

**ARLINGTON FREE CLINIC  
FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2021 AND 2020**



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Arlington Free Clinic  
Arlington, Virginia

We have audited the accompanying financial statements of Arlington Free Clinic (the Clinic), which comprise the statements of financial position as of June 30, 2021 and 2020, 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 audit 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 Arlington Free Clinic as of June 30, 2021 and 2020, 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.

**Other Matter**

*Change in Accounting Principles*

As discussed in Note 1 to the statements, the Clinic has adopted Accounting Standards Update (ASU) no. 2014-09, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to this matter.

*Correction of an Error*

As discussed in Note 2 to the financial statements, donated pharmaceuticals expense and beginning net assets were restated during the current year to correctly reflect the estimated value of donated pharmaceutical inventory as of June 30, 2020 and June 30, 2019.



**CliftonLarsonAllen LLP**

Arlington, Virginia  
November 17, 2021

**ARLINGTON FREE CLINIC  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2021 AND 2020**

	<u>2021</u>	<u>(Restated) 2020</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 859,361	\$ 1,002,800
Grants and Contributions Receivable, Current Portion	339,980	420,542
Inventory	115,726	337,510
Prepaid Expenses	134,904	96,833
Total Current Assets	<u>1,449,971</u>	<u>1,857,685</u>
<b>INVESTMENTS</b>	4,992,774	3,576,735
<b>GRANTS AND CONTRIBUTIONS RECEIVABLE, Less Current Portion</b>	9,619	34,292
<b>RIGHT-OF-USE ASSET - OPERATING LEASE</b>	189,577	209,293
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>3,981,623</u>	<u>4,101,430</u>
Total Assets	<u><u>\$ 10,623,564</u></u>	<u><u>\$ 9,779,435</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 298,994	\$ 295,896
Lease Liability - Finance Lease, Current Portion	4,744	5,259
Lease Liability - Operating Lease, Current Portion	19,110	31,048
Total Current Liabilities	<u>322,848</u>	<u>332,203</u>
<b>LONG-TERM LIABILITIES</b>		
Paycheck Protection Program Loan	-	453,200
Lease Liability - Finance Lease	-	4,744
Lease Liability - Operating Lease	180,103	185,134
Total Long-Term Liabilities	<u>180,103</u>	<u>643,078</u>
Total Liabilities	502,951	975,281
<b>NET ASSETS</b>		
Net Assets Without Donor Restrictions - Undesignated	4,296,710	4,288,114
Net Assets Without Donor Restrictions - Board Designated	4,506,621	3,227,847
Total Net Assets Without Donor Restrictions	<u>8,803,331</u>	<u>7,515,961</u>
Net Assets With Donor Restrictions	1,317,282	1,288,193
Total Net Assets	<u>10,120,613</u>	<u>8,804,154</u>
Total Liabilities and Net Assets	<u><u>\$ 10,623,564</u></u>	<u><u>\$ 9,779,435</u></u>

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2021 AND 2020**

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	(Restated) Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND OTHER SUPPORT</b>						
Contributions	\$ 1,398,649	\$ 886,408	\$ 2,285,057	\$ 1,114,378	\$ 471,208	\$ 1,585,586
Grants	-	941,300	941,300	-	830,928	830,928
Special Events	911,680	-	911,680	997,560	-	997,560
Special Events: Direct Expense	(15,752)	-	(15,752)	(198,219)	-	(198,219)
Donated Goods and Services	5,030,721	-	5,030,721	6,742,951	-	6,742,951
Investment Income (Loss)	706,023	82,354	788,377	56,335	(5,051)	51,284
Forgiveness of Note Payable	453,200	-	453,200	-	-	-
Net Assets Released from Restrictions	1,880,973	(1,880,973)	-	1,541,936	(1,541,936)	-
Total Revenue and Other Support	<u>10,365,494</u>	<u>29,089</u>	<u>10,394,583</u>	<u>10,254,941</u>	<u>(244,851)</u>	<u>10,010,090</u>
<b>EXPENSES</b>						
Program Services:						
Arlington Free Clinic	7,961,794	-	7,961,794	9,059,028	-	9,059,028
Support Services:						
Management and General	537,959	-	537,959	391,315	-	391,315
Fundraising	578,371	-	578,371	580,085	-	580,085
Total Support Services	<u>1,116,330</u>	<u>-</u>	<u>1,116,330</u>	<u>971,400</u>	<u>-</u>	<u>971,400</u>
Total Expenses	<u>9,078,124</u>	<u>-</u>	<u>9,078,124</u>	<u>10,030,428</u>	<u>-</u>	<u>10,030,428</u>
<b>CHANGE IN NET ASSETS</b>	1,287,370	29,089	1,316,459	224,513	(244,851)	(20,338)
Net Assets, Beginning of Year, As Previously Stated	7,515,961	1,288,193	8,804,154	6,972,625	1,533,044	8,505,669
Prior Period Adjustment	-	-	-	318,823	-	318,823
Net Assets - Beginning of Year (Restated)	<u>7,515,961</u>	<u>1,288,193</u>	<u>8,804,154</u>	<u>7,291,448</u>	<u>1,533,044</u>	<u>8,824,492</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 8,803,331</u>	<u>\$ 1,317,282</u>	<u>\$ 10,120,613</u>	<u>\$ 7,515,961</u>	<u>\$ 1,288,193</u>	<u>\$ 8,804,154</u>

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC  
STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED JUNE 30, 2021 AND 2020**

	2021					2020 - As Restated				
	Program Services	Supporting Services			Total	Program Services	Supporting Services			Total
		Management and General	Fundraising	Direct Benefit to Donors			Management and General	Fundraising	Direct Benefit to Donors	
Salaries	\$ 1,972,516	\$ 214,782	\$ 356,215	\$ -	\$ 2,543,513	\$ 1,657,196	\$ 211,346	\$ 395,000	\$ -	\$ 2,263,542
Employee Benefits and Payroll Taxes	264,810	30,611	52,541	-	347,962	251,736	34,720	54,751	-	341,207
Professional and Consultant Fees	-	70,215	525	-	70,740	-	66,379	975	-	67,354
Clinic Expense	298,516	-	-	-	298,516	119,168	-	-	-	119,168
Depreciation and Amortization	129,581	4,882	36,344	-	170,807	124,445	4,714	35,588	-	164,747
Event and Meeting Expenses	3,381	5,343	2,513	15,752	26,989	10,120	3,977	697	198,219	213,013
Insurance	8,035	7,031	-	-	15,066	7,646	2,102	-	-	9,748
Internet and Communications	28,922	691	17,019	-	46,632	37,774	878	5,833	-	44,485
Occupancy and Related Expenses	83,986	3,990	35,030	-	123,006	64,039	4,250	37,306	-	105,595
Office Expense	82,407	2,246	12,411	-	97,064	56,031	2,313	11,764	-	70,108
Postage and Shipping	94	2,494	3,999	-	6,587	2,304	33	6,939	-	9,276
Printing Expense	318	57	25,096	-	25,471	812	125	24,210	-	25,147
Miscellaneous	40,702	23,335	6,738	-	70,775	36,720	19,460	3,365	-	59,545
Total Expenses Excluding Donated Goods and Services	2,913,268	365,677	548,431	15,752	3,843,128	2,367,991	350,297	576,428	198,219	3,492,935
Donated Goods and Services:										
Donated Medical Services	3,769,429	-	-	-	3,769,429	5,127,576	-	-	-	5,127,576
Donated Pharmaceuticals	1,256,507	-	-	-	1,256,507	1,545,951	-	-	-	1,545,951
Donated Benefit Expenses	-	-	24,833	-	24,833	11,233	1,432	-	-	12,665
Donated Professional Fees	22,590	172,282	5,107	-	199,979	-	39,169	-	-	39,169
Donated Other Services	-	-	-	-	-	6,277	417	3,657	-	10,351
Total Donated Goods and Services	5,048,526	172,282	29,940	-	5,250,748	6,691,037	41,018	3,657	-	6,735,712
Total Expenses	7,961,794	537,959	578,371	15,752	9,093,876	9,059,028	391,315	580,085	198,219	10,228,647
Less Direct Benefit to Donors (Included with Special Event Revenue on the Statements of Activities)	-	-	-	(15,752)	(15,752)	-	-	-	(198,219)	(198,219)
Expenses per Statements of Activities	\$ 7,961,794	\$ 537,959	\$ 578,371	\$ -	\$ 9,078,124	\$ 9,059,028	\$ 391,315	\$ 580,085	\$ -	\$ 10,030,428

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2021 AND 2020**

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 1,316,459	\$ (20,338)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	170,807	164,747
Loss on Disposal of Property and Equipment	7,057	-
Unrealized (Gain) Loss on Investments	(719,554)	13,983
Realized Loss (Gain) on Sale of Investments	3,601	(2,748)
Paycheck Protection Program Loan Forgiveness	(453,200)	-
Changes in Assets and Liabilities:		
Grants and Contributions Receivable	105,235	183,567
Inventory	221,784	(11,204)
Prepaid Expenses	(38,071)	(15,380)
Accounts Payable and Accrued Expenses	3,098	55,224
Right-of-Use Asset - Operating Lease, Net of Lease Liability	2,747	6,109
Net Cash Provided by Operating Activities	619,963	373,960
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Investments and Reinvested Dividends	(2,095,801)	(1,055,125)
Proceeds from Sales of Investments	1,395,715	965,352
Purchases of Property and Equipment	(58,057)	(9,800)
Net Cash Used by Investing Activities	(758,143)	(99,573)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal Payments on Finance Lease Obligations	(5,259)	(4,828)
Proceeds from Borrowings Under Paycheck Protection Program Loan	-	453,200
Net Cash (Used) Provided by Financing Activities	(5,259)	448,372
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(143,439)	722,759
Cash and Cash Equivalents - Beginning of Year	1,002,800	280,041
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 859,361	\$ 1,002,800
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for Interest	\$ 656	\$ 1,088

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

Arlington Free Clinic Inc. (the Clinic) was organized in June 1993 to operate a health clinic that provides free medical and dental services and educational information to Arlington County residents who are unable to afford basic medical services. 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, nurse practitioners, pharmacists and lab technicians, as well as nonmedical volunteers and is funded through general contributions and foundation grants.

**Basis of Accounting**

The Clinic prepares its financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when the obligations are incurred.

**Basis of Presentation**

The Clinic reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions, as follows:

*Net assets without donor restrictions* are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Clinic, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. The governing board has designated, from net assets without donor restrictions, net assets for a reserve fund. It is the policy of the board of directors and finance committee of the Clinic to review its plans for future improvements, acquisitions and operations periodically and to designate a reserve fund to assure adequate financing of such improvements, acquisitions and operations.

*Net assets with donor restrictions* are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature, such as the funds received from the federal government for construction and equipping 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 Clinic in its clinic operation indefinitely, the Clinic has classified the related net assets as with donor restrictions to be held in perpetuity and does not believe the federal security interest will have any future financial impact on the Clinic.

The Clinic's donor-restricted endowment fund, the Star Fund, including the unspent appreciation of the endowment fund, is classified as net assets with donor restrictions.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation (Continued)**

The Clinic's unspent contributions are reported in net assets with donor restrictions if the donor limited their use, as are promised contributions that are not yet due. Contributions of property and equipment or cash restricted to acquisition of property and equipment are reported as net assets with donor restrictions if the donor has restricted the use of the property or equipment to a particular program. These restrictions expire when the assets are placed in service, with the exception of the funds received from the federal government noted above that are classified as net assets with donor restrictions to be held in perpetuity.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures 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 differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash and other highly liquid investments with an original maturity of three months or less except for those included in the investment portfolio. The Clinic also considers its short-term certificates of deposit that are highly-liquid and for which the current redemption value approximates carrying value to be cash and cash equivalents.

**Grants and Contributions Receivable**

Receivables are stated at net realizable value. Accounts are individually analyzed for collectability. Write-off of accounts receivable occurs when all collection efforts have been exhausted or certain conditions or forgiveness have been reached. Management believes that all receivables are fully collectible. Therefore, no allowance for doubtful accounts has been recognized. Gross contributions receivable are expected to be collected in:

	2021	2020
Less than One Year	\$ 339,980	\$ 420,542
One to Five Years	9,619	34,292
Total Contributions Receivable	<u>\$ 349,599</u>	<u>\$ 454,834</u>

**Inventory**

Inventory is stated at the lower of cost or net realizable value based on the first-in first-out method. Such inventories consist of undistributed medications, both purchased and donated, utilized for the clinic's pharmacy.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments**

The Clinic carries its investments at fair market value, except for money market funds which are recorded at cost. Accordingly, unrealized gains and losses due to market fluctuations during the year are reflected in the statement of activities. Realized gains or losses are recognized upon sale or disposal.

Donated securities are recorded at their fair values, as determined by the proceeds received on the date of sale. The Clinic's policy is to sell donated securities immediately upon receipt. Accordingly, for purposes of the accompanying statements of cash flows, donated securities received and sold within the same period are reported in the change in net assets shown in operating activities.

**Fair Value Measurements**

The Clinic accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement. The Clinic has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy based upon the transparency of inputs to the valuation of an asset or liability. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets recorded on the statements of financial position are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Financial assets whose values are based on unadjusted quoted prices for identical assets in an active market that the Clinic has the ability to access. These include investments that are recorded at fair value on a recurring basis and fair value measurement is based upon quoted prices, if available. Securities valued using Level 1 inputs include those traded on active exchanges (such as the New York Stock Exchange), as well as U.S. treasury and other exchange traded securities.

*Level 2* – Financial assets whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset.

*Level 3* – Financial assets whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset.

**Property and Equipment**

Acquisitions of property and equipment in excess of \$1,000 are recorded at cost and depreciated using the straight-line method over the useful lives of assets of five to 39 years. Construction in process consists of capitalized costs relating to ongoing renovations and is not depreciated until the asset is complete and the corresponding asset is placed in service.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Leases**

The Clinic has early adopted the accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 842, *Leases*. The standard requires lessees to recognize a right-of-use asset and corresponding lease liability for all operating and finance leases with lease terms greater than one year, measured at its present value. In accordance with the standard, the Clinic determines if an arrangement is a lease at inception, and recognizes a right-of-use asset and corresponding lease liability for all operating and finance leases with lease terms greater than one year. Right-of-use assets represent the Clinic's right to use an underlying asset for the lease term and lease liabilities represents the Clinic's obligation to make lease payments arising from the lease.

Operating lease right-of-use assets and liabilities are recognized when the lease agreement is signed based on the present value of lease payments over the lease term. As the lease does not provide an interest rate, the Clinic used the incremental borrowing rate at the commencement date in determining present value of the lease payments. The right-of-use asset includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain the Clinic will exercise that option. The lease is initially measured at the present value of lease payments and recognized over the lease term on a straight-line basis.

Financing lease right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The lease is initially measured at the present value of lease payments and recognized over the lease term on a straight-line basis. The Clinic used the implicit rate of the lease agreement at the commencement date in determining present value of the lease payments.

**Revenue Recognition**

*Donated Goods and Services*

Donated goods and services are recorded at their estimated fair market value on the date of receipt. In-kind services are recorded at their estimated fair market value if such services are specialized and would typically be purchased if not donated.

*Contributions and Grants*

Contributions, including grants, are recorded when awarded or pledged and classified as with or without donor restrictions depending on the existence of any donor restrictions. Contributions that are received and used according to donor restrictions in the same period are recognized as contributions with donor restrictions and reclassified as net assets released from restrictions in the same period.

Conditional promises to give, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. At that time the conditions are met, those promises become unconditional and are recognized as contributions with or without donor restrictions, as noted in the paragraph above.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition (Continued)**

*Contributions and Grants (Continued)*

Information related to conditional contributions received during the fiscal year ended June 30, 2021 is summarized as follows:

Condition	Conditional Amounts Available	Conditions Expired	Conditions Met	Conditional Promises to Give	Conditions Expiration
Funds Raised by Donors	\$ 5,000	\$ (4,000)	\$ (1,000)	\$ -	1/31/21
Funding Availability and Clinic Good Standing	273,067	-	(273,067)	-	6/30/21
Reimbursable Costs:					
Hepatitis B Testing	23,014	(5,307)	(6,200)	11,507	6/30/22
Womens Health	125,000	-	(12,500)	112,500	12/31/25
COVID-19 Patient Transportation	20,000	-	-	20,000	6/30/22
Telehealth Connection	79,665	(12,890)	(6,000)	60,775	4/29/31
Interpreters	2,000	-	-	2,000	6/30/22
Patient Medical Home	300,000	-	(75,000)	225,000	6/30/25
COVID-19 Testing Center	370,604	-	(137,120)	233,484	6/30/25
Total	<u>\$ 1,198,350</u>	<u>\$ (22,197)</u>	<u>\$ (510,887)</u>	<u>\$ 665,266</u>	

***Special Events***

Special events revenue consists of sponsorships, silent auction proceeds, event ticket fees and other revenues received as part of the annual gala. It is the Organization's position that these revenues are primarily solicited to assist the Clinic in providing medical services to Arlington County's most needed residents and are classified as contributions without donor restrictions. As a result of the COVID pandemic, the gala became a virtual event in the fiscal year ended June 30, 2021 and will also be held virtually in the fiscal year ending June 30, 2022. The virtual events effectively rendered any performance obligation related to the gala as insignificant and therefore all gala contribution transactions as nonreciprocal. Special events in fiscal year ended June 30, 2020 included separate performance obligations related to event tickets that were considered reciprocal transactions. The performance obligation for these reciprocal transactions is attendance at the gala and is recognized in the period in which the gala is held.

**Uniform Prudent Management of Institutional Funds Act**

In 2008, the Commonwealth of Virginia enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Under UPMIFA, all unexpended endowment earnings are considered net assets with donor restrictions.

**Income Tax Status**

The Clinic is exempt from the payment of federal income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code. The Clinic qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The tax returns for the Clinic are subject to review and examination by federal, state, and local authorities. The Clinic is not aware of any activities that would jeopardize its tax-exempt status.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Allocation of Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function expenses are allocated to program and supporting services as follows:

- Salary and benefits expenses are allocated on the basis of job descriptions and management's estimate on time spent.
- Building and occupancy costs, computer technology support, and various office expenses are allocated on the basis of square footage.
- Depreciation is allocated based on usage of the related furniture and equipment.

**Concentration of Credit Risk**

Financial instruments which subject the Clinic to a concentration of credit risk consist of demand deposits placed with financial institutions. At times during the year, the Clinic had funds invested with local financial institutions in excess of the Federal Deposit Insurance Corporation limits.

**Change in Accounting Principle**

During the year ended June 30, 2021, the Clinic adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers (ASC 606)*, which requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The new guidance addresses the complexity and understandability of revenue recognition and provides sufficient information to enable financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Clinic's financial statements reflect the application of ASC 606 beginning in 2021. No cumulative effect adjustment to net assets was recorded because the adoption of ASU 2014-09 did not significantly impact the Clinic's reported historical revenue.

**Reclassification**

Certain amounts in the fiscal year 2020 financial statements have been reclassified to conform to the fiscal year 2021 presentation. These reclassifications have no effect on the change in net assets as previously reported.

**Subsequent Events**

In preparing these financial statements, the Clinic has evaluated events and transactions for potential recognition or disclosure through November 17, 2021, the date the financial statements were available to be issued.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 2 PRIOR PERIOD RESTATEMENT**

An error resulting in an understatement of previously reported net assets without donor restrictions and a corresponding understatement of inventory and donated pharmaceuticals was determined during the current year after a detailed analysis of donated pharmaceuticals was performed in conjunction with the current year audit. The effect of these prior period adjustments on each line item included in the accompanying financial statements is as follows:

	Inventory	Donated Pharmaceuticals Expense	Net Assets - Without Donor Restrictions Beginning of Year
As Previously Presented - June 30, 2020	\$ 11,448	\$ 1,553,190	\$ 6,972,625
Correction of an Error	326,062	(7,239)	318,823
As Restated - June 30, 2020	<u>\$ 337,510</u>	<u>\$ 1,545,951</u>	<u>\$ 7,291,448</u>

**NOTE 3 LIQUIDITY AND AVAILABILITY**

The following reflects the Clinic's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual, board- or donor-imposed restrictions within one year of the statement of financial position date. Donor-restricted amounts that are available for use within one year include significantly all grants and contributions received as it is the Clinic's position that the donor-imposed restrictions are typically related to the normal general operations of the Clinic.

	2021	2020
Cash	\$ 859,361	\$ 1,002,800
Investments	4,992,774	3,576,735
Expected Endowment Appropriations	16,478	15,690
Grants and Contributions Receivable, Current Portion	339,980	420,542
Total	<u>6,208,593</u>	<u>5,015,767</u>
Less: Funds Unavailable for General Expenditure		
Within One Year due to:		
Donor Restrictions in Excess of One Year	(73,010)	(25,388)
Donor Restricted for Star Fund	(380,761)	(308,097)
Board-Designated to Maintain as Reserve Fund	(4,506,621)	(3,227,847)
Total	<u>(4,960,392)</u>	<u>(3,561,332)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within the One Year	<u>\$ 1,248,201</u>	<u>\$ 1,454,435</u>

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 3 LIQUIDITY AND AVAILABILITY (CONTINUED)**

The Clinic's goal is to structure its current financial assets, in conjunction with the allowed investment spending rate and its anticipated contributions, to be available as its expenditures, liabilities and other obligations come due. Board-designated funds to maintain a reserve fund from net assets without donor restrictions are also available to fund the normal operation of the Clinic in case of short falls in financial assets available to meet cash needs for general expenditures within one year.

Estimated contributions, grants and net event proceeds for FYE 2022 are budgeted to be approximately \$3,040,500. General expenditures are budgeted to be approximately \$3,703,000 in FYE 2022.

An additional \$151,622 is reflected as available from the board-designated reserve fund and Star Fund spending withdrawals, which are both included in the financial assets available to meet cash needs for general expenditure within one year total above.

**NOTE 4 INVESTMENTS AND FAIR VALUE MEASUREMENTS**

Investments consist of the following at June 30:

	2021		2020	
	Cost	Market	Cost	Market
Bond Mutual Funds	\$ 1,766,197	\$ 1,801,486	\$ 1,608,282	\$ 1,641,142
Equity Mutual Funds	1,669,420	2,891,649	1,391,987	1,896,769
Money Market Funds	47,070	47,070	38,824	38,824
Certificate of Deposit	252,569	252,569	-	-
Total	<u>\$ 3,735,256</u>	<u>\$ 4,992,774</u>	<u>\$ 3,039,093</u>	<u>\$ 3,576,735</u>

Investment income consists of the following for the years ended June 30:

	2021	2020
Interest and Dividends	\$ 99,175	\$ 87,542
Investment Fees	(26,751)	(25,023)
Realized (Loss) Gain	(3,601)	2,748
Unrealized Gain (Loss)	719,554	(13,983)
Total	<u>\$ 788,377</u>	<u>\$ 51,284</u>

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 4 INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)**

The following tables present the Clinic's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30:

	2021			Total
	Level 1	Level 2	Level 3	
Investments:				
Bond Mutual Funds	\$ 1,801,486	\$ -	\$ -	\$ 1,801,486
Equity Mutual Funds	2,891,649	-	-	2,891,649
Certificate of Deposit	-	252,569	-	252,569
Total Investments at Fair Value	<u>\$ 4,693,135</u>	<u>\$ 252,569</u>	<u>\$ -</u>	4,945,704
Money Market Funds				47,070
Total Investments				<u>\$ 4,992,774</u>

  

	2020			Total
	Level 1	Level 2	Level 3	
Investments:				
Bond Mutual Funds	\$ 1,641,142	\$ -	\$ -	\$ 1,641,142
Equity Mutual Funds	1,896,769	-	-	1,896,769
Total Investments at Fair Value	<u>\$ 3,537,911</u>	<u>\$ -</u>	<u>\$ -</u>	3,537,911
Money Market Funds				38,824
Total Investments				<u>\$ 3,576,735</u>

**NOTE 5 PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

	2021	2020
Land	\$ 1,370,731	\$ 1,370,731
Buildings and Improvements	3,333,093	3,331,608
Computer Equipment	96,798	91,159
Computer Software	177,895	177,895
Furniture and Equipment	321,665	303,306
Clinic/Medical Equipment	163,619	162,115
Total Property and Equipment	5,463,801	5,436,814
Less: Accumulated Depreciation	(1,482,178)	(1,335,384)
Property and Equipment, Net	<u>\$ 3,981,623</u>	<u>\$ 4,101,430</u>

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 6 PAYCHECK PROTECTION PROGRAM LOAN**

In April 2020, the Clinic received a loan from United Bank in the amount of \$453,200 to fund payroll, rent and utilities through the Paycheck Protection Program (the PPP Loan). The original loan agreement was written prior to the PPP Flexibility Act of 2020 (June 5) and was due over twenty-four months deferred for six months. Subsequent to this, the law changed the loan deferral terms retroactively. The PPP Flexibility Act and subsequent regulations supersede the loan agreement. The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if the Clinic fails to apply for forgiveness within 10 months after the covered period, then payment of principal and interest shall begin on that date. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program. The PPP loan was forgiven on May 20, 2021.

The SBA may review funding eligibility and usage of funds in compliance with the program based on dollar thresholds and other factors. The amount of liability, if any, from potential noncompliance cannot be determined with certainty; however, management is of the opinion that any review will not have a material adverse impact on the Clinic's financial position.

**NOTE 7 LEASES**

**Operating Lease**

The Clinic entered into an office lease agreement with an unrelated party for office space. The lease term commenced upon completion of the tenant improvements to the leased space in October 2018 and expires June 30, 2023, with an option to extend the term for an additional five years. The lease also requires the Clinic to reimburse the landlord for its share of maintenance, taxes and other operating costs. The lease agreement includes escalating rent payments over the term of the lease. The lease is classified as an operating lease that will be recognized on a straight-line basis over the term of the related lease.

Amount recognized under an operating lease agreement is as follows as of June 30:

	2021	2020
Operating Lease Cost	\$ 237,118	\$ 237,118
Less: Accumulated Amortization	(47,541)	(27,825)
Right-of-Use Asset	<u>\$ 189,577</u>	<u>\$ 209,293</u>
Cash Paid for Amounts Included in the Measurement of Lease Liability:		
Operating Cash Flows from Operating Leases	\$ 31,048	
Right-of-Use Asset Obtained in Exchange for Operating Lease Liability	\$ 189,577	
Weighted-Average Remaining Lease Term - Operating Lease	10 Years	
Weighted-Average Discount Rate - Operating Lease	6.75%	

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 7 LEASES (CONTINUED)**

**Operating Lease (Continued)**

The estimated future minimum payments under this lease and reconciliation to the operating lease liability recognized in the statements of financial position are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 31,979
2023	32,938
2024	33,927
2025	34,944
2026	35,993
Thereafter	<u>84,873</u>
Total	254,654
Less: Imputed Interest	<u>(55,441)</u>
Total	<u><u>\$ 199,213</u></u>

**Financing Lease**

The Clinic acquired office equipment under the terms of a noncancellable lease agreement that is classified as a financing lease. The cost was \$19,965 and is being depreciated over a four-year lease life. Accumulated depreciation related to this lease was \$10,846 and \$5,823 at June 30, 2021 and 2020, respectively. The asset is included in property and equipment on the accompanying statements of financial position.

The future minimum payments required under the financing lease of \$4,930, including interest of \$186, will be paid during FYE 2022.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Subject to Expenditure for a Specific Purpose:		
Oral Health	\$ 115,859	\$ 132,111
Technology	43,737	50,000
Women's Health	27,500	-
Tuition Assistance	73,010	25,388
Social Services Case Management	37,500	7,500
Other Programs	9,605	1,250
Subtotal	<u>307,211</u>	<u>216,249</u>
Subject to the Passage of Time	261,036	395,573
Subject to the Clinic's Endowment Spending Policy		
Star Fund - Medical Expenses	380,761	308,097
Not Subject to Spending Policy or Appropriation:		
Federal Grant Appropriation for Condo Purchase	<u>368,274</u>	<u>368,274</u>
Total	<u>\$ 1,317,282</u>	<u>\$ 1,288,193</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Purpose Restrictions Accomplished:		
Oral Health	\$ 62,952	\$ 282,865
Women's Health	62,100	123,793
Technology	140,513	149,535
Social Services Case Management	128,200	71,348
Other Programs	305,801	92,441
Release of Net Assets With Purpose Restrictions	<u>699,566</u>	<u>719,982</u>
Release of Net Assets With Time Restrictions	1,165,717	805,870
Release of Appropriated Endowment Returns		
Without Purpose Restrictions	<u>15,690</u>	<u>16,084</u>
Total	<u>\$ 1,880,973</u>	<u>\$ 1,541,936</u>

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 9 DONOR-RESTRICTED ENDOWMENT**

The Clinic's endowment consists of an endowment established through the Clinic's Star Fund to support the medical needs of patients. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of directors has interpreted UPMIFA as requiring the preservation of the gift in accordance with the donor's stipulation. As a result of this interpretation, the Clinic classifies the Star Fund as a perpetual endowment. The Clinic retains in perpetuity and classifies the Star Fund as net assets with donor restrictions (1) the original value of gifts donated to the perpetual endowment, (2) the original value of subsequent gifts to the perpetual endowment, and (3) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The Star Fund includes a donor-specified spending policy and such amounts are appropriated for expenditure by the Clinic in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Clinic considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Clinic and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Clinic
- The investment policies of the Clinic

**Return Objectives and Risk Parameters**

Management of the endowment assets is designed to ensure a total return (income plus capital change) necessary to preserve and enhance (in real dollar terms) the principal of the fund and, at the same time, provide a dependable source of support for current operations and programs. Therefore, the Clinic's goal for its endowment funds is to preserve and enhance purchasing power after accounting for investment returns, spending, and inflation (but excluding gifts). The return goal is to generate a real return (after inflation) equal to or greater than 5% per year, on average.

**Strategies Employed for Achieving Objectives**

Reasonable diversification is sought at all times. Experience has shown financial markets and inflation rates are cyclical and, therefore, control of volatility will be achieved through diversification of asset classes and selection of managers of diverse investment styles. The finance committee of the board of directors reviews the performance and diversification of the portfolio in relation to the Clinic's Investment Policy.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 9 DONOR-RESTRICTED ENDOWMENT (CONTINUED)**

**Spending Policy**

The Clinic may distribute each year up to 5% of its endowment fund's average fair value of the prior three years.

The following is a summary of endowment funds subject to UPMIFA which are included in the total investment amounts on the statements of financial position:

	<u>With Donor Restrictions</u>
Endowment Net Assets, June 30, 2019	\$ 323,232
Contributions	6,000
Investment Loss	(5,051)
Appropriations	<u>(16,084)</u>
Endowment Net Assets, June 30, 2020	308,097
Contributions	6,000
Investment Gain	82,354
Appropriations	<u>(15,690)</u>
Endowment Net Assets, June 30, 2021	<u><u>\$ 380,761</u></u>

**NOTE 10 DONATED GOODS AND SERVICES**

The Clinic received pro bono services and donated pharmaceuticals and other goods having an estimated fair value as follows during the years ended June 30:

	<u>2021</u>	<u>2020</u>
Contributed Services - Medical and Pharmaceutical	\$ 3,769,429	\$ 5,127,603
Donated Goods and Pharmaceuticals	1,036,480	1,553,190
Contributed Goods and Services - Other	<u>224,812</u>	<u>62,158</u>
Total	<u><u>\$ 5,030,721</u></u>	<u><u>\$ 6,742,951</u></u>

Included in contributed services – medical and pharmaceutical are amounts donated by Virginia Hospital Center–Arlington and Northern Virginia Radiology Consultants that provided lab fees, x-ray services, and other medical tests with an estimated value of approximately \$2,840,000 and \$3,860,000 for the years ended June 30, 2021 and 2020, respectively. Donations from these donors totaled 56% and 57% of total donated goods and services for the years ended June 30, 2021 and 2020, respectively.

Donated pharmaceutical samples from attending physicians 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.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**NOTE 10 DONATED GOODS AND SERVICES (CONTINUED)**

The Clinic has elected not to record various donated pharmaceuticals from the 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, 2021 and 2020, to be approximately \$2,018,000 and \$1,300,000, respectively.

**NOTE 11 RETIREMENT PLAN**

The Clinic maintains a 401(k) retirement plan that covers substantially all employees. The Clinic makes a contribution of 3% of each participant's eligible compensation subject to certain limitations. The Clinic's contributions to the plan for the years ended June 30, 2021 and 2020 totaled \$47,564 and \$50,538, respectively.

**NOTE 12 COMMITMENTS**

**Employment Agreement**

The Clinic has entered into an employment agreement with its executive director. Under the terms of the agreement, the Clinic would be obligated to pay 180 days' severance should services be terminated as defined in the agreement.

**NOTE 13 CONTINGENCY**

In March 2020, the World Health Organization declared the spread of the coronavirus disease (COVID-19) as a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains and communities. Specific to the Clinic, COVID-19 may impact various parts of its 2022 operations and financial results, including but not limited to, reduction of revenue due to reductions in certain revenue streams. As of November 17, 2021, the amount and likelihood of any loss relating to these events is not determined and cannot be reasonably estimated as these events are developing.