

INNER CITY HEALTH CENTER

FINANCIAL STATEMENTS

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JUNE 30, 2011

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Inner City Health Center

We have audited the accompanying statement of financial position of Inner City Health Center as of June 30, 2011 and the related statements of activity, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2010 financial statements and, in our report dated September 14, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Inner City Health Center at June 30, 2011 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Davis & Co., CPAs, P.C.

Davis & Co., CPAs, P.C.
Certified Public Accountants

Highlands Ranch, Colorado
September 16, 2011

INNER CITY HEALTH CENTER
Statement of Financial Position
June 30, 2011
(With Comparative Totals for 2010)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 509,529	\$ 13,062	\$ 522,591	\$754,217
Accounts receivable	77,436		77,436	96,771
Grants & donations receivable	69,845		69,845	74,686
Prepaid expenses	16,685		16,685	12,224
Loan origination fees, net	21,392		21,392	--
Building held for resale	<u>417,059</u>		<u>417,059</u>	<u>417,059</u>
	<u>1,111,946</u>	<u>13,062</u>	<u>1,125,008</u>	<u>1,354,957</u>
Property, Plant and Equipment				
Furniture and equipment	835,925		835,925	832,068
Buildings and improvements	4,114,488	371,250	4,485,738	4,331,141
Land	<u>630,000</u>		<u>630,000</u>	<u>630,000</u>
	5,580,413	371,250	5,951,663	5,793,209
Less: accumulated depreciation	<u>(612,772)</u>		<u>(612,772)</u>	<u>(409,122)</u>
	<u>4,967,641</u>	<u>371,250</u>	<u>5,338,891</u>	<u>5,384,087</u>
	<u>\$6,079,587</u>	<u>\$384,312</u>	<u>\$6,463,899</u>	<u>\$6,739,044</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 212,806	\$ --	\$ 212,806	\$ 165,803
Accrued payroll liabilities	42,203		42,203	44,261
Deposits and advance rents	16,634		16,634	18,928
Loan payable to bank	2,500,000		2,500,000	2,500,000
Accrued compensated absences	<u>86,719</u>		<u>86,719</u>	<u>84,553</u>
	<u>2,858,362</u>		<u>2,858,362</u>	<u>2,813,545</u>
Net Assets	<u>3,221,225*</u>	<u>384,312</u>	<u>3,605,537</u>	<u>3,925,499</u>
	<u>\$6,079,587</u>	<u>\$384,312</u>	<u>\$6,463,899</u>	<u>\$6,739,044</u>

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

The accompanying notes are a part of this statement.

INNER CITY HEALTH CENTER
Statement of Activity
For the Year Ended June 30, 2011
(With Comparative Totals for 2010)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>2011 Total</u>	<u>2010 Total</u>
SUPPORT AND REVENUE				
Public support				
Direct and indirect contributions	\$ 292,438	\$ 100	\$ 292,538	\$ 285,980
Government grants	588,147		588,147	569,671
In-kind donations	353,522		353,522	326,069
Foundation and corporate grants	1,091,344		1,091,344	880,445
Special events (net of \$19,410 of donor benefits)	<u>—</u>	<u>—</u>	<u>—</u>	<u>37,333</u>
Total public support	2,325,451	100	2,325,551	2,099,498
Other revenue				
Service fees from clients and insurers (net of \$1,100,689 of "Uncompensated Care")	1,104,548		1,104,548	1,166,478
Rental income	152,973		152,973	176,737
Gain (loss) on asset sales & other	22,594		22,594	80,898
Interest income	<u>10,796</u>	<u>—</u>	<u>10,796</u>	<u>9,135</u>
Total revenue	<u>1,290,911</u>	<u>—</u>	<u>1,290,911</u>	<u>1,433,248</u>
Total public support and revenue	3,616,362	100	3,616,462	3,532,746
Net assets released from restrictions due to satisfaction of program or time restrictions	<u>86,250</u>	<u>(86,250)</u>	<u>—</u>	<u>—</u>
Total public support and revenue and reclassifications	3,702,612	(86,150)	3,616,462	3,532,746
FUNCTIONAL EXPENSES				
Program services				
Medical services	1,686,803		1,686,803	1,521,214
Dental services	1,342,043		1,342,043	1,275,280
Community outreach programs	<u>221,502</u>	<u>—</u>	<u>221,502</u>	<u>248,992</u>
Total program services	3,250,348		3,250,348	3,045,486
Supporting services				
Management and general	199,260		199,260	228,765
Financial development	<u>238,723</u>	<u>—</u>	<u>238,723</u>	<u>239,704</u>
Total supporting services	437,983		437,983	468,469
Total functional expenses	<u>3,688,331</u>	<u>—</u>	<u>3,688,331</u>	<u>3,513,955</u>
Rental expenses	<u>248,093</u>	<u>—</u>	<u>248,093</u>	<u>210,574</u>
Total expenses	<u>3,936,424</u>	<u>—</u>	<u>3,936,424</u>	<u>3,724,529</u>
Change in net assets	(233,812)	(86,150)	(319,962)	(191,783)
Net assets, beginning – originally stated	3,512,181	470,462	3,982,643	
Prior period restatement - (Note 5)	<u>(57,144)</u>	<u>—</u>	<u>(57,144)</u>	
Net assets, beginning of year, restated	<u>3,455,037</u>	<u>470,462</u>	<u>3,925,499</u>	<u>4,174,426</u>
Net assets, end of year	<u>\$3,221,225</u>	<u>\$384,312</u>	<u>\$3,605,537</u>	<u>\$3,982,643</u>

The accompanying notes are a part of this statement.

INNER CITY HEALTH CENTER
Statement of Functional Expenses
For the Year Ended June 30, 2011
(With Comparative Totals for 2010)

	Program Services			Supporting Services			2010 Total
	Medical	Dental	Outreach Programs	Management and General	Resource Development	2011 Total	
Personnel expenses	\$ 919,460	\$ 897,729	\$ 160,594	\$ 159,795	\$ 196,810	\$ 2,334,388	\$ 2,228,577
Contributed services	141,460	79,070	4,551	--	--	225,081	205,461
Contract & professional services	2,109	15,843	89	15,394	8,154	41,589	64,462
Outside lab tests	88,280	64,773	--	--	--	153,053	170,174
Program supplies	214,492	67,729	12,766	--	--	294,987	220,190
Occupancy costs	112,909	87,847	15,534	2,557	6,062	224,909	213,504
Office supplies and expenses	14,675	8,264	1,989	230	4,528	29,686	50,585
Printing and postage	5,040	2,613	1,052	1,091	12,709	22,505	21,709
Client needs & outreach	5,284	11,915	13,499	--	--	30,698	46,400
Telephone and internet	8,598	10,289	661	--	--	19,548	21,664
Computers & technology	31,854	13,317	2,220	1,651	2,113	51,155	27,828
Insurance expense	21,441	5,295	--	2,941	--	29,677	42,277
Equipment lease & repair	8,276	19,217	601	--	--	28,094	33,341
Memberships & affiliations	4,303	3,162	17	4,208	3,768	15,458	--
Meetings, conferences & travel	1,919	993	221	7,891	975	11,999	21,505
Sub-total	1,580,100	1,288,056	213,794	195,758	235,119	3,512,827	3,367,677
Depreciation & amortization	99,686	50,216	7,668	3,502	3,604	164,676	127,494
Bad debt expense	7,017	3,771	40	--	--	10,828	18,784
Total expenses	\$1,686,803	\$1,342,043	\$221,502	\$199,260	\$238,723	\$3,688,331	\$3,513,955

The accompanying notes are a part of this statement.

INNER CITY HEALTH CENTER
Statement of Cash Flows
For the Year Ended June 30, 2011
(With Comparative Totals for 2010)

	For the year ended June 30,	
	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$(319,962)	\$(191,783)
Adjustments to reconcile to net cash provided by operating activities:		
Loss on asset disposals	--	6,000
Depreciation & amortization	164,676	127,494
Depreciation included in rental expenses	38,975	38,975
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	19,335	(29,053)
Decrease in grants & donations receivable	4,841	12,969
Decrease (increase) in prepaid expenses	(4,461)	1,414
Increase in accounts payable	47,003	67,660
(Decrease) in accrued payroll liabilities	(2,058)	(5,110)
Increase (decrease) in deposits & advance rents	(2,294)	18,928
Increase in accrued compensated absences	<u>2,166</u>	<u>20,868</u>
Net cash flow from operating activities	(51,779)	68,362
 CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of long-lived fixed assets	(158,455)	--
 CASH FLOW FROM FINANCING ACTIVITIES:		
Deferred loan origination fees, net	(21,392)	--
Payment of debt principal	--	(488,643)
Advances from construction loan	<u>--</u>	<u>--</u>
	(21,392)	(488,643)
 CHANGE IN CASH AND CASH EQUIVALENTS	(231,626)	(420,281)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>754,217</u>	<u>1,174,498</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$522,591</u>	<u>\$754,217</u>
 SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid – cash basis	<u>\$127,196</u>	<u>\$145,271</u>
Interest received – cash basis	<u>\$10,796</u>	<u>\$9,135</u>

The accompanying notes are a part of this statement.

INNER CITY HEALTH CENTER

Notes to Financial Statements

June 30, 2011

Note 1: Summary of Significant Accounting Policies

Significant accounting policies are as follows:

a. Organization

Inner City Health Center (the "Center") is a Colorado non-profit corporation organized in December of 1983 for the purpose of providing health care at substantially reduced rates to low income families living in Denver, Colorado. The Center provides medical, dental, counseling, and other outreach services. The fees paid by clients are determined on a sliding fee scale based on their respective income levels. Contributions from individuals, churches, and corporations as well as grants from foundations and government agencies are relied upon to make up the difference.

During January of 2009 the Center moved into new facilities which it had purchased and started renovating two years prior (See Note 4). The move to the new facility increased the Center's capacity to provide services. The Center served 24,975 patients during the last fiscal year.

b. Financial statement presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets, support and revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and the changes therein are classified and reported as follows:

Unrestricted – Resources not subject to donor-imposed restrictions.

Temporarily restricted – Resources subject to donor-imposed restrictions that will be satisfied by actions of the Organization or the passage of time.

c. Cash and cash equivalents

The Center considers all demand deposits, savings accounts and highly liquid investments purchased with an original maturity of six months or less to be cash equivalents provided they are not legally restricted as to withdrawal. All account balances as of June 30, 2011 were fully insured.

d. Property and equipment

The Center follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,000 at cost. The fair value of donated assets is similarly capitalized. Expenditures for maintenance, repairs and other renewals of items are charged to expense. When items are disposed of, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is included in the results of

(Continued)

INNER CITY HEALTH CENTER

Notes to Financial Statements

June 30, 2011

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

d. Property and equipment (continued)

operations. The provision for depreciation is calculated using the straight-line method over estimated useful lives of five years for computers and office equipment, ten years for furniture and program equipment and thirty-nine years for buildings and building improvements.

e. Revenue recognition

All contributions are considered to be available for unrestricted use unless specifically indicated otherwise by the donor. Amounts received that are restricted by the donor for specific purposes or future periods are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the Center reports the support as unrestricted. The Center receives substantial revenue from the sliding-scale fees received from clients and insurers, which are recorded as income in the period the underlying services are performed.

f. Donated services, use of space and materials

Contributions of donated services that require specialized skills and are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation, are recorded at their fair value in the period received. During fiscal year 2010/2011 a total of \$225,081 of services provided primarily by volunteer doctors, dentists, nurses, and other professionals met these requirements and are recorded under "Contributed Services" in the Statement of Functional Expenses, herein.

Also, recorded under "Occupancy Costs" is the \$32,800 discounted fair value of the free use of space that the Center receives at the New Hope Dental Clinic located on the premises of a hospital in Denver. Finally, recorded under "Program Supplies" is the \$95,641 value of free immunizations received during the year from the State of Colorado.

g. Functional expenses

Expenses directly identified with a functional area are charged to such area. If an expense affects more than one area, it is allocated by the time expended or another reasonable basis.

(Continued)

INNER CITY HEALTH CENTER

Notes to Financial Statements

June 30, 2011

Note 1: Summary of Significant Accounting Policies (Continued)

h. Compensated absences

In accordance with the Financial Accounting Standards Board Statement No. 43, *Accounting for Compensated Absences*, the Center accrues vacation pay when earned.

i. Estimates

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

j. Tax status

The Internal Revenue Service recognizes the tax-exempt status of the Center under Section 501(c)(3) of the Internal Revenue Code. In addition the Center receives no revenue which is unrelated to its exempt purpose.

Effective July 1, 2009 the Center adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), which interpreted various previous announcements with respect to the accounting for all tax positions taken (or expected to be taken) on any income tax return. The Center determined that no cumulative effect adjustment was necessary upon adoption of FIN 48, and that no uncertain tax positions have been taken (or are expected to be taken) that could have a material effect on its income tax liabilities. The Center believes that it has conducted its operations in accordance with, and has properly maintained, its tax-exempt status.

Note 2: Designated Net Assets

During previous years leading up to the campaign (See Note 4) the Center's board of directors designated a total of \$450,000 to be a reserve for unanticipated operating, capital or extra-ordinary needs. During the early phases of the campaign the Center's board of directors authorized the use of \$250,000 of these net assets for the Capital Campaign, resulting in a balance at both June 30, 2010 and 2011 of \$200,000.

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

(Continued)

INNER CITY HEALTH CENTER

Notes to Financial Statements

June 30, 2011

Note 3: Employee Retirement Plan

All of the employees of the Center are eligible to participate in a tax-sheltered 403(b) annuity program in which each employee may contribute up to 20% of his/her gross salary, to a maximum of \$16,500 (adjusted annually for inflation) per year, on a tax-deferred basis. The Center is not required to make any employer contributions to this plan.

Note 4: Facility Purchase and Renovation, Loan Commitments and Subsequent Event

On December 7, 2007 the Center purchased buildings and land at 3800 York Street, within the neighborhoods it serves, from the City & County of Denver for \$2,150,000. The purpose of the acquisition was to significantly increase the Center's capacity to deliver program services. The building was in need of an additional \$2,811,141 in renovations, which were substantially completed by December of 2008. The Center took complete occupancy of the new facility in January of 2009.

In June of 2008 the Center obtained construction loan financing from a local bank. The loan, due on June 10, 2010 and carrying an interest rate of WSJ prime plus ¼%, had a balance outstanding at June 30, 2009 of \$2,988,643. During the previous fiscal year ended June 30, 2010 the Center made \$488,643 of principal payments, resulting in a loan balance of \$2,500,000; and, modified the loan agreement with the lender. The new loan was due on June 10, 2011 and carried an interest rate of WSJ prime plus 1%. Interest incurred last year under this loan of \$127,196 is included as a component of occupancy costs in the statement of functional expenses, herein.

On July 7, 2011 the above loan was refinanced under two new loan agreements with the same lender. The first loan is for \$360,750, is due July 10, 2012, carries interest at WSJ prime plus 1% and requires minimum monthly payments of interest only. The second loan is for \$2,139,250, is due June 10, 2021, carries interest at 5.05% and requires minimum monthly payments of \$12,689.

Note 5: Prior Period Adjustment

The Center's net assets as of June 30, 2010 were reduced by \$57,144 to reflect several retroactive adjustments necessary to make consistent the anticipated useful lives of certain assets added during the building campaign closed during the fiscal year ended June 30, 2009.

(Continued)

INNER CITY HEALTH CENTER
Notes to Financial Statements
June 30, 2011

Note 6 Net Assets Released from Restrictions/Temporarily Restricted Net Assets

The Center's \$384,312 of temporarily restricted net assets represent donor restricted contributions and other designations that are available for the following purposes at June 30, 2011 (along with a summary of activity for the current year):

<u>Donor/Purpose</u>	<u>Balance at June 30, 2010</u>	<u>FY 2010/2011</u>		<u>Balance at June 30, 2011</u>
		<u>Increases</u>	<u>Decreases</u>	
Rose Com Fndtn – 2 yr grant	\$ 45,000	\$ --	\$ (45,000)	\$ --
Time restricted CDBG funding	412,500	--	(41,250)	371,250
Donations restricted for future years' malpractice insurance premiums	<u>12,962</u>	<u>100</u>	<u>--</u>	<u>13,062</u>
	<u>\$470,462</u>	<u>\$100</u>	<u>\$(86,250)</u>	<u>\$384,312</u>