

**ARLINGTON FREE CLINIC**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2019 AND 2018**

**ARLINGTON FREE CLINIC  
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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, 2019 and 2018, 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.

Board of Directors  
Arlington Free Clinic

***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, 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.

***Change in Accounting Principle***

As discussed in Note 1 to the consolidated financial statements, the entity adopted new accounting guidance contained in Accounting Standards Update (ASU) 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.



**CliftonLarsonAllen LLP**

Arlington, Virginia  
September 26, 2019

**ARLINGTON FREE CLINIC  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2019 AND 2018**

	2019	2018
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 280,041	\$ 595,449
Grants and Contributions Receivable, Current Portion	613,401	820,659
Inventory	7,483	11,397
Prepaid Expenses	81,453	84,760
Total Current Assets	982,378	1,512,265
<b>INVESTMENTS</b>	3,498,197	3,140,817
<b>GRANTS AND CONTRIBUTIONS RECEIVABLE, Less Current Portion</b>	25,000	161,331
<b>RIGHT-OF-USE ASSET - OPERATING LEASE</b>	227,978	237,118
<b>PROPERTY AND EQUIPMENT, NET</b>	4,256,377	3,612,769
Total Assets	\$ 8,989,930	\$ 8,664,300
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 240,672	\$ 200,006
Total Current Liabilities	240,672	200,006
<b>LEASE LIABILITY - FINANCE LEASE</b>	14,831	19,965
<b>LEASE LIABILITY - OPERATING LEASE</b>	228,758	234,661
Total Liabilities	484,261	454,632
<b>NET ASSETS</b>		
Net Assets Without Donor Restrictions	6,972,625	6,155,273
Net Assets With Donor Restrictions	1,533,044	2,054,395
Total Net Assets	8,505,669	8,209,668
Total Liabilities and Net Assets	\$ 8,989,930	\$ 8,664,300

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND OTHER SUPPORT</b>						
Contributions	\$ 815,672	\$ 551,122	\$ 1,366,794	\$ 832,751	\$ 1,104,419	\$ 1,937,170
Grants	-	891,714	891,714	-	982,464	982,464
Special Events, Net of Benefit Expense of \$185,461 and \$179,977, Respectively	883,793	-	883,793	783,694	-	783,694
Donated Goods and Services	6,805,483	-	6,805,483	4,731,717	-	4,731,717
Investment Income	163,634	8,785	172,419	138,004	13,489	151,493
Net Assets Released from Restrictions	1,972,972	(1,972,972)	-	1,433,913	(1,433,913)	-
Total Revenue and Other Support	10,641,554	(521,351)	10,120,203	7,920,079	666,459	8,586,538
<b>EXPENSES</b>						
Program Services:						
Arlington Free Clinic	8,940,253	-	8,940,253	6,723,371	-	6,723,371
Support Services:						
Management and General	341,164	-	341,164	339,943	-	339,943
Fundraising	542,785	-	542,785	477,457	-	477,457
Total Support Services	883,949	-	883,949	817,400	-	817,400
Total Expenses	9,824,202	-	9,824,202	7,540,771	-	7,540,771
<b>CHANGE IN NET ASSETS</b>	817,352	(521,351)	296,001	379,308	666,459	1,045,767
Net Assets - Beginning of Year	6,155,273	2,054,395	8,209,668	5,775,965	1,387,936	7,163,901
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 6,972,625</u>	<u>\$ 1,533,044</u>	<u>\$ 8,505,669</u>	<u>\$ 6,155,273</u>	<u>\$ 2,054,395</u>	<u>\$ 8,209,668</u>

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC  
STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019				2018			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,484,411	\$ 204,350	\$ 354,152	\$ 2,042,913	\$ 1,406,330	\$ 203,664	\$ 309,414	\$ 1,919,408
Employee Benefits and Payroll Taxes	230,688	42,144	51,512	324,344	235,546	32,334	40,439	308,319
Professional and Consultant Fees	500	55,208	1,875	57,583	-	48,013	37,025	85,038
Clinic Expense	112,593	-	-	112,593	89,452	-	-	89,452
Event and Meeting Expenses	4,503	390	12,373	17,266	6,170	430	17,854	24,454
Internet and Communications	36,245	853	5,543	42,641	75,493	1,936	13,319	90,748
Postage and Shipping	2,504	113	6,970	9,587	2,569	52	13,817	16,438
Office Expense	54,337	630	15,676	70,643	22,104	940	877	23,921
Printing Expense	4,764	8	24,461	29,233	1,695	43	16,766	18,504
Occupancy and Related Expenses	63,367	2,061	17,771	83,199	65,093	2,074	2,727	69,894
Depreciation and Amortization	143,104	3,228	23,093	169,425	116,654	2,482	4,964	124,100
Insurance	5,762	2,541	83	8,386	5,712	2,810	81	8,603
Miscellaneous	25,085	21,751	4,070	50,906	25,916	20,776	2,019	48,711
Total Expenses Excluding Donated Goods and Services	2,167,863	333,277	517,579	3,018,719	2,052,734	315,554	459,302	2,827,590
Donated Goods and Services:								
Donated Medical Services	5,359,373	-	-	5,359,373	3,529,282	-	-	3,529,282
Donated Pharmaceuticals	1,389,455	-	-	1,389,455	1,130,660	-	-	1,130,660
Donated Benefit Expenses	-	-	-	-	-	-	18,155	18,155
Donated Professional Fees	-	7,887	-	7,887	-	16,749	-	16,749
Donated Other Services	23,562	-	25,206	48,768	10,695	7,640	-	18,335
Total Donated Goods and Services	6,772,390	7,887	25,206	6,805,483	4,670,637	24,389	18,155	4,713,181
Total Expenses	\$ 8,940,253	\$ 341,164	\$ 542,785	\$ 9,824,202	\$ 6,723,371	\$ 339,943	\$ 477,457	\$ 7,540,771

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 296,001	\$ 1,045,767
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	169,426	124,100
Loss on Disposal of Property and Equipment	3,010	-
Unrealized Gain on Investments	(96,668)	(14,059)
Realized Loss (Gain) on Sale of Investments	2,260	(83,192)
Changes in Assets and Liabilities:		
Grants and Contributions Receivable	343,589	(599,772)
Inventory	3,914	(988)
Prepaid Expenses	3,307	(25,964)
Accounts Payable and Accrued Expenses	40,666	15,613
Right-of-Use Asset - Operating Lease, Net of Lease Liability	3,237	(2,457)
Net Cash Provided by Operating Activities	768,742	459,048
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Investments and Reinvested Dividends	(1,016,718)	(675,077)
Proceeds from Sales of Investments	753,746	587,311
Purchases of Property and Equipment	(816,044)	(155,704)
Net Cash Used by Investing Activities	(1,079,016)	(243,470)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal Payments on Capital Lease Obligations	(5,134)	-
Net Cash Used by Financing Activities	(5,134)	-
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(315,408)	215,578
Cash and Cash Equivalents - Beginning of Year	595,449	379,871
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 280,041	\$ 595,449
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for Interest	\$ 1,768	\$ 247
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Right of Use Asset and Lease Liability - Operating Lease	\$ -	\$ 327,057
Equipment Acquired through Lease Liability - Finance Lease	\$ -	\$ 19,965

See accompanying Notes to Financial Statements.



**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**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.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**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.

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.

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.

**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.

**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.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

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

**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.

**Inventory**

Inventory represents pharmaceuticals purchased and is stated at the lower of cost or market based on the first-in first-out method.

**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.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

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

**Fair Value Measurements (Continued)**

*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.

**Leases**

The Clinic has early adopted the accounting guidance in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 842, *Leases*. The new 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. The adoption of the standard had no effect on the previously reported net assets, as the Clinic had no operating lease agreements prior to FY2018. The organization has elected to adopt this change in accounting principle as of June 30, 2018, prior to its effective date.

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.

**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, 2019 AND 2018**

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

**Revenue Recognition**

Contributions, including grants, are recorded when awarded or pledged and classified as with or without donor restrictions depending on the existence and/or nature 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 are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Assets received in connection with conditional promises are reported as refundable advances or refundable sponsorships until such time the conditions are substantially met.

In-kind donations 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.

**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.

**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.

**Reclassifications**

Certain amounts in the 2018 financial statements have been reclassified to conform to the presentation in the 2019 financial statements. There was no effect on the change in net assets previously reported.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

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

**Change in Accounting Principle**

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The Clinic has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented.

The adoption of this standard changes the following aspects of the Clinic's financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 3).
- Investment income is reported net of investment fees.

The ASU has been applied retrospectively to all periods presented and resulted in no change to the total net assets previously reported.

**Subsequent Events**

In preparing these financial statements, the Clinic has evaluated events and transactions for potential recognition or disclosure through September 26, 2019, the date the financial statements were available to be issued.

**NOTE 2 CONCENTRATION OF FINANCIAL AND 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.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**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.

	2019	2018
Cash	\$ 280,041	\$ 595,449
Investments	3,498,197	3,140,817
Expected Endowment Appropriations	16,084	15,434
Grants and Contributions Receivable, Current Portion	<u>613,401</u>	<u>820,659</u>
Total	4,407,723	4,572,359
Less: Funds Unavailable for General Expenditure		
Within One Year due to:		
Donor Restrictions in Excess of One Year	(79,681)	(901,940)
Donor Restricted for Star Fund	(323,232)	(323,177)
Board-Designated to Maintain as Reserve Fund	<u>(3,136,952)</u>	<u>(2,833,183)</u>
Total	<u>(3,539,865)</u>	<u>(4,058,300)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within the One Year	<u>\$ 867,858</u>	<u>\$ 514,059</u>

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 2020 total approximately \$2,678,000. An additional \$135,488 available from the board-designated reserve fund and Star Fund spending withdrawals is included in the financial assets available to meet cash needs for general expenditure within one year total above. General expenditures are budgeted to be approximately \$3,010,000 in FYE 2020.

**NOTE 4 GRANTS AND CONTRIBUTIONS RECEIVABLE**

Grants and contributions receivable consist of unconditional promises to give at June 30, 2019 and 2018. Gross contributions receivable expected to be collected in:

	2019	2018
Less than One Year	\$ 613,401	\$ 820,659
One to Five Years	<u>25,000</u>	<u>161,331</u>
Total Contributions Receivable	<u>\$ 638,401</u>	<u>\$ 981,990</u>

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 5 INVESTMENTS**

Investments consist of the following at June 30:

	2019		2018	
	Cost	Market	Cost	Market
Bond Mutual Funds	\$ 1,656,769	\$ 1,657,387	\$ 1,456,363	\$ 1,394,305
Equity Mutual Funds	1,239,987	1,804,729	1,190,254	1,715,398
Money Market Funds	36,081	36,081	31,114	31,114
Total	<u>\$ 2,932,837</u>	<u>\$ 3,498,197</u>	<u>\$ 2,677,731</u>	<u>\$ 3,140,817</u>

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

	2019	2018
Interest and Dividends	\$ 101,471	\$ 79,604
Investment Fees	(23,460)	(25,362)
Realized (Loss) Gain	(2,260)	83,192
Unrealized Gain	96,668	14,059
Total	<u>\$ 172,419</u>	<u>\$ 151,493</u>

**NOTE 6 FAIR VALUE MEASUREMENTS**

The following table presents the Clinic's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2019 and 2018:

	2019			
	Level 1	Level 2	Level 3	Total
Investments:				
Bond Mutual Funds	\$ 1,657,387	\$ -	\$ -	\$ 1,657,387
Equity Mutual Funds	1,804,729	-	-	1,804,729
Total Investments at Fair Value	<u>\$ 3,462,116</u>	<u>\$ -</u>	<u>\$ -</u>	3,462,116
Money Market Funds				36,081
Total Investments				<u>\$ 3,498,197</u>
	2018			
	Level 1	Level 2	Level 3	Total
Investments:				
Bond Mutual Funds	\$ 1,394,305	\$ -	\$ -	\$ 1,394,305
Equity Mutual Funds	1,715,398	-	-	1,715,398
Total Investments at Fair Value	<u>\$ 3,109,703</u>	<u>\$ -</u>	<u>\$ -</u>	3,109,703
Money Market Funds				31,114
Total Investments				<u>\$ 3,140,817</u>



**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**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:

	<u>2019</u>	<u>2018</u>
Operating Lease Cost	\$ 237,118	\$ 237,118
Less: Lease Expense	(9,140)	-
Right-of-Use Asset	<u>\$ 227,978</u>	<u>\$ 237,118</u>

Cash Paid for Amounts Included in the Measurement of Lease Liability:

Operating Cash Flows from Operating Leases	\$ 12,544
Right-of-Use Asset Obtained in Exchange for New Operating Lease Liability	\$ 237,118

Weighted-Average Remaining Lease Term -

Operating Lease	10 Years
Weighted-Average Discount Rate - Operating Lease	6.75%

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>
2020	\$ 30,364
2021	31,275
2022	32,214
2023	33,180
2024	34,175
Thereafter	151,401
Total	312,609
Less: Imputed Interest	(84,631)
Total	<u>\$ 227,978</u>

**ARLINGTON FREE CLINIC  
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**NOTE 7 LEASES (CONTINUED)**

**Financing Lease**

The Clinic acquired office equipment under the terms of a noncancellable lease agreement for 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 \$5,823 and \$832 at June 30, 2019 and 2018, respectively. The asset is included in property and equipment on the accompanying statement of financial position.

The following is a schedule of future minimum payments required under the finance lease:

<u>Year Ending June 30,</u>	<u>Total</u>
2020	\$ 5,916
2021	5,916
2022	4,930
Total	<u>16,762</u>
Less: Amount Representing Interest	<u>(1,931)</u>
Present Value of Future Minimum Lease Payments	<u>\$ 14,831</u>

**NOTE 8 PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 1,370,731	\$ 1,370,731
Buildings and Improvements	3,327,724	2,656,726
Computer Equipment	75,770	67,560
Computer Software	183,780	200,556
Furniture and Equipment	303,306	266,321
Clinic/Medical Equipment	181,709	48,468
Construction in Process	-	85,164
Total Property and Equipment	<u>5,443,020</u>	<u>4,695,526</u>
Less: Accumulated Depreciation	<u>(1,186,643)</u>	<u>(1,082,757)</u>
Property and Equipment, Net	<u>\$ 4,256,377</u>	<u>\$ 3,612,769</u>

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS**

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

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for a Specific Purpose:		
Oral Health	\$ 284,222	\$ 876,209
Technology	77,125	100,000
Women's Health	71,293	68,903
Tuition Assistance	25,388	25,731
Healthy Choices for Life	-	5,684
Social Services Case Management	27,341	-
Subtotal	<u>485,369</u>	<u>1,076,527</u>
Subject to the Passage of Time	356,169	286,417
Subject to the Clinic's Endowment Spending Policy		
Star Fund - Medical Expenses	323,232	323,177
Not Subject to Spending Policy or Appropriation:		
Federal Grant Appropriation for Condo Purchase	<u>368,274</u>	<u>368,274</u>
Total	<u>\$ 1,533,044</u>	<u>\$ 2,054,395</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>2019</u>	<u>2018</u>
Purpose Restrictions Accomplished:		
Oral Health	\$ 997,627	\$ 363,091
Women's Health	136,110	204,691
Technology	161,225	7,500
Pharmacy	86,871	75,256
Community Bridge	-	71,620
Other Programs	73,868	110,843
Release of Net Assets With Time Restrictions	<u>1,455,701</u>	<u>833,001</u>
Release of Net Assets With Time Restrictions	500,441	590,536
Release of Appropriated Endowment Returns		
Without Purpose Restrictions	<u>16,830</u>	<u>10,376</u>
	<u>\$ 1,972,972</u>	<u>\$ 1,433,913</u>

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 10 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, 2019 AND 2018**

**NOTE 10 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 for the years ended June 30, 2019 and 2018:

	With Donor Restrictions
Endowment Net Assets, June 30, 2017	\$ 301,964
Contributions	18,100
Investment Gain	13,489
Appropriations	<u>(10,376)</u>
Endowment Net Assets, June 30, 2018	323,177
Contributions	8,100
Investment Gain	8,785
Appropriations	<u>(16,830)</u>
Endowment Net Assets, June 30, 2019	<u><u>\$ 323,232</u></u>

**NOTE 11 CONTRIBUTED 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:

	2019	2018
Contributed Services - Medical and Pharmaceutical	\$ 5,359,373	\$ 3,529,282
Donated Goods and Pharmaceuticals	1,389,455	1,148,815
Contributed Goods and Services - Other	<u>56,655</u>	<u>53,620</u>
Total	<u><u>\$ 6,805,483</u></u>	<u><u>\$ 4,731,717</u></u>

Included in these totals are amounts donated by Virginia Hospital Center–Arlington (a related party – senior vice president and chief medical officer of the Virginia Hospital Center-Arlington is also on the Clinic's board of directors) that provided lab fees, x-ray services, and other medical tests with an estimated value of \$3,509,425 and \$1,644,086 for the years ended June 30, 2019 and 2018, respectively.

Donated pharmaceutical samples from attending physicians and other nonprofit groups are not reflected in inventory. In sample form, they have no market for sale and therefore, no market value. In addition, the Clinic estimates that all pharmaceutical samples donated are distributed within one operating cycle.

The Clinic has elected not to record various donated pharmaceuticals from 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, 2019 and 2018 to be approximately \$2,100,000 and \$2,400,000, respectively.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**NOTE 12 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, 2019 and 2018 totaled \$48,645 and \$43,767, respectively.

**NOTE 13 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.