

INNER CITY HEALTH CENTER

FINANCIAL STATEMENTS

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JUNE 30, 2012

CONTENTS

	<u>Page</u>
Report of Independent Certified Public Accountants	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activity	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 10

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, 2012 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 2011 financial statements and, in our report dated September 16, 2011, 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, 2012 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 24, 2012

INNER CITY HEALTH CENTER
Statement of Financial Position
June 30, 2012
(With Comparative Totals for 2011)

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 440,707	\$ 13,102	\$ 453,809	\$522,591
Accounts receivable	70,380		70,380	77,436
Grants & donations receivable	4,261		4,261	69,845
Prepaid expenses	21,191		21,191	16,685
Loan origination fees, net	28,434		28,434	21,392
Building held for resale	<u>417,059</u>		<u>417,059</u>	<u>417,059</u>
	982,032	<u>13,102</u>	995,134	1,125,008
Property, Plant and Equipment				
Furniture and equipment	807,415		807,415	835,925
Buildings and improvements	4,155,738	330,000	4,485,738	4,485,738
Land	<u>630,000</u>		<u>630,000</u>	<u>630,000</u>
	5,593,153	<u>330,000</u>	5,923,153	5,951,663
Less: accumulated depreciation	<u>(793,594)</u>		<u>(793,594)</u>	<u>(612,772)</u>
	<u>4,799,559</u>	<u>330,000</u>	<u>5,129,559</u>	<u>5,338,891</u>
	<u>\$5,781,591</u>	<u>\$343,102</u>	<u>\$6,124,693</u>	<u>\$6,463,899</u>
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 238,087	\$ --	\$ 238,087	\$ 212,806
Accrued payroll liabilities	20,651		20,651	42,203
Deposits and advance rents	24,843		24,843	16,634
Loans payable to bank, current	80,311		80,311	2,500,000
Accrued compensated absences	<u>65,543</u>		<u>65,543</u>	<u>86,719</u>
	429,435		429,435	2,858,362
Loans payable to bank, long-term	2,381,359	--	2,381,359	--
Net Assets	<u>2,970,797*</u>	<u>343,102</u>	<u>3,313,899</u>	<u>3,605,537</u>
	<u>\$5,781,591</u>	<u>\$343,102</u>	<u>\$6,124,693</u>	<u>\$6,463,899</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, 2012
(With Comparative Totals for 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
SUPPORT AND REVENUE				
Public support				
Direct and indirect contributions	\$ 428,876	\$ 40	\$ 428,916	\$ 292,538
Government grants	359,724		359,724	588,147
In-kind donations	312,598		312,598	353,522
Foundation and corporate grants	<u>941,005</u>		<u>941,005</u>	<u>1,091,344</u>
Total public support	2,042,203	40	2,042,243	2,325,551
Other revenue				
Service fees from clients and insurers (net of \$1,236,616 of "Uncompensated Care")	1,198,635		1,198,635	1,093,720
Rental income	142,714		142,714	152,973
(Loss) on asset disposals & other income	(16,244)		(16,244)	22,594
Interest and dividend income	<u>2,414</u>	<u>-</u>	<u>2,414</u>	<u>10,796</u>
Total revenue	<u>1,327,519</u>	<u>-</u>	<u>1,327,519</u>	<u>1,280,083</u>
Total public support and revenue	3,369,722	40	3,369,762	3,605,634
Net assets released from restrictions due to satisfaction of program or time restrictions	<u>41,250</u>	<u>(41,250)</u>	<u>--</u>	<u>--</u>
Total public support and revenue and reclassifications	3,410,972	(41,210)	3,369,762	3,605,634
FUNCTIONAL EXPENSES				
Program services				
Medical services	1,648,142		1,648,142	1,675,975
Dental services	1,190,731		1,190,731	1,342,043
Community outreach programs	<u>170,418</u>		<u>170,418</u>	<u>221,502</u>
Total program services	3,009,291		3,009,291	3,239,520
Supporting services				
Management and general	205,380		205,380	199,260
Financial development	<u>223,647</u>		<u>223,647</u>	<u>238,723</u>
Total supporting services	<u>429,027</u>		<u>429,027</u>	<u>437,983</u>
Total functional expenses	<u>3,438,318</u>		<u>3,438,318</u>	<u>3,677,503</u>
Rental expenses	<u>223,082</u>		<u>223,082</u>	<u>248,093</u>
Total expenses	<u>3,661,400</u>		<u>3,661,400</u>	<u>3,925,596</u>
Change in net assets	(250,428)	(41,210)	(291,638)	(319,962)
Net assets, beginning – originally stated	3,221,225	384,312	3,605,537	3,982,643
Prior period restatement - (Note 5)	<u>--</u>	<u>--</u>	<u>--</u>	<u>(57,144)</u>
Net assets, beginning of year, restated	<u>3,221,225</u>	<u>384,312</u>	<u>3,605,537</u>	<u>3,925,499</u>
Net assets, end of year	<u>\$2,970,797</u>	<u>\$343,102</u>	<u>\$3,313,899</u>	<u>\$3,605,537</u>

The accompanying notes are a part of this statement.

INNER CITY HEALTH CENTER
Statement of Functional Expenses
For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

	Program Services			Supporting Services		
	Medical	Dental	Outreach Programs	Management and General	Resource Development	2011 Total
Personnel expenses	\$ 934,610	\$ 825,823	\$ 130,260	\$ 159,488	\$ 178,130	\$ 2,228,311
Contributed services	144,976	59,881	808	--	--	205,665
Contract & professional services	5,212	3,026	355	20,154	6,924	35,671
Outside lab tests	33,736	56,200	--	--	--	89,936
Program supplies	207,903	38,574	9,618	161	--	256,256
Occupancy costs	115,071	100,076	8,852	10,633	10,633	245,265
Office supplies and expenses	9,887	5,287	733	996	2,295	19,198
Printing and postage	7,494	3,458	804	462	16,131	28,349
Client needs & outreach	7,517	1,329	6,546	--	--	15,392
Telephone and internet	8,807	6,202	676	--	--	15,685
Computers & technology	17,464	12,478	2,608	680	2,113	35,343
Insurance expense	28,772	4,378	--	2,941	--	36,091
Equipment lease & repair	5,866	13,005	439	--	--	19,310
Memberships & affiliations	3,968	5,726	--	1,826	2,149	13,669
Meetings, conferences & travel	3,922	3,164	32	4,136	1,369	12,623
Sub-total	1,535,205	1,138,607	161,731	201,477	219,744	3,256,764
Depreciation & amortization	112,937	52,124	8,687	3,903	3,903	181,554
Total expenses	\$ 1,648,142	\$ 1,190,731	\$ 170,418	\$ 205,380	\$ 223,647	\$ 3,438,318
						\$ 3,677,503

The accompanying notes are a part of this statement.

INNER CITY HEALTH CENTER
Statement of Cash Flows
For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

	<u>For the year ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$(291,638)	\$(319,962)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation & amortization	181,554	164,676
Depreciation included in rental expenses	38,975	38,975
Loss on asset disposals (net)	22,828	--
Changes in operating assets and liabilities:		
Decrease in accounts receivable	7,056	19,335
Decrease in grants & donations receivable	65,584	4,841
(Increase) in prepaid expenses	(4,506)	(4,461)
Increase in accounts payable	25,281	47,003
(Decrease) in accrued payroll liabilities	(21,552)	(2,058)
Increase (decrease) in deposits & advance rents	8,209	(2,294)
Increase (decrease) in accrued compensated absences	<u>(21,176)</u>	<u>2,166</u>
Net cash flow from operating activities	10,615	(51,779)
 CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of long-lived fixed assets	(34,025)	(158,455)
 CASH FLOW FROM FINANCING ACTIVITIES:		
Deferred loan origination fees, net	(7,042)	(21,392)
Payment of debt principal	(38,330)	--
Advances from construction loan	<u>--</u>	<u>--</u>
	(45,372)	(21,392)
 CHANGE IN CASH AND CASH EQUIVALENTS	(68,782)	(231,626)
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>522,591</u>	<u>754,217</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$453,809</u>	<u>\$522,591</u>
 SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid – cash basis	<u>\$127,931</u>	<u>\$127,196</u>
Interest received – cash basis	<u>\$2,414</u>	<u>\$10,796</u>

The accompanying notes are a part of this statement.

INNER CITY HEALTH CENTER

Notes to Financial Statements

June 30, 2012

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 recorded 24,349 patient encounters 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 accounting principles generally accepted in the United States of America. Net assets, support and revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and the changes therein are classified and reported as follows:

Unrestricted – Resources not subject to donor-imposed restrictions.

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

c. Cash and cash equivalents

The Center considers all demand deposits, savings accounts and highly liquid investments purchased with an original maturity of six months or less to be cash equivalents provided they are not legally restricted as to withdrawal. All account balances as of June 30, 2012 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 normal

(Continued)

INNER CITY HEALTH CENTER

Notes to Financial Statements

June 30, 2012

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 2011/2012 a total of \$205,665 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 \$10,933 discounted fair value of the free use of space that the Center received at its New Hope Dental Clinic up until the facility was closed on October 31, 2011. Finally, recorded under "Program Supplies" is the \$96,000 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, 2012

Note 1: Summary of Significant Accounting Policies (Continued)

h. Compensated absences

In accordance with generally accepted accounting principles of the U.S., the Center accrues vacation pay when earned. The balance of the liability at June 30, 2012 was \$65,543.

i. Estimates

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

j. Tax status

The Internal Revenue Service recognizes the tax-exempt status of the Center under Section 501(c)(3) of the Internal Revenue Code. In addition the Center receives no revenue which is unrelated to its exempt purpose. The Center believes that it has conducted its operations in accordance with, and has properly maintained, its tax-exempt status.

k. Subsequent events

Management has evaluated the impact of subsequent events through September 24, 2012, which is the date that the final opinion, herein, was signed and the audited financial statements released.

Note 2: Designated Net Assets

During previous years leading up to the campaign (See Note 4) the Center's board of directors designated a total of \$450,000 to be a reserve for unanticipated operating, capital or extra-ordinary needs. During the early phases of the campaign the Center's board of directors authorized the use of \$250,000 of these net assets for the Capital Campaign, resulting in a balance at both June 30, 2011 and 2012 of \$200,000.

The proceeds from the eventual sale of the Center's former facility (prior to May 2009) 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, 2012

Note 3: Employee Retirement Plan

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

Note 4: Facility Purchase and Renovation and Loan Commitments

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

In June of 2008 the Center obtained construction loan financing from a local bank. The loan, due on June 10, 2010 and carrying an interest rate of WSJ prime plus ¼%, had a balance outstanding at June 30, 2009 of \$2,988,643. During the fiscal year ended June 30, 2010 the Center made \$488,643 of principal payments, resulting in a loan balance of \$2,500,000; and, modified the loan agreement with the lender. The modified loan was due on June 10, 2011 and carried an interest rate of WSJ prime plus 1%.

On July 7, 2011 the above loan was refinanced under two new loan agreements with the same lender. The first loan, with a balance of \$360,750, is due July 10, 2012, carries interest at WSJ prime plus 1% and requires minimum payments of 10% of principal next year and "interest only" monthly. The second loan, with a balance of \$2,100,920, is due June 10, 2021, carries interest at 5.05% and requires minimum monthly payments of \$12,689. Interest incurred last year under these loans of \$127,931 is included as a component of occupancy costs in the statement of functional expenses, herein. The minimum principal payments required under these agreements over the next five years are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
2013	\$ 80,311
2014	372,145
2015	50,891
2016	54,612
2017	58,582
Thereafter (in total)	<u>1,845,129</u>
	<u>\$2,461,670</u>

(Continued)

INNER CITY HEALTH CENTER
Notes to Financial Statements
June 30, 2012

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.

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

The Center's \$343,102 of temporarily restricted net assets represent donor restricted contributions and other designations that are available for the following purposes at June 30, 2012 (along with a summary of activity for the current year):

<u>Donor/Purpose</u>	<u>Balance at June 30, 2011</u>	<u>FY 2011/2012</u>		<u>Balance at June 30, 2012</u>
		<u>Increase</u>	<u>Decrease</u>	
Time restricted CDBG funding	\$371,250	--	(41,250)	\$330,000
Donations restricted for future years' malpractice insurance premiums	<u>13,062</u>	<u>40</u>	<u>--</u>	<u>13,102</u>
	<u>\$384,312</u>	<u>\$40</u>	<u>\$(41,250)</u>	<u>\$343,102</u>