

**HARRISONBURG-ROCKINGHAM
FREE CLINIC, INC.**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Harrisonburg-Rockingham Free Clinic, Inc.
Harrisonburg, Virginia

We have audited the accompanying statements of assets, liabilities, and net assets recognized of Harrisonburg-Rockingham Free Clinic, Inc. (the Organization) as of December 31, 2009 and 2008, and the related statements of revenue collected and expenses, and functional expenses for the years then ended. These financial statements are the responsibility of the Organization'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. Those standards require that we 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. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, these financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principals generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2009 and 2008, and the results of its operations for the years then ended, on the basis of accounting described in Note 1.

PBHH, LLP

Fredericksburg, Virginia
August 19, 2010

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS RECOGNIZED
December 31, 2009 and 2008

	2009	2008
ASSETS RECOGNIZED		
Current Assets		
Cash and cash equivalents	\$ 205,451	\$ 208,400
Other current assets	920	-
	<u>206,371</u>	<u>208,400</u>
Noncurrent Assets		
Property and equipment, net	1,486,979	1,489,614
Investments	1,104,843	971,800
	<u>2,591,822</u>	<u>2,461,414</u>
Total assets recognized	<u>\$ 2,798,193</u>	<u>\$ 2,669,814</u>
 LIABILITIES AND NET ASSETS RECOGNIZED		
Current Liabilities		
Payroll withholding liability	\$ -	\$ 2,211
	<u>-</u>	<u>2,211</u>
Net Assets Recognized		
Unrestricted and undesignated	1,839,919	1,856,569
Unrestricted - board designated	106,861	87,172
Temporarily restricted	785	-
Permanently restricted	850,628	723,862
	<u>2,798,193</u>	<u>2,667,603</u>
Total liabilities and net assets recognized	<u>\$ 2,798,193</u>	<u>\$ 2,669,814</u>

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

STATEMENT OF REVENUE COLLECTED AND EXPENSES

Year Ended December 31, 2009

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Change in Net Assets Recognized				
Support:				
Contributions	\$ 305,707	\$ 920	\$ -	\$ 306,627
In kind contributions	55,587	-	-	55,587
United Way allocation	12,068	32,263	-	44,331
Other grants	9,248	81,084	-	90,332
Local government support	38,438	-	-	38,438
Total support	421,048	114,267	-	535,315
Revenue collected and recognized:				
Special events	87,053	-	-	87,053
Interest and dividends	6,866	-	-	6,866
Rental revenue	49,075	-	-	49,075
Other	1,695	-	-	1,695
Investment income recognized	56,416	-	126,766	183,182
Total revenue collected and recognized	201,105	-	126,766	327,871
Net Assets Released From Restrictions	113,482	(113,482)	-	-
Total support and revenue collected and recognized	735,635	785	126,766	863,186
Expenses:				
Program services	504,407	-	-	504,407
Management and general	140,582	-	-	140,582
Fundraising	87,607	-	-	87,607
Total expenses	732,596	-	-	732,596
Change in net assets recognized	3,039	785	126,766	130,590
Net Assets Recognized, beginning	1,943,741	-	723,862	2,667,603
Net Assets Recognized, ending	\$ 1,946,780	\$ 785	\$ 850,628	\$ 2,798,193

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

STATEMENT OF REVENUE COLLECTED AND EXPENSES

Year Ended December 31, 2008

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Change in Net Assets Recognized				
Support:				
Contributions	\$ 265,436	\$ 2,500	\$ -	\$ 267,936
United Way allocation	11,518	31,409	-	42,927
Other grants	23,017	63,189	-	86,206
Local government support	41,250	5,600	-	46,850
Total support	341,221	102,698	-	443,919
Revenue collected and recognized:				
Special events	88,653	-	-	88,653
Interest and dividends	14,223	1,170	-	15,393
Rental revenue	19,250	-	-	19,250
Other	2,023	-	-	2,023
Investment income (loss) recognized	(32,901)	-	(273,655)	(306,556)
Total revenue collected and recognized	91,248	1,170	(273,655)	(181,237)
Net Assets Released From Restrictions	311,483	(309,000)	(2,483)	-
Total support and revenue collected and recognized	743,952	(205,132)	(276,138)	262,682
Expenses:				
Program services	637,948	-	-	637,948
Management and general	166,505	-	-	166,505
Fundraising	84,851	-	-	84,851
Total expenses	889,304	-	-	889,304
Change in net assets recognized	(145,352)	(205,132)	(276,138)	(626,622)
Net Assets Recognized, beginning	2,089,093	205,132	1,000,000	3,294,225
Net Assets Recognized, ending	\$ 1,943,741	\$ -	\$ 723,862	\$ 2,667,603

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended December 31, 2009 and 2008

	2009			
	Program Services	Management and General	Fundraising Activities	Total
Salaries and wages	\$ 273,510	\$ 89,628	\$ 36,478	\$ 399,616
Payroll taxes	19,373	6,686	2,791	28,850
Employee benefits	38,677	11,126	1,933	51,736
Supplies	30,410	9,568	-	39,978
Utilities	24,569	1,365	1,365	27,299
Postage	3,348	852	3,080	7,280
Equipment rental and maintenance	7,487	663	328	8,478
Printing and publication	1,729	1,153	15,546	18,428
Travel and conferences	1,953	567	337	2,857
Insurance	9,913	724	439	11,076
Dues and subscriptions	11,887	799	1,118	13,804
Contract services	24,746	1,375	1,375	27,496
Special events	-	-	15,579	15,579
Other operating expenses	3,332	1,165	4,327	8,824
Professional fees	313	12,000	-	12,313
Contributions to dental clinic	-	-	-	-
Specific assistance	760	-	-	760
Total functional expenses before depreciation	452,007	137,671	84,696	674,374
Depreciation on property and equipment	52,400	2,911	2,911	58,222
Total functional expenses	\$ 504,407	\$ 140,582	\$ 87,607	\$ 732,596

See Notes to Financial Statements.

2008

	Program Services	Management and General	Fundraising Activities	Total
\$	286,392	\$ 97,573	\$ 36,916	\$ 420,881
	21,419	7,356	5,166	33,941
	26,960	22,624	1,239	50,823
	32,365	10,242	-	42,607
	20,976	1,165	1,165	23,306
	3,503	195	195	3,893
	10,784	3,383	2,106	16,273
	1,692	1,128	2,243	5,063
	1,803	590	335	2,728
	7,910	1,115	467	9,492
	9,194	601	920	10,715
	21,390	1,188	1,188	23,766
	-	-	19,188	19,188
	4,303	930	10,159	15,392
	-	14,851	-	14,851
	109,235	-	-	109,235
	15,864	-	-	15,864
	573,790	162,941	81,287	818,018
	64,158	3,564	3,564	71,286
\$	637,948	\$ 166,505	\$ 84,851	\$ 889,304

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of the Organization and Summary of Significant Accounting Policies

Nature of organization: Harrisonburg-Rockingham Free Clinic, Inc. (the Organization) is a not-for-profit health clinic whose primary purpose is to provide free or low cost health care to qualified low-income individuals in the Harrisonburg and Rockingham County, Virginia areas.

The Organization receives support through donations from individuals, businesses, churches and other organizations in the Harrisonburg and Rockingham County areas, and through grants obtained from local governments, the United Way and other charitable organizations.

Significant accounting policies are as follows:

Basis of accounting: The Organization's policy is to prepare its financial statements on a modified cash basis of accounting that includes recognition of fixed assets (purchased or donated) and depreciation thereon, investments, recorded at the lower of cost or fair market value, and liabilities for the acquisition of long-lived assets. Under this basis, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when the related liability is incurred. Consequently, accounts receivable, contributions receivable, accounts payable, accrued expenses and the value of contributed materials and services are not included in the financial statements.

Support and revenue recognition: Contributions are recognized as revenue only in the period they are actually received. Under the modified cash basis of accounting used by the Organization, promises to give in future periods are not recognized until payment is received. Contributions restricted by donors and not fully expended in the current year are reported as temporarily restricted net assets. Temporarily restricted net assets are released from restriction upon the passage of time or satisfaction of purpose restrictions. Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained in perpetuity. Donors of these assets generally permit the Organization to use the income earned on any related investments for general or specific purposes.

Cash and cash equivalents: Cash and cash equivalents consists of cash in banks and short-term debt instruments with original maturities of 90 days or less. Cash and cash equivalents are stated at cost plus accrued interest. The Organization maintains its cash in bank deposit accounts, which at times may exceed federally insured limits.

Property and equipment: Property and equipment are stated at cost. Depreciation is provided by straight-line and accelerated methods based on estimated useful lives as follows:

Building and improvements	39 years
Equipment	5 years
Furniture and fixtures	5-7 years

Functional allocation of expenses: Program, fundraising and administrative costs have been summarized on a functional basis in the statement of functional expenses. Certain indirect costs have been allocated to programs and supporting services on the basis of the activity benefited.

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

**Note 1. Nature of the Organization and Summary of Significant Accounting Policies
(Continued)**

Income tax status: The Organization is exempt from income taxes under Code Section 501(c)(3) of the Internal Revenue Code (the Code). In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Code and has been classified as an Organization that is not a private Organization under Code Section 509(a)(2).

The Financial Accounting Standards Board issued new guidance on accounting for uncertainty in income taxes. The Organization adopted this new guidance for the year ended December 31, 2009. Management evaluated the Organization’s tax positions and determined that the Organization has no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The Organization files information returns in the U.S. federal jurisdiction. The Organization’s returns for the years 2006 and beyond remain subject to examination by the Internal Revenue Service.

Estimates and assumptions: The preparation of financial statements in conformity with a modified cash basis of accounting 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 revenue collected and expenses paid during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain amounts in the 2008 statement of revenues collected and expenses paid have been reclassified to conform to the current year presentation, with no effect on the change in net assets recognized.

Subsequent events: Subsequent events have been evaluated through August 19, 2010, which was the date the financial statements were available to be issued.

Note 2. Investments

Investments consisted of the following at December 31 (at the lower of cost or fair value):

	2009	2008
Beneficial interest in assets held by Community Foundation:		
Baird Endowment Fund	\$ 887,355	\$ 723,862
Other Board designated	106,861	87,172
Certificates of deposit	110,627	160,766
	\$ 1,104,843	\$ 971,800

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

Note 2. Investments (Continued)

In prior years the Organization received an endowed contribution from a major donor totaling \$1,000,000. In accordance with the donor's instructions, these funds were invested through the Community Foundation of Harrisonburg and Rockingham County (The Community Foundation or the Foundation) in a component fund within the Foundation known as The Baird Endowment Fund (the Fund). The Foundation holds the funds as part of a pool of investments. The purpose of the Fund is to support the mission of the Harrisonburg-Rockingham Free Clinic, Inc. Distributions from the Fund are made each year in accordance with the Foundation's endowed funds annual distribution policy, which is currently to distribute 4% of the market value of the fund annually, based on a 20 quarter moving average market value calculation. The Board of the Community Foundation has the right to modify any restrictions or conditions on the distribution of the funds for any specified charitable purpose or to specified organizations, if in their sole judgment, such restriction or bequest becomes incapable of fulfillment. The Organization's interest in the Baird Endowment Fund is carried at the lower of cost or fair market value. At December 31, 2008, the Organization determined that the cost basis exceeded the market value of this investment by \$261,034, based on the value provided by the Community Foundation. As a result, the investment balance was written down to \$723,862, its estimated fair value.

Recoveries of market value in 2009 were \$171,100 and the estimated fair value was \$887,355 at December 31, 2009, of which \$36,727 was available for distribution. Future recoveries of aggregate market value in subsequent periods, if any, will be recorded in those periods subject only to the limitation that the carrying value will not be adjusted to exceed the original cost. During the year ended December 31, 2008 this fund incurred administrative and investment fees of \$12,621, and made distributions to the Free Clinic in the amount of \$41,177. During the year ended December 31, 2009, this fund incurred administrative and investment fees of \$7,607.

The Organization also invested other funds with the Community Foundation, which can be withdrawn with the approval of the Organization's board. At December 31, 2008, the Organization determined that the cost basis exceeded the market value of this investment by \$31,385, based on the value provided by the Community Foundation. As a result, the investment balance was written down to \$87,172, its estimated fair value. Recoveries of market value in 2009 were \$20,605, and the estimated fair value was \$106,861 at December 31, 2009. Recoveries of aggregate market value in subsequent periods, if any, will be recorded in those periods subject only to the limitation that the carrying value will not be adjusted to exceed the original cost. During the year ended December 31, 2008 this fund incurred administrative and investment fees of \$1,516, and made distributions to the Free Clinic in the amount of \$4,642 all of which was classified in unrestricted, board designated, net assets. During the year ended December 31, 2009 this fund incurred administrative investment fees of \$916, and made no distributions to the Free Clinic.

The Organization has certificates of deposit classified as investments with an aggregate cost basis totaling \$110,647 and \$160,766 at December 31, 2009 and 2008, respectively. These certificates mature between February 2010 and June 2010 and accrue interest at rates ranging from .3% to .7%.

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Fair Value Measurements

The Organization adopted Financial Accounting Standards Board standards regarding fair value measurement as of January 1, 2008. The statement defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The statement also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally-developed market assumptions. In accordance with standards, fair value measurements are classified under the following hierarchy:

- **Level 1** – Quoted prices for identical instruments in active markets.
- **Level 2** – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs or significant value-drivers are observable in active markets.
- **Level 3** – Model-derived valuations in which one or more significant inputs or significant value-drivers are unobservable.

When available, the Organization uses quoted market prices to determine fair value and classifies such measurements within Level 1. In some cases where market prices are not available, observable market based inputs are used to calculate fair value, in which case the measurements are classified within Level 2. If quoted or observable market prices are not available, fair value is based upon models that use, where possible, current market-based parameters such as interest rates, yield curves and currency rates. These measurements are classified within Level 3.

Fair value measurements are classified according to the lowest level input or value-driver that is significant to the valuation. A measurement may therefore be classified within Level 3 even though there may be significant inputs that are readily observable.

The standard expanded the definition of fair value to include the consideration of nonperformance risk. Nonperformance risk refers to the risk that an obligation (either by a counterparty or the Organization) will not be fulfilled. For financial assets traded in an active market (Level 1 and certain Level 2), the nonperformance risk is included in the market price. For certain other financial assets and liabilities (Level 2 and 3), fair value calculations have been adjusted accordingly.

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Fair Value Measurements (Continued)

Investments – Investments subject to fair value measurement consisted of beneficial interests in assets held by the Community Foundation and CD's with maturities greater than 90 days. Fair value of investments held by the Community Foundation was based on values quoted by them. Fair value of certificates of deposit was based on cost plus accrued interest, which approximates fair value.

Fair value as of December 31, 2009:

	Level 1	Level 2	Level 3	Total Assets at Fair Value
Beneficial interest in assets held: by Community Foundation:				
Baird Endowment Fund	\$ -	\$ 887,355	\$ -	\$ 887,355
Board Designated	-	106,861	-	106,861
Certificates of Deposit	-	110,627	-	110,627
	<u>\$ -</u>	<u>\$ 1,104,843</u>	<u>\$ -</u>	<u>\$ 1,104,843</u>

Fair value as of December 31, 2008:

	Level 1	Level 2	Level 3	Total Assets at Fair Value
Beneficial interest in assets held: by Community Foundation:				
Baird Endowment Fund	\$ -	\$ 723,862	\$ -	\$ 723,862
Board Designated	-	87,172	-	87,172
Certificates of Deposit	-	160,766	-	160,766
	<u>\$ -</u>	<u>\$ 971,800</u>	<u>\$ -</u>	<u>\$ 971,800</u>

Note 4. Property and Equipment

Property and equipment consisted of the following as of December 31:

	2009	2008
Land	\$ 32,199	\$ 32,199
Buildings and improvements	1,461,171	1,461,171
Equipment	72,191	72,191
Furniture and fixtures	61,336	61,336
Leasehold improvements	92,183	36,595
	<u>1,719,080</u>	<u>1,663,492</u>
Less: accumulated depreciation	<u>(232,101)</u>	<u>(173,878)</u>
	<u>\$ 1,486,979</u>	<u>\$ 1,489,614</u>

Depreciation expense amounted to \$58,222 for 2009 and \$71,286 for 2008.

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

Note 5. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at December 31:

	<u>2009</u>	<u>2008</u>
Flu shots	\$ 785	\$ -

Net assets were released from restriction as expenses were paid that satisfied the following purpose restrictions:

	<u>2009</u>	<u>2008</u>
Pharmacy Program	\$ 34,965	\$ 84,216
Shull Dental Fund	-	76,947
Dental Clinic	-	49,826
Baird Fund Interest	-	38,693
Chronic Care	32,263	31,409
General Medical	46,119	25,409
Other	135	2,500
	<u>\$ 113,482</u>	<u>\$ 309,000</u>

Note 6. Operating Leases

The Organization leases office equipment under a noncancelable lease agreement which calls for monthly payments of \$148 through September 2012. Future minimum lease payments for noncancelable leases as of December 31, 2009 are due in future years as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 1,776
2011	1,776
2012	1,332

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

Note 7. Commitments and Contingencies

The Organization guaranteed a note payable for the Harrisonburg-Rockingham Dental Clinic (the Dental Clinic) in the amount of \$52,167 and \$64,913 at December 31, 2009 and 2008, respectively.

The Organization rented space to the Dental Clinic under an operating lease subject to annual renewal. Rent received under this lease totaled \$43,075 and \$13,250 for the years ended December 31, 2009 and 2008, respectively.

The Dental Clinic's payroll expenses, which totaled \$303,787 and \$109,480 during 2009 and 2008, respectively, were paid through the Organization and reimbursed by the Dental Clinic. The Organization received reimbursement for these expenses of \$302,923 and \$74,326 for the years ended December 31, 2009 and 2008, respectively. The reimbursements have been netted with the related expenses on the financial statements. The Organization does not charge the Dental Clinic a fee for processing payroll.

During 2008, the Organization transferred \$109,235 to the Dental clinic from assets that were temporarily restricted for dental needs.

Note 8. Retirement Plan

Effective in 2008 the Organization adopted a 401(k) retirement plan covering full-time employees with one year of service who have attained the age of 21. Each year, participants may make salary deferral contributions to the plan of up to 100% of pretax compensation, subject to Internal Revenue Code limitations. The Organization makes a matching contribution of 100% of the participant's contribution not to exceed 4% of the participant's compensation. The Organization may also make a discretionary profit sharing contribution to the plan for employees that have completed at least 1,000 hours of service during the year. The Organization contributed \$18,737 and \$9,767 to the plan for the years ended December 31, 2009 and 2008, respectively. The Organization terminated the plan effective December 31, 2009 and all assets were distributed during 2010.