

***ARLINGTON FREE CLINIC  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
JUNE 30, 2009 AND 2008***

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FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Arlington Free Clinic, Inc.  
Arlington, Virginia

We have audited the accompanying statements of financial position of Arlington Free Clinic, Inc. (a nonprofit corporation) as of June 30, 2009 and 2008, and the related statements of activities, functional expenses, and cash flows 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 audit. The prior year summarized comparative information has been derived from the Clinic's year ended June 30, 2008 financial statements and, in our report dated November 5, 2008 we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arlington Free Clinic, Inc. as of June 30, 2009 and 2008 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.

*Polan, White & Associates, P.C.*

February 19, 2010

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To the Board of Directors  
Arlington Free Clinic, Inc.  
Arlington, Virginia

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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arlington Free Clinic, Inc. as of June 30, 2009 and 2008 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.

February 19, 2010

**ARLINGTON FREE CLINIC  
STATEMENT OF FINANCIAL POSITION  
June 30, 2009 and 2008**

<b>ASSETS</b>		<u>2009</u>	<u>2008</u>
<b>Current Assets</b>			
Cash & Cash Equivalents	\$	873,030	\$ 747,221
Contributions Receivable		527,274	266,467
Other Receivable		-	3,055
Inventory		2,784	2,639
Prepaid Expenses		<u>23,050</u>	<u>28,577</u>
<b>Total Current Assets</b>		1,426,138	1,047,959
<b>Investments</b>		541,367	1,102,116
<b>Furniture, Equipment, Building &amp; Improvements (net)</b>		4,208,089	69,119
<b>Other Assets</b>		<u>15,511</u>	<u>27,499</u>
<b>Total Assets</b>	<b>\$</b>	<b><u>6,191,105</u></b>	<b>\$ <u>2,246,693</u></b>
 <b>LIABILITIES &amp; NET ASSETS</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$	98,304	\$ 29,728
Payroll Withholdings		16,232	17,605
Accrued Wages & Compensated Absences		107,369	98,461
Line of Credit		-	<u>25,000</u>
<b>Total Current Liabilities</b>		<u>221,905</u>	<u>170,794</u>
<b>Total Liabilities</b>		<u>221,905</u>	<u>170,794</u>
<b>Net Assets</b>			
Unrestricted			
Operations		5,081,492	1,278,480
Investment Endowment		-	<u>182,546</u>
Total Unrestricted		5,081,492	1,461,026
Temporarily Restricted		519,434	614,873
Permanently Restricted		<u>368,274</u>	-
<b>Total Net Assets</b>		<u>5,969,200</u>	<u>2,075,899</u>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$</b>	<b><u>6,191,105</u></b>	<b>\$ <u>2,246,693</u></b>

The accompanying notes are an integral part of these financial statements.

**ARLINGTON FREE CLINIC  
STATEMENT OF ACTIVITIES  
FOR THE YEARS ENDED  
June 30, 2009 and 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2008</u>
<b>SUPPORT</b>					
Contributions	\$ 1,458,647	\$ 47,433	\$ -	\$ 1,506,080	\$ 589,769
Grant Revenue	75,576	1,329,008	368,274	1,772,858	696,744
Special Events	557,356	-	-	557,356	664,655
Investment Income (Loss)	(191,553)	-	-	(191,553)	(5,311)
Donated Services, Materials & Facilities	<u>5,171,560</u>	<u>-</u>	<u>-</u>	<u>5,171,560</u>	<u>3,081,760</u>
<b>Total Support</b>	<u>7,071,586</u>	<u>1,376,441</u>	<u>368,274</u>	<u>8,816,301</u>	<u>5,027,617</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>1,471,880</u>	<u>(1,471,880)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXPENSES</b>					
Program Services					
Arlington Free Clinic	<u>4,366,181</u>	<u>-</u>	<u>-</u>	<u>4,366,181</u>	<u>4,425,198</u>
Supporting Services					
Management & General	197,395	-	-	197,395	141,653
Fund-raising	<u>220,582</u>	<u>-</u>	<u>-</u>	<u>220,582</u>	<u>192,920</u>
Total Supporting Services	417,977	-	-	417,977	334,573
Cost of Special Events	<u>116,786</u>	<u>-</u>	<u>-</u>	<u>116,786</u>	<u>133,983</u>
<b>Total Expenses</b>	<u>4,900,944</u>	<u>-</u>	<u>-</u>	<u>4,900,944</u>	<u>4,893,754</u>
<b>Loss on Disposition of Assets</b>	<u>(22,056)</u>	<u>-</u>	<u>-</u>	<u>(22,056)</u>	<u>-</u>
<b>INCREASE IN NET ASSETS</b>	3,620,466	(95,439)	368,274	3,893,301	133,863
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>1,461,026</u>	<u>614,873</u>	<u>-</u>	<u>2,075,899</u>	<u>1,942,036</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 5,081,492</u>	<u>\$ 519,434</u>	<u>\$ 368,274</u>	<u>\$ 5,969,200</u>	<u>\$ 2,075,899</u>

The accompanying notes are an integral part of these financial statements.

**ARLINGTON FREE CLINIC**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEARS ENDED**  
**June 30, 2009 and 2008**

	<u>Supporting Services</u>			<u>2009 Total</u>	<u>2008 Total</u>	<u>2009 (Memo) Donated</u>	<u>2008 (Memo) Donated</u>
	<u>Program Services</u>	<u>Mgmt &amp; General</u>	<u>Fund- raising</u>				
<b>EXPENSES</b>							
<b>Administrative Expenses</b>							
Accounting	\$ 10,283	\$ 25,429	\$ 555	\$ 36,267	\$ 29,903	\$ 7,505	\$ 4,814
Advertising	-	-	1,345	1,345	2,319	-	-
Bank Fees	-	634	10,455	11,089	8,788	-	-
Consulting	-	1,200	-	1,200	58,935	-	-
Dues & License Fees	15,677	793	8	16,478	10,522	-	-
Legal Fees	4,100	201	-	4,301	2,719	4,100	-
Mail Fulfillment Expenses	3,474	73	3,679	7,226	6,909	-	-
Meeting Expenses	5,054	1,053	997	7,104	14,228	-	406
Miscellaneous Expenses	-	-	1,006	1,006	-	-	-
Postage	3,953	6,825	4,736	15,514	15,970	-	-
Printing	14,846	2,147	31,748	48,741	44,292	11,169	7,341
Telephone	15,867	332	383	16,582	14,067	-	-
Travel	333	94	21	448	1,384	-	-
<b>Total Administrative Expenses</b>	<u>73,587</u>	<u>38,781</u>	<u>54,933</u>	<u>167,301</u>	<u>210,036</u>	<u>22,774</u>	<u>12,561</u>
<b>Clinic Expenses</b>							
Clinic Supplies	6,062	-	-	6,062	5,573	-	-
Pharmaceuticals	673,283	-	-	673,283	715,742	657,709	701,844
Pharmacy Supplies	8,032	-	-	8,032	7,013	-	-
Medical & Professional Services	2,024,737	-	-	2,024,737	2,149,298	1,980,864	2,143,171
<b>Total Clinic Expenses</b>	<u>2,712,114</u>	<u>-</u>	<u>-</u>	<u>2,712,114</u>	<u>2,877,626</u>	<u>2,638,573</u>	<u>2,845,015</u>
<b>Office Expenses</b>							
Computer Supplies	2,330	-	-	2,330	4,511	-	-
Computer Tech Support	44,945	667	3,404	49,016	29,275	13,200	10,306
Internet Service	-	200	495	695	1,290	-	-
Office Equipment Repairs	8,727	184	207	9,118	9,868	-	-
Office Supplies	8,256	1,090	349	9,695	7,752	176	36
Property Tax	12,321	317	449	13,087	967	-	-
<b>Total Office Expenses</b>	<u>76,579</u>	<u>2,458</u>	<u>4,904</u>	<u>83,941</u>	<u>53,663</u>	<u>13,376</u>	<u>10,342</u>
<b>Facility Expenses</b>							
Condo Fee & Cleaning	12,703	265	291	13,259	-	-	213,555
Depreciation & Amortization	32,998	687	687	34,372	66,100	-	-
Insurance Bldg.	4,676	1,788	-	6,464	5,662	-	-
Moving Expenses	-	44,560	-	44,560	7,444	-	-
Parking	15,048	314	314	15,676	16,500	-	-
Rent	278,530	5,806	5,806	290,142	259,344	182,405	-
R & M - Building	221	85	-	306	542	-	-
Security Services & After Hour Costs	1,026	-	-	1,026	965	-	-
Utilities	2,027	43	86	2,156	-	-	-
<b>Total Facility Expenses</b>	<u>347,229</u>	<u>53,548</u>	<u>7,184</u>	<u>407,961</u>	<u>356,557</u>	<u>182,405</u>	<u>213,555</u>
<b>Personnel Expenses</b>							
Wages	997,307	83,097	134,064	1,214,468	1,074,813	-	-
Payroll Taxes	67,583	11,109	9,726	88,418	77,027	-	-
Insurance - Health	37,753	714	4,809	43,276	40,188	-	-
Insurance - Workers Compensation	2,781	237	373	3,391	3,478	-	-
FSA Account Admin	1,300	15	162	1,477	3,144	-	-
Pension Contribution	23,151	2,486	3,960	29,597	27,860	-	-
Education & Seminars	6,165	(353)	467	6,279	4,464	-	-
Casual Labor	20,632	5,303	-	25,935	30,915	-	-
<b>Total Personnel Expenses</b>	<u>1,156,672</u>	<u>102,608</u>	<u>153,561</u>	<u>1,412,841</u>	<u>1,261,889</u>	<u>-</u>	<u>-</u>
<b>Total Expenses</b>	<u>\$ 4,366,181</u>	<u>\$ 197,395</u>	<u>\$ 220,582</u>	<u>\$ 4,784,158</u>	<u>\$ 4,759,771</u>	<u>\$ 2,857,128</u>	<u>\$ 3,081,473</u>

The accompanying notes are an integral part of these financial statements.

**ARLINGTON FREE CLINIC  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED  
June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in Net Assets	\$ 3,893,301	\$ 133,863
Adjustments to reconcile change in net assets to net cash used by operating activities		
Realized (Gain) Loss on Sale of Investments	166,438	(2,833)
Unrealized (Gain) Loss in FMV of Investments	89,369	124,414
Loss on Disposition of Assets	22,056	-
Depreciation & Amortization	34,372	66,100
Lease Incentive Amortization	-	(25,000)
Donated Services, Materials & Facilities Capitalized	(2,314,432)	-
Decrease (Increase) in Contributions Receivable	(260,807)	92,607
Decrease (Increase) in Accounts Receivable	3,055	(1,365)
Decrease (Increase) in Inventory	(145)	(284)
Decrease (Increase) in Prepaid Expenses	5,527	(3,348)
Increase (Decrease) in Accounts Payable	68,576	23,053
Increase (Decrease) in Payroll Withholdings	(1,373)	-
Increase (Decrease) in Accrued Wages & Compensated Absences	8,908	22,093
	<u>1,714,845</u>	<u>429,300</u>
<b>Net Cash Provided (Used) by Operating Activities</b>		
	<u>1,714,845</u>	<u>429,300</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Computer Equipment	(11,615)	(4,111)
Purchase of Medical Equipment	-	(3,169)
Purchase of Furniture & Equipment	(151,331)	-
Purchase of Office Condo & Buildout	(1,706,031)	(17,341)
Redemption of CD's	146,304	408,867
Redemption of Investments	212,559	77,735
Purchase of Investments	-	(356,825)
Purchase of Investments - reinvestments	(48,030)	(86,064)
Purchase of Certificate of Deposits	-	(140,412)
Purchase of Certificate of Deposits - interest reinvested	(5,892)	(8,384)
	<u>(1,564,036)</u>	<u>(129,704)</u>
<b>Net Cash Used by Investing Activities</b>		
	<u>(1,564,036)</u>	<u>(129,704)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of Line of Credit	(25,000)	-
Proceeds from draw on Line of Credit	-	25,000
	<u>(25,000)</u>	<u>25,000</u>
<b>Net Cash Provided by Financing Activities</b>		
	<u>(25,000)</u>	<u>25,000</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	125,809	324,596
<b>BEGINNING CASH</b>	<u>747,221</u>	<u>422,625</u>
<b>ENDING CASH</b>	<u>\$ 873,030</u>	<u>\$ 747,221</u>
Interest paid	\$ 69	\$ -
Taxes paid	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.



**ARLINGTON FREE CLINIC, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The financial statements of Arlington Free Clinic, Inc. have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Nature of Activities

Arlington Free Clinic, Inc. was organized in June 1993 to operate a health clinic that provides free medical services and educational information to Arlington County residents who are unable to afford basic medical services. The Arlington Free Clinic, Inc. (the Clinic) opened in January 1994 through the efforts of physicians with the Arlington Medical Society. Currently the Clinic is run largely by volunteers including physicians, nurses, physician's assistants, nurse practitioners, pharmacists, lab technicians as well as non-medical volunteers and is funded through general contributions and grants from various health related foundations.

Promises To Give

Contributions are recognized when the donor makes a promise to give to the Clinic that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. There were no conditional promises to give at June 30, 2009 and 2008. There were \$527,274 and \$-0- in unconditional promises to give (net of uncollectible allowance) within one year and two years, respectively, at June 30, 2009. There were \$227,337 and \$39,130 in unconditional promises to give (net of uncollectible allowance) within one year and two years, respectively, at June 30, 2008. Sixty to Seventy percent of both year ends promises to give were concentrated within three to four specific donors.

The Clinic has established a 10% allowance for uncollectible promises to give related to United Way pledges. These amounts were estimated to be \$8,577 and \$7,476 at June 30, 2009 and 2008 respectively. Historically there have been few other uncollectible amounts outside of United Way pledges and management considers all of these other promises to give at June 30, 2009 and 2008 to be collectible.

Contributed Services

During the years ended June 30, 2009 and 2008, the value of contributed services, used by the Clinic, and meeting the requirements for recognition as revenues and expenses in the financial statements was \$2,016,838 and \$2,165,632 respectively. Included in these totals are amounts donated by Virginia Hospital Center – Arlington (a related party - director of social services of the hospital is also on the Clinic's board of directors) who provided Lab fees, X-ray services and other medical tests with an estimated value of \$846,253 and \$1,114,158 for the years ended June 30, 2009 and 2008. Also included in the totals are substantial volunteer time provided by licensed health care professionals as well as accounting, legal, printing and computer services. The Clinic estimates the fair value of these services to be \$1,170,585 and \$1,051,474 for the years ended June 30, 2009 and 2008.

Estimates

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

**ARLINGTON FREE CLINIC, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

Inventories

Inventories recorded on the statement of financial position in the amount of \$2,784 represent only pharmaceuticals purchased and are stated at the lower of cost or market determined by the first-in, first-out method.

Donated pharmaceutical samples from attending physicians and other non-profit groups are not reflected in inventory. In sample form, they have no market for sale and therefore no market value. In addition, the Clinic estimates that all pharmaceutical samples donated are distributed within one operating cycle.

The Clinic has elected not to record various donated pharmaceuticals from a Prescription Assistance Program. The Program donations are for specific patients and are treated as an agency transaction with the Clinic acting in an intermediary capacity. The Clinic estimates the retail value of these prescriptions received and delivered during the fiscal years ended June 30, 2009 and 2008 to be \$1,071,887 and \$904,113 respectively.

The Clinic distributes its pharmaceuticals free of charge to its patients.

Investments

The Clinic carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair market value in the Statement of Financial Position. Dividends and interest, realized gains(losses) and unrealized gains(losses), as noted below, are included in the change in net assets in the accompanying Statement of Activities.

Investment earnings at June 30, 2009 and 2008 was comprised of the following:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Interest	\$ 10,125	\$ 14,111
Dividend & Capital Gains (Distribution)	54,132	104,992
Unrealized Gains (Losses)	(89,371)	(124,414)
Loss on Sale of Investments	<u>(166,438)</u>	<u>-0-</u>
Investment Income(Loss)	<u>\$ (191,552)</u>	<u>\$ (5,311)</u>

The Clinic identifies major categories of assets and liabilities that are measured at fair value on a recurring basis using; quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3). At June 30, 2009 and 2008 there were only Level 1, available-for-sale securities held by the clinic and measured at their fair values as follows:

	<u>Level 1 June 30, 2009</u>	<u>Level 1 June 30, 2008</u>
Available-for-sale securities		
Driehaus Emerging Markets Growth Fund	\$ -0-	\$ 85,355
Driehaus International Discovery Fund	23,763	72,906
Manning & Napier Pro Blend	29,503	97,253
Marsico Focus Fund	23,620	121,654
Pimco Global Bond	72,792	73,684
Pimco High Yield Fund	98,699	108,235
Pimco Total Return Fund	247,203	226,724
Third Avenue Value Fund	22,785	84,743
Turner MidCap Growth	9,408	44,158
Columbia Select Small Cap	<u>13,594</u>	<u>46,992</u>
<b>Total</b>	<u>\$ 541,367</u>	<u>\$ 1,102,116</u>

**ARLINGTON FREE CLINIC, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

Donated Assets

Non-cash donations of pharmaceuticals are recorded as donated materials at their estimated fair values at the date of donation. These donations are also recorded as pharmaceutical expenses in the year received as the Clinic estimates that all pharmaceutical samples donated are distributed within one operating cycle. During the years ended June 30, 2009 and 2008, the Clinic received an estimated \$657,709 and \$701,844 in pharmaceutical samples from various healthcare organizations, which are distributed to clinic patients. In addition, the Clinic receives an undeterminable amount of pharmaceutical samples from its volunteer health practitioners, who receive them free from pharmaceutical representatives.

Building, Furniture, Equipment & Improvements

Building, Furniture, Equipment & Improvements consist of the following:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Computer & Xerox Equipment	\$ 45,914	\$ 93,268
Telephone Equipment	40,664	18,066
Clinic/Medical Equipment	3,169	3,169
Furniture & Fixtures	175,281	93,378
Leasehold improvements	-	126,016
Construction in Progress – Clinic Condo	-	17,341
Clinic Condo-Building & Improvements	2,619,732	-
Clinic Condo-Land	<u>1,370,732</u>	<u>-</u>
Total Furniture, Equipment & Improvements	4,255,492	351,238
Accumulated Depreciation and Amortization	<u>(47,403)</u>	<u>(282,119)</u>
<b>Net Furniture, Equipment &amp; Improvements</b>	<u><u>\$ 4,208,089</u></u>	<u><u>\$ 69,119</u></u>

All acquisitions of property, equipment, and leasehold improvements in excess of \$750 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property, equipment, and leasehold improvements are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method over useful lives of five years for computers, xerox equipment & software; 10 years for furniture, equipment & telephones; and the lease term for leasehold improvements.

During the fiscal year ended June 30, 2009, the Clinic received title to commercial real estate space and constructed new Clinic facilities within the space. Fair values, estimated at the time of donation, were capitalized to fixed assets in the amounts of \$2,133,600 for the condominium unit, \$150,832 in professional services related to architectural design, construction management & legal fees and \$30,000 in office furniture discounts. The condominium space and related components, minus associated land costs, are depreciated over useful lives of 10 to 39 years.

Contributions

The Clinic elected to adopt SFAS No. 116, "Accounting for Contributions Received and Contributions Made," in 1995. In Accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted contributions whose restrictions are met during the same year as the contributions are recognized are recorded as unrestricted contributions.

**ARLINGTON FREE CLINIC, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

Income Taxes

The Clinic is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The IRS has currently identified the Clinic as an organization other than a private foundation. For the years ended June 30, 2009 and 2008, the Clinic did not conduct any unrelated business activities that would be subject to federal income taxes.

Cash, Cash Equivalents & Investments

For purposes of the Statement of Financial Position and Statement of Cash Flows, Arlington Free Clinic considers all cash held in financial institutions, including certificates of deposit with a maturity of three months or less when purchased to be cash and cash equivalents.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Concentrations of Credit Risk

At June 30, 2009 and 2008 Arlington Free Clinic had cash deposits at one local financial institution in excess of the federally insured limit. The total amount in excess of this limit subject to risk was \$166,113 and \$197,756 respectively.

**NOTE B - DESCRIPTION OF RELOCATION AND PURCHASE**

During the fiscal year ended June 30, 2009, the Clinic received title to commercial real estate space and constructed new Clinic facilities within the space. Fair values, estimated at the time of donation, were capitalized to fixed assets in the amounts of \$2,133,600 for the condominium unit, \$150,832 in professional services related to architectural design, construction management & legal fees and \$30,000 in office furniture discounts. The condominium space and related components, minus associated land costs, are depreciated over useful lives of 10 to 39 years.

The Clinic received a federal assistance grant from the Department of Health and Human Services, Health Resources and Services Administration in September 2005. The grant is to fund \$368,274 of the estimated \$1,600,000 costs associated with construction/alteration, renovation and equipping the newly redeveloped Clinic space as described above. As the Federal Government will retain certain rights with respect to the redeveloped space, the Clinic has determined the grant to be a permanently restricted contribution. This determination is based on the Clinic's position that the sale, disposition or change in use of the space is so remote that it is unlikely to occur. The term of the grant runs from September 1, 2005 through August 31, 2008 and was subsequently extended through August 31, 2009. Approximately \$6,590 in reimbursable costs had been incurred through June 30, 2008. Subsequently, all \$368,274 of reimbursable costs were incurred and capitalized by June 30, 2009. Unreimbursed grant amounts receivable at June 30, 2009 were \$36,937.

In June 2008, the Clinic entered into a contract for architectural and interior design services related to the redeveloped Clinic Space. The contract is for approximately \$84,000 of which \$14,706 in fees has been accrued and recorded as Office Construction in Progress during the year ended June 30, 2008. Subsequently, the contract was completed by June 30, 2009 and all costs incurred, including \$65,000 in donated services, were capitalized.

**ARLINGTON FREE CLINIC, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**NOTE B - DESCRIPTION OF RELOCATION AND PURCHASE (continued)**

Also in June 2008, the Clinic entered into a contract for project management services related to the redevelopment of the new Clinic Space. The contract is for approximately \$44,000 of which \$2,635 in fees has been accrued and recorded as Office Construction in Progress during the year ended June 30, 2008. Subsequently, the contract was completed by June 30, 2009 and all costs incurred, including \$60,000 in donated services, were capitalized.

During the fiscal year ended June 30, 2005, the Clinic entered into a Relocation and Purchase Agreement with Georgelas Management, Inc (Georgelas). Under this agreement, the Clinic agreed to terminate its existing lease in advance of its scheduled expiration date on the condition that 1) Georgelas relocate the Clinic to a temporary location while the old space was demolished and redeveloped, and 2) that the Clinic would be donated space in the newly developed mixed use condominium property. As a result of the 2005 relocation agreement the Clinic entered into a commercial rental lease with Columbia Station, LLC (subsequently assigned to DSF in 2008) for 7,955 square feet of temporary clinic and office space. The term of the lease ran for thirty-six (36) months from May 1, 2005 to April 30, 2008. The lease carried monthly rental payments of \$4,191 during year 1. For the subsequent three (3) years, the rent per year was increased by three percent (3%) each year. In May 2006, the sublease was amended to include a one year renewal term extending the lease through March 31, 2009. During the fiscal years ended June 30, 2009 and 2008 \$182,405 and \$ 213,555 in rent subsidy for the temporary space was donated by Georgelas.

**NOTE C - DEFINED CONTRIBUTION PLAN**

The Clinic has a 403(b) defined contribution salary deferral plan covering substantially all employees. Under the original plan document, after six months of employment the Clinic contributes 3% of each eligible employee's base salary regardless whether or not the employee elects to participate through the payroll deduction plan. The plan was subsequently amended, effective for the fiscal year ended June 30, 2008, to require employee payroll plan deduction participation in order to receive the Clinic's 3% contribution. Plan expenses incurred by the Clinic during the years ended June 30, 2009 and 2008 were \$29,597 and \$27,860

**NOTE D - COMPENSATED ABSENCES**

The Clinic accrues a liability for earned and unused compensated absences. Leave may be carried from one calendar year to the next, up to a maximum of four weeks. At June 30, 2009 and 2008, accrued compensated absences liability based on current salary levels was \$42,327 and \$47,502 respectively.

**NOTE E – LINE OF CREDIT**

The Clinic maintains a Line-of-Credit with Virginia Commerce Bank. Under the terms of the February 16, 2005 Promissory Note, the maximum amount to borrow is \$100,000. Interest is at a rate equal to The Wall Street Journal Prime Rate. Outstanding advances under the Line-of-Credit are unsecured. Outstanding balances as of June 30, 2009 and 2008 were \$-0- and \$25,000.

**NOTE F – RESTRICTIONS/LIMITATIONS ON NET ASSETS**

The Clinic's board of directors has chosen to place a limitation on unrestricted net assets in the form of an Investment Endowment as noted in the Statement of Financial Position.

Temporarily restricted net assets consist of primarily of grant funds to be used to carry out various specific clinic operations.

Permanently restricted net assets consist of federal assistance grant funds provided to construct and equip the Clinic's facilities. The Federal Government retains a percentage of ownership security interest in the property, which may require reimbursement upon any transfer, sale, disposal or change in use of the property. As the property is expected to be used by the Organization in its clinic operation indefinitely, it is considered unlikely that the federal security interest will have any future financial impact on the Clinic.

**ARLINGTON FREE CLINIC, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**NOTE G – ENDOWMENT FUNDS**

Implementation of FSP FAS 117-1

In August 2008, the Financial Accounting Standards Board issued FASB Staff Position No. FAS 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FSP FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Virginia enacted UPMIFA effective July 1, 2008, the provisions of which apply to endowment funds existing on or established after that date. The Clinic has adopted FSP FAS 117-1 for the year ending June 30, 2009. The Board of Directors, on the advice of legal counsel, has determined that the Organization's Star Fund meets the definition of endowment funds under UPMIFA.

Donor-designated Endowments

The Clinic's endowments consist of 2 individual funds established for providing access to quality health care services for the Clinic's patients. Its endowments include both a donor-restricted fund and a fund designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Clinic has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Clinic will classify as permanently restricted net assets (a) the original value of gifts donated to a permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Clinic in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Clinic considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a perpetual source of financial support for Clinic activities while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Clinic expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

**ARLINGTON FREE CLINIC, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

**NOTE G – ENDOWMENT FUNDS (continued)**

Spending Policy. The Clinic has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value of the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Clinic considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, some of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Clinic expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 3% annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Endowment Net Asset Composition by Type of Fund as of June 30, 2009 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor-restricted endowment funds	\$ —	\$ 209,777	\$ —	\$ 209,777
Board-designated endowment funds	—	—	—	—
Total funds	<u>\$ —</u>	<u>\$ 209,777</u>	<u>\$ —</u>	<u>\$ 209,777</u>

Changes in endowment net assets as of June 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	\$ 182,546	\$ 181,583	\$ —	\$ 364,129
Contributions	—	47,433	—	47,433
Investment income (loss)	(42,973)	6,083	—	(36,890)
Net appreciation (depreciation)	(7,322)	(24,222)	—	(31,544)
Amounts appropriated for expenditure	(132,251)	(1,100)	—	(133,351)
Endowment net assets, end of year	<u>\$ —</u>	<u>\$ 209,777</u>	<u>\$ —</u>	<u>\$ 209,777</u>

**NOTE H – SUBSEQUENT EVENTS**

On June 30, 2009, the Clinic adopted FASB ASC Topic 855, Subsequent Events. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, it sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of ASC 855 had no impact on the Clinic's financial statements.

In accordance with ASC 855, the Company evaluated subsequent events through February 19, 2010, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.