

Neighborhood Health Clinic, Inc.

Financial Statements Years Ended September 30, 2009 and 2008

Neighborhood Health Clinic, Inc.

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Independent Auditors' Report

Board of Directors
Neighborhood Health Clinic, Inc.
Naples, Florida

We have audited the accompanying statements of financial position of Neighborhood Health Clinic, Inc. (a Florida nonprofit corporation) as of September 30, 2009 and 2008, and the related statements of activities and changes in net assets, 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 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neighborhood Health Clinic, Inc. as of September 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.

Urish Popeck + Co., LLC

Naples, Florida
February 15, 2010

Neighborhood Health Clinic, Inc.

Statements of Financial Position

<i>September 30,</i>	2009	2008
Assets		
Cash and cash equivalents	\$ 413,701	\$ 414,113
Cash, permanently restricted	7,395	32,143
Investments	1,154,367	971,578
Investments, permanently restricted	1,310,130	836,591
Pledges receivable, less allowance for doubtful accounts of \$20,000 and \$0, respectively	90,653	117,600
Inventory	41,124	27,578
Property held for sale, net	566,350	566,350
Property and equipment, net	2,213,524	2,200,519
Other assets	14,248	10,032
Total assets	5,811,492	5,176,504
Liabilities and Net Assets		
Liabilities		
Line of credit	-	-
Accounts payable and accrued expenses	62,317	3,503
Mortgage note payable	-	262,718
Total liabilities	62,317	266,221
Net assets		
Unrestricted	4,335,720	3,734,711
Temporarily restricted	119,233	228,954
Permanently restricted	1,294,222	946,618
Total net assets	5,749,175	4,910,283
Total liabilities and net assets	\$ 5,811,492	\$ 5,176,504

See accompanying notes to the financial statements and the independent auditors' report.

Neighborhood Health Clinic, Inc.

Statements of Activities and Changes in Net Assets Years Ended September 30, 2009 and 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009	2008
Support and revenues					
Contributions	\$ 876,106	\$ 140,669	\$ 401,629	\$ 1,418,404	\$ 914,257
Contributed services and supplies	2,498,567	-	-	2,498,567	1,923,338
Patient service fees	70,176	-	-	70,176	48,822
Special events income, net of \$78,903 of direct expenses	247,080	-	-	247,080	242,161
Investment income (loss)	195,110	-	-	195,110	(42,573)
Other income	-	-	-	-	1,275
Total support and revenues	3,887,039	140,669	401,629	4,429,337	3,087,280
Net assets released from restrictions	304,415	(250,390)	(54,025)	-	-
Total support, revenues and reclassifications	4,191,454	(109,721)	347,604	4,429,337	3,087,280
Expenses					
Program services	3,163,174	-	-	3,163,174	2,593,477
Management and general	330,993	-	-	330,993	237,421
Fund-raising	96,278	-	-	96,278	18,300
Total expenses	3,590,445	-	-	3,590,445	2,849,198
Change in net assets	601,009	(109,721)	347,604	838,892	238,082
Net assets, beginning of year	3,734,711	228,954	946,618	4,910,283	4,672,201
Net assets, end of year	\$ 4,335,720	\$ 119,233	\$ 1,294,222	\$ 5,749,175	\$ 4,910,283

See accompanying notes to the financial statements and the independent auditors' report.

Neighborhood Health Clinic, Inc.

Statements of Functional Expenses Years Ended September 30, 2009 and 2008

	Program Services	Management and General	Fund- Raising	2009	2008
Advertising and promotion	\$ -	\$ 30,170	\$ -	\$ 30,170	\$ 19,906
Accounts receivable discount	-	8,297	-	8,297	-
Bad debt expense	-	20,000	-	20,000	-
Depreciation	55,185	10,511	-	65,696	59,661
Donated services	2,495,567	-	-	2,495,567	1,905,809
Dues and subscriptions	2,267	341	250	2,858	2,025
Endowment fees and printing expenses	-	17,371	-	17,371	21,439
Insurance	13,191	5,112	1,489	19,792	26,645
Interest	-	10,897	-	10,897	16,316
Lab fees	80,158	-	-	80,158	47,983
Medical and pharmacy supplies	4,811	-	-	4,811	15,490
Office supplies	9,342	1,822	228	11,392	8,382
Other expenses	1,498	422	-	1,920	2,992
Pharmaceuticals	35,876	-	-	35,876	32,609
Postage and shipping	4,136	807	101	5,044	7,741
Printing and publications	3,392	-	-	3,392	3,568
Professional fees	135,009	14,943	-	149,952	157,431
Repair and maintenance	57,125	11,146	1,393	69,664	81,712
Salaries and benefits	238,167	190,903	92,148	521,218	405,519
Taxes	-	2,895	-	2,895	-
Telephone	5,673	1,107	138	6,918	6,274
Travel and entertainment	3,610	704	88	4,402	7,650
Utilities	18,167	3,545	443	22,155	20,046
Total expenses	\$ 3,163,174	\$ 330,993	\$ 96,278	\$ 3,590,445	\$2,849,198

See accompanying notes to the financial statements and the independent auditors' report.

Neighborhood Health Clinic, Inc.

Statements of Cash Flows

<i>September 30,</i>	2009	2008
Cash flows from operating activities		
Change in net assets	\$ 838,892	\$ 238,082
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	65,696	59,661
Realized losses on investments	85,129	19,432
Unrealized (gains) losses on investments	(173,519)	82,183
Contributions - permanently restricted	(347,604)	(54,828)
(Increase) decrease in:		
Inventory	(13,546)	(1,699)
Pledges receivable	26,947	53,700
Due from Community Foundation	-	80,934
Other assets	(4,216)	699
Increase (decrease) in:		
Accounts payable and accrued expenses	58,814	(685)
Net cash provided by operating activities	536,593	477,479
Cash flows from investing activities		
Proceeds from sale of investments	1,175,433	883,994
Purchase of investments	(1,797,396)	(1,932,295)
Withdrawal from investment	54,025	-
Purchase of property and equipment	(78,701)	(68,630)
Net cash used in investing activities	(646,639)	(1,116,931)
Cash flows from financing activities		
Contributions - permanently restricted	347,604	54,828
Use of restricted cash	24,748	748,347
Payments on mortgage payable	(262,718)	(17,430)
Net cash provided by financing activities	109,634	785,745
Net change in cash and cash equivalents	(412)	146,293
Cash and cash equivalents, beginning of year	414,113	267,820
Cash and cash equivalents, end of year	\$ 413,701	\$ 414,113
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 10,897	\$ 16,316

See accompanying notes to the financial statements and the independent auditors' report.

Neighborhood Health Clinic, Inc.

Notes to Financial Statements September 30, 2009 and 2008

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of Neighborhood Health Clinic, Inc. (the Organization or the Clinic), is presented to assist in understanding the Organization's financial statements. The financial statements are representations of the Organization's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Nature of Activities

Neighborhood Health Clinic, Inc., is a Florida corporation organized in 1999. Its purpose is to deliver quality medical care to the low-income, working, but uninsured people of Collier County principally using volunteer professional staff. The Organization is supported exclusively through donor and patient contributions and special events.

Basis of Accounting

The Organization's financial statements have been prepared on the accrual basis of accounting, which recognizes revenues when earned and expenses as incurred.

Financial Statement Presentation

The accompanying financial statements have been prepared in accordance with the reporting principles of not-for-profit accounting as established by the Financial Accounting Standards Board (FASB). FASB establishes standards for general-purpose external financial statements of not-for-profit organizations, including the statement of financial position, a statement of changes in net assets and a statement of cash flows.

A description of the Organization's net asset categories is as follows:

Unrestricted Net Assets – Net assets not subject to donor-imposed restrictions. Such assets are available for any purpose consistent with the Organization's mission.

Temporarily Restricted Net Assets – Net assets subject to specific, donor-imposed restrictions that must be met by actions of the Organization and/or passage of time. Such assets normally fund specific expenditures of an operating or capital nature.

Neighborhood Health Clinic, Inc.

Notes to Financial Statements September 30, 2009 and 2008

1. Summary of Significant Accounting Policies (cont.)

Permanently Restricted Net Assets – Net assets subject to donor-imposed restriction requiring the Organization maintain them permanently. Such assets are normally restricted to long-term investment with income earned and appreciation available for general Organization purposes.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all bank and similar deposits, demand accounts, money market funds, and short-term investments with an original maturity of three months or less to be cash equivalents.

The Organization maintains bank accounts with balances, which, at times, may exceed federally insured limits. The Organization has not experienced any losses on such accounts. The Organization believes it is not exposed to any significant risk on bank deposit accounts.

Liquidity

Assets are presented in the accompanying statement of financial position according to their nearness of conversion to cash, and liabilities according to the nearness of their maturity and resulting use of cash.

Inventory

Inventory consists primarily of drugs and medical supplies and is stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment

The Organization records property and equipment at cost when purchased or at fair market value when donated. Donated assets are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as temporarily restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor use restrictions when the donated or acquired assets to unrestricted net assets at that time.

Neighborhood Health Clinic, Inc.

Notes to Financial Statements September 30, 2009 and 2008

1. Summary of Significant Accounting Policies (cont.)

The Organization capitalizes expenditures for personal property and betterments over \$1,000 and uses the straight-line method of depreciation calculated over the estimated useful life of the asset, ranging from three to seven years for furniture and equipment, and forty years for buildings.

Investments

Investments with readily determinable fair values and all investments in debt and equity securities are measured at fair value in the statement of financial position. Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is included in the increase (decrease) in net assets.

Although the Organization's investments are invested in a variety of financial instruments, the related fair values, as presented in the financial statements, are subject to various market risks including changes in the equity markets, the interest rate environment, and economic conditions. Due to the level of risk associated with investment securities, it is reasonably possible that the fair value of investments reported in the accompanying statement of financial position could materially change in from time to time.

The Clinic has a policy that all operating investments have no lower than "A" rated bonds as set by Standard and Poors (S&P) and/or Moody's. In addition, the Clinic has an operating investment policy of holding 10% or less from any one source with the exception of U.S. Government and U.S. Government Agencies.

Fair Value Measurement

As of the beginning of the fiscal year ended September 30, 2009, the Organization adopted Fair Value Measurements accounting. The fair value measurement standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Neighborhood Health Clinic, Inc.

Notes to Financial Statements September 30, 2009 and 2008

1. Summary of Significant Accounting Policies (cont.)

Level 2 – Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Organization only has Level 1 investments.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. All donor-restricted contributions are reported as increases in temporarily 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. Time and use restricted contributions from donors are reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the time or use restriction. However, contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized.

Contributed Services and Supplies

Contributed services are reported as contributions at their fair value if such services create or enhance non-financial assets, or require specialized skills, and are provided by individuals possessing such specialized skills and the services would have been purchased if not donated. Contributed services consisting principally of physician, nursing, and other medical personnel in the amount of \$2,495,567 and \$1,905,809 has been reflected in the accompanying financial statements for the years ended September 30, 2009 and 2008, respectively. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, fund-raising activities and various committee assignments; however, no amounts have been reflected in the financial statements, as these services do not meet the criteria for recognition.

Neighborhood Health Clinic, Inc.

Notes to Financial Statements September 30, 2009 and 2008

1. Summary of Significant Accounting Policies (cont.)

The Organization received donated supplies totaling \$3,000 and \$17,529 for the years ended September 30, 2009 and 2008, respectively.

In addition, the Organization receives donated drugs from pharmaceutical companies that are for the use of specific patients. The Organization has chosen, as permitted by accounting standards for *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*, not to record these contributions or the ensuing liability to the ultimate beneficiary.

Correction of an Error

The Organization has restated its previously issued 2008 financial statements for matters related to the following previously reported items: inventory, contributions, and pharmaceuticals expense. The Organization obtained information that the Organization never had title to or variance power over donated medications from the pharmaceutical manufacturers. Based on this information, the Organization should not have recorded contributions, pharmaceutical expense, or inventory relating to donated medications. The accompanying financial statements for 2008 have been restated to reflect the corrections. Also, unrestricted net assets at October 1, 2007 was reduced by \$768,277 as a result of cumulative adjustments to sales previously reported.

The following is a summary of the restatements for 2008:

Reduction of pharmaceutical expense	\$ 1,222,679
Reduction of previously reported contributed supplies	1,076,362
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Total increase in 2008 change in net assets	\$ 146,317

Neighborhood Health Clinic, Inc.

Notes to Financial Statements September 30, 2009 and 2008

1. Summary of Significant Accounting Policies (cont.)

Statement of Financial Position as of September 30, 2008

	Previously Reported	Increase (Decrease)	Restated
Total assets	\$ 5,795,065	\$ (618,561)	\$ 5,176,504
Total liabilities	266,221	-	266,221
Total net assets	5,528,844	(618,561)	4,910,283
Total liabilities and net assets	\$ 5,795,065	\$ (618,561)	\$ 5,176,504

Statement of Activities and Changes in Net Assets for the Year Ended September 30, 2009

	Previously Reported	Increase (Decrease)	Restated
Total support and revenue	\$ 4,163,642	\$ (1,076,362)	\$ 3,087,280
Total expenses	4,075,276	1,226,078	2,849,198
Change in net assets	88,366	149,716	238,082
Net assets, beginning of year	5,440,478	(768,277)	4,672,201
Net assets, end of year	\$ 5,528,844	\$ (618,561)	\$ 4,910,283

Functional Expenses

The cost of providing program and support services has been summarized on a functional basis. The expenses are charged directly to program, management and general, and fund-raising categories based on specific identification. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective (i.e. depreciation, personnel administration and accounting). Indirect costs have been allocated to each program using a simplified allocation methodology.

Neighborhood Health Clinic, Inc.

Notes to Financial Statements September 30, 2009 and 2008

1. Summary of Significant Accounting Policies (cont.)

Tax-Exempt Status

The Organization is exempt from Federal income taxes under Section 501 (c)(3) of the Internal Revenue Code and similar provisions of the Florida Statutes. Accordingly, no provision for Federal or state income taxes has been included in these financial statements.

Advertising

The cost of advertising, which amounted to \$30,170 and \$19,906 for the years ended September 30, 2009 and 2008, respectively, are charged to operations as incurred.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

Pledges Receivable

Unconditional promises to give are recorded as support and revenue when the commitment is received. The Organization distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. The Organization provides for uncollectible pledges receivable in accordance with the allowance method.

2. Investments

Investments at September 30, 2009, consisted of the following:

	Cost	Market Value
Mutual Funds – Bond	\$ 1,447,905	\$ 1,472,482
Common Stock	916,168	992,015
Total investments	\$ 2,364,073	\$ 2,464,497

Neighborhood Health Clinic, Inc.

Notes to Financial Statements September 30, 2009 and 2008

2. Investments (cont.)

As described in the Summary of Significant Accounting Policies, the Organization only carries Level 1 investments.

Investment return for the twelve months ended September 30, 2009 and 2008 consists of the following:

	2009	2008
Interest and dividends	\$ 106,720	\$ 59,042
Realized investment losses	(85,129)	(19,432)
Unrealized investment gains (losses)	173,519	(82,183)
Total investment return	\$ 195,110	\$ (42,573)

3. Pledges Receivable

At September 30, 2009 and 2008, the present value of operating pledges receivable totaled \$19,239 and \$40,000, respectively, and the endowment pledges receivable totaled \$91,414 and \$77,600. Management has recorded an allowance for doubtful accounts totaling \$20,000 and \$0 at September 30, 2009 and 2008, respectively.

Unconditional promises to give are expected to be realized in the following periods:

<i>September 30,</i>	2009	2008
One year or less	\$ 55,750	\$ 46,200
Two to five years	63,200	71,400
Less allowance for doubtful accounts	(20,000)	-
Less present value factor	(8,297)	-
Total pledges receivable	\$ 90,653	\$ 117,600

4. Restricted Cash

As of September 30, 2009 and 2008, permanently restricted endowment assets included cash of \$7,395 and \$32,143 and investments of \$1,310,130 and \$836,591, respectively, (see Note 11).

5. Property Held For Sale

During the year ended September 30, 2007, the Organization elected to discontinue its thrift store operation. In addition, the thrift store building and associated land is held for sale. The property held for sale at September 30, 2009 and 2008 is reported at cost, net of accumulated depreciation of \$24,237. The current asking price for this property exceeds its carrying value.

Neighborhood Health Clinic, Inc.

Notes to Financial Statements September 30, 2009 and 2008

6. Property and Equipment, Net

Property and equipment consisted of the following:

<i>September 30,</i>	2009	2008
Furniture and equipment	\$ 362,727	\$ 340,361
Buildings	1,663,023	1,606,688
Land	775,000	775,000
	2,800,750	2,722,049
Less: accumulated depreciation	(587,226)	(521,530)
Net property and equipment	\$ 2,213,524	\$ 2,200,519

Depreciation expense for the year ended September 30, 2009 and 2008 totaled \$65,696 and \$59,661, respectively.

7. Line of Credit

The Organization has a \$150,000 unsecured revolving line of credit maturing on June 1, 2010. Borrowings are due on demand with interest payable at the Prime Rate as published in the Wall Street Journal with a floor of 5.5%. At September 30, 2009 and 2008, there was no outstanding balance, and the entire \$150,000 was available for borrowing.

8. Mortgage Note Payable

Mortgage note payable consisted of the following:

<i>September 30,</i>	2009	2008
Mortgage note to an individual, payable in monthly installments of \$2,812, including interest at 6%, through March 2019. The note is collateralized by the property available for sale.	\$ -	\$ 262,718

During 2009, the mortgage note payable was fully satisfied. Interest expense for the year ended September 30, 2009 and 2008 totaled \$10,897 and \$16,316, respectively. The Organization used operating funds to pay down the mortgage payable.

Neighborhood Health Clinic, Inc.

Notes to Financial Statements September 30, 2009 and 2008

9. Unrestricted Net Assets

Unrestricted net assets included:

<i>September 30,</i>	2009	2008
Undesignated	\$ 672,170	\$ 339,752
Investment in property and equipment	2,778,297	2,504,151
Board designated	885,253	890,808
Total unrestricted net assets	\$ 4,335,720	\$ 3,734,711

The Board has designated funds to be held for future reserves. As of September 30, 2009 and 2008, these amounts totaled \$822,947, of which \$46,238 is being held for future estimated repairs and replacement costs.

10. Temporarily Restricted Net Assets

Temporarily restricted net assets were restricted by donors for the following purposes:

<i>September 30,</i>	2009	2008
Medications/health awareness	\$ 23,781	\$ 43,171
Director of development expenses	95,452	185,783
Total temporarily restricted net assets	\$ 119,233	\$ 228,954

Temporarily restricted net assets released from donor-imposed restrictions during the years ended September 30, 2009 and 2008, amounted to \$250,390 and \$143,433 for medications/health awareness, hurricane repairs, computer expenses and director of development expenses.

11. Permanently Restricted Net Assets

Realized losses totaled \$6,415 and \$26,993, respectively, during the years ended September 30, 2009 and 2008 for assets permanently restricted. Interest and dividends totaled \$31,247 and \$25,231, respectively, during the years ended September 30, 2009 and 2008. In addition, related management and administration fees totaled \$5,338 and \$3,773. Such income and expenses are included in unrestricted investment return and unrestricted management and general expenses in the accompanying Statement of Activities and Changes in Net Assets.

Neighborhood Health Clinic, Inc.

Notes to Financial Statements September 30, 2009 and 2008

12. Related Party Transactions Pledges receivable from members of the Board of Directors total \$34,550 and \$65,500 at September 30, 2009 and 2008, respectively.

Contributions during the years ended September 30, 2009 and 2008 from Board members totaled \$30,950 and \$35,500, respectively.

13. Concentrations All of the Organization's investments were managed by two financial institutions, which management considers to be of high quality.

For the year ended September 30, 2009, two donors contributed 47% of unrestricted contributions, one donor contributed 51% of temporarily restricted contributions, and two donors contributed 89% of permanently restricted contributions. For the year ended September 30, 2008, two donors contributed 27% of unrestricted contributions, and two donors contributed 76% of temporarily restricted contributions.

The Organization provides substantially all of their patients' medications from drug manufacturer patient assistance programs. As described in the Summary of Significant Accounting Policies, these medications are not recorded in the Organization's records.