



Brock Hughes Medical Center

BROCK HUGHES FREE CLINIC, INC.

FINANCIAL REPORT

September 30, 2017



BROCK HUGHES FREE CLINIC, INC.

FINANCIAL REPORT

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CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	3
FINANCIAL STATEMENTS	
Statements of Financial Position	5
Statements of Activities	6
Statements of Functional Expenses	8
Statements of Cash Flows.....	10
Notes to Financial Statements	11



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Brock Hughes Free Clinic, Inc.
Wytheville, Virginia

We have audited the accompanying financial statements of Brock Hughes Free Clinic, Inc., a not-for-profit organization, which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brock Hughes Free Clinic, Inc. as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Brown, Edwards & Company, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
February 7, 2018

BROCK HUGHES FREE CLINIC, INC.

STATEMENTS OF FINANCIAL POSITION

September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 52,503	\$ 19,272
Grants receivable	88,893	89,073
Prescription inventory	1,001,761	1,564,658
Prepaid expenses and other	10,597	9,617
Hospice fund	28,937	29,780
	<hr/>	<hr/>
Total current assets	1,182,691	1,712,400
Property and equipment, net (Note 3)	561,331	561,107
	<hr/>	<hr/>
Total assets	<u>\$ 1,744,022</u>	<u>\$ 2,273,507</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit (Note 4)	\$ 19,401	\$ 30,000
Accounts payable	5,638	-
Accrued wages and taxes payable	31,815	23,180
Settlement payable (Note 8)	-	30,000
Hospice fund payable	28,937	29,780
	<hr/>	<hr/>
Total current liabilities	85,791	112,960
NET ASSETS		
Unrestricted (Note 5)	123,724	48,821
Temporarily restricted (Note 6)	1,534,507	2,111,726
	<hr/>	<hr/>
Total net assets	1,658,231	2,160,547
Total liabilities and net assets	<u>\$ 1,744,022</u>	<u>\$ 2,273,507</u>

BROCK HUGHES FREE CLINIC, INC.

STATEMENT OF ACTIVITIES
Year Ended September 30, 2017

	Unrestricted	Temporarily Restricted	Total
Support and revenues			
Public support	\$ 68,105	\$ -	\$ 68,105
State organization contribution	-	197,851	197,851
Grant income	-	261,106	261,106
Fundraising	11,605	-	11,605
Clinic prescription fees, net	41,181	-	41,181
Medical records	1,593	-	1,593
United Way contributions	3,010	-	3,010
Benevolent medication	-	17,220	17,220
Other income	-	-	-
Interest	140	-	140
In-kind, net	20,000	1,411,422	1,431,422
Net assets released from restrictions:			
Satisfactions of donor restrictions (Note 7)	2,464,818	(2,464,818)	-
Total revenues	2,610,452	(577,219)	2,033,233
Expenses:			
Program services	2,457,845	-	2,457,845
General and administrative	77,565	-	77,565
Fundraising	139	-	139
Total expenses	2,535,549	-	2,535,549
Change in net assets	74,903	(577,219)	(502,316)
Net assets – beginning of year	48,821	2,111,726	2,160,547
Net assets – end of year	\$ 123,724	\$ 1,534,507	\$ 1,658,231

BROCK HUGHES FREE CLINIC, INC.

STATEMENT OF ACTIVITIES
Year Ended September 30, 2016

	Unrestricted	Temporarily Restricted	Total
Support and revenues			
Public support	\$ 17,802	\$ -	\$ 17,802
State organization contribution	-	174,662	174,662
Grant income	-	240,734	240,734
Fundraising	7,700	-	7,700
Clinic prescription fees, net	51,500	-	51,500
Medical records	1,861	-	1,861
United Way contributions	3,849	-	3,849
Benevolent medication	-	17,220	17,220
Other income	708	-	708
Interest	142	-	142
In-kind, net	-	1,257,883	1,257,883
Net assets released from restrictions:			
Satisfactions of donor restrictions (Note 7)	1,738,601	(1,738,601)	-
Total revenues	1,822,163	(48,102)	1,774,061
Expenses:			
Program services	1,767,371	-	1,767,371
General and administrative	150,451	-	150,451
Fundraising	1,343	-	1,343
Total expenses	1,919,165	-	1,919,165
Change in net assets	(97,002)	(48,102)	(145,104)
Net assets – beginning of year	145,823	2,159,828	2,305,651
Net assets – end of year	\$ 48,821	\$ 2,111,726	\$ 2,160,547

BROCK HUGHES FREE CLINIC, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2017

	Program Services	General and Administrative	Fundraising	Total
In-kind	\$ 1,988,942	\$ -	\$ -	\$ 1,988,942
Salaries – clinical	278,870	189	-	279,059
Settlement	-	-	-	-
Employee benefits	47,341	7,669	-	55,010
Salaries – administrative	2,166	45,670	-	47,836
Professional fees	25,072	14,100	-	39,172
Payroll taxes	25,330	3,834	-	29,164
Medicine purchased	22,564	-	-	22,564
Depreciation	18,786	989	-	19,775
Telephone	16,135	844	-	16,979
Repairs and maintenance	10,949	598	-	11,547
Office supplies	6,332	425	-	6,757
Insurance	4,381	909	-	5,290
Utilities	3,914	206	-	4,120
Travel	3,248	494	-	3,742
Dues	2,095	155	-	2,250
Interest	-	1,401	-	1,401
Postage	681	49	-	730
Advertising	619	-	-	619
License	420	33	-	453
Fundraising	-	-	139	139
Miscellaneous	-	-	-	-
Total	\$ 2,457,845	\$ 77,565	\$ 139	\$ 2,535,549

BROCK HUGHES FREE CLINIC, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended September 30, 2016

	Program Services	General and Administrative	Fundraising	Total
In-kind	\$ 1,299,706	\$ -	\$ -	\$ 1,299,706
Salaries – clinical	328,952	-	-	328,952
Settlement	-	60,000	-	60,000
Employee benefits	37,476	16,062	-	53,538
Salaries – administrative	-	47,325	-	47,325
Professional fees	30,743	920	-	31,663
Payroll taxes	18,607	6,004	-	24,611
Medicine purchased	8,896	-	-	8,896
Depreciation	17,194	905	-	18,099
Telephone	5,989	316	-	6,305
Repairs and maintenance	626	6,313	-	6,939
Office supplies	1,599	2,742	230	4,571
Insurance	4,761	1,421	-	6,182
Utilities	4,844	256	-	5,100
Travel	-	3,827	-	3,827
Dues	655	-	-	655
Interest	-	-	-	-
Postage	770	-	-	770
Advertising	-	-	708	708
License	270	127	-	397
Fundraising	-	-	405	405
Miscellaneous	6,283	4,233	-	10,516
Total	\$ 1,767,371	\$ 150,451	\$ 1,343	\$ 1,919,165

BROCK HUGHES FREE CLINIC, INC.

STATEMENTS OF CASH FLOWS
Years Ended September 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (502,316)	\$ (145,104)
Adjustments to reconcile to net cash provided by (used in) operating activities:		
Loss on disposal of property and equipment, net	-	2,023
Depreciation	19,775	18,099
Donations of property and equipment, net	(20,000)	-
Change in:		
Grants receivable	180	32,612
Prescription inventory	562,897	27,156
Prepaid expenses and other	(980)	(1,921)
Accounts payable	5,638	-
Accrued wages and taxes payable	8,635	(8,298)
Settlement payable	(30,000)	30,000
Net cash provided by (used in) operating activities	43,829	(45,433)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on line of credit	(10,598)	30,000
Net cash provided by (used in) financing activities	(10,598)	30,000
Net change in cash and cash equivalents	33,231	(15,433)
CASH AND CASH EQUIVALENTS		
Beginning	19,272	34,705
Ending	\$ 52,503	\$ 19,272
SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING ACTIVITIES		
Gift of property and equipment	\$ 20,000	\$ -

BROCK HUGHES FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

Note 1. Organization and Nature of Activities

Brock Hughes Free Clinic, Inc. (the “Organization”) is a non-stock, non-profit corporation that provides health services, including medical care, counseling, and education, to those residents of Wythe and Bland Counties who may not otherwise have access to such services.

Note 2. Summary of Significant Accounting Policies

Basis of financial statement presentation:

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and accrued liabilities.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents:

For purposes of reporting cash flows, the Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash is held in banks and is insured by the FDIC up to \$250,000 per financial institution. At times, the balances in these accounts may be in excess of insured limits.

Hospice fund account and payable:

Hospice of Southwest Virginia is a service of Wythe County Community Hospital and is operated by Brock Hughes Free Clinic, Inc. Contributions made to this fund are deposited into the Hospice checking account and checks are written to meet the needs of hospice patients and their families.

Inventory:

Prescription inventory consists of prescription medication and is stated at the lower of cost or market value. Some prescriptions are purchased; however, most are donated to the Organization and are recorded at fair value at the time of gift. During 2017, the Organization changed the method used to value inventory to more closely approximate market value of inventory to the Organization. This change was accounted for on a prospective basis and resulted in a decrease to inventory and in-kind revenues of approximately \$179,000 for the year end September 30, 2017.

BROCK HUGHES FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

Note 2. Summary of Significant Accounting Policies (Continued)

Grants:

The Organization receives grants and contracts from state agencies as well as from private organizations, to be used for specific purposes. The excess of reimbursable expenditures over cash receipts is included in grants receivable. Grants receivable consists of the following as of September 30:

	<u>2017</u>	<u>2016</u>
Wythe-Bland Community Foundation	\$ 47,606	\$ 83,333
Virginia Association of Free & Charitable Clinics	35,547	-
Virginia Healthcare Foundation	<u>5,740</u>	<u>5,740</u>
	<u>\$ 88,893</u>	<u>\$ 89,073</u>

Classification of net assets:

The accompanying financial statements present information regarding the Organization's financial position and activities according to three classes of net assets, differentiated based on the existence or absence of donor-imposed restrictions, which are described below:

Unrestricted net assets are free of donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Expenses, revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification.

Temporarily restricted net assets are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of the Organization pursuant to those stipulations.

Permanently restricted net assets are amounts required by donors to be held in perpetuity; however, the income on these assets is available to meet various restricted and other operating needs. There were no permanently restricted net assets at September 30, 2017 and 2016.

Contributions:

Contributions, including unconditional promises to give or contributions receivable, are recognized as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions, when the donor's commitment is received.

BROCK HUGHES FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

Note 2. Summary of Significant Accounting Policies (Continued)

Contributions: (Continued)

Conditional promises to give are not recognized until they become unconditional – that is, when the conditions on which they depend are substantially met. Contributions of certain assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. If necessary, an allowance for uncollectible contributions receivable is provided based upon management’s judgment, including such factors as prior collection history, type of contribution, and nature of the fundraising activity.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Contributions of property and equipment without donor stipulations on the asset’s use are reported as unrestricted net asset revenue. Contributions of cash or other assets to be used to acquire land, buildings, and equipment, with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Property and equipment:

It is the Organization’s policy to capitalize property and equipment acquisitions greater than \$10,000. Depreciation is provided over the estimated useful lives of the assets ranging from three to thirty-nine years and is computed on the straight-line method. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose.

Maintenance and repairs are charged to operating expenses and major alterations and renovations are capitalized.

Functional expenses:

The Organization allocates operating expenses on a functional basis among its programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly.

Advertising costs:

The Organization expenses advertising as incurred.

BROCK HUGHES FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS
September 30, 2017

Note 2. Summary of Significant Accounting Policies (Continued)

Income tax status:

The Organization is exempt from federal and state income tax under Section 501(c)(3) of the *Internal Revenue Code* and the tax statutes of the Commonwealth of Virginia; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Organization has determined that they do not have any material unrecognized tax benefits or obligations as of September 30, 2017 and 2016.

Reclassification:

Certain amounts for the prior year have been reclassified to conform to the current year presentation. The reclassifications have no effect on the change in net assets as previously reported.

Subsequent events:

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through February 7, 2018, the date the financial statements were available to be issued.

Note 3. Property and Equipment

Property and equipment consists of the following as of September 30:

	Estimated Useful Life	2017	2016
Land	-	\$ 67,100	\$ 67,100
Buildings and improvements	39 years	512,356	512,356
Furniture and equipment	3-10 years	50,081	30,081
		629,537	609,537
Less – accumulated depreciation		(68,206)	(48,430)
		<u>\$ 561,331</u>	<u>\$ 561,107</u>

The land and building and improvements were purchased with donor funds restricted for use as an Organization. In the event the Organization ceases to operate, the assets revert back to the donor.

BROCK HUGHES FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

Note 4. Line of Credit

On September 19, 2016, the Organization entered into an agreement for a \$60,000 line of credit which bears interest at PRIME rate plus 1.75% (6.00% at September 30, 2017), and is unsecured. The line of credit expires on September 19, 2018.

Note 5. Unrestricted Net Assets

Unrestricted net assets include the following:

	<u>2017</u>	<u>2016</u>
Amount to be used for future operations	\$ 83,587	\$ 33,881
Investment in property and equipment, net	28,585	14,940
Designated by the board of directors	<u>11,552</u>	<u>-</u>
	<u>\$ 123,724</u>	<u>\$ 48,821</u>

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets include the following:

	<u>2017</u>	<u>2016</u>
In-kind contributions of inventory	\$ 1,001,761	\$ 1,565,559
Building and improvement donations	<u>532,746</u>	<u>546,167</u>
	<u>\$ 1,534,507</u>	<u>\$ 2,111,726</u>

BROCK HUGHES FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

Note 7. Net Assets Released From Restrictions

Net assets are released from donor/grantor restrictions when expenses are incurred to satisfy the restricted purposes or by occurrence of other events as specified by donors. Restrictions were satisfied as follows for:

	<u>2017</u>	<u>2016</u>
In-kind professional services and prescription medications	\$ 3,981,292	\$ 2,814,368
Less: cost of goods sold	<u>(2,006,072)</u>	<u>(1,529,330)</u>
In-kind professional services and prescription medications, net	1,975,220	1,285,038
Virginia Association of Free Clinics – State Funds Expense	197,851	174,662
Wythe-Bland Community Foundation	257,606	246,246
Benevolent Medication	17,220	17,220
Virginia Healthcare Foundation	3,500	-
Depreciation on clinic	<u>13,421</u>	<u>15,435</u>
	<u>\$ 2,464,818</u>	<u>\$ 1,738,601</u>

The Organization has elected not to record various donated pharmaceuticals from the Medication 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 years ended September 30, 2017 and 2016 to be approximately \$2,640,000 and \$2,700,000, respectively.

Note 8. Lawsuit Settlement

In November 2014, the Organization was served with a lawsuit from a former lessor. The Organization settled the matter through negotiations on September 7, 2016. The Organization agreed to pay \$60,000 to settle the claim, to be paid on or before March 1, 2017. Final payment was made on February 3, 2017.