

**ANCHORAGE NEIGHBORHOOD
HEALTH CENTER, INC.**

Financial Statements and
Supplementary Information

Years Ended June 30, 2012 and 2011

(With Independent Auditor's Report Thereon)

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ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.

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Independent Auditor's Report

Board of Directors
Anchorage Neighborhood Health Center, Inc.
Anchorage, Alaska

We have audited the accompanying statements of financial position of Anchorage Neighborhood Health Center, Inc. (ANHC), a non-profit corporation, as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of ANHC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 audits provide 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 Anchorage Neighborhood Health Center, Inc. as of June 30, 2012 and 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2012, on our consideration of Anchorage Neighborhood Health Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Board of Directors
Anchorage Neighborhood Health Center, Inc.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements taken as a whole.

Mikunda, Cottrell & Co.

Anchorage, Alaska
October 22, 2012

ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.

Statements of Financial Position

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents:		
Unrestricted cash	\$ 1,813,827	\$ 2,166,380
Restricted cash	<u>673,438</u>	<u>567,590</u>
Total cash and cash equivalents	2,487,265	2,733,970
Patient accounts receivable, net of allowance for doubtful accounts of \$905,012 for 2012 and \$889,021 for 2011 (note 3)	1,088,812	825,247
Receivable from funding agencies	1,047,354	1,327,699
Pledges receivable	111,378	96,730
Pharmacy inventory	49,372	131,822
Prepaid expenses and other current assets	<u>70,789</u>	<u>84,700</u>
Total current assets	<u>4,854,970</u>	<u>5,200,168</u>
Property and equipment:		
Land	3,610,048	3,585,910
Buildings	4,196,438	4,196,438
Equipment and furniture	3,244,605	2,045,986
Construction in progress	<u>20,181,920</u>	<u>6,630,328</u>
Total property and equipment	31,233,011	16,458,662
Less accumulated depreciation	<u>4,874,342</u>	<u>4,662,301</u>
Net property and equipment	<u>26,358,669</u>	<u>11,796,361</u>
Total assets	\$ <u>31,213,639</u>	\$ <u>16,996,529</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued liabilities	1,018,931	1,282,384
Accrued payroll and related liabilities	320,775	337,223
Accrued annual leave	327,129	327,044
Deferred revenue	<u>-</u>	<u>19,538</u>
Total current liabilities	<u>1,666,835</u>	<u>1,966,189</u>
Net assets:		
Unrestricted:		
Designated:		
Facility replacement	1,232,000	1,232,000
Invested in property and equipment	26,358,670	11,796,361
Capital campaign	116,215	16,666
Operating	1,152,531	1,152,531
Undesignated	<u>137,419</u>	<u>422,353</u>
Temporarily restricted (note 6)	<u>28,996,835</u>	<u>14,619,911</u>
Total net assets	<u>549,969</u>	<u>410,429</u>
Total liabilities and net assets	29,546,804	15,030,340
Total liabilities and net assets	\$ <u>31,213,639</u>	\$ <u>16,996,529</u>

See accompanying notes to financial statements.

ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.

Statements of Activities
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Changes in unrestricted net assets:		
Revenue:		
Patient service revenue (net of contractual allowances and discounts)	\$ 6,278,758	\$ 5,622,932
Provision for bad debts	<u>(298,777)</u>	<u>(195,095)</u>
Net patient service revenue (notes 3 and 9)	5,979,981	5,427,837
Grant revenue	4,241,367	4,259,386
Net assets released from restrictions for operations (note 6)	<u>169,485</u>	<u>171,290</u>
Total revenue	<u>10,390,833</u>	<u>9,858,513</u>
Expenses:		
Salaries, wages, and benefits	8,184,442	7,705,029
Purchased services	886,448	841,809
Supplies	804,665	781,971
General and administrative	463,113	549,879
Depreciation	285,529	307,938
Occupancy and use	238,937	304,239
Insurance	<u>49,149</u>	<u>71,189</u>
Total expenses	<u>10,912,283</u>	<u>10,562,054</u>
Loss from operations	<u>(521,450)</u>	<u>(703,541)</u>
Nonoperating support and revenue:		
Grant revenue	14,442,716	5,276,091
In-kind capital contributions	94,857	-
Net assets released from restriction for capital acquisitions (note 6)	214,898	-
Interest income	9,872	23,135
Donations	40,328	63,535
Commission	60,710	-
Other	<u>34,993</u>	<u>32,223</u>
Total nonoperating income	<u>14,898,374</u>	<u>5,394,984</u>
Increase in unrestricted net assets	<u>14,376,924</u>	<u>4,691,443</u>
Changes in temporarily restricted net assets:		
Contributions (note 6)	523,923	452,277
Net assets released from restrictions (note 6)	<u>(384,383)</u>	<u>(171,290)</u>
Increase in temporarily restricted net assets	<u>139,540</u>	<u>280,987</u>
Change in net assets	14,516,464	4,972,430
Net assets at beginning of year	<u>15,030,340</u>	<u>10,057,910</u>
Net assets at end of year	\$ <u>29,546,804</u>	\$ <u>15,030,340</u>

See accompanying notes to financial statements.

ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.

Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from patients and third party payers	\$ 5,716,416	\$ 5,364,201
Cash received from grantors and contributors for operations	4,331,897	4,516,362
Cash received from other activities	38,246	38,728
Cash paid to employees and suppliers	(10,715,352)	(10,323,707)
Interest received	9,872	23,135
Net cash used in operating activities	<u>(618,921)</u>	<u>(381,281)</u>
Cash flows from investing activities -		
Cash paid for acquisition of property and equipment	<u>(14,851,090)</u>	<u>(4,249,041)</u>
Cash flows from financing activities -		
Cash received for future capital acquisitions	<u>15,223,306</u>	<u>4,433,943</u>
Net cash provided by financing activities	<u>15,223,306</u>	<u>4,433,943</u>
Net decrease in cash	(246,705)	(196,379)
Cash and cash equivalents:		
Beginning of year	<u>2,733,970</u>	<u>2,930,349</u>
End of year	\$ <u>2,487,265</u>	\$ <u>2,733,970</u>
Components of cash and cash equivalents:		
Unrestricted cash	\$ 1,813,827	\$ 2,166,380
Restricted cash	<u>673,438</u>	<u>567,590</u>
Total components of cash and cash equivalents	\$ <u>2,487,265</u>	\$ <u>2,733,970</u>
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	\$ 14,516,464	\$ 4,972,430
Adjustments to reconcile change in net assets to cash used in operating activities:		
Depreciation	285,529	307,938
Bad debt expense	298,777	195,095
Loss on disposal of assets	3,253	6,505
Changes in assets and liabilities that provided (used) cash:		
Patient accounts receivable	(562,342)	(258,731)
Accounts receivable from funding agencies	280,345	(1,021,314)
Pharmacy inventory	82,450	616
Pledged contributions receivable	(14,648)	(71,457)
Prepaid and other current assets	13,911	8,381
Accounts payable	(263,453)	(179,449)
Accrued payroll and related liabilities	(16,448)	92,679
Accrued annual leave	85	8,182
Deferred revenue	(19,538)	(8,213)
Cash received for long-term purposes	<u>(15,223,306)</u>	<u>(4,433,943)</u>
Net cash used in operating activities	\$ <u>(618,921)</u>	\$ <u>(381,281)</u>

See accompanying notes to financial statements.

ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.

Notes to Financial Statements

June 30, 2012 and 2011

(1) **Organization and Summary of Significant Accounting Policies**

Description of Business

The Anchorage Neighborhood Health Center, Inc. (ANHC) is a non-profit corporation organized to provide comprehensive primary medical care, dental care, and related health care services responsive to the needs of the Anchorage community, especially to those persons who may lack access to these services because of financial, language, lifestyle, health status, or cultural barriers. ANHC is a U.S. Public Health Service Act Community Health Center in the State of Alaska and has provided medical services since 1974.

Basis of Presentation

Financial statement presentation follows the recommendations of the American Institute of Certified Public Accountants in its Audit and Accounting Guide, Health Care Organizations.

Cash and Cash Equivalents

ANHC considers all highly liquid investments, generally those purchased with an original maturity of three months or less, to be cash equivalents.

Inventory

Inventory, consisting primarily of medical supplies and pharmaceuticals, is stated at the lower of cost or market. Cost is determined on the first-in, first-out method.

Property and Equipment

Property acquired is considered to be owned by ANHC. However, the funding sources have a reversionary interest in the property and may determine or restrict use of any proceeds from sale of those assets.

Depreciation of all property and equipment is computed on a straight-line basis over the estimated service lives of the assets, which are 30 years for buildings, 5 to 10 years for furniture, fixtures, and other equipment, and 3 to 5 years for technological assets. Depreciation on grant-funded assets is not an allowable expenditure for federal grants.

Statements of Activities

For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains or losses.

Net Patient Service Revenue

Patient accounts receivables are recorded at the invoiced amount net of any sliding fee discounts which are known at the time of service. Third party accounts receivable are recorded at the invoiced amount net of any contractual adjustments arising from Medicare and Medicaid Federally Qualified Health Center (FQHC) prospective rates known at the time of service. Private insurance third party receivables are recorded at the invoiced amount as the contractual adjustment is not known at the time of service but at the time of payment.

ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.

Notes to Financial Statements, continued

Organization and Summary of Significant Accounting Policies, continued

Net Patient Service Revenue, continued

The allowance for doubtful accounts and contractual allowances is ANHC's best estimate of the amount of probable credit losses in existing accounts receivable from patients and third party payers, respectively. ANHC determines the allowance based on its historical write-off and contractual adjustments experience and current economic conditions and contractual provisions for each pool of receivables. ANHC reviews its allowance for doubtful accounts monthly. All account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Grant Revenue

ANHC is partially funded by grants from the U.S. Department of Health and Human Services and the U.S. Department of Agriculture. Other funding sources contain local grants, including United Way and the State of Alaska. Grant revenues are recognized in accordance with the terms of the grant agreements. Deferred revenues represent excess of receipts over expenses.

Contributions

Contributions are recorded as temporarily restricted based on the existence of donor restrictions as to use or time. Upon the satisfaction of these restrictions, either by expending or utilizing the contributions for the restricted purpose or by the passage of time, the contributions are released from restriction and included as a component of unrestricted revenues. Donor restricted contributions including grant awards whose restrictions are met in the same year are reported as unrestricted support.

Income Taxes

ANHC is a non-profit organization as described under Section 501 (c)(3) of the Internal Revenue Code (Code), and is exempt from federal income taxes under Section 501 (a) of the Code. ANHC applies the provisions of Topic 740 of the FASB Accounting Standards Codification relating to accounting for uncertainty in income taxes and annually reviews its positions taken in accordance with the recognition standards. ANHC believes that it has no uncertain tax positions which require disclosure in or adjustment to these financial statements.

ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.

Notes to Financial Statements, continued

Organization and Summary of Significant Accounting Policies, continued

Reclassifications

Certain reclassifications have been made to the 2011 amounts to conform to the 2012 presentation. These reclassifications had no effect on net assets or change in net assets as of and for the year ended June 30, 2011.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements. Significant estimates include the allowance for doubtful accounts (note 3).

Fair Value Measurements

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

Included in investment related line items in the financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, that is, other than in a forced liquidation or distress sale.

The Organization's financial assets and liabilities carried at fair value have been classified based on a hierarchy defined by ASC 820. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices.

ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.

Notes to Financial Statements, continued

Organization and Summary of Significant Accounting Policies, continued

Fair Value Measurements, continued

Level 3 – Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

(2) **Cash and cash equivalents**

As of June 30, 2012 and 2011, cash and cash equivalents consisted of the following:

	June 30, 2012	
	<u>Book</u> <u>Balance</u>	<u>Bank</u> <u>Balance</u>
Cash accounts	\$ 2,261,646	2,260,944
Petty cash	2,215	-
Cash at 501 (c) Agencies Trust	<u>223,404</u>	<u>223,404</u>
	<u>\$ 2,487,265</u>	<u>2,484,348</u>
	June 30, 2011	
	<u>Book</u> <u>Balance</u>	<u>Bank</u> <u>Balance</u>
Cash accounts	\$ 2,536,515	2,624,725
Petty cash	2,215	-
Cash at 501 (c) Agencies Trust	<u>195,240</u>	<u>195,240</u>
	<u>\$ 2,733,970</u>	<u>2,819,965</u>

As of June 30, 2012 and 2011, restricted cash and cash equivalents consisted of the following:

	<u>2012</u>	<u>2011</u>
Cafeteria plan	\$ 11,444	10,989
United Way Recruitment Grant	-	14,583
State of Alaska- Depression Impact Grant	-	19,538
Ride for Life Alaska	55,794	47,568
Cash at 501 (c) Agencies Trust	223,404	195,240
United Way Pledges	-	28,123
Capital Campaign	<u>382,796</u>	<u>251,549</u>
	<u>\$ 673,438</u>	<u>567,590</u>

ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.

Notes to Financial Statements, continued

Cash and cash equivalents, continued

The cash accounts maintained by the Federal Deposit Insurance Corporation (FDIC) insured institutions are insured by the FDIC for up to \$250,000 per financial institution. In addition, all funds in a “non-interest bearing transaction account” are insured in full by the FDIC from December 10, 2011 through December 31, 2012. All federal credit unions and the vast majority of state-chartered credit unions are covered by NCUSIF insurance protection up to \$250,000. At June 30, 2012, \$908,802 of ANHC’s funds were insured by FDIC and NCUSIF. The bank balances exceeded insured and collateralized amounts by \$1,575,546. At June 30, 2011, \$1,145,014 of ANHC’s funds were insured by FDIC and NCUSIF. The bank balances exceeded insured and collateralized amounts by \$1,674,951.

501 (c) Agencies Trust is a national organization that manages and invests funds of non-profits that chose to opt out of the State unemployment insurance (SUI) and reimburse the state for unemployment claims instead of paying the state unemployment taxes. The funds that ANHC has with the 501 (c) Agencies Trust are considered to be restricted for the purpose of paying out future claims.

(3) **Accounts Receivable**

Patient Accounts Receivable

Patient accounts receivable by payer source consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Medicaid	\$ 500,430	287,965
Medicare	452,079	357,947
Insurance	293,714	257,507
Patient self-pay	<u>747,601</u>	<u>810,849</u>
	1,993,824	1,714,268
Less allowances for doubtful accounts	<u>905,012</u>	<u>889,021</u>
	<u>\$ 1,088,812</u>	<u>825,247</u>

Third Party Settlements Receivable/Payable

ANHC’s status as a federally funded Community Health Center makes it eligible for cost-based reimbursement for Medicare and Medicaid, and for consideration as a Federally Qualified Health Center (FQHC). The State of Alaska continued cost-based reimbursement for FQHC’s through June 30, 2002. In subsequent periods, the State of Alaska utilized prospective rates. During the year ended June 30, 2005, ANHC settled all open claims related to prior year Medicaid provisional rates and related cost reporting.

ANHC’s encounters reported to the State of Alaska for Medicaid reimbursement continue to be subject to audit under the prospective payment system. Any disallowed encounter, including encounters that have been billed and collected, would become a liability of ANHC. The amount, if any, of adjustments to Medicaid revenue resulting from disallowed encounters during State of Alaska audits cannot be determined at this time. ANHC expects such disallowances, if any, to be immaterial.

ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.

Notes to Financial Statements, continued

(4) **Promises to Give**

Included under "Pledges Receivable" are the following unconditional promises to give:

	<u>2012</u>	<u>2011</u>
Unconditional promises to give before unamortized discounts		
Capital Campaign	\$ 113,387	71,970
United Way	-	28,123
Less: Unamortized discount	<u>(2,009)</u>	<u>(3,363)</u>
Net unconditional promises to give	<u>\$ 111,378</u>	<u>96,730</u>
Amounts due in:		
Less than one year	\$ 73,215	60,652
One to five years	40,172	39,213
More than five years	<u>-</u>	<u>228</u>
Total	<u>\$ 113,387</u>	<u>100,093</u>

Discount rates were estimated at 1 percent for 2012.

In 2011, the organization received the following conditional promises to give. In fiscal 2012, the conditions were not met therefore, they are not recognized as assets or support in the financial statements:

Rasmusson Foundation conditional promise to give \$1 for every \$3 secured capital funding and contingent upon successfully extending bus transportation to the new building site	\$ 500,000
Conoco Phillips conditional promise to give upon an employee's completion of volunteer service	\$ 3,000

(5) **Credit Facilities**

The company obtained a revolving line of credit at Wells Fargo Bank, with an original limit of \$1,500,000 as of June 19, 2012 which expires on July 5, 2013. The interest is accrued on unpaid outstanding principal balance of the credit at a floating rate equal to the index plus 0.500%. There was no outstanding balance on the credit at June 30, 2012.

(6) **Temporarily Restricted Net Assets**

Temporarily restricted net assets as of June 30, 2012 and 2011 consist primarily of capital campaign contributions, and contributions from Ride for Life Alaska, which are available to provide health care services in the subsequent fiscal year. Net assets were released from donor restrictions by satisfying the time and/or use restriction for the contributions. Temporarily restricted net assets consisted of the following at June 30:

ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.

Notes to Financial Statements, continued

Temporarily Restricted Net Assets, continued

	<u>United Way Pledge</u>	<u>Ride For Life</u>	<u>Alaska Mental Health Trust</u>	<u>United Way Recruitment</u>	<u>Capital Campaign Pledges</u>	<u>Capital Campaign</u>	<u>Other</u>	<u>Total</u>
June 30, 2011	\$ 28,123	47,568	-	14,582	68,607	251,549	-	410,429
Temporarily restricted contributions	-	60,000	100,000	-	69,995	293,528	400	523,923
Net assets released from restriction	<u>(28,123)</u>	<u>(51,774)</u>	<u>(100,000)</u>	<u>(14,582)</u>	<u>(27,224)</u>	<u>(162,280)</u>	<u>(400)</u>	<u>(384,383)</u>
June 30, 2012	\$ <u>-</u>	<u>55,794</u>	<u>-</u>	<u>-</u>	<u>111,378</u>	<u>382,797</u>	<u>-</u>	<u>549,969</u>

(7) **Leases**

Rental expense for cancelable and noncancelable operating leases for 2012 and 2011 totaled \$66,389 and \$68,924, respectively. Future minimum payments under noncancelable operating leases for the next three years are as follows:

Year Ending June 30,	
2013	\$ 17,840

(8) **Employee Benefit Plans**

Through June 30, 2005, ANHC had a Simplified Employee Pension Plan, which covered substantially all employees who worked three of the preceding five calendar years. Contributions were discretionary upon Board approval. Beginning July 1, 2005, ANHC began sponsoring a 403(b) plan in which it contributes 2% of employees' eligible wages. In addition, ANHC makes a matching contribution of one-half of employees' voluntary contributions up to 1% of employees' eligible wages. ANHC paid contributions to the plan of \$126,129 and \$122,490 for 2012 and 2011, respectively.

(9) **Charity Care**

ANHC provides care to patients on a sliding fee basis. Sliding fee discounts are determined based on household size and gross monthly income according to the federal poverty guidelines. ANHC also provides services to the homeless and performs certain case management services on a charity care basis. ANHC management does not expect payment for these discounts, they are excluded from revenue. ANHC provided approximately \$5,477,769 and \$4,003,214 of charity care, when measured at ANHC's established rates for the years ended June 30, 2012 and 2011, respectively.

ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.

Notes to Financial Statements, continued

(10) **Functional Expenses**

Expenses by major classes of program and supporting services are as follows for the year ended June 30:

	<u>2012</u>	<u>2011</u>
Healthcare services	\$ 4,983,238	4,685,170
Dental care services	1,296,328	1,105,029
Ancillary services	1,806,290	1,776,364
Enabling service	923,145	1,192,213
General and administrative	1,745,614	1,698,531
Fundraising	<u>157,668</u>	<u>104,747</u>
	<u>\$ 10,912,283</u>	<u>10,562,054</u>

(11) **Contingencies**

Grant Expenditures

Accounts received or receivable from grantors are subject to audit and adjustment by the grantor agencies or their representatives. Any disallowed claims, including amounts already collected, would become a liability of ANHC. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time although ANHC expects such disallowances, if any, to be immaterial.

Malpractice Coverage

Effective June 23, 1996, the Bureau of Primary Health Care (BPHC), in accordance with Section 224(h) of the Public Health Service (PHS) Act, 42 U.S.C. 23(h) as amended by the Federally Supported Health Centers Assistance Act of 1995, was deemed to be an employee of the Federal Government for the purposes of providing liability protection under the Federal Tort Claims Act (FTCA). Section 224(a) provides liability protection under FTCA (FTCA coverage) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. This FTCA coverage is applicable to deemed entities, including their officers, governing board members, employees and contractors who are physicians or other licensed or certified health care practitioners providing family practice, general internal medicine, general pediatrics or obstetrical/gynecological services. ANHC was deemed an entity subject to such FTCA coverage in July 1996, and accordingly ANHC has no separate malpractice insurance coverage. FTCA coverage is comparable to an "occurrence" policy without a monetary cap.

ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.

Notes to Financial Statements, continued

Contingencies, continued

Commitments and Contingencies

ANHC has committed to building a new 42,700 square foot facility which will serve as its new primary care medical and dental services location. The location will provide ancillary services including laboratory, radiological, pharmaceutical, clinical support services and administrative services. As of August 2012 the project's construction phase is substantially complete, and the certificate of occupancy has been issued. The remaining phases of the project are furniture, fixtures, and technological acquisition and setup with a projected completion date of September 2012. The total project cost is estimated to be \$28.3 million. Costs incurred through September 2012 totaled \$25,569,156. The project has received Federal and State capital funding commitments in the total amount of \$25,988,483. Federal commitments include the Denali Commission in the amount of \$1,191,300, Department of Health and Human Services Health Resources and Services Administration under the Affordable Care Act-Capital Development Grants Program and Health Care and Other Facilities in the amounts of \$8,000,000 and \$797,183, respectively. State commitments include monies through the Department of Commerce, Community & Economic Development under the Designated Legislative Grant Program in the amount of \$16,000,000.

(12) **Subsequent Event**

On August 17, 2012 the Organization sold the land, building, improvements, furniture and fixtures associated with its current operating site located at 1217 East 10th Avenue. A sales price of \$1,584,025 (net of selling expenses in the amount of \$88,875) less the assets estimated book value of \$1,143,628 results in an expected realized gain of \$440,497. The buyers of the current location have agreed to leaseback the property to ANHC for \$100 until such time as the Organization relocates to its new facility at 6951 Business Park Boulevard on September 17, 2012.

SUPPLEMENTARY INFORMATION

ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.
State of Alaska, Department of Health and Social Services Programs
Diabetes Prevention and Control Program - Grant No. 601-12-157
Schedule of Expenditures - Budget and Actual
Year Ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures - personal services	\$ <u>14,000</u>	<u>14,000</u>	<u>-</u>

ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.
State of Alaska, Department of Health and Social Services Programs
Community Health Centers Program - Grant No. 601-12-220
Schedule of Expenditures - Budget and Actual
Year Ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures - personal services	\$ <u>260,838</u>	<u>260,838</u>	<u>-</u>

ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.
State of Alaska, Department of Health and Social Services Programs
Passed through the Municipality of Anchorage
Human Services Community Matching Grant
Schedule of Expenditures - Budget and Actual
Year Ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures:			
Personal services	\$ 87,450	88,155	(705)
Employee benefits	17,643	17,643	-
Professional fees	6,500	6,495	5
Supplies	1,200	500	700
Total expenditures	\$ <u>112,793</u>	<u>112,793</u>	<u>-</u>

**ANCHORAGE NEIGHBORHOOD
HEALTH CENTER, INC.**

Federal and State Financial Assistance Reports

Year Ended June 30, 2012

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ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Board of Directors
Anchorage Neighborhood Health Center, Inc.
Anchorage, Alaska

We have audited the financial statements of Anchorage Neighborhood Health Center, Inc. (ANHC), (a non-profit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 22, 2012. 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.

Internal Control Over Financial Reporting

Management of Anchorage Neighborhood Health Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered ANHC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ANHC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ANHC's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
Anchorage Neighborhood Health Center, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ANHC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management and others within the entity, and federal awarding agencies and, if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Mikunda, Cottrell & Co.

Anchorage, Alaska
October 22, 2012

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Directors
Anchorage Neighborhood Health Center, Inc.
Anchorage, Alaska

Compliance

We have audited the compliance of Anchorage Neighborhood Health Center, Inc. (ANHC) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of ANHC's major federal programs for the year ended June 30, 2012. ANHC's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of ANHC's management. Our responsibility is to express an opinion on ANHC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ANHC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of ANHC's compliance with those requirements.

In our opinion, ANHC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Board of Directors
Anchorage Neighborhood Health Center, Inc.

Internal Control Over Compliance

Management of ANHC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered ANHC’s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ANHC’s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Anchorage Neighborhood Health Center, Inc. as of and for the year ended June 30, 2012, and have issued our report thereon dated October 22, 2012 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic 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 financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or on the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Board of Directors
Anchorage Neighborhood Health Center, Inc.

This report is intended solely for the information and use of the audit committee, management and others within the entity, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Mikunda, Cottrell & Co.

Anchorage, Alaska
October 22, 2012

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*

Board of Directors
Anchorage Neighborhood Health Center, Inc.
Anchorage, Alaska

Compliance

We have audited the compliance of Anchorage Neighborhood Health Center, Inc. (ANHC) with the types of compliance requirements described in the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* that could have a direct and material effect on each of its major state programs for the year ended June 30, 2012. ANHC's major state programs are identified in the accompanying Schedule of State Financial Assistance. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state programs is the responsibility of ANHC's management. Our responsibility is to express an opinion on ANHC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*. Those standards and the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about ANHC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of ANHC's compliance with those requirements.

In our opinion, ANHC complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2012.

Board of Directors
Anchorage Neighborhood Health Center, Inc.

Internal Control Over Compliance

Management of ANHC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered ANHC's internal control over compliance with requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of ANHC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirements of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of State Financial Assistance

We have audited the basic financial statements of Anchorage Neighborhood Health Center, Inc. as of and for the year ended June 30, 2012, and have issued our report thereon dated October 22, 2012 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of State Financial Assistance is presented for purposes of additional analysis as required by the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*, and is not a required part of the basic 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of State Financial Assistance is fairly stated in all material respects in relation to the financial statements as a whole.

Board of Directors
Anchorage Neighborhood Health Center, Inc.

This report is intended solely for the information and use of the audit committee, management, and the State of Alaska, and is not intended to be and should not be used by anyone other than these specified parties.

Mikunda, Cottrell & Co.

Anchorage, Alaska
October 22, 2012

ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Federal Grantor/Pass-through <u>Grantor Program Title</u>	Catalog of Federal Domestic Assistance <u>Number</u>	Grant <u>Number</u>	Period of <u>Award</u>	Award <u>Amount</u>	Federal Share of Expend- itures
Department of Health and Human Services:					
Direct programs:					
Consolidated Health Centers:					
Community Health Center:					
FY 2010/2011	93.224	6-H80CS00146-10-06	12/01/10-11/30/11	\$ 2,875,459	1,216,979
FY 2011/2012	93.224	6-H80CS00146-11-02	12/01/11-11/30/12	2,880,910	<u>1,670,631</u>
Total Community Health Center					<u>2,887,610</u>
Health Care for the Homeless:					
FY 2010/2011	93.527	6-H80CS00146-10-06	12/01/10-11/30/11	235,755	99,777
FY 2011/2012	93.527	6-H80CS00146-11-02	12/01/11-11/30/12	270,861	<u>136,773</u>
Total Health Care for the Homeless					<u>236,550</u>
Affordable Care Act	93.526	6-C8ACS21294-01-02	10/1/10-9/30/12	8,000,000	<u>6,924,545</u>
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease - Ryan White CARE Act of 1990					
	93.918	6-H76HA00196-21-02	07/01/11-06/30/12	379,218	<u>379,218</u>
Total Direct Programs					<u>10,427,923</u>
Passed through the State of Alaska,					
Department of Health and Social Services:					
Cooperative Agreements for State-Based Diabetes Control Programs and Exaluation of Surveillance Systems - Diabetes Control Program					
	93.988	601-12-157	07/01/11-06/30/12	12,000	12,000
Cooperative Agreements for State-Based Diabetes Control Programs and Exaluation of Surveillance Systems - Diabetes Control Program					
	93.283	601-12-157	07/01/11-06/30/12	2,000	<u>2,000</u>
Total Passed through the State of Alaska					<u>14,000</u>
Total Expenditures of Federal Awards				\$	<u>10,441,923</u>

The accompanying schedule of expenditures of federal awards includes the grant activity of Anchorage Neighborhood Health Center, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.

Schedule of State Financial Assistance
Year Ended June 30, 2012

<u>State Program Title</u>	<u>Grant Number</u>	<u>Period of Award</u>	<u>Award Amount</u>	<u>State Share of Expenditures</u>
Department of Commerce, Community and Economic Development:				
*Facility Relocation	09-DC-294	07/01/08-06/30/13	\$ 5,000,000	3,069,717
*Facility Relocation	11-DC-433	07/01/10-06/30/15	6,000,000	<u>4,448,453</u>
Total Department of Commerce, Community and Economic Development				<u>7,518,170</u>
Department of Health and Social Services:				
*Community Health Centers Program	601-12-220	07/01/11-06/30/12	260,838	260,838
Passed through Municipality of Anchorage - *Human Services Community Matching	HSMG 12-ANHC	07/01/11-06/30/12	112,793	<u>112,793</u>
Total Department of Health and Social Services				<u>373,631</u>
Alaska Mental Health Trust Authority:				
*ANHC New Health Center	4042	12/1/2011-8/31/2012	100,000	100,000
ANHC Dental Designated Grant FY11	2002.02	07/01/10-06/30/11	130,000	49,545
ANHC Dental Designated Grant FY12	2002.03	07/01/11-06/30/12	145,000	55,681
ANHC Impact Depression Care	2257	01/01/09-06/30/09	69,930	19,538
*ANHC Impact Depression Care	2257.03	07/01/11-06/30/12	165,768	<u>161,498</u>
Total Alaska Mental Health Trust Authority				<u>386,262</u>
Total State Financial Assistance			\$	<u><u>8,278,063</u></u>

* Denotes a major program

Note 1: Basis of Presentation

The accompanying schedule of state financial assistance includes the State of Alaska grant activity for Anchorage Neighborhood Health Center, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the *State of Alaska Audit Guide and Compliance Supplement for State Single Audits*.

ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X no

Federal Financial Assistance

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ yes X none reported

Type of auditor's report issued on compliance for major programs?

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

_____ yes X no

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

93.526

Department of Health and Human Services:
Affordable Care Act

93.918

Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease – Ryan White CARE Act of 1990

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 X yes _____ no

ANCHORAGE NEIGHBORHOOD HEALTH CENTER, INC.

Summary Schedule of Prior Year Audit Findings

Year Ended June 30, 2012

There were no prior year audit findings reported.