are classified for accounting and reporting purposes into net asset groupings established according to their nature and restrictions. A description of the groupings is as follows:

Unrestricted Net Assets – Net assets which are neither permanently nor temporarily restricted by donor-imposed stipulations. These net assets include both board designated and undesignated amounts. Property and equipment is reported as unrestricted net assets.

Temporarily Restricted Net Assets – The part of net assets of the Organization resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions pursuant to those stipulations.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

ANNEX TEEN CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

1. Summary of Significant Accounting Policies (continued)

Accounts Receivable and Doubtful Accounts

The Organization extends credit to its customers on terms it establishes for individual customers. Receivables are recorded at amounts billed and are generally due when billed. Amounts outstanding for more than 30 days are considered delinquent. Accounts receivable are generally uncollateralized and the Organization does not charge interest on accounts receivable balances. The Organization reviews accounts receivable balances on a periodic basis and writes off delinquent receivables when they are considered uncollectible. The Organization provides an allowance for doubtful accounts based on historical experience and management's evaluation of outstanding accounts receivable at the end of each year. Accounts are stated net of the allowance for doubtful accounts of \$-0- and \$236,000 for the years ended December 31, 2014 and 2013, respectively.

Patient fees are recorded net of all insurance and sliding fee discounts provided to recipients. Fees are recognized as revenue when billed.

Inventory

Inventory consists of birth control and other drugs used in various Organization programs. Inventory is valued at the lower of cost or market, determined on a first-in first-out basis (FIFO).

Property and Equipment

All major expenditures for leasehold improvements and equipment above \$1,500 are capitalized at cost. Depreciation is provided through the use of the straight-line method. Donated property and equipment is valued at estimated market value.

Contributions

Contributions are recorded when received and recognized as support in the period received. If donor-imposed restrictions accompany the contribution, the amount is recorded as temporarily or permanently restricted until the donor-imposed restrictions expire or are fulfilled. Temporarily restricted net assets are reclassified to unrestricted in the period donor-imposed restrictions expire or are fulfilled, and are reported in the Statements of Activities under the Support and Revenue Category – Net Assets Released from Restrictions except when the receipt and expiration occur in the same period in which case the contribution is shown as unrestricted.

Promises-To-Give (Pledges Receivable)

Unconditional promises-to-give are recognized in the period the promises are made. Conditional promises-to-give are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional.

ANNEX TEEN CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

1. Summary of Significant Accounting Policies (continued)

Government Grants and Contracts

Government grants and contract funds are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Funds received but not yet earned are shown as refundable advances. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the final assessment is made.

Functional Allocation of Expense

Expenses are recorded in functional categories when incurred. In certain cases, allocations between categories must be made. When allocations are required, they are based on the best estimates of management.

Income Tax

The Organization has a tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and has adopted *Accounting for Uncertainty in Income Taxes*, ASC 740-10. The Organization's policy is to evaluate uncertain tax positions, at least annually, for the potential for income tax exposure from unrelated business income or from loss of nonprofit status. The Organization continues to operate consistent with its original exemption application and each year takes the necessary actions to maintain its exempt status. It has been classified as an organization that is not a private foundation under the Internal Revenue Code and charitable contributions by donors are tax deductible. In compliance with its exempt status, the Organization annually files a Return of Organization Exempt From Income Tax (Form 990). The returns for the years ending December 31, 2011 and later remain subject to examination by the Internal Revenue Service.

Risks and Uncertainties

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions can affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Subsequent Events

The Organization has evaluated the effect that subsequent events would have on the financial statements through June 9, 2015, which is the date financial statements were available to be issued.

ANNEX TEEN CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

2. Financial Instruments

Significant Concentrations of Credit Risk

The Organization provides services within the Twin Cities area. The amounts due for services provided are from individuals from Hennepin County and the State of Minnesota, all of whom are local residents. In addition, grants and contributions receivable are from local residents, governments or institutions.

Significant Concentrations of Revenue

Hennepin County and State of Minnesota revenue totaled \$1,564,664 and \$1,555,067 during the years ended December 31, 2014 and 2013, respectively. The loss of this funding could have a significant impact on the Organization.

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

At December 31, 2014, the Organization held funds at a local financial institution in excess of federally insured limits

3. Inventory

Inventory consisted of the following as of:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Birth Control	\$ 30,747	\$ 44,791
Other Drugs	732	2,631
	<u>\$ 31,479</u>	<u>\$ 47,422</u>

4. Property and Equipment

The Organization owned the following as of:

	<u>December 31,</u>		
	<u>2014</u>	<u>2013</u>	<u>Estimated Useful Lives</u>
Land and Building	\$ 896,350	\$ 896,350	30 years
Furniture and Equipment	77,341	77,341	3-5 years
	973,691	973,691	
Less Accumulated Depreciation	138,047	96,200	
	<u>\$ 835,644</u>	<u>\$ 877,491</u>	

Depreciation expense of \$41,847 and \$41,581 was recorded for the years ended December 31, 2014 and 2013, respectively.

ANNEX TEEN CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

5. Notes Payable

The breakdown of notes payable is as follows:

	December 31,	
	2014	2013
4% Promissory note payable to Vision Bank. Payable in monthly amounts of \$2,171 including interest with a balloon payment due January 2020. Secured by building.	\$ 292,105	\$ 260,464
6% Promissory note payable to Vision Bank. Payable in monthly amounts of \$380 including interest with a balloon payment due January 2015. Consolidated into note above in January 2015. Secured by building.	-	46,735
6% Promissory note payable to Nonprofit Assistance Fund. Monthly interest-only payments from September 2011 to January 2012. One payment in the amount of \$15,000 due February 2012. Starting March 2012 payable in monthly amounts of \$665 including interest with the last payment due February 2014. Secured by building.	-	2,632
	292,105	309,831
Less Portion Due Within One (1) Year	12,890	16,075
Long-term Portion	\$ 279,215	\$ 293,756

Principal payments required are as follows:

<u>Due in the Year Ending December 31,</u>	
2015	\$ 12,890
2016	15,155
2017	15,772
2018	16,415
2019	17,084
2020 and thereafter	214,789
Total	\$ 292,105

The Organization maintains a \$100,000 line-of-credit with Wells Fargo Bank at a rate of Prime plus 3.26% which expires December 1, 2015. Principal is due on demand and is unsecured. Balance was \$-0- for the year ended December 31, 2014 and 2013.

ANNEX TEEN CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

6. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of amounts from the following as of:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Nursing and Care Management	\$ 70,000	\$ -
Future Operations	10,098	-
Health Education	<u>5,150</u>	<u>4,800</u>
	<u>\$ 85,248</u>	<u>\$ 4,800</u>

7. In-kind Contributions

The Organization records in-kind contributions at fair market value at date of donation. In-kind contributions included the following as of:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Medical Personnel and Lab Services	<u>\$ 17,361</u>	<u>\$ 21,759</u>

8. Retirement Plan

The Organization initiated a 403(b) retirement plan January 1, 2009. The plan is funded by discretionary employer profit sharing and matching contributions as well as employee contributions. Employer contributions of \$28,640 and \$26,925 were made in the years ended December 31, 2014 and 2013, respectively.

9. Member Services Agreement

In September 2008, the Organization became a member of MACC Commonwealth, Inc. (also a non-profit), an organization formed to deliver a shared solution for meeting the key administrative functions of finance, human resources, and information technology. Fees paid to MACC Commonwealth, Inc. were \$151,175 for 2014 and \$144,096 for 2013.

ANNEX TEEN CLINIC, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

11. Cash Flow Operating Adjustments

Adjustments to reconcile Change in Net Assets to Net Cash Provided by Operating Activities were as follows as of:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Depreciation	\$ 41,847	\$ 41,581
Increases (Decreases) in Current Liabilities:		
Accounts Payable	(16,708)	(49,249)
Accrued Expense	(21,720)	4,321
Decreases (Increases) in Current Assets:		
Accounts Receivable	33,136	101,808
Pledges and Grants Receivable	15,782	(12,103)
Inventory	15,943	14,544
Prepaid Expense	<u>(30,805)</u>	<u>(11,502)</u>
Total Adjustments	<u>\$ 37,475</u>	<u>\$ 89,400</u>