

**NEAR NORTH HEALTH SERVICE CORPORATION
AND AFFILIATE
Chicago, Illinois**

**CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014 and 2013**



CliftonLarsonAllen

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Near North Health Service Corporation and Affiliate
Chicago, Illinois

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Near North Health Service Corporation and Affiliate (a nonprofit organization) (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2014 and the related consolidated statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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.

Auditors' 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 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 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 auditors' 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 financial position of the Organization as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America

Other Matters

The financial statements of the Organization as of June 30, 2013, were audited by other auditors whose report dated September 12, 2013, expressed an unmodified opinion on those statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the June 30, 2014 consolidated financial statements as a whole. The June 30, 2014 consolidating statement of financial position, consolidating statement of activities and consolidating statement of changes in net assets are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the June 30, 2014 consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2014, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Oak Brook, Illinois
November 6, 2014

NEAR NORTH HEALTH SERVICES CORPORATION AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2014 and 2013

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,270,396	\$ 1,695,322
Certificates of deposit	867,948	867,280
Accounts receivable:		
Patient accounts, net	2,692,715	1,351,254
Other receivables	85,631	25,021
Grants receivable	771,378	548,177
Assets limited as to use	224,029	-
Investments	4,475,735	4,374,441
Prepaid expenses	<u>113,462</u>	<u>147,405</u>
Total current assets	<u>10,501,294</u>	<u>9,008,900</u>
PROPERTY AND EQUIPMENT		
Land	2,323,884	2,323,884
Land improvements	1,063,764	757,374
Buildings	24,942,864	14,173,573
Leasehold improvements	879,752	795,650
Automobile - vehicles	162,693	162,693
Furniture and equipment	4,332,920	3,287,362
Construction in progress	<u>-</u>	<u>7,373,819</u>
Total property and equipment	33,705,877	28,874,355
Less accumulated depreciation	<u>(11,629,560)</u>	<u>(10,511,652)</u>
Net property and equipment	<u>22,076,317</u>	<u>18,362,703</u>
OTHER ASSETS		
Notes receivable	7,793,290	-
Deferred financing cost, net	<u>44,171</u>	<u>58,891</u>
Total other assets	<u>7,837,461</u>	<u>58,891</u>
TOTAL ASSETS	<u><u>\$ 40,415,072</u></u>	<u><u>\$ 27,430,494</u></u>

LIABILITIES AND NET ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES		
Accounts payable	493,584	307,369
Accrued expenses	288,758	401,632
Accrued payroll and withholdings	365,926	346,216
Accrued vacation	475,802	443,805
Deferred revenue	-	453,919
Retainage payable	-	647,654
Construction costs payable	-	2,464,560
Notes payable, current portion	<u>674,303</u>	<u>484,131</u>
Total current liabilities	<u>2,298,373</u>	<u>5,549,286</u>
LONG-TERM LIABILITIES		
Interest rate swap	193,257	-
Notes payable, less current portion	<u>17,002,588</u>	<u>1,455,891</u>
Total long-term liabilities	<u>17,195,845</u>	<u>1,455,891</u>
Total liabilities	<u>19,494,218</u>	<u>7,005,177</u>
NET ASSETS		
Unrestricted	18,395,939	17,900,402
Unrestricted - board-designated	<u>2,524,915</u>	<u>2,524,915</u>
Total net assets	<u>20,920,854</u>	<u>20,425,317</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 40,415,072</u>	<u>\$ 27,430,494</u>

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

NEAR NORTH HEALTH SERVICES CORPORATION AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 700,598	\$ -	\$ 700,598
Grants	11,051,793	-	11,051,793
Special events	27,648	-	27,648
United Way	60,000	-	60,000
	<u>11,840,039</u>	<u>-</u>	<u>11,840,039</u>
Total support			
Net patient service fees	6,129,460	-	6,129,460
Other income	144,291	-	144,291
Interest and dividend income	167,723	-	167,723
	<u>18,281,513</u>	<u>-</u>	<u>18,281,513</u>
Total revenue			
EXPENSES			
Program services:			
Health services	8,766,758	-	8,766,758
Other services	3,145,950	-	3,145,950
	<u>11,912,708</u>	<u>-</u>	<u>11,912,708</u>
Total program services			
Support services:			
Management and general	5,369,411	-	5,369,411
Fundraising	310,600	-	310,600
	<u>5,680,011</u>	<u>-</u>	<u>5,680,011</u>
Total support services			
Total expenses	<u>17,592,719</u>	<u>-</u>	<u>17,592,719</u>
CHANGE IN NET ASSETS BEFORE OTHER ITEM	688,794	-	688,794
OTHER ITEM			
Change in interest rate swap liability	(193,257)	-	(193,257)
CHANGE IN NET ASSETS	495,537	-	495,537
NET ASSETS, BEGINNING OF YEAR	<u>20,425,317</u>	<u>-</u>	<u>20,425,317</u>
NET ASSETS, END OF YEAR	<u>\$ 20,920,854</u>	<u>\$ -</u>	<u>\$ 20,920,854</u>

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

NEAR NORTH HEALTH SERVICES CORPORATION AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Contributions	\$ 170,365	\$ 354,060	\$ 524,425
Grants	-	13,682,666	13,682,666
Special events	16,816	-	16,816
United Way	100,000	-	100,000
Total support	287,181	14,036,726	14,323,907
Program fees	5,732,782	-	5,732,782
Other income	138,734	-	138,734
Interest and dividend income	28,682	-	28,682
Total revenue	5,900,198	-	5,900,198
NET ASSETS RELEASED FROM RESTRICTIONS			
Satisfaction of program restrictions	14,036,726	(14,036,726)	-
Total support, revenue, and reclassifications	20,224,105	-	20,224,105
EXPENSES			
Program services:			
Health services	9,141,298	-	9,141,298
Other services	2,417,508	-	2,417,508
Total program services	11,558,806	-	11,558,806
Support services:			
Management and general	4,447,842	-	4,447,842
Fundraising	292,422	-	292,422
Total support services	4,740,264	-	4,740,264
Total expenses	16,299,070	-	16,299,070
CHANGE IN NET ASSETS	3,925,035	-	3,925,035
NET ASSETS, BEGINNING OF YEAR	16,500,282	-	16,500,282
NET ASSETS, END OF YEAR	\$ 20,425,317	\$ -	\$ 20,425,317

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

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 495,537	\$ 3,925,035
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,132,626	855,095
Provision for bad debts	(178,008)	-
Change in value of interest rate swap	193,257	-
Effects of changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(1,163,453)	363,518
(Increase) decrease in other receivables	(60,610)	61,753
(Increase) decrease in grants receivable	(223,201)	32,753
Decrease (increase) in prepaid expenses	33,943	(40,064)
Increase (decrease) in accounts payable	186,215	(58,389)
Increase (decrease) in accrued expenses	(112,874)	(55,135)
Increase (decrease) in accrued payroll and vacation	51,707	(10,166)
(Decrease) increase in deferred revenue	(453,919)	135,169
(Decrease) increase in retainage payable	-	647,654
(Decrease) increase in construction costs payable	-	2,464,560
	(98,780)	8,321,783
Net cash provided by (used in) operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(7,943,734)	(7,015,305)
Change in assets limited as to use	(224,029)	-
Disbursements on notes receivable	(7,793,290)	-
Purchase of investments	(101,962)	(26,550)
	(16,063,015)	(7,041,855)
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	16,221,000	-
Payments on long-term debt	(484,131)	(461,716)
	15,736,869	(461,716)
Net cash provided by (used in) financing activities		
INCREASE IN CASH AND CASH EQUIVALENTS	(424,926)	818,212
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,695,322	877,110
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,270,396	\$ 1,695,322
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid on a cash basis	\$ 215,890	\$ 104,123

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

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2014

	Program Services								Supporting Services						
	Winfield Moody	Komed Holman	Louise Landau	Health Services		Denny Center	Reavis Center	Kostner Center	Total Health Services	Other Services	Total Program Services	Management and General	Fundraising	Total Support Services	Total 2014
Salaries and wages	\$ 2,938,329	\$ 1,581,774	\$ 398,939	\$ 48,561	\$ 70,174	\$ 102,118	\$ 116,864	\$ 306,794	\$ 5,563,553	\$ 1,983,609	\$ 7,547,162	\$ 2,196,279	\$ 171,391	\$ 2,367,670	\$ 9,914,832
Employee benefits	407,203	171,126	23,880	-	17,410	17,445	13,055	10,216	660,335	370,170	1,030,505	236,285	37,632	273,917	1,304,422
Payroll taxes	206,495	107,168	27,958	1,282	5,763	8,030	9,042	22,087	387,825	143,267	531,092	150,921	12,077	162,998	694,090
Total personnel costs	3,552,027	1,860,068	450,777	49,843	93,347	127,593	138,961	339,097	6,611,713	2,497,046	9,108,759	2,583,485	221,100	2,804,585	11,913,344
Professional fees	43,689	31,035	8,603	1,118	8,829	4,733	121	3,168	101,296	10,707	112,003	1,401,991	42,709	1,444,700	1,556,703
Supplies	137,384	183,444	18,033	7,476	6,842	3,684	5,709	24,896	387,468	12,858	400,326	198,087	335	198,422	598,748
Telephone and communication	120,511	50,780	12,306	1,361	2,548	5,164	-	9,257	201,927	77,682	279,609	72,288	6,036	78,324	357,933
Postage and shipping	-	-	-	-	-	-	-	-	-	-	-	14,466	-	14,466	14,466
Occupancy - housing program	100,307	119,262	193,629	59,142	46,911	3,216	-	113,167	635,634	100,711	736,345	279,386	-	279,386	1,015,731
Equipment rental and maintenance	5,005	8,977	4,467	1,110	987	653	325	4,082	25,606	757	26,363	29,083	-	29,083	55,446
Printing and publications	-	-	-	-	-	-	-	-	-	-	-	1,632	7,174	8,806	8,806
Travel and transportation	2,383	110	-	-	-	-	-	-	2,493	375	2,868	5,097	32	5,129	7,997
Conferences, conventions, and meetings	16,768	38	-	-	-	-	-	-	16,806	1,768	18,574	48,547	-	48,547	67,121
Dues and subscriptions	88,338	375	-	200	-	150	-	450	89,513	1,437	90,950	26,093	295	26,388	117,338
Insurance	50,271	-	-	-	-	-	-	-	50,271	-	50,271	158,515	-	158,515	208,786
Mortgage interest	-	-	-	-	-	-	-	-	-	74,058	74,058	142,094	-	142,094	216,152
Bad debt expense	178,008	-	-	-	-	-	-	-	178,008	-	178,008	-	-	-	178,008
Miscellaneous	4,877	59	-	-	-	-	-	59	4,995	5,495	10,490	116,777	16,247	133,024	143,514
	4,299,568	2,254,148	687,815	120,250	159,464	145,193	145,116	494,176	8,305,730	2,782,894	11,088,624	5,077,541	293,928	5,371,469	16,460,093
Depreciation and amortization expense	233,787	127,862	39,015	6,821	9,045	8,236	8,231	28,031	461,028	363,056	824,084	291,870	16,672	308,542	1,132,626
TOTAL FUNCTIONAL EXPENSES	\$ 4,533,355	\$ 2,382,010	\$ 726,830	\$ 127,071	\$ 168,509	\$ 153,429	\$ 153,347	\$ 522,207	\$ 8,766,758	\$ 3,145,950	\$ 11,912,708	\$ 5,369,411	\$ 310,600	\$ 5,680,011	\$ 17,592,719

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

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2013

	Program Services							Supporting Services						
	Health Services						Total Health Services	Other Services	Total Program Services	Management and General	Fundraising	Total Support Services	Total 2013	
	Winfield Moody	Komed Holman	Louise Landau	Cottage View	Uptown Center	Denny Center	Reavis Center							
Salaries and wages	\$ 2,665,496	\$ 2,327,964	\$ 353,923	\$ 113,651	\$ 87,003	\$ 145,188	\$ 139,218	\$ 5,832,443	\$ 1,518,970	\$ 7,351,413	\$ 1,968,736	\$ 174,276	\$ 2,143,012	\$ 9,494,425
Employee benefits	280,444	300,504	48,869	10,411	20,961	23,603	21,343	706,135	512,746	1,218,881	107,701	45,280	152,981	1,371,862
Payroll taxes	176,630	144,433	23,035	6,696	5,249	8,466	8,981	373,490	96,900	470,390	184,447	10,956	195,403	665,793
Total personnel costs	3,122,570	2,772,901	425,827	130,758	113,213	177,257	169,542	6,912,068	2,128,616	9,040,684	2,260,884	230,512	2,491,396	11,532,080
Professional fees	274,800	137,294	35,356	28,558	15,107	5,774	665	497,554	1,962	499,516	884,268	440	884,708	1,384,224
Supplies	136,631	120,047	27,666	17,437	8,129	6,580	3,323	319,813	7,978	327,791	176,970	974	177,944	505,735
Telephone and communication	102,663	39,671	11,489	13,715	28,912	9,049	3,394	208,893	42,838	251,731	95,921	7,995	103,916	355,647
Postage and shipping	-	-	-	-	-	-	-	-	-	-	20,267	-	20,267	20,267
Occupancy - housing program	86,185	114,832	182,766	59,515	46,046	2,959	-	492,303	87,782	580,085	338,932	2,572	341,504	921,589
Equipment rental and maintenance	10,201	12,621	7,800	1,116	580	664	657	33,639	17,609	51,248	54,115	17,369	71,484	122,732
Printing and publications	-	-	-	-	-	-	-	-	-	-	925	11,532	12,457	12,457
Travel and transpiration	1,960	419	-	-	-	-	-	2,379	422	2,801	2,913	-	2,913	5,714
Conferences, conventions, and meetings	25,101	7,958	195	-	-	-	500	33,754	281	34,035	64,219	-	64,219	98,254
Dues and subscriptions	111,505	1,760	4,822	-	1,200	-	-	119,287	-	119,287	3,471	295	3,766	123,053
Insurance	48,428	-	-	-	-	-	500	48,928	-	48,928	98,363	-	98,363	147,291
Mortgage interest	-	-	-	-	-	-	-	-	-	-	104,123	-	104,123	104,123
Miscellaneous	4,505	1,477	278	139	70	70	-	6,539	6,745	13,284	91,704	5,821	97,525	110,809
	3,924,549	3,208,980	696,199	251,238	213,257	202,353	178,581	8,675,157	2,294,233	10,969,390	4,197,075	277,510	4,474,585	15,443,975
Depreciation and amortization expense	210,877	172,427	37,409	13,500	11,459	10,873	9,596	466,141	123,275	589,416	250,767	14,912	265,679	855,095
TOTAL FUNCTIONAL EXPENSES	\$ 4,135,426	\$ 3,381,407	\$ 733,608	\$ 264,738	\$ 224,716	\$ 213,226	\$ 188,177	\$ 9,141,298	\$ 2,417,508	\$ 11,558,806	\$ 4,447,842	\$ 292,422	\$ 4,740,264	\$ 16,299,070

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

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Near North Health Service Corporation (NNHSC) is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from income taxes on related income pursuant to Section 501(a) of the IRC.

NNHSC is a federally qualified health care center, operating the following community-based primary health care facilities that serve the residents of the city of Chicago:

- Winfield Moody Health Center - serving the residents of the Cabrini-Green, Near North, and West Town communities.
- Komed Holman Health Center - serving the residents of the mid-south side of Chicago, comprising the following communities: Kenwood/Oakland, Grand Boulevard, Hyde Park, and Chatham.
- Louise Landau Health Center - serving the residents of Southwest and Humboldt Park.
- Cottage View Health Center - serving the residents of Grand Boulevard.
- Uptown Health Center - serving the residents of the Uptown community.
- Denny Health Center - serving the residents of the Lawson YMCA and the surrounding area.
- Reavis Health Center - serving the residents of Kenwood/Oakland, Hyde Park, Grand Boulevard, and Washington Park.
- North Kostner Health Center - serving the residents of Humboldt Park, North Lawndale, and Austin.

On June 13, 2013, the NNHSC board of directors approved the formation of NNHSC Title Holding Corporation (the "Holding Company"). The Holding Company is a nonprofit organization incorporated in the state of Illinois with NNHSC as the sole member of the entity. The Holding Company was created to hold the building and debt related to the New Market Tax Credit (NMTC) transaction that took place during the fiscal year ended June 30, 2014. See Note 2 for further discussion of the NMTC transaction.

Principles of Consolidation

The accompanying consolidated financial statements include the amounts of NNHSC and the Holding Company, collectively referred to as the Organization. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Basis of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting and in conformity with the standards promulgated by the American Institute of Certified Public Accountants which include guidelines for nonprofit and health care organizations.

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation

Financial statement presentation follows the recommendations of Accounting Standards Codification (ASC) Topic 958-205, *Not-for-Profit Organizations, Presentation of Financial Statements*. Under those provisions; net assets are classified based on the existence or absence of donor-imposed restrictions as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of NNHSC or that expire by the passage of time. The Organization had no temporarily restricted net assets at June 30, 2014 and 2013.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by NNHSC. The Organization had no permanently restricted net assets at June 30, 2014 and 2013.

Use of Estimates in Preparing Consolidated Financial Statements

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

Fair Value of Financial Instruments

The Organization has estimated the fair values of its financial instruments using available market information and other valuation methodologies in accordance with ASC Topic 820, *Fair Value Measurements and Disclosures*. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Organization could realize in a current market exchange.

Certificates of Deposit

Certificates of deposit have original maturities from three months to one year and are stated at cost.

Patient Accounts Receivable

Patient receivables, for which a third party payor is responsible for paying, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual fee adjustments or discounts provided to third party payors.

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Patient receivables due directly from the patients are carried at the original charge for the service provided, less amounts covered by third party payers and less an estimated allowance for uncollectible receivables. Management determines the allowance for uncollectible accounts, fee adjustments and discounts by identifying troubled accounts and by historical experience applied to an aging of accounts. Patient receivables are written off as adjustments to service fee revenue when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of service fee revenue adjustment account when received. NNHSC determines when an account is past due based on payer classification. The Organization does not charge interest on past due accounts. The allowance for uncollectible accounts, fee adjustments and discounts at June 30, 2014 and 2013 was \$4,006,536 and \$2,555,189, respectively.

Property and Equipment

Property and equipment purchased with unrestricted funds are stated at cost, less accumulated depreciation. Acquisitions of property and equipment in excess of \$500 are capitalized. Property and equipment purchased with grant funds that give the granting agency a reversionary interest in the property are recorded as expenses in the year of acquisition. Capitalized assets are depreciated on the straight-line basis over the estimated useful lives of the assets, as follows:

	<u>Years</u>
Land improvements	30
Buildings	30
Leasehold improvements	5
Automobile - vehicles	5
Furniture and equipment	5

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate 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 future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

Assets Limited as to Use

Assets limited as to use consist mainly of cash and cash equivalents. The assets limited to use represent cash restricted for the payment of interest on the QLICI loan described in Note 2.

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accrued Vacation

A liability is accrued for vacation earned, but not taken at year-end. Management and employees may accrue unused vacation for a period of up to 1.25 years.

Interest Rate Swap

During 2014, the Organization entered into an interest rate swap to manage risks related to interest rate movements. The interest rate swap contract is designated and qualifies as a cash flow hedge and is reported at fair value. The gains or losses on the hedge are included as a component of changes in net assets. The Organization's interest rate risk management strategy is to stabilize cash flow requirements by maintaining the interest rate swap contract to effectively convert variable rate debt to a fixed rate.

Recognition of Contributions and Grants

The Organization accounts for contributions in accordance with ASC Topic 958-605, *Accounting for Contributions Received*. In accordance with ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Grants are recognized as revenue when earned. Expense driven grants are recognized as revenue when the qualifying expenses have been incurred and all other grant requirements have been met. Grant funds received prior to the incurrence of the qualifying expenses are deferred.

All contributions are considered to be available for unrestricted use unless specifically restricted by donors. Unrestricted contributions are recognized when received.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (such as when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Donated Goods and Services

The Organization receives donated goods and services from various organizations and volunteers. No amount has been reflected in the consolidated financial statements for donated services by volunteers since they did not meet the criteria for consolidated financial statement recognition under ASC Topic 958. No donated goods were received during the year ended June 30, 2014.

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Patient Service Fees

The Organization has agreements with third party payors that provide for payments at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Patient fees are reported at estimated net realizable amounts from patients, third party payors and other payors for services rendered, including retroactive adjustments under reimbursement agreements with third party payors, which are subject to audit by administering agencies. These adjustments are considered in the recognition of revenue on an estimated basis and are adjusted in future periods, as final settlements are determined. The Organization provides care to certain patients under Medicare and Medicaid payment arrangements. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action. The total adjustments to net patient service fees for contractual allowances and sliding fee adjustments for the years ended June 30, 2014 and 2013 were \$2,059,542 and \$7,214,997, and \$1,899,477 and \$7,231,840, all respectively.

Electronic Health Record (EHR) Incentive Payments

As discussed in Note 13, the Organization received funds under the Electronic Health Record (EHR) incentive program and recognized revenue for payments received during the period. Going forward, the Organization will recognize revenue when management is reasonably assured they will meet all meaningful use objectives and any other specific grant requirements that are applicable, e.g., electronic transmission of quality measures to the Centers for Medicare and Medicaid Services (CMS) in the second and subsequent payment years are made.

Allocated Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to the benefits provided. Other expenses that are common to several functions are allocated by various statistical basis as determined by management.

Income Taxes

NNHSC is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). The Holding Company is exempt from federal income tax under Section 501(c)(2) of the IRC. In addition, NNHSC qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation.

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes (continued)

NNHSC and the Holding Company determined that they were not required to record a liability related to uncertain tax positions. The federal and state tax returns for NNHSC's 2011, 2012, and 2013 fiscal years are subject to examination by the Internal Revenue Service (IRS) and state taxing authorities, generally for three years after they were filed. The Holding Company will be filing its initial Form 990 for the fiscal year ended June 30, 2014.

NOTE 2 - NEW MARKET TAX CREDIT TRANSACTIONS

NNHSC and the Holding Company entered into an NMTC transaction during the fiscal year ended June 30, 2014. The NMTC program was created by the Community Renewal Tax Relief Act of 2000 and is regulated by Section 45D of the IRC. The program is designed to make investment capital available to businesses in qualifying low-income communities, to create jobs and spur additional economic development. Privately managed investment institutions, or Community Development Entities (CDEs), make loans and capital investments in businesses in underserved areas.

NNHSC entered into a term loan with a financial institution totaling \$5,000,000. See Note 9 for additional information regarding this loan.

NNHSC used the proceeds of the aforementioned term loan along with \$2,793,290 of its own funding in order to make a \$7,793,290 leveraged loan to Chase NMTC NNHSC Kostner/North Avenue Investment Fund, LLC (the "Investment Fund"). This loan is reflected as a note receivable on the Consolidated Statements of Financial Position. The note receivable requires annual payments of interest only at 1% commencing on December 1, 2013 through December 1, 2020. Annual payments of principal and interest will commence on December 1, 2020 with the final payment being due in December 2043. The principal balance on this note receivable, as of June 30, 2014, is \$7,793,290. Accrued interest on the note receivable is \$56,069 as of June 30, 2014 and is included in "Other receivables" on the Consolidated Statements of Financial Position. Collection is fully expected and accordingly, no allowance has been provided for.

The Investment Fund used the leverage loan, along with \$3,661,710 of tax credit equity provided by Chase Community Equity (CCE) to make an \$11,455,000 qualified equity investment (QEI) in CDF Suballocatee XVIII, LLC (CDF CDE).

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2014 and 2013

NOTE 2 - NEW MARKET TAX CREDIT TRANSACTIONS (continued)

CDF CDE made a Qualified Low-Income Community Investment (QLICI) loan in the amount of \$11,221,000 to the Holding Company. Repayment of the loan, including terms, is discussed in Note 9. The Holding Company made use of the funds for the construction of the North Kostner Health Center, while CDF CDE provided income tax credits to the Investment Fund.

As part of the NMTC transaction, NNHSC entered into an agreement with the Holding Company to lease the newly constructed building. The terms of the lease call for annual rental payments of \$26,000 on December 1, 2013, \$102,000 on December 1, 2014, and on each due date thereafter through December 1, 2020, and \$506,000 on December 1, 2021, and each due date thereafter through December 1, 2038. NNHSC is also responsible for maintenance and repair costs associated with the leased property.

The taxpayers who invested in the QEIs funds may claim a tax credit related to their investment over a seven-year credit period (the "Compliance Period"). Once the Compliance Period ends, there is a put and call agreement between the NMTC investors and the leverage lender (NNHSC). The NMTC investors may put their ownership interests in the QEI funds to NNHSC for \$1,000. If the NMTC investors do not exercise their put option, NNHSC has the ability to call the ownership in the interest in the QEI funds for fair market value. It is anticipated that the NMTC investors will put their options and NNHSC would then own the QEI funds. NNHSC would then forgive the Holding Company's QLICI loan, resulting in no outstanding debt at that point in time and a benefit of equity from the NMTC program may be recognized.

NOTE 3 - CASH AND CASH EQUIVALENTS

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents at June 30, 2014 consisted of the following:

Petty cash	\$ 250
Checking accounts	<u>1,270,146</u>
Total	<u>\$ 1,270,396</u>

NOTE 4 - CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances at financial institutions in Chicago, Illinois. The account at each bank is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, that balances may exceed the federally insurance amount. Management does not anticipate nonperformance by the financial institutions

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2014 and 2013

NOTE 5 - FAIR VALUE MEASUREMENTS

In determining fair value, the Organization uses various valuation approaches. The ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value measurement framework, provides a single definition of fair value, and requires expanded disclosure summarizing fair value measurements. This standard emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or a liability.

The standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable input be used when available. Observable inputs are inputs that the market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs are inputs that reflect the Organization's judgments about the assumptions market participants would use in pricing the asset or liability based on the best information available under the circumstances.

The hierarchy is measured in three levels based on the reliability of inputs:

- Level 1 - Valuations are based on quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments.
- Level 2 - Valuations are not based on quoted prices for identical assets or liabilities, but rather are based on significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.). Fair values are primarily obtained from third party pricing services for comparable assets or liabilities.
- Level 3 - Valuations are derived from other valuation methodologies and incorporate certain assumptions and projections that are not observable in the market and significant professional judgment in determining the fair value assigned to such assets or liabilities. Management's estimates of fair value of the alternative investments in preferred stock and real estate are based on information provided by fund managers, which in turn is based on the most recent information available to the fund managers for the underlying investments.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2014 and 2013

NOTE 5 - FAIR VALUE MEASUREMENTS (continued)

The categories of assets and liabilities measured at fair value on a recurring basis using unadjusted quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3) are as follows:

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
<u>June 30, 2014</u>			
Money market funds	\$ 2,700,191	\$ -	\$ -
Mutual funds	1,773,233	-	-
Stocks and options	2,311	-	-
Total assets	<u>\$ 4,475,735</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities - interest rate swap	<u>\$ -</u>	<u>\$ 193,257</u>	<u>\$ -</u>
<u>June 30, 2013</u>			
Money market funds	\$ 2,689,125	\$ -	\$ -
Mutual funds	1,683,455	-	-
Stocks and options	1,861	-	-
Total assets	<u>\$ 4,374,441</u>	<u>\$ -</u>	<u>\$ -</u>

Investments

Fair values for Level 1 investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for Level 2 investments are determined by reference to quoted market transactions for assets similar to those held to support the underlying assets.

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2014 and 2013

NOTE 5 - FAIR VALUE MEASUREMENTS (continued)

Interest Rate Swap

The fair value of the interest rate swap is estimated by a third party using a model that builds a yield curve from market data for actively traded securities at various times and maturities and takes into account current interest rates and the current credit worthiness of the respective counterparties. Such securities are classified within Level 2 of the valuation hierarchy.

Note Receivable and Bank Note Payable

Any fluctuations in the fair market value of the note receivable (i.e. leveraged loan) described in Note 2 would be expected to mirror those of the bank note payable described in Note 9 due to the nature of the NMTC transaction.

NOTE 6 - ACCOUNTS RECEIVABLE - PATIENT ACCOUNTS

Accounts receivable consist primarily of health service fees due from patients and third party payers and are reported at their estimated net realizable value. Accounts receivable at June 30, 2014 are as follows:

	<u>2014</u>	<u>2013</u>
Medicaid	\$ 1,915,164	\$ 436,244
Medicare	2,801,693	2,175,309
Private insurance	370,095	173,862
In patient	76,136	32,476
Dental	601,669	409,954
Self-pay	<u>934,494</u>	<u>678,598</u>
	6,699,251	3,906,443
Less allowance for uncollectibles	<u>(4,006,536)</u>	<u>(2,555,189)</u>
Net accounts receivable	<u><u>\$ 2,692,715</u></u>	<u><u>\$ 1,351,254</u></u>

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2014 and 2013

NOTE 7 - PROPERTY AND EQUIPMENT

At June 30, 2014 property and equipment and related accumulated depreciation were as follows:

	2014		2013	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 2,323,884	\$ -	\$ 2,323,884	\$ -
Land improvements	1,063,764	179,526	757,374	25,246
Buildings	24,942,864	7,631,006	14,173,573	6,804,600
Leasehold improvements	879,752	760,124	795,650	637,600
Automobile - vehicle	162,693	162,693	162,693	162,693
Furniture and equipment	4,332,920	2,896,211	3,287,362	2,881,513
Construction in progress	-	-	7,373,819	-
Total land, buildings, and equipment	\$ 33,705,877	\$ 11,629,560	\$ 28,874,355	\$ 10,511,652

Depreciation expense for 2014 and 2013 was \$1,132,626 and \$855,095, respectively.

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2014 and 2013

NOTE 8 - GRANTS RECEIVABLE

Grants receivable at June 30 consisted of the following:

	<u>2014</u>	<u>2013</u>
AIDS Treatment (Title II)	\$ -	\$ 15,000
AIDS Psychiatric	-	20,070
Access Community Health	10,632	18,035
Adult Immunization Program	6,207	19,147
AIDS Foundation Chicago	6,466	3,269
CHC - Early Intervention Services	125,993	-
Chicago Community Trust - Smart Health	7,338	1,663
Communities of Color Initiative	9,675	-
Domestic Violence	40,000	36,783
Family Case Management	45,228	64,999
Healthy Family Illinois	39,576	12,686
Healthy Start Family	25,886	-
Heartland Health Outreach (HHO)	1,321	1,246
IDHS - WIC Breastfeeding	5,042	-
IDHS - Early Intervention Services	-	30,990
In Person Counselor - Erie	35,674	-
In Person Counselor - UW	91,778	-
Intensive Prenatal Case Management	49,068	-
Maternal and Child Health Services	-	30,166
NWU Research Program	5,417	8,490
OASA	14,128	1,969
Reavis Health Center	39,418	123,081
University of Chicago Community Rx System	5,150	5,312
Women, Infants, and Children and Youth Program	-	51,666
Women, Infants, and Children	<u>207,381</u>	<u>103,605</u>
Total grants receivable	<u>\$ 771,378</u>	<u>\$ 548,177</u>

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2014 and 2013

NOTE 9 - LONG-TERM DEBT

Illinois Development Note Payable

On November 1, 1996, the Illinois Development Finance Authority (Authority) made \$7,305,000 available to NNHSC pursuant to the terms and provisions of the security and trust agreement under Trust Indenture, dated as of November 1, 1996 (Indenture), between the Authority and American National Bank and Trust Company of Chicago, as trustee (Trustee). In connection therewith, NNHSC issued a loan agreement and promissory note, dated November 1, 1996. On January 1, 2007, NNHSC entered into a loan agreement with the Authority for \$4,408,900.

The proceeds of this loan were used to: (1) advance refund a portion of the Authority's (predecessor to the Issuer) previously issued to Primary Health Care Centers Facilities Acquisition Program Revenue Bonds, Series 1996, (2) reimburse for certain capital expenditures paid in connection with the Project, and (3) pay a portion of the costs of issuing the Bond. Pursuant to the loan agreement, the interest rate on the loan agreement is fixed at 4.75% with monthly interest and principal payments of \$47,153 payable through March 1, 2017. Unamortized deferred financing costs were \$44,171 and \$58,891 at June 30, 2014 and 2013, respectively.

The loan agreement is collateralized by substantially all land and buildings of NNHSC and provides for the maintenance of a prescribed amount of cash and net assets, and certain financial covenants, which have been satisfied as of June 30, 2014, as follows:

The balance outstanding on the Illinois development note payable was \$1,455,891 and \$1,940,022 at June 30, 2014 and 2013, respectively.

Bank Note Payable

In connection with the NMTC transaction described in Note 2, NNHSC entered into a term loan agreement with a bank for \$5,000,000. The interest rate is at a rate equal to the London Interbank Offered Rate (LIBOR) daily floating rate plus 1.25%. Interest payments commenced on October 1, 2013 and are payable on the first day of each month through December 1, 2020. The note requires monthly principal payments of \$16,667 beginning on October 1, 2014 through maturity on December 1, 2020, at which time the remaining balance outstanding is due. The balance outstanding on the bank note payable was \$5,000,000 at June 30, 2014.

NNHSC entered into an interest rate swap agreement in 2014 to hedge its interest rate exposure on the \$5,000,000 bank note payable. The agreement, which expires on December 1, 2020, effectively fixes the interest rate on an initial notional value of \$5,000,000 at 2.5%. The notional value declines over the term of the agreement consistent with the required principal payments on the loan. This agreement is considered to be a derivative financial instrument and is reported at its fair value as a liability of \$193,257 in other long-term liabilities in the Consolidated Statement of Financial Position at June 30, 2014. The net change in the fair value of the agreement is reported as a component of the total change in net assets as an other item in the Consolidated Statement of Operations and Changes in Net Assets for the year ended June 30, 2014.

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2014 and 2013

NOTE 9 - LONG-TERM DEBT (continued)

Bank Note Payable (continued)

The loan agreement is collateralized by substantially all land and buildings of NNHSC and provides for certain financial covenants which have been satisfied as of June 30, 2014.

Qualified Low-Income Community Investment (QLICI) loan

In connection with the NMTC transaction described in Note 2, the Holding Company entered into an \$11,221,000 QLICI loan, which is collateralized by substantially all assets of the Holding Company. The loan requires annual interest only installments at .99% commencing on December 1, 2013 through December 1, 2020 (the "Compliance Period"). Annual principal and interest payments will commence on December 1, 2020, with the final payment due on December 1, 2043, if the put and call agreements as described in Note 2 are not acted upon.

Future maturities of long-term debt are as follows:

Years Ending June 30,

2015	\$ 674,303
2016	732,279
2017	615,976
2018	200,000
2019	200,000
Thereafter	<u>15,254,333</u>
Total	17,676,891
Less current portion	<u>674,303</u>
Long-term portion	<u>\$ 17,002,588</u>

NOTE 10 - EMPLOYEE BENEFIT PLAN

NNHSC maintains a defined contribution retirement plan, Employee Benefits Plan of Near North Health Service Corporation (Plan). All employees over the age of 21 years are eligible to participate in the Plan after completing one year of service. Participants' benefits are fully vested after five years of participation or upon attainment of normal retirement age. NNHSC is required to make annual contributions in the amount of 5% of participants' eligible compensation. For 2014 and 2013, NNHSC contributed \$309,606 and \$291,164, respectively, to the Plan.

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2014 and 2013

NOTE 11 - LEASE COMMITMENTS

NNHSC leases office space under a five-year operating lease which commenced on August 15, 2009 and which expires on July 31, 2019. Base rent paid under this lease was \$176,179 for the year ended June 30, 2014. Terms of the lease also require payment of taxes and maintenance fees associated with the operation of the property.

NNHSC leases office space under a three-year operating lease which commenced on July 1, 2012 and which expires on June 30, 2016. Base rent paid under this lease was \$51,470 for the year ended June 30, 2014.

The future minimum base rental payments under the above operating leases and other miscellaneous operating leases are:

Years Ending June 30,

2015	\$ 239,703
2016	243,359
2017	195,405
2018	199,284
2019	203,279
Thereafter	<u>37,563</u>
Total	<u>\$ 1,118,593</u>

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Grants

NNHSC has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a review or audit by the grantor may become a liability of the Organization. Such amounts will be recognized in the period they become known.

According to federal regulations, the equipment items obtained through federal grants are subject to a lien by the federal government. As long as NNHSC does not change its status from a "nonprofit" organization, or so long as the equipment is used for a purpose closely related to the project goals, NNHSC is not required to reimburse the federal government. If the stated requirements are not met, NNHSC would be obligated to the federal government in an amount equal to the fair value of the equipment.

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2014 and 2013

NOTE 12 - COMMITMENTS AND CONTINGENCIES (continued)

Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. This coverage has not changed significantly from the previous year. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Health Care Legislation and Regulation

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violation of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Organization is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Litigation

The Organization is involved in various legal actions in the normal course of business. The actions are in various stages of processing, and some may ultimately be brought to trial. In the opinion of management, adequate provision has been made for amounts expected to be paid under the policy's deductible limits for unasserted claims not covered by the policy and any other uninsured liability.

NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended June 30, 2014 and 2013

NOTE 13 - ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible providers that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on the Organization continuing to meet the escalating meaningful use criteria. For the first payment year, the Organization must attest, subject to an audit, it has adopted, implemented, or upgraded certified EHR technology used in achieving meeting the meaningful use criteria.

For the subsequent payment year, the Organization must demonstrate meaningful use for the entire year. The incentive payments are generally made over a six-year period. The Organization received incentive payments of approximately \$386,750 and \$616,250 for the years ended June 30, 2014 and 2013, respectively, which are included in grant revenues.

NOTE 14 - SUBSEQUENT EVENTS

Management evaluated subsequent events through November 6, 2014, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2014, but prior to November 6, 2014 that provided additional evidence about conditions that existed at June 30, 2014, have been recognized in the consolidated financial statements for the year ended June 30, 2014. Events or transactions that provided evidence about conditions that did not exist at June 30, 2014, but arose before the consolidated financial statements were available to be issued have not been recognized in the consolidated financial statements for the year ended June 30, 2014.

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

SUPPLEMENTARY INFORMATION

NEAR NORTH HEALTH SERVICES CORPORATION AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2014

	Near North Health Services Corporation	NNHSC Title Holding Corporation	Eliminations	Consolidated
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,264,327	\$ 6,069	\$ -	\$ 1,270,396
Certificates of deposit	867,948	-	-	867,948
Accounts receivable:				
Patient accounts, net	2,692,715	-	-	2,692,715
Other	85,631	51,000	(51,000)	85,631
Grants	771,378	-	-	771,378
Assets limited as to use	-	224,029	-	224,029
Investments	6,137,219	-	(1,661,484)	4,475,735
Prepaid expenses	113,462	-	-	113,462
	<u>11,932,680</u>	<u>281,098</u>	<u>(1,712,484)</u>	<u>10,501,294</u>
PROPERTY AND EQUIPMENT				
Land	440,089	1,883,795	-	2,323,884
Land improvements	1,063,764	-	-	1,063,764
Buildings	14,173,573	10,769,291	-	24,942,864
Leasehold improvements	879,752	-	-	879,752
Automobile - vehicles	162,693	-	-	162,693
Furniture and equipment	4,332,920	-	-	4,332,920
	<u>21,052,791</u>	<u>12,653,086</u>	<u>-</u>	<u>33,705,877</u>
Total property and equipment	21,052,791	12,653,086	-	33,705,877
Less accumulated depreciation	<u>(11,420,157)</u>	<u>(209,403)</u>	<u>-</u>	<u>(11,629,560)</u>
	<u>9,632,634</u>	<u>12,443,683</u>	<u>-</u>	<u>22,076,317</u>
Net property and equipment	9,632,634	12,443,683	-	22,076,317
OTHER ASSETS				
Notes receivable	7,793,290	-	-	7,793,290
Deferred financing cost, net	44,171	-	-	44,171
	<u>7,837,461</u>	<u>-</u>	<u>-</u>	<u>7,837,461</u>
Total other assets	7,837,461	-	-	7,837,461
TOTAL ASSETS	<u>\$ 29,402,775</u>	<u>\$ 12,724,781</u>	<u>\$ (1,712,484)</u>	<u>\$ 40,415,072</u>

	Near North Health Services Corporation	NNHSC Title Holding Corporation	Eliminations	Consolidated
CURRENT LIABILITIES				
Accounts payable	\$ 493,584	\$ -	\$ -	\$ 493,584
Accrued expenses	284,214	55,544	(51,000)	288,758
Accrued payroll and withholdings	365,926	-	-	365,926
Accrued vacation	475,802	-	-	475,802
Notes payable, current portion	674,303	-	-	674,303
Total current liabilities	<u>2,293,829</u>	<u>55,544</u>	<u>(51,000)</u>	<u>2,298,373</u>
LONG-TERM LIABILITIES				
Interest rate swap	193,257	-	-	193,257
Notes payable, less current portion	5,781,588	11,221,000	-	17,002,588
Total long-term liabilities	5,974,845	11,221,000	-	17,195,845
Total liabilities	<u>8,268,674</u>	<u>11,276,544</u>	<u>(51,000)</u>	<u>19,494,218</u>
NET ASSETS				
Unrestricted	18,609,186	1,448,237	(1,661,484)	18,395,939
Unrestricted - board-designated	2,524,915	-	-	2,524,915
Total net assets	<u>21,134,101</u>	<u>1,448,237</u>	<u>(1,661,484)</u>	<u>20,920,854</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 29,402,775</u>	<u>\$ 12,724,781</u>	<u>\$ (1,712,484)</u>	<u>\$ 40,415,072</u>

**NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended June 30, 2014**

	<u>Near North Health Service Corporation</u>			<u>NNHSC Title Holding Company</u>	<u>Eliminations</u>	<u>Consolidated</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>		
SUPPORT AND REVENUE						
Contributions	\$ 700,598	\$ -	\$ 700,598	\$ -	\$ -	\$ 700,598
Grants	11,051,793	-	11,051,793	-	-	11,051,793
Special events	27,648	-	27,648	-	-	27,648
United Way	60,000	-	60,000	-	-	60,000
Total support	<u>11,840,039</u>	<u>-</u>	<u>11,840,039</u>	<u>-</u>	<u>-</u>	<u>11,840,039</u>
Net patient service fees	6,129,460	-	6,129,460	-	-	6,129,460
Other income	144,291	-	144,291	68,000	(68,000)	144,291
Interest and dividend income	165,509	-	165,509	2,214	-	167,723
Total revenue	<u>18,279,299</u>	<u>-</u>	<u>18,279,299</u>	<u>70,214</u>	<u>(68,000)</u>	<u>18,281,513</u>
EXPENSES						
Program services:						
Health services	8,766,758	-	8,766,758	-	-	8,766,758
Other services	2,862,489	-	2,862,489	283,461	-	3,145,950
Total program services	<u>11,629,247</u>	<u>-</u>	<u>11,629,247</u>	<u>283,461</u>	<u>-</u>	<u>11,912,708</u>
Support services:						
Management and general	5,437,411	-	5,437,411	-	(68,000)	5,369,411
Fundraising	310,600	-	310,600	-	-	310,600
Total support services	<u>5,748,011</u>	<u>-</u>	<u>5,748,011</u>	<u>-</u>	<u>(68,000)</u>	<u>5,680,011</u>
Total expenses	<u>17,377,258</u>	<u>-</u>	<u>17,377,258</u>	<u>283,461</u>	<u>(68,000)</u>	<u>17,592,719</u>
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	902,041	-	902,041	(213,247)	-	688,794
OTHER ITEMS						
Change in interest rate swap liability	(193,257)	-	(193,257)	-	-	(193,257)
CHANGE IN NET ASSETS	<u>\$ 708,784</u>	<u>\$ -</u>	<u>\$ 708,784</u>	<u>\$ (213,247)</u>	<u>\$ -</u>	<u>\$ 495,537</u>

**NEAR NORTH HEALTH SERVICE CORPORATION AND AFFILIATE
CONSOLIDATING STATEMENT OF CHANGES IN NET ASSETS
Year Ended June 30, 2014**

	Near North Health Service Corporation			NNHSC Title Holding Company	Eliminations	Consolidated
	Unrestricted	Temporarily Restricted		Total		
		Total	Total			
NET ASSETS, BEGINNING OF YEAR	\$ 20,425,317	\$ -	\$ 20,425,317	\$ -	\$ -	\$ 20,425,317
CHANGE IN NET ASSETS	708,784	-	708,784	(213,247)	-	495,537
TRANSFER OF ASSETS FROM AFFILIATE	-	-	-	1,661,484	(1,661,484)	-
NET ASSETS, END OF YEAR	<u>\$ 21,134,101</u>	<u>\$ -</u>	<u>\$ 21,134,101</u>	<u>\$ 1,448,237</u>	<u>\$ (1,661,484)</u>	<u>\$ 20,920,854</u>