

***ARLINGTON FREE CLINIC  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
JUNE 30, 2010 AND 2009***

**ARLINGTON FREE CLINIC  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

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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, 2010 and 2009, 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.

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, 2010 and 2009 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 & Hollis, LLC*

January 28, 2011

**ARLINGTON FREE CLINIC**  
**STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2010 and 2009**

<b>ASSETS</b>		<u><b>2010</b></u>	<u><b>2009</b></u>
<b>Current Assets</b>			
Cash & Cash Equivalents	\$	879,327	\$ 873,030
Contributions Receivable		445,866	527,274
Inventory		3,455	2,784
Prepaid Expenses		<u>30,056</u>	<u>23,050</u>
<b>Total Current Assets</b>		1,358,704	1,426,138
<b>Investments</b>		765,617	541,367
<b>Furniture, Equipment, Building &amp; Improvements (net)</b>		4,146,139	4,208,089
<b>Other Assets</b>		<u>35,475</u>	<u>15,511</u>
<b>Total Assets</b>	<b>\$</b>	<u><b>6,305,935</b></u>	<u><b>\$ 6,191,105</b></u>
 <b>LIABILITIES &amp; NET ASSETS</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$	16,079	\$ 98,304
Payroll Withholdings		19,315	16,232
Accrued Wages & Compensated Absences		<u>125,734</u>	<u>107,369</u>
<b>Total Current Liabilities</b>		<u>161,128</u>	<u>221,905</u>
<b>Total Liabilities</b>		<u>161,128</u>	<u>221,905</u>
<b>Net Assets</b>			
Unrestricted		5,202,155	5,081,492
Temporarily Restricted		574,378	519,434
Permanently Restricted		<u>368,274</u>	<u>368,274</u>
<b>Total Net Assets</b>		<u>6,144,807</u>	<u>5,969,200</u>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$</b>	<u><b>6,305,935</b></u>	<u><b>\$ 6,191,105</b></u>

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

**ARLINGTON FREE CLINIC  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED  
June 30, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT</b>				
Contributions	\$ 648,234	\$ 152,676	\$ -	\$ 800,910
Grant Revenue	487,739	537,540	-	1,025,279
Special Events	541,832	-	-	541,832
Investment Income (Loss)	70,611	15,751	-	86,362
Donated Services, Materials & Facilities	<u>3,148,246</u>	<u>-</u>	<u>-</u>	<u>3,148,246</u>
<b>Total Support</b>	<u>4,896,662</u>	<u>705,967</u>	<u>-</u>	<u>5,602,629</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>651,023</u>	<u>(651,023)</u>	<u>-</u>	<u>-</u>
<b>EXPENSES</b>				
Program Services				
Arlington Free Clinic	<u>4,878,467</u>	<u>-</u>	<u>-</u>	<u>4,878,467</u>
Supporting Services				
Management & General	162,081	-	-	162,081
Fund-raising	<u>257,789</u>	<u>-</u>	<u>-</u>	<u>257,789</u>
Total Supporting Services	419,870	-	-	419,870
Cost of Special Events	<u>128,685</u>	<u>-</u>	<u>-</u>	<u>128,685</u>
<b>Total Expenses</b>	<u>5,427,022</u>	<u>-</u>	<u>-</u>	<u>5,427,022</u>
<b>Loss on Disposition of Assets</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>INCREASE IN NET ASSETS</b>	120,663	54,944	-	175,607
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>5,081,492</u>	<u>519,434</u>	<u>368,274</u>	<u>5,969,200</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 5,202,155</u>	<u>\$ 574,378</u>	<u>\$ 368,274</u>	<u>\$ 6,144,807</u>

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

**ARLINGTON FREE CLINIC  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED  
June 30, 2009**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>SUPPORT</b>				
Contributions	\$ 1,458,647	\$ 47,433	\$ -	\$ 1,506,080
Grant Revenue	75,576	1,329,008	368,274	1,772,858
Special Events	557,356	-	-	557,356
Investment Income (Loss)	(191,553)	-	-	(191,553)
Donated Services, Materials & Facilities	<u>5,171,560</u>	<u>-</u>	<u>-</u>	<u>5,171,560</u>
<b>Total Support</b>	<u>7,071,586</u>	<u>1,376,441</u>	<u>368,274</u>	<u>8,816,301</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<u>1,471,880</u>	<u>(1,471,880)</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>
Supporting Services				
Management & General	197,395	-	-	197,395
Fund-raising	<u>220,582</u>	<u>-</u>	<u>-</u>	<u>220,582</u>
Total Supporting Services	417,977	-	-	417,977
Cost of Special Events	<u>116,786</u>	<u>-</u>	<u>-</u>	<u>116,786</u>
<b>Total Expenses</b>	<u>4,900,944</u>	<u>-</u>	<u>-</u>	<u>4,900,944</u>
<b>Loss on Disposition of Assets</b>	<u>(22,056)</u>	<u>-</u>	<u>-</u>	<u>(22,056)</u>
<b>INCREASE IN NET ASSETS</b>	3,620,466	(95,439)	368,274	3,893,301
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>1,461,026</u>	<u>614,873</u>	<u>-</u>	<u>2,075,899</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>

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

**ARLINGTON FREE CLINIC**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED**  
**June 30, 2010**

	<u>Supporting Services</u>			<u>2010 Total</u>	<u>2010 (Memo) Donated</u>
	<u>Program Services</u>	<u>Mgmt &amp; General</u>	<u>Fund- raising</u>		
<b>EXPENSES</b>					
<b>Administrative Expenses</b>					
Accounting	\$ 10,507	\$ 25,398	\$ 842	\$ 36,747	\$ 4,900
Advertising	-	-	1,145	1,145	-
Bank Fees	-	1,152	6,792	7,944	-
Consulting	34,061	744	1,449	36,254	-
Delivery	-	-	37	37	-
Dues & License Fees	27,217	72	13	27,302	-
Legal Fees	-	6,400	-	6,400	6,400
Mail Fulfillment Expenses	-	-	5,619	5,619	-
Meeting Expenses	9,313	2,272	7,024	18,609	1,120
Miscellaneous Expenses	592	60	494	1,146	-
Postage	2,463	431	7,765	10,659	-
Printing	17,951	566	28,886	47,403	10,150
Telephone	11,153	2,326	350	13,829	1,826
Travel	165	99	50	314	-
<b>Total Administrative Expenses</b>	<u>113,422</u>	<u>39,520</u>	<u>60,466</u>	<u>213,408</u>	<u>24,396</u>
<b>Clinic Expenses</b>					
Clinic Supplies	5,316	-	-	5,316	-
Pharmaceuticals	699,551	-	-	699,551	677,763
Pharmacy Supplies	7,166	-	-	7,166	-
Medical & Professional Services	2,465,347	-	-	2,465,347	2,420,415
<b>Total Clinic Expenses</b>	<u>3,177,380</u>	<u>-</u>	<u>-</u>	<u>3,177,380</u>	<u>3,098,178</u>
<b>Office Expenses</b>					
Computer Supplies	6,817	-	-	6,817	-
Computer Tech Support	44,209	734	3,131	48,074	15,673
Internet Service	502	20	1,509	2,031	-
Office Equipment Repairs	10,295	293	406	10,994	-
Office Supplies	8,675	765	466	9,906	-
Property Tax	2,586	55	110	2,751	-
<b>Total Office Expenses</b>	<u>73,084</u>	<u>1,867</u>	<u>5,622</u>	<u>80,573</u>	<u>15,673</u>
<b>Facility Expenses</b>					
Cleaning	14,256	303	607	15,166	-
Condo Fees	33,689	690	1,380	35,759	-
Depreciation & Amortization	106,650	2,208	4,417	113,275	-
Insurance Bldg.	7,121	310	72	7,503	-
Moving Expenses	-	7,502	-	7,502	-
Parking	-	-	-	-	-
Real Estate Taxes	21,243	452	904	22,599	-
Rent	-	-	-	-	-
R & M - Building	4,318	91	181	4,590	-
Security Services & After Hour Costs	390	-	-	390	-
Utilities	15,207	324	647	16,178	-
<b>Total Facility Expenses</b>	<u>202,874</u>	<u>11,880</u>	<u>8,208</u>	<u>222,962</u>	<u>-</u>
<b>Personnel Expenses</b>					
Wages	1,104,113	90,503	165,192	1,359,808	-
Payroll Taxes	82,338	12,197	7,116	101,651	-
Insurance - Health	47,001	958	3,849	51,808	-
Insurance - Workers Compensation	2,843	244	423	3,510	-
FSA Account Admin	1,133	182	168	1,483	-
Pension Contribution	27,657	2,564	4,442	34,663	-
Education & Seminars	8,269	291	390	8,950	-
Casual Labor	38,353	1,875	1,913	42,141	-
<b>Total Personnel Expenses</b>	<u>1,311,707</u>	<u>108,814</u>	<u>183,493</u>	<u>1,604,014</u>	<u>-</u>
<b>Total Expenses</b>	<u>\$ 4,878,467</u>	<u>\$ 162,081</u>	<u>\$ 257,789</u>	<u>\$ 5,298,337</u>	<u>\$ 3,138,247</u>

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

**ARLINGTON FREE CLINIC  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED  
June 30, 2009**

	<u>Program Services</u>	<u>Supporting Services</u>		<u>2009 Total</u>	<u>2009 (Memo) Donated</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	\$ 7,505
Advertising	-	-	1,345	1,345	-
Bank Fees	-	634	10,455	11,089	-
Consulting	-	1,200	-	1,200	-
Delivery	-	-	-	-	-
Dues & License Fees	15,677	793	8	16,478	-
Legal Fees	4,100	201	-	4,301	4,100
Mail Fulfillment Expenses	3,474	73	3,679	7,226	-
Meeting Expenses	5,054	1,053	997	7,104	-
Miscellaneous Expenses	-	-	1,006	1,006	-
Postage	3,953	6,825	4,736	15,514	-
Printing	14,846	2,147	31,748	48,741	11,169
Telephone	15,867	332	383	16,582	-
Travel	333	94	21	448	-
<b>Total Administrative Expenses</b>	<u>73,587</u>	<u>38,781</u>	<u>54,933</u>	<u>167,301</u>	<u>22,774</u>
<b>Clinic Expenses</b>					
Clinic Supplies	6,062	-	-	6,062	-
Pharmaceuticals	673,283	-	-	673,283	657,709
Pharmacy Supplies	8,032	-	-	8,032	-
Medical & Professional Services	2,024,737	-	-	2,024,737	1,980,864
<b>Total Clinic Expenses</b>	<u>2,712,114</u>	<u>-</u>	<u>-</u>	<u>2,712,114</u>	<u>2,638,573</u>
<b>Office Expenses</b>					
Computer Supplies	2,330	-	-	2,330	-
Computer Tech Support	44,945	667	3,404	49,016	13,200
Internet Service	-	200	495	695	-
Office Equipment Repairs	8,727	184	207	9,118	-
Office Supplies	8,256	1,090	349	9,695	176
Property Tax	12,321	317	449	13,087	-
<b>Total Office Expenses</b>	<u>76,579</u>	<u>2,458</u>	<u>4,904</u>	<u>83,941</u>	<u>13,376</u>
<b>Facility Expenses</b>					
Condo Fee & Cleaning	12,703	265	291	13,259	-
Depreciation & Amortization	32,998	687	687	34,372	-
Insurance Bldg.	4,676	1,788	-	6,464	-
Moving Expenses	-	44,560	-	44,560	-
Parking	15,048	314	314	15,676	-
Rent	278,530	5,806	5,806	290,142	182,405
R & M - Building	221	85	-	306	-
Security Services & After Hour Costs	1,026	-	-	1,026	-
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>182,405</u>
<b>Personnel Expenses</b>					
Wages	997,307	83,097	134,064	1,214,468	-
Payroll Taxes	67,583	11,109	9,726	88,418	-
Insurance - Health	37,753	714	4,809	43,276	-
Insurance - Workers Compensation	2,781	237	373	3,391	-
FSA Account Admin	1,300	15	162	1,477	-
Pension Contribution	23,151	2,486	3,960	29,597	-
Education & Seminars	6,165	(353)	467	6,279	-
Casual Labor	20,632	5,303	-	25,935	-
<b>Total Personnel Expenses</b>	<u>1,156,672</u>	<u>102,608</u>	<u>153,561</u>	<u>1,412,841</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>\$ 2,857,128</u>

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

**ARLINGTON FREE CLINIC  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED  
June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in Net Assets	\$ 175,607	\$ 3,893,301
Adjustments to reconcile change in net assets to net cash used by operating activities		
Realized (Gain) Loss on Sale of Investments	(91,054)	166,438
Unrealized (Gain) Loss in FMV of Investments	39,153	89,369
Loss on Disposition of Assets	-	22,056
Depreciation & Amortization	113,275	34,372
Donated Services, Materials & Facilities Capitalized	(10,000)	(2,314,432)
Decrease (Increase) in Contributions Receivable	81,408	(260,807)
Decrease (Increase) in Accounts Receivable	-	3,055
Decrease (Increase) in Inventory	(671)	(145)
Decrease (Increase) in Prepaid Expenses	(7,006)	5,527
Increase (Decrease) in Accounts Payable	(82,225)	68,576
Increase (Decrease) in Payroll Withholdings	3,083	(1,373)
Increase (Decrease) in Accrued Wages & Compensated Absences	18,365	8,908
	<u>239,935</u>	<u>1,714,845</u>
<b>Net Cash Provided (Used) by Operating Activities</b>		
	<u>239,935</u>	<u>1,714,845</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Computer Equipment	(13,400)	(11,615)
Purchase of Software	(24,300)	-
Purchase of Furniture & Equipment	-	(151,331)
Purchase of Office Condo & Buildout	(23,571)	(1,706,031)
Redemption of CD's	-	146,304
Redemption of Investments	780,095	212,559
Purchase of Investments	(925,759)	-
Purchase of Investments - reinvestments	(26,703)	(48,030)
Purchase of Certificate of Deposits - interest reinvested	-	(5,892)
	<u>(233,638)</u>	<u>(1,564,036)</u>
<b>Net Cash Used by Investing Activities</b>		
	<u>(233,638)</u>	<u>(1,564,036)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of Line of Credit	-	(25,000)
Proceeds from draw on Line of Credit	-	-
	<u>-</u>	<u>-</u>
<b>Net Cash Provided by Financing Activities</b>		
	<u>-</u>	<u>(25,000)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	6,297	125,809
<b>BEGINNING CASH</b>	<u>873,030</u>	<u>747,221</u>
<b>ENDING CASH</b>	<u>\$ 879,327</u>	<u>\$ 873,030</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, 2010 AND 2009**

**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, 2010 and 2009. There were \$328,702 and \$117,164 in unconditional promises to give (net of uncollectible allowance) within one year and two years, respectively, at June 30, 2010. 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. Seventy to eighty 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 \$9,448 and \$8,577 at June 30, 2010 and 2009 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, 2010 and 2009 to be collectible.

Donated Services, Materials & Facilities

**SERVICES:** During the years ended June 30, 2010 and 2009, the value of contributed services, used by the Clinic, and meeting the requirements for recognition as revenues and expenses in the financial statements was \$2,454,689 and \$2,016,838 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 \$921,655 and \$846,253 for the years ended June 30, 2010 and 2009. 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 \$1,533,034 and \$1,170,585 for the years ended June 30, 2010 and 2009.

**PHARMACEUTICALS:** 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, 2010 and 2009, the Clinic received an estimated \$677,763 and \$657,709 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.

**ARLINGTON FREE CLINIC, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

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

Donated Services, Materials & Facilities (continued)

OTHER ASSETS: During the fiscal year ended June 30, 2010, the Clinic received \$10,000 in donated installation, set-up and modification services related to the implementation of a Web based Electronic Medical Records system. This amount was capitalized as other assets and is being amortized over a useful life of 5 years.

REAL ESTATE: 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.

FACILITIES: During the fiscal year ended June 30, 2009 the Clinic received \$ 182,405 in rent subsidy related to the use of temporary clinic space during the final construction phase of the new Clinic space completed in May of 2009.

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.

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.

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.

Concentrations of Credit Risk

At June 30, 2010 and 2009 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 \$72,237 and \$166,113 at June 30, 2010 and 2009 respectively.

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, 2010 and 2009, the Clinic did not conduct any unrelated business activities that would be subject to federal income taxes.

**ARLINGTON FREE CLINIC, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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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, 2010 and 2009 was comprised of the following:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Interest	\$ 4,830	\$ 10,125
Dividend & Capital Gains (Distribution)	29,631	54,131
Unrealized Gains (Losses)	(39,153)	(89,371)
Gain (Loss) on Sale of Investments	<u>91,054</u>	<u>(166,438)</u>
Investment Income(Loss)	<u>\$ 86,362</u>	<u>\$ (191,553)</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, 2010 and 2009 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, 2010</u>	<u>Level 1 June 30, 2009</u>
Available-for-sale securities		
Blackrock Global	\$ 13,827	\$ -0-
Columbia Select Small Cap	-0-	13,594
Driehaus International Discovery Fund	-0-	23,763
Hussman Strategic Growth	37,166	-0-
Ishares TR MSCI Eafe Fund	32,325	-0-
Ivy Asset Strategy Fund	13,309	-0-
Manning & Napier Pro Blend	-0-	29,503
Marsico Focus Fund	-0-	23,620
Matthews Asian Growth & Income Fund	11,381	-0-
Pimco Global Bond	-0-	72,792
Pimco High Yield Fund	-0-	98,699
Pimco Total Return Fund	107,339	247,203
Pimco Unconstrained Bond Fund	118,038	-0-
SPDR S&P 500 ETF	67,196	-0-
Templeton Global Bond Fund	42,945	-0-
Third Avenue Value Fund	-0-	22,785
Turner MidCap Growth	-0-	9,408
T Rowe Price Large Cap Value Fund	31,058	-0-
Vanguard Emerging Market	10,599	-0-
Vanguard Inflation Protected Securities	46,009	-0-
Vanguard Small Cap	33,168	-0-
Vanguard S/T Investment	170,004	-0-
William Blair Growth Fund	<u>31,253</u>	<u>-0-</u>
<b>Total</b>	<u>\$ 765,617</u>	<u>\$ 541,367</u>

**ARLINGTON FREE CLINIC, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

Inventories

Inventories recorded on the statement of financial position in the amount of \$3,455 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, 2010 and 2009 to be \$1,524,853 and \$1,071,887 respectively.

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

Building, Furniture, Equipment & Improvements

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

	June 30, 2010	June 30, 2009
Computer & Xerox Equipment	\$ 59,315	\$ 45,914
Telephone Equipment	40,665	40,664
Clinic/Medical Equipment	3,169	3,169
Furniture & Fixtures	175,281	175,281
Clinic Condo-Building & Improvements	2,643,303	2,619,732
Clinic Condo-Land	<u>1,370,731</u>	<u>1,370,731</u>
Total Furniture, Equipment & Improvements	4,292,464	4,255,492
Accumulated Depreciation and Amortization	<u>(146,325)</u>	<u>(47,403)</u>
<b>Net Furniture, Equipment &amp; Improvements</b>	<b><u>\$ 4,146,139</u></b>	<b><u>\$ 4,208,089</u></b>

All acquisitions of property, equipment, building and related 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 39 years for the building and related improvements.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**ARLINGTON FREE CLINIC, INC.**  
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**NOTE B - DEFINED CONTRIBUTION PLAN**

The Clinic has a 403(b) defined contribution salary deferral plan covering substantially all employees. Under the amended plan document, after six months of employment, the Clinic contributes 3% of each eligible and participating employee's base salary. Plan expenses incurred by the Clinic during the years ended June 30, 2010 and 2009 were \$34,662 and \$29,597 respectively.

**NOTE C - 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, 2010 and 2009, accrued compensated absences liability based on current salary levels was \$50,177 and \$42,327 respectively.

**NOTE D – LINE OF CREDIT**

The Clinic maintains a Line-of-Credit with Virginia Commerce Bank. Under the terms of the 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. Line withdrawals (repayments) during the fiscal years ending June 30, 2010 and 2009 were \$-0- and (\$25,000) respectively. There were no outstanding balances at the end of either year.

**NOTE E – 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 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.

**NOTE F – ENDOWMENT FUNDS**

Implementation of FASB ASC 958-25-501B

FASB ASC 958-25-501B (formerly 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). FASB ASC 958-25-501B 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 FASB ASC 958-25-501B 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.

**ARLINGTON FREE CLINIC, INC.**  
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**NOTE F – ENDOWMENT FUNDS (continued)**

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 Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors 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.

Spending Policy

If deemed necessary by the Board, the Clinic may distribute each year up to 5% of its endowment fund's average fair value of the prior three (3) years. 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.

**ARLINGTON FREE CLINIC, INC.**  
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**NOTE G – ENDOWMENT FUNDS (continued)**

Endowment Net Asset Composition by Type of Fund as of June 30, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ —	\$ 225,323	\$ —	\$ 225,323
Board-designated endowment funds	—	—	—	—
Total funds	<u>\$ —</u>	<u>\$ 225,323</u>	<u>\$ —</u>	<u>\$ 225,323</u>

Changes in endowment net assets as of June 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ —	\$ 209,777	\$ —	\$ 209,777
Contributions	—	7,610	—	7,610
Investment income (loss)	—	32,530	—	32,530
Net appreciation (depreciation)	—	(16,779)	—	(16,779)
Amounts appropriated for expenditure	—	(7,815)	—	(7,815)
Endowment net assets, end of year	<u>\$ —</u>	<u>\$ 225,323</u>	<u>\$ —</u>	<u>\$ 225,323</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
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:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ 82,546	\$ 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>

**ARLINGTON FREE CLINIC, INC.**  
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**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 January 28, 2011, 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.