

ARLINGTON FREE CLINIC
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019



CLAconnect.com

WEALTH ADVISORY
OUTSOURCING
AUDIT, TAX, AND
CONSULTING

**ARLINGTON FREE CLINIC
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF FUNCTIONAL EXPENSES	5
STATEMENTS OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7



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, 2020 and 2019, 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, 2020 and 2019, 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, the Clinic has adopted Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Accordingly, the accounting change has been adopted using the prospective approach. Our opinion is not modified with respect to this matter.



CliftonLarsonAllen LLP

Arlington, Virginia
September 24, 2020

**ARLINGTON FREE CLINIC
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019**

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,002,800	\$ 280,041
Grants and Contributions Receivable, Current Portion	420,542	613,401
Inventory	11,448	7,483
Prepaid Expenses	96,833	81,453
Total Current Assets	1,531,623	982,378
INVESTMENTS	3,576,735	3,498,197
GRANTS AND CONTRIBUTIONS RECEIVABLE, Less Current Portion	34,292	25,000
RIGHT-OF-USE ASSET - OPERATING LEASE	209,293	227,978
PROPERTY AND EQUIPMENT, NET	4,101,430	4,256,377
Total Assets	\$ 9,453,373	\$ 8,989,930
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 295,896	\$ 240,672
Total Current Liabilities	295,896	240,672
LONG-TERM LIABILITIES		
Note Payable	453,200	-
Lease Liability - Finance Lease	10,003	14,831
Lease Liability - Operating Lease	216,182	228,758
Total Long-Term Liabilities	679,385	243,589
Total Liabilities	975,281	484,261
NET ASSETS		
Net Assets Without Donor Restrictions	7,189,899	6,972,625
Net Assets With Donor Restrictions	1,288,193	1,533,044
Total Net Assets	8,478,092	8,505,669
Total Liabilities and Net Assets	\$ 9,453,373	\$ 8,989,930

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2020 AND 2019**

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT						
Contributions	\$ 1,114,378	\$ 471,208	\$ 1,585,586	\$ 815,672	\$ 551,122	\$ 1,366,794
Grants	-	830,928	830,928	-	891,714	891,714
Special Events, Net of Benefit Expense	799,341	-	799,341	883,793	-	883,793
Donated Goods and Services	6,742,951	-	6,742,951	6,805,483	-	6,805,483
Investment Income	56,335	(5,051)	51,284	163,634	8,785	172,419
Net Assets Released from Restrictions	1,541,936	(1,541,936)	-	1,972,972	(1,972,972)	-
Total Revenue and Other Support	10,254,941	(244,851)	10,010,090	10,641,554	(521,351)	10,120,203
EXPENSES						
Program Services:						
Arlington Free Clinic	9,066,267	-	9,066,267	8,940,253	-	8,940,253
Support Services:						
Management and General	391,315	-	391,315	341,164	-	341,164
Fundraising	580,085	-	580,085	542,785	-	542,785
Total Support Services	971,400	-	971,400	883,949	-	883,949
Total Expenses	10,037,667	-	10,037,667	9,824,202	-	9,824,202
CHANGE IN NET ASSETS	217,274	(244,851)	(27,577)	817,352	(521,351)	296,001
Net Assets - Beginning of Year	6,972,625	1,533,044	8,505,669	6,155,273	2,054,395	8,209,668
NET ASSETS - END OF YEAR	<u>\$ 7,189,899</u>	<u>\$ 1,288,193</u>	<u>\$ 8,478,092</u>	<u>\$ 6,972,625</u>	<u>\$ 1,533,044</u>	<u>\$ 8,505,669</u>

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2020 AND 2019**

	2020					2019				
	Supporting Services					Supporting Services				
	Program Services	Management and General	Fundraising	Direct Benefit to Donors	Total	Program Services	Management and General	Fundraising	Direct Benefit to Donors	Total
Salaries	\$ 1,657,196	\$ 211,346	\$ 395,000	\$ -	\$ 2,263,542	\$ 1,484,411	\$ 204,350	\$ 354,152	\$ -	\$ 2,042,913
Employee Benefits and Payroll Taxes	251,736	34,720	54,751	-	341,207	230,688	42,144	51,512	-	324,344
Professional and Consultant Fees	-	66,379	975	-	67,354	500	55,208	1,875	-	57,583
Clinic Expense	119,168	-	-	-	119,168	112,593	-	-	-	112,593
Event and Meeting Expenses	10,120	3,977	697	198,219	213,013	4,503	390	12,373	185,461	202,727
Internet and Communications	37,774	878	5,833	-	44,485	36,245	853	5,543	-	42,641
Postage and Shipping	2,304	33	6,939	-	9,276	2,504	113	6,970	-	9,587
Office Expense	56,031	2,313	11,764	-	70,108	54,337	630	15,676	-	70,643
Printing Expense	812	125	24,210	-	25,147	4,764	8	24,461	-	29,233
Occupancy and Related Expenses	64,039	4,250	37,306	-	105,595	63,367	2,061	17,771	-	83,199
Depreciation and Amortization	124,445	4,714	35,588	-	164,747	143,104	3,228	23,093	-	169,425
Insurance	7,646	2,102	-	-	9,748	5,762	2,541	83	-	8,386
Miscellaneous	36,720	19,460	3,365	-	59,545	25,085	21,751	4,070	-	50,906
Total Expenses Excluding Donated Goods and Services	2,367,991	350,297	576,428	198,219	3,492,935	2,167,863	333,277	517,579	185,461	3,204,180
Donated Goods and Services:										
Donated Medical Services	5,127,576	-	-	-	5,127,576	5,359,373	-	-	-	5,359,373
Donated Pharmaceuticals	1,553,190	-	-	-	1,553,190	1,389,455	-	-	-	1,389,455
Donated Benefit Expenses	11,233	1,432	-	-	12,665	-	-	-	-	-
Donated Professional Fees	-	39,169	-	-	39,169	-	7,887	-	-	7,887
Donated Other Services	6,277	417	3,657	-	10,351	23,562	-	25,206	-	48,768
Total Donated Goods and Services	6,698,276	41,018	3,657	-	6,742,951	6,772,390	7,887	25,206	-	6,805,483
Total Expenses	9,066,267	391,315	580,085	198,219	10,235,886	8,940,253	341,164	542,785	185,461	10,009,663
Less Direct Benefit to Donors (Included with Special Event Revenue on the Statement of Activities)	-	-	-	(198,219)	(198,219)	-	-	-	(185,461)	(185,461)
Expenses per Statement of Activities	<u>\$ 9,066,267</u>	<u>\$ 391,315</u>	<u>\$ 580,085</u>	<u>\$ -</u>	<u>\$ 10,037,667</u>	<u>\$ 8,940,253</u>	<u>\$ 341,164</u>	<u>\$ 542,785</u>	<u>\$ -</u>	<u>\$ 9,824,202</u>

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (27,577)	\$ 296,001
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	164,747	169,425
Loss on Disposal of Property and Equipment	-	3,010
Unrealized Loss (Gain) on Investments	13,983	(96,668)
Realized (Gain) Loss on Sale of Investments	(2,748)	2,260
Changes in Assets and Liabilities:		
Grants and Contributions Receivable	183,567	343,589
Inventory	(3,965)	3,914
Prepaid Expenses	(15,380)	3,307
Accounts Payable and Accrued Expenses	55,224	40,666
Right-of-Use Asset - Operating Lease, Net of Lease Liability	6,109	3,237
Net Cash Provided by Operating Activities	373,960	768,741
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments and Reinvested Dividends	(1,055,125)	(1,016,718)
Proceeds from Sales of Investments	965,352	753,746
Purchases of Property and Equipment	(9,800)	(816,043)
Net Cash Used by Investing Activities	(99,573)	(1,079,015)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Capital Lease Obligations	(4,828)	(5,134)
Proceeds from Borrowings Under Note Payable	453,200	-
Net Cash Provided (Used) by Financing Activities	448,372	(5,134)
NET CHANGE IN CASH AND CASH EQUIVALENTS	722,759	(315,408)
Cash and Cash Equivalents - Beginning of Year	280,041	595,449
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,002,800	\$ 280,041
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	\$ 1,088	\$ 1,768

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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, 2020 AND 2019**

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, 2020 AND 2019**

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. Gross contributions receivable are expected to be collected in:

	2020	2019
Less than One Year	\$ 420,542	\$ 613,401
One to Five Years	34,292	25,000
Total Contributions Receivable	<u>\$ 454,834</u>	<u>\$ 638,401</u>

Inventory

Inventory represents pharmaceuticals purchased and is stated at the lower of cost or net realizable value 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.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

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.

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.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Revenue Recognition

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. Information related to conditional contributions received during the fiscal year ended June 30, 2020, is summarized as follows:

Condition	Conditional Amounts Available	Conditions Expired during FYE 6/30/2020	Conditions Met during FYE 6/30/2020	Conditional Promises to Give 6/30/2020	Conditions Expiration
Matching	\$ 10,000	\$ -	\$ (10,000)	\$ -	12/31/21
Funds Raised by Donors	5,000	-	-	5,000	1/31/21
Funding Availability and Clinic Good Standing	558,464	-	(258,464)	300,000	6/30/25
Reimbursable Costs:					
Hepatitis B Testing	34,521	-	(11,507)	23,014	6/30/22
COVID 19 Patient Transportation	40,000	(20,000)	-	20,000	6/30/21
Telehealth Connection	102,075	-	(22,410)	79,665	4/29/31
Interpreters	2,000	-	-	2,000	6/30/21
COVID-19 Testing Center	50,000	-	(14,624)	35,376	6/30/21
	<u>\$ 802,060</u>	<u>\$ (20,000)</u>	<u>\$ (317,005)</u>	<u>\$ 465,055</u>	

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.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU amended guidance to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The guidance provides a more robust framework to determine when a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also requires an entity to determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The adoption of this standard had no material impact on the accompanying financial statements.

Subsequent Events

In preparing these financial statements, the Clinic has evaluated events and transactions for potential recognition or disclosure through September 24, 2020, the date the financial statements were available to be issued.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 2 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.

	<u>2020</u>	<u>2019</u>
Cash	\$ 1,002,800	\$ 280,041
Investments	3,576,735	3,498,197
Expected Endowment Appropriations	15,690	16,084
Grants and Contributions Receivable, Current Portion	<u>420,542</u>	<u>613,401</u>
Total	5,015,767	4,407,723
Less: Funds Unavailable for General Expenditure		
Within One Year due to:		
Donor Restrictions in Excess of One Year	(25,388)	(79,681)
Donor Restricted for Star Fund	(308,097)	(323,232)
Board-Designated to Maintain as Reserve Fund	<u>(3,227,847)</u>	<u>(3,136,952)</u>
Total	<u>(3,561,332)</u>	<u>(3,539,865)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within the One Year	<u>\$ 1,454,435</u>	<u>\$ 867,858</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 2021 are budgeted to be approximately \$2,514,500. General expenditures are budgeted to be approximately \$3,266,000 in FYE 2021.

An additional \$453,200 is reflected as available from proceeds from the Payroll Protection Plan loan, as well as \$138,033 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. The Payroll Protection Plan loan forgiveness is subject to final legislation as well as the approval of the calculation and application for the loan forgiveness. Management anticipates that AFC will meet the requirements for the loan to be forgiven.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 3 INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consist of the following at June 30:

	2020		2019	
	Cost	Market	Cost	Market
Bond Mutual Funds	\$ 1,608,282	\$ 1,641,142	\$ 1,656,769	\$ 1,657,387
Equity Mutual Funds	1,391,987	1,896,769	1,239,987	1,804,729
Money Market Funds	38,824	38,824	36,081	36,081
Total	<u>\$ 3,039,093</u>	<u>\$ 3,576,735</u>	<u>\$ 2,932,837</u>	<u>\$ 3,498,197</u>

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

	2020	2019
Interest and Dividends	\$ 87,542	\$ 101,471
Investment Fees	(25,023)	(23,460)
Realized Gain (Loss)	2,748	(2,260)
Unrealized (Loss) Gain	(13,983)	96,668
Total	<u>\$ 51,284</u>	<u>\$ 172,419</u>

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:

	2020			
	Level 1	Level 2	Level 3	Total
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>
	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>

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2020	2019
Land	\$ 1,370,731	\$ 1,370,731
Buildings and Improvements	3,331,608	3,242,560
Computer Equipment	91,159	75,770
Computer Software	177,895	183,780
Furniture and Equipment	303,306	303,306
Clinic/Medical Equipment	162,115	181,709
Construction in Process	-	85,164
Total Property and Equipment	5,436,814	5,443,020
Less: Accumulated Depreciation	(1,335,384)	(1,186,643)
Property and Equipment, Net	\$ 4,101,430	\$ 4,256,377

NOTE 5 NOTE PAYABLE

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. To the extent that all or part of the PPP Loan is not forgiven, the loan will have a maturity date of April 2022.

NOTE 6 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.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 6 LEASES (CONTINUED)

Operating Lease (Continued)

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

	<u>2020</u>	<u>2019</u>
Operating Lease Cost	\$ 237,118	\$ 237,118
Less: Lease Expense	(27,825)	(9,140)
Right-of-Use Asset	<u>\$ 209,293</u>	<u>\$ 227,978</u>
Cash Paid for Amounts Included in the Measurement of Lease Liability:		
Operating Cash Flows from Operating Leases	\$ 31,675	
Right-of-Use Asset Obtained in Exchange for Operating Lease Liability	\$ 209,293	
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>
2021	\$ 31,048
2022	31,979
2023	32,938
2024	33,926
2025	34,944
Thereafter	<u>120,866</u>
Total	285,701
Less: Imputed Interest	<u>(76,408)</u>
Total	<u>\$ 209,293</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, 2020 and 2019, respectively. The asset is included in property and equipment on the accompanying statement of financial position.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 6 LEASES (CONTINUED)

Financing Lease (Continued)

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

<u>Year Ending June 30,</u>	<u>Total</u>
2021	\$ 5,916
2022	4,930
Total	<u>10,846</u>
Less: Amount Representing Interest	<u>(843)</u>
Present Value of Future Minimum Lease Payments	<u>\$ 10,003</u>

NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2020</u>	<u>2019</u>
Subject to Expenditure for a Specific Purpose:		
Oral Health	\$ 132,111	\$ 284,222
Technology	50,000	77,125
Women's Health	-	71,293
Tuition Assistance	25,388	25,388
Social Services Case Management	7,500	27,341
Subtotal	<u>214,999</u>	<u>485,369</u>
Subject to the Passage of Time	396,823	356,169
Subject to the Clinic's Endowment Spending Policy		
Star Fund - Medical Expenses	308,097	323,232
Not Subject to Spending Policy or Appropriation:		
Federal Grant Appropriation for Condo Purchase	<u>368,274</u>	<u>368,274</u>
Total	<u>\$ 1,288,193</u>	<u>\$ 1,533,044</u>

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

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:

	2020	2019
Purpose Restrictions Accomplished:		
Oral Health	\$ 282,865	\$ 997,627
Women's Health	123,793	136,110
Technology	149,535	161,225
Pharmacy	92,441	86,871
Social Services Case Management	71,348	-
Other Programs	-	73,868
Release of Net Assets With Time Restrictions	719,982	1,455,701
Release of Net Assets With Time Restrictions	805,870	500,441
Release of Appropriated Endowment Returns		
Without Purpose Restrictions	16,084	16,830
	\$ 1,541,936	\$ 1,972,972

NOTE 8 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.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 8 DONOR-RESTRICTED ENDOWMENT (CONTINUED)

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.

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:

	With Donor Restrictions
Endowment Net Assets, June 30, 2018	\$ 323,177
Contributions	8,100
Investment Gain	8,785
Appropriations	(16,830)
Endowment Net Assets, June 30, 2019	323,232
Contributions	6,000
Investment Loss	(5,051)
Appropriations	(16,084)
Endowment Net Assets, June 30, 2020	<u>\$ 308,097</u>

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 9 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:

	2020	2019
Contributed Services - Medical and Pharmaceutical	\$ 5,127,603	\$ 5,359,373
Donated Goods and Pharmaceuticals	1,553,190	1,389,455
Contributed Goods and Services - Other	62,158	56,655
Total	\$ 6,742,951	\$ 6,805,483

Included in these totals 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 \$3,860,000 and \$3,880,000 for the years ended June 30, 2020 and 2019, respectively. Donations from these donors totaled 57% of donated goods and services for both of the years ended June 30, 2020 and 2019.

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, 2020 and 2019, to be approximately \$1,300,000 and \$2,100,000, respectively.

NOTE 10 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, 2020 and 2019, totaled \$50,538 and \$48,645, respectively.

NOTE 11 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.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 12 CONTINGENCY

In March 2020, the World Health Organization declared the spread of coronavirus disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Clinic, COVID-19 may impact various parts of its FY2021 operations and financial results, including, but not limited to, loss of revenue due to reductions in certain revenue streams. In addition, both domestic and international equity markets have experienced significant volatility during this time. Management believes the Clinic is taking appropriate actions to mitigate the negative impact, including pursuing economic relief from the federal government (see Note 5). As of September 24, 2020, the amount and likelihood of loss relating to these events is not determined and cannot be reasonably estimated as these events are still developing.