# The Center for Community Health and Well-Being, Inc.
**(a California Nonprofit Corporation)**

**Financial Statements**

**with Auditor's Report**

**For the Years Ended June 30, 2011 and 2010**

**Richard E. Watson, Jr.**
**Certified Public Accountant**

**The Center for Community Health and Well-Being, Inc.**
**(a California Nonprofit Corporation)**
**Financial Statements**
**For the Years Ended June 30, 2011 and 2010**

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# Richard E. Watson, Jr.

Certified Public Accountant

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To the Board of Directors
The Center for Community Health and Well-Being, Inc.
Sacramento, California

I have audited the accompanying balance sheets of The Center for Community Health and Well-Being, Inc. (a California Nonprofit Corporation) as of June 30, 2011 and 2010, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits 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. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Center for Community Health and Well-Being, Inc. (a California Nonprofit Corporation), as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Richard E. Watson CPA

Sacramento, California
September 23, 2011

**The Center for Community Health and Well-Being, Inc.**
**Balance Sheets**
**June 30, 2011 and 2010**

## Assets

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Current assets | | | | |
| Cash and equivalents (note 2) | $ | 14,225 | $ | 25,249 |
| Patient accounts receivable, net of allowance for doubtful accounts of $4,000 in 2011 and $24,759 in 2010 (note 4) | | 73,876 | | 96,377 |
| Promise to give (note 15) | | 70,000 | | 100,000 |
| Prepaid expenses | | 0 | | 2,533 |
| Total current assets | | 158,101 | | 224,159 |
| Fixed assets, net (note 5) | | 9,658 | | 13,642 |
| Other assets | | | | |
| Deposits (note 12) | | 5,522 | | 5,522 |
| Total assets | $ | 173,281 | $ | 243,323 |

## Liabilities and Net Assets

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Current liabilities | | | | |
| Accounts payable | $ | 11,092 | $ | 19,554 |
| Payroll taxes payable (note 6) | | 22,547 | | 26,357 |
| Accrued expenses (note 6) | | 32,948 | | 38,793 |
| Lease liability (note 7) | | 6,967 | | 9,283 |
| Current portion of long term debt | | 22,853 | | 22,141 |
| Total current liabilities | | 96,407 | | 116,128 |
| Long term liabilities (note 8) | | | | |
| Long term debt | | 35,853 | | 57,972 |
| Less current portion | | (22,853) | | (22,141) |
| Total long term liabilities | | 13,000 | | 35,831 |
| Total liabilities | | 109,407 | | 151,959 |
| Net assets | | | | |
| Unrestricted net assets / (deficit) | | 13,874 | | (8,636) |
| Temporarily restricted net assets (note 13) | | 50,000 | | 100,000 |
| Total net assets | | 63,874 | | 91,364 |
| Total liabilities and net assets | $ | 173,281 | $ | 243,323 |

The accompanying notes are an integral part of this statement.

**The Center for Community Health and Well-Being, Inc.**
**Statements of Operations and Changes in Net Assets**
**For the Years Ended June 30, 2011 and 2010**

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| Revenues, gains and other support: | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Net patient service revenue (note 9) | $ 857,596 | - | $ 857,596 | $ 976,930 | - | $ 976,930 |
| Contributed revenue | 160,695 | 0 | 160,695 | 153,568 | 0 | 153,568 |
| Net assets released from restrictions | 50,000 | (50,000) | 0 | 50,000 | (50,000) | 0 |
| Total revenues, gains and other support | 1,068,291 | (50,000) | 1,018,291 | 1,180,498 | (50,000) | 1,130,498 |
| Expenses: | | | | | | |
| Payroll expense | | | | | | |
| Salaries and wages | 554,168 | - | 554,168 | 656,440 | - | 656,440 |
| Payroll taxes and unemployment insurance | 52,128 | - | 52,128 | 62,181 | - | 62,181 |
| Employee benefits | 45,605 | - | 45,605 | 28,525 | - | 28,525 |
| Workers' compensation | 14,604 | - | 14,604 | 12,315 | - | 12,315 |
| Total payroll expense | 666,505 | - | 666,505 | 759,461 | - | 759,461 |
| Occupancy and facilities | | | | | | |
| Office rental (note 7) | 103,442 | - | 103,442 | 103,892 | - | 103,892 |
| Taxes, maintenance, utilities and security | 8,716 | - | 8,716 | 6,618 | - | 6,618 |
| Total occupancy and facilities | 112,158 | - | 112,158 | 110,510 | - | 110,510 |
| Professional fees | | | | | | |
| Medical billing services | 40,800 | - | 40,800 | 44,200 | - | 44,200 |
| Consultants and contract labor | 51,545 | - | 51,545 | 8,166 | - | 8,166 |
| Legal | 2,599 | - | 2,599 | 0 | - | 0 |
| Audit and accounting | 13,744 | - | 13,744 | 7,444 | - | 7,444 |
| Total professional fees | 108,688 | - | 108,688 | 59,810 | - | 59,810 |
| Administrative | | | | | | |
| Insurance | 24,726 | - | 24,726 | 25,735 | - | 25,735 |
| Telephone and internet | 10,337 | - | 10,337 | 11,976 | - | 11,976 |
| Office supplies | 728 | - | 728 | 1,001 | - | 1,001 |
| Postage and shipping | 1,294 | - | 1,294 | 1,866 | - | 1,866 |
| Print and copy | 7,664 | - | 7,664 | 6,336 | - | 6,336 |
| Tax, license and fees | 1,745 | - | 1,745 | 1,593 | - | 1,593 |
| Dues, memberships and subscriptions | 1,949 | - | 1,949 | 1,175 | - | 1,175 |
| Bank and payroll processing fees | 3,415 | - | 3,415 | 3,134 | - | 3,134 |
| Marketing and advertising | 1,739 | - | 1,739 | 554 | - | 554 |
| Miscellaneous | 2,384 | - | 2,384 | 176 | - | 176 |
| Interest expense (note 8) | 3,232 | - | 3,232 | 3,872 | - | 3,872 |
| Small furniture and equipment | 770 | - | 770 | 2,283 | - | 2,283 |
| Depreciation expense | 3,984 | - | 3,984 | 3,258 | - | 3,258 |
| Total administrative | 63,967 | - | 63,967 | 62,959 | - | 62,959 |
| Direct program expenses | | | | | | |
| Medical supplies and fees | 76,367 | - | 76,367 | 109,977 | - | 109,977 |
| Student achievment awards | 3,204 | - | 3,204 | 575 | - | 575 |
| Donations made | 500 | - | 500 | 0 | - | 0 |
| Supplies and food | 8,946 | - | 8,946 | 12,092 | - | 12,092 |
| Total program materials and supplies | 89,017 | - | 89,017 | 122,644 | - | 122,644 |
| Travel, conference and mileage | | | | | | |
| Travel and mileage | 2,256 | - | 2,256 | 6,060 | - | 6,060 |
| Conference expense and fees | 627 | - | 627 | 5,157 | - | 5,157 |
| Auto repair and maintenance | 2,591 | - | 2,591 | 955 | - | 955 |
| Total travel, conference and mileage | 5,474 | - | 5,474 | 12,172 | - | 12,172 |
| Total expenses | 1,045,809 | - | 1,045,809 | 1,127,556 | - | 1,127,556 |
| Net operating income / (loss) | 22,482 | (50,000) | (27,518) | 52,942 | (50,000) | 2,942 |
| Other income: | | | | | | |
| Interest and dividends | 28 | - | 28 | 27 | - | 27 |
| Increase / (decrease) in net assets | 22,510 | (50,000) | (27,490) | 52,969 | (50,000) | 2,969 |
| Net assets / (deficit), beginning of year | (8,636) | 100,000 | 91,364 | (61,605) | 150,000 | 88,395 |
| Net assets / (deficit), end of year | $ 13,874 | 50,000 | $ 63,874 | $ (8,636) | 100,000 | $ 91,364 |

The accompanying notes are an integral part of this statement.

**The Center for Community Health and Well-Being, Inc.**
**Statements of Cash Flows**
**For the Years Ended June 30, 2011 and 2010**

| Cash flows from operating activities | 2011 | 2010 |
|---|---|---|
| Change in net assets | $ (27,490) | $ 2,969 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 3,984 | 3,258 |
| Change in assets - (increase)/decrease: | | |
| Patient accounts receivable | 22,501 | 16,548 |
| Accounts receivable | 0 | 0 |
| Prepaid expenses | 2,533 | 868 |
| Promise to give | 30,000 | 50,000 |
| Change in liabilities - increase/(decrease): | | |
| Accounts payable | (8,462) | 8,360 |
| Payroll taxes payable | (3,810) | (3,910) |
| Accrued expenses | (5,845) | (9,171) |
| Lease liability | (2,316) | 772 |
| Net cash provided by operating activities | 11,095 | 69,694 |
| Cash flows from investing activities | | |
| Capital expenditures | 0 | (7,262) |
| Net cash (used) by investing activities | 0 | (7,262) |
| Cash flows from financing activities | | |
| Repayment of related party notes | 0 | (10,000) |
| Repayment of line of credit | 0 | (27,174) |
| Payments on long term debt (CPCA) | (22,119) | (21,419) |
| Net cash (used) by financing activities | (22,119) | (58,593) |
| Net increase / (decrease) in cash and cash equivalents | (11,024) | 3,839 |
| Cash at the beginning of the year | 25,249 | 21,410 |
| Cash at the end of the year | $ 14,225 | $ 25,249 |
| Supplemental information: cash interest paid | $ 3,232 | $ 3,872 |

The accompanying notes are an integral part of this statement.

**The Center for Community Health and Well-Being, Inc.**
**(A California Nonprofit Corporation)**

**Notes to the Financial Statements**
**For the Year Ended June 30, 2011**

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**Note 1: Organization**

Located in Sacramento, California, The Center for Community Health and Well-Being, Inc., (the "Organization") was incorporated as a California nonprofit public benefit corporation on June 14, 1991. The Internal Revenue Service has determined that the Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1) of the Internal Revenue Code. The Organization is also exempt from state franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code.

The Organization's mission is to improve the health and well-being of the Sacramento community and ensure that its families and children have the best environment in which to grow and thrive.

The Birthing Project Clinic has become a vital asset for low-income women who otherwise would not have access to comprehensive pre and post-natal care. It is the Organization's goal to ensure babies are born as healthy as possible to parents who have received prenatal care, parenting and nutrition education and substance abuse relapse prevention support and referrals as needed. Additionally, the Organization provides postpartum care, gynecological care and family planning services to low-income women in the community.

The Organization also provides comprehensive risk reduction and leadership programs targeted towards female youth ages thirteen through eighteen with its Leadership and Empowerment Institute for Girls and Young Women. In order to reach the overall program goal of "reducing risks faced by adolescent females" the intended, evidenced-based outcomes, of the Academy have been articulated: (1) Increase high school graduation rates; (2) Increase knowledge and exposure to future professional and academic options; (3) Increase understanding of safe sexual behaviors and, as a result, reduce teen pregnancy rates; (4) Increase understanding of healthy relationships with self and others.

**Note 2: Summary of Significant Accounting Policies**

The Organization prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recognized when incurred. All contributions are considered available for the Organization's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support and increase the respective class of net assets. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets.

A summary of the Organization's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

<u>Use of estimates</u>
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. See Note 9.

<u>Cash and cash equivalents</u>
Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

<u>Property and equipment</u>
The Organization capitalizes all expenditures in excess of $1,000 for property and equipment at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. See Note 5.

**Note 2: Summary of Significant Accounting Policies (continued)**

Temporarily and permanently restricted net assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity. As of June 30, 2011 and 2010, temporarily restricted net assets were $50,000 and $100,000, respectively (see Note 13). There were no permanently restricted net assets.

Net operating income

The statement of operations includes net operating income. Changes in unrestricted net assets which are excluded from net operating income, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Net patient service revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. See Note 9.

Third-party contractual adjustments

Retroactively calculated third-party contractual adjustments are accrued on an estimated basis in the period the related services are rendered. Net patient service revenue is adjusted as required in subsequent periods based on final settlements. See Note 9.

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Currently, the Organization engages in no activities that would be taxed as unrelated business income.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. See Note 15.

**Note 3: Subsequent Events**

Subsequent events were evaluated through September 23, 2011, which is the date the financial statements were available to be issued.

**Note 4: Patient Accounts Receivable and Concentrations of Credit Risk**

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements or covered under California Medi-Cal. Patient accounts receivable are stated at the amount management expects to collect from outstanding balances. The Organization provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based upon its assessment of the current status of individual receivables.

The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of patients to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Amounts are past due when not paid by the end of the following month. Patient accounts receivable past due thirty days or more as of June 30, 2011 and 2010 totaled $128 and $43,330, respectively.

Patient receivables with a carrying amount of $73,876 and $96,377 at June 30, 2011 and 2010, respectively, and cash secure the note payable to CPCA Ventures (Note 8).

**Note 5: Fixed Assets**

A summary of property and equipment at June 30 is as follows:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Fixed Assets | Cost | Accumulated Depreciation | Net Fixed Assets |
| Office equipment | $64,347 | (54,689) | $9,658 | $64,347 | (50,705) | $13,642 |
| Office furniture | 9,874 | (9,874) | 0 | 9,874 | (9,874) | 0 |
| Vehicles | 12,101 | (12,101) | 0 | 12,101 | (12,101) | 0 |
| Totals | $86,322 | (76,664) | $9,658 | $86,322 | (72,680) | $13,642 |

Depreciation expense was $3,984 and $3,258 for the years ended June 30, 2011 and 2010, respectively.

**Note 6: Accrued Expenses and Payroll Taxes Payable**

The Organization owes payroll taxes and related penalties and interest to the Internal Revenue Service due to its failure to timely pay payroll taxes for the quarters ended December 31, 2005 and March 31, 2007. The Organization has entered into an installment agreement with the IRS which requires a minimum payment of $300 per month. As of June 30, the balance is as follows:

| | 2011 | 2010 |
|---|---|---|
| Payroll taxes, interest and penalties | $22,547 | $26,357 |

The balance of accrued expenses as of June 30 consisted of:

| | 2011 | 2010 |
|---|---|---|
| Accrued wages | $18,375 | $26,137 |
| Accrued vacation | 14,573 | 12,656 |
| Accrued expenses | $32,948 | $38,793 |

**Note 7: Lease Commitments**

The Organization leases space for its operations in Sacramento under the terms of a non-cancelable operating lease. The provisions of the lease agreement provide for monthly payments which include a base rental amount and an additional variable amount for common area operating expenses. The lease expires on September 30, 2012.

Rent expense is recognized on a straight-line basis, and the difference between rent expense and rent paid is recorded as lease liability. Total expense under the operating leases was $103,442 and $103,892 for the years ended June 30, 2011 and 2010 respectively.

Future minimum lease payments under operating leases as of June 30, 2011, are:

| | | |
|---|---|---|
| June 30, | 2012 | $102,030 |
| | 2013 | 25,702 |
| Total | | $127,732 |

**Note 8: Long Term Liabilities**

| The Organization's long term debt consists of the following: | 2011 | 2010 |
|---|---|---|
| Note payable secured by accounts receivable, cash and fixed assets to CPCA Ventures in the original amount of $88,702. The note bears interest at the rate of 3.175% per annum and is due in full on July 1, 2016. Monthly payments of principal and interest are $1,972. Interest expense for the years ended June 30 2011 and 2010 was $2,449 and $2,242, respectively. | $35,853 | $57,972 |
| Less current portion | (22,853) | (22,141) |
| Total long term liabilities | $13,000 | $35,831 |

Interest expense for the years ended June 30, 2011 and 2010, including IRS interest discussed in Note 6, was $3,232 and $3,872, respectively.

Aggregate maturities of long-term debt for the next five years are as follows:

| | |
|---|---|
| June 30, 2012 | $22,853 |
| 2013 | 13,000 |
| 2014 | 0 |
| 2015 | 0 |
| 2016 | 0 |
| Thereafter | 0 |
| Total | $35,853 |

**Note 9: Net Patient Service Revenue and Vulnerability Due to Concentration**

The Organization participates as a provider of health care services to California Medi-Cal patients. The Organization also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates and discounts from established charges. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Laws and regulations governing the Medi-Cal program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revenue from the Medi-Cal program accounted for approximately 63% and 61% of the Organization's net patient service revenue for the years ended June 30, 2011 and 2010, respectively.

**Note 10: Medical Malpractice Insurance**

The Organization purchases professional and general liability insurance to cover medical malpractice claims. There are no known claims or incidents that may result in the assertion of a claim as of June 30, 2011.

**Note 11: Related Party Transactions**

During the year ended June 30, 2009, the Organization's Executive Director, Wendy Petko, advanced $10,000 to the Organization for the purpose of providing operating cash flow. The note was paid in full by the Organization as of June 30, 2010.

**Note 12: Deposits**

Deposits consist of the security deposits on the lease of 1900 and 1920 T Street in Sacramento, California (see Note 7).

**Note 13: Temporarily Restricted Net Assets**

Temporarily restricted net assets consisted of the following as June 30:

| | 2011 | 2010 |
|---|---|---|
| California Wellness Foundation - operating support for July 1, 2009 through June 30, 2012. | $50,000 | $100,000 |

**Note 14: Functional Expenses**

Expenses by function for the year ended June 30, were as follows:

| | 2011 | 2010 |
|---|---|---|
| Program Services: | | |
| Clinic pre-natal care and teen risk reduction | $931,000 | $994,656 |
| Total program services | 931,000 | 994,656 |
| Supporting Services: | | |
| Management and general | 83,209 | 88,650 |
| Fundraising | 31,600 | 44,250 |
| Total supporting services | 114,809 | 132,900 |
| Total expenses | $1,045,809 | $1,127,556 |

**Note 15: Promise to Give**

Promise to give at June 30 consists of an unconditional promise as follows:

| | 2011 | 2010 |
|---|---|---|
| California Wellness Foundation | | |
| Due in less than one year | $50,000 | $50,000 |
| Due in one to five years | 0 | 50,000 |
| Sutter Medical Health Center | | |
| Due in less than one year | 20,000 | 0 |
| Total promise to give | $70,000 | $100,000 |

Uncollectible promises are expected to be insignificant.