



Brock Hughes Medical Center

BROCK HUGHES FREE CLINIC, INC.

FINANCIAL REPORT

September 30, 2019



BROCK HUGHES FREE CLINIC, INC.

FINANCIAL REPORT

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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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2019, Brock Hughes Free Clinic, Inc. has adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
January 27, 2020

BROCK HUGHES FREE CLINIC, INC.

STATEMENTS OF FINANCIAL POSITION

September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 73,138	\$ 91,664
Patient receivables, net (Note 4)	16,019	-
Grants receivable	88,927	41,112
Prescription inventory	645,442	686,806
Prepaid expenses and other	12,495	8,070
Hospice fund	26,049	24,784
Restricted grant funds	50,519	-
	<u>912,589</u>	<u>852,436</u>
Total current assets	912,589	852,436
Property and equipment, net (Note 5)	<u>515,995</u>	<u>540,767</u>
Total assets	<u>\$ 1,428,584</u>	<u>\$ 1,393,203</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Line of credit	\$ -	\$ 8,198
Accounts payable	6,323	3,624
Accrued wages and taxes payable	40,962	33,289
Hospice fund payable	26,049	24,784
Deferred revenue	50,519	-
	<u>123,853</u>	<u>69,895</u>
Total current liabilities	123,853	69,895
NET ASSETS		
Without Donor Restriction (Note 6)	205,426	146,785
With Donor Restriction (Note 7)	<u>1,099,305</u>	<u>1,176,523</u>
Total net assets	<u>1,304,731</u>	<u>1,323,308</u>
Total liabilities and net assets	<u>\$ 1,428,584</u>	<u>\$ 1,393,203</u>

The Notes to Financial Statements are an integral part of these statements.

BROCK HUGHES FREE CLINIC, INC.**STATEMENT OF ACTIVITIES****Year Ended September 30, 2019**

	Without Donor Restriction	With Donor Restriction	Total
SUPPORT AND REVENUES			
Public support	\$ 49,023	\$ -	\$ 49,023
State organization contribution	-	160,492	160,492
Net patient service revenue (Note 4)	105,956	-	105,956
Grant income	-	399,220	399,220
Fundraising	16,951	-	16,951
Clinic prescription fees, net	25,593	-	25,593
Medical records	875	-	875
United Way contributions	1,500	-	1,500
Interest	632	-	632
In-kind, net	-	1,556,885	1,556,885
Net assets released from restrictions: satisfactions of donor restrictions (Note 8)	2,193,815	(2,193,815)	-
Total revenues	<u>2,394,345</u>	<u>(77,218)</u>	<u>2,317,127</u>
EXPENSES			
Program services	2,248,139	-	2,248,139
General and administrative	82,289	-	82,289
Fundraising	5,276	-	5,276
Total expenses	<u>2,335,704</u>	<u>-</u>	<u>2,335,704</u>
Change in net assets	58,641	(77,218)	(18,577)
NET ASSETS			
Beginning	<u>146,785</u>	<u>1,176,523</u>	<u>1,323,308</u>
Ending	<u>\$ 205,426</u>	<u>\$ 1,099,305</u>	<u>\$ 1,304,731</u>

The Notes to Financial Statements are an integral part of these statements.

BROCK HUGHES FREE CLINIC, INC.**STATEMENT OF ACTIVITIES
Year Ended September 30, 2018**

	Without Donor Restriction	With Donor Restriction	Total
SUPPORT AND REVENUES			
Public support	\$ 56,190	\$ -	\$ 56,190
State organization contribution	-	146,996	146,996
Net patient service revenue (Note 4)	-	-	-
Grant income	-	365,657	365,657
Fundraising	817	-	817
Clinic prescription fees, net	42,697	-	42,697
Medical records	1,122	-	1,122
United Way contributions	2,860	-	2,860
Interest	515	-	515
In-kind, net		2,049,243	2,049,243
Net assets released from restrictions: satisfactions of donor restrictions (Note 8)	2,919,880	(2,919,880)	-
Total revenues	<u>3,024,081</u>	<u>(357,984)</u>	<u>2,666,097</u>
EXPENSES			
Program services	2,913,298	-	2,913,298
General and administrative	87,669	-	87,669
Fundraising	53	-	53
Total expenses	<u>3,001,020</u>	<u>-</u>	<u>3,001,020</u>
Change in net assets	23,061	(357,984)	(334,923)
NET ASSETS			
Beginning	<u>123,724</u>	<u>1,534,507</u>	<u>1,658,231</u>
Ending	<u>\$ 146,785</u>	<u>\$ 1,176,523</u>	<u>\$ 1,323,308</u>

The Notes to Financial Statements are an integral part of these statements.

BROCK HUGHES FREE CLINIC, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2019

	Program Services	General and Administrative	Fundraising	Total
In-kind	\$ 1,620,691	\$ -	\$ -	\$ 1,620,691
Salaries – clinical	349,267	10	-	349,277
Employee benefits	61,327	8,684	-	70,011
Salaries – administrative	6,562	48,635	-	55,197
Professional fees	75,435	17,025	-	92,460
Payroll taxes	31,620	4,141	-	35,761
Depreciation	17,784	936	-	18,720
Telephone	11,723	612	-	12,335
Repairs and maintenance	8,488	378	-	8,866
Office supplies	6,874	592	-	7,466
Medicine purchased	10,713	-	-	10,713
Insurance	3,481	572	-	4,053
Utilities	4,485	237	-	4,722
Dues	3,254	11	-	3,265
Travel	1,991	131	-	2,122
Fundraising	7,130	2	5,155	12,287
Interest	-	204	-	204
License	535	29	-	564
Postage	420	87	58	565
Miscellaneous	1,912	3	63	1,978
Loss on disposal of fixed assets	12,381	-	-	12,381
Provision for bad debts	12,066	-	-	12,066
Total	\$ 2,248,139	\$ 82,289	\$ 5,276	\$ 2,335,704

The Notes to Financial Statements are an integral part of these statements.

BROCK HUGHES FREE CLINIC, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended September 30, 2018

	Program Services	General and Administrative	Fundraising	Total
In-kind	\$ 2,393,815	\$ -	\$ -	\$ 2,393,815
Salaries – clinical	341,093	63	-	341,156
Employee benefits	53,501	8,177	-	61,678
Salaries – administrative	5,903	52,075	-	57,978
Professional fees	25,073	18,465	-	43,538
Payroll taxes	29,892	4,326	-	34,218
Depreciation	19,536	1,028	-	20,564
Telephone	13,597	684	-	14,281
Repairs and maintenance	5,976	310	-	6,286
Office supplies	5,411	345	-	5,756
Medicine purchased	5,238	-	-	5,238
Insurance	4,253	821	-	5,074
Utilities	3,666	195	-	3,861
Dues	2,913	141	-	3,054
Travel	2,047	181	-	2,228
Fundraising	827	26	53	906
Interest	-	797	-	797
License	322	25	-	347
Postage	235	10	-	245
Miscellaneous	-	-	-	-
Loss on disposal of fixed assets	-	-	-	-
Provision for bad debts	-	-	-	-
Total	\$ 2,913,298	\$ 87,669	\$ 53	\$ 3,001,020

The Notes to Financial Statements are an integral part of these statements.

BROCK HUGHES FREE CLINIC, INC.

STATEMENTS OF CASH FLOWS
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (18,577)	\$ (334,923)
Adjustments to reconcile to net cash provided by operating activities:		
Loss on disposal of PP&E	12,381	-
Depreciation	18,720	20,564
Provision for bad debts	12,066	-
Change in:		
Patient receivables, net	(28,085)	-
Grants receivable	(47,815)	47,781
Prescription inventory	41,364	314,955
Prepaid expenses and other	(4,425)	2,526
Accounts payable	2,699	(2,014)
Accrued wages and taxes payable	7,673	1,475
Net cash provided by (used in) operating activities	<u>(3,999)</u>	<u>50,364</u>
INVESTING ACTIVITIES		
Purchases of PP&E	<u>(6,329)</u>	<u>-</u>
Net cash used in investing activities	<u>(6,329)</u>	<u>-</u>
FINANCING ACTIVITIES		
Payments on line of credit	<u>(8,198)</u>	<u>(11,203)</u>
Net cash used in financing activities	<u>(8,198)</u>	<u>(11,203)</u>
Net change in cash and cash equivalents	(18,526)	39,161
CASH AND CASH EQUIVALENTS		
Beginning	<u>91,664</u>	<u>52,503</u>
Ending	<u>\$ 73,138</u>	<u>\$ 91,664</u>

The Notes to Financial Statements are an integral part of these statements.

BROCK HUGHES FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2019

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 fewer to be cash equivalents. Cash is held in banks and is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. At times, the balances in these accounts may be in excess of insured limits.

Patient accounts receivable

Patient accounts receivable are derived from patients who reside primarily in the Organization’s local geographical region. Patient accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances, which are still outstanding after management has used reasonable collection efforts, are written off through a charge to the valuation allowance and a credit to patient accounts receivable.

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 net realizable value. Some prescriptions are purchased; however, most are donated to the Organization and are recorded at fair value at the time of the gift.

(Continued)

BROCK HUGHES FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2019

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>2019</u>	<u>2018</u>
Wythe-Bland Foundation	\$ 51,168	\$ 6,438
Virginia Association of Free & Charitable Clinics	32,019	28,934
Virginia Healthcare Foundation	<u>5,740</u>	<u>5,740</u>
	<u>\$ 88,927</u>	<u>\$ 41,112</u>

Deferred revenue

Deferred revenue represents amounts received on certain contracts from grantor agencies for which revenue recognition criteria has not been met. The liability will be reduced and revenue recorded when expenses are incurred in accordance with the grantor's requirements.

Classification of net assets

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

Net Assets without Donor Restrictions are free of donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Revenues, gains, and losses that are not restricted by donors are included in this classification. Expenses are reported as decreases in this classification.

Net Assets with Donor Restrictions 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. Net assets with donor restrictions also includes amounts required by donors to be held in perpetuity; however, generally, the income on these assets is available to meet various operating needs.

Net patient service revenue

The Organization receives payments for services to certain patients under Medicaid. Revenues are recorded at standard billing rates when the services are provided. Differences between the billing rates and amounts paid under this program are recorded as contractual adjustments. Amounts earned under the program are subject to review by third-party payors. In the opinion of management, an adequate provision has been made for any adjustments that may result from such reviews.

(Continued)

BROCK HUGHES FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2019

Note 2. Summary of Significant Accounting Policies (Continued)

Payment arrangements include prospectively determined rates per-day, prospectively determined rates per-visit, discounted charges, and other payer specific arrangements, which may be established with a specific payer source globally or on a patient-specific basis. Net patient services revenue is reported net of contractual adjustments. Reimbursement for services from Medicaid represents all of the net patient service revenue of the Organization.

Contributions

Contributions, including unconditional promises to give or contributions receivable, are recognized as without donor restriction or with donor restriction support, depending on the existence and/or nature of any donor restrictions when the donor's commitment is received.

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 net asset with donor restriction class, and a reclassification to net assets without donor restriction is made to reflect the expiration of such restrictions. In-kind contributions with donor restriction were reported net of in-kind expenses of \$1,096,363 and \$1,982,646 in 2019 and 2018, respectively.

Contributions of property and equipment without donor stipulations on the asset's use are reported as net assets without donor restrictions 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 net assets with donor restrictions 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 3 to 39 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.

(Continued)

BROCK HUGHES FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2019

Note 2. Summary of Significant Accounting Policies (Continued)

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.

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, 2019 and 2018.

Subsequent events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through January 27, 2020, the date the financial statements were available to be issued.

Note 3. Liquidity and Availability

Financial assets available for general expenditure without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprised of the following:

Cash and cash equivalents	\$	73,138
Patient accounts receivable, net		16,019
Grant and other receivables		88,927
		<hr/>
Total financial assets		178,084
Less amounts not available to be used within one year:		
Donor restricted assets		26,049
		<hr/>
Total financial assets available to meet general expenditures within one year	\$	<u>152,035</u>

Note 4. Patient Receivables and Net Patient Service Revenue

Patient receivables are reported net of allowances for amounts estimated to be uncollectible by reason of bad debt and contractual adjustments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

(Continued)

BROCK HUGHES FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2019

Note 4. Patient Receivables and Net Patient Service Revenue (Continued)

The Organization is significantly dependent on revenues derived from services reimbursed by the Medicaid program. The following is a summary of net patient receivables at September 30:

	<u>2019</u>	<u>2018</u>
Medicaid	\$ 28,085	\$ -
Less – allowance for doubtful accounts	<u>(12,066)</u>	<u>-</u>
	<u>\$ 16,019</u>	<u>\$ -</u>

All of net patient service revenue was derived from the Medicaid reimbursement program, which began in 2019. Net patient service revenue for the years ended September 30, 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Gross patient service revenue		
Medicaid	\$ 112,614	\$ -
Less – contractual adjustments	<u>(6,658)</u>	<u>-</u>
	<u>\$ 105,956</u>	<u>\$ -</u>

Note 5. Property and Equipment

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

	<u>Estimated Useful Life</u>	<u>2019</u>	<u>2018</u>
Land	–	\$ 67,100	\$ 67,100
Buildings and improvements	39 years	512,355	512,355
Furniture and equipment	3 – 10 years	30,080	50,081
Construction in progress	–	<u>6,330</u>	<u>-</u>
		615,865	629,536
Less – accumulated depreciation		<u>(99,870)</u>	<u>(88,769)</u>
		<u>\$ 515,995</u>	<u>\$ 540,767</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.

(Continued)

BROCK HUGHES FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2019

Note 6. Net Assets without Donor Restriction

Net assets without donor restriction include the following:

	<u>2019</u>	<u>2018</u>
Amount to be used for future operations	\$ 195,354	\$ 121,983
Investment in property and equipment, net	<u>10,072</u>	<u>24,802</u>
	<u>\$ 205,426</u>	<u>\$ 146,785</u>

Note 7. Net Assets with Donor Restriction

Net assets with donor restriction include the following:

	<u>2019</u>	<u>2018</u>
In-kind contributions of inventory	\$ 593,382	\$ 657,189
Building and improvement donations	<u>505,923</u>	<u>519,334</u>
	<u>\$ 1,099,305</u>	<u>\$ 1,176,523</u>

Note 8. 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>2019</u>	<u>2018</u>
In-kind professional services and prescription medications	\$ 2,717,054	\$ 4,376,461
Less: cost of goods sold	<u>(1,096,363)</u>	<u>(1,982,646)</u>
In-kind professional services and prescription medications, net	1,620,691	2,393,815
Virginia Association of Free Clinics – State Funds Expense	160,492	146,996
Wythe-Bland Foundation Virginia	381,000	342,937
Healthcare Foundation Other	17,220	17,220
Depreciation on clinic	1,000	5,500
	<u>13,412</u>	<u>13,412</u>
	<u>\$ 2,193,815</u>	<u>\$ 2,919,880</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, 2019 and 2018 to be approximately \$1,460,000 and \$2,720,000, respectively.