

**ARLINGTON FREE CLINIC  
FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2022**



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Arlington Free Clinic  
Arlington, Virginia

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of Arlington Free Clinic (the Clinic), which comprise the statement of financial position as of June 30, 2022, the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Clinic and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Change in Accounting Principle***

As discussed in Note 1 to the financial statements, in 2022, the Clinic adopted new accounting guidance for contributed nonfinancial assets. The guidance enhances the disclosures related to those assets. Our opinion is not modified with respect to this matter.

#### ***Other Matter***

##### ***Correction of an Error***

As discussed in Note 2 to the financial statements, beginning net assets were restated during the current year to correctly reflect the estimated value of donated pharmaceutical inventory prior to July 1, 2021.

#### ***Responsibilities of Management for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Clinic's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Arlington Free Clinic's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Arlington Free Clinic's ability to continue as a going concern for a reasonable period of time.



**CliftonLarsonAllen LLP**

Arlington, Virginia  
May 26, 2023

**ARLINGTON FREE CLINIC  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2022**

**ASSETS**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$ 971,557
Grants and Contributions Receivable, Current Portion	668,698
Inventory	1,100,190
Prepaid Expenses	105,289
Total Current Assets	2,845,734

**INVESTMENTS**

4,838,700

**LONG-TERM ASSETS**

Grants and Contributions Receivable, Less Discount and Current Portion	452,197
Right of Use Asset - Financing Lease	18,412
Right of Use Asset - Operating Lease	168,650
Property and Equipment, Net	3,849,760
Total Current Assets	4,489,019

Total Assets

\$ 12,173,453

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts Payable and Accrued Expenses	\$ 228,440
Lease Liability - Finance Lease, Current Portion	3,909
Lease Liability - Operating Lease, Current Portion	21,430
Total Current Liabilities	253,779

**LONG-TERM LIABILITIES**

Lease Liability - Finance Lease, Less Current Portion	14,895
Lease Liability - Operating Lease, Less Current Portion	158,673
Total Long-Term Liabilities	173,568

Total Liabilities

427,347

**NET ASSETS**

Net Assets Without Donor Restrictions - Undesignated	5,198,236
Net Assets Without Donor Restrictions - Board Designated	4,298,506
Total Net Assets Without Donor Restrictions	9,496,742

Net Assets With Donor Restrictions	2,249,364
Total Net Assets	11,746,106

Total Liabilities and Net Assets

\$ 12,173,453

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUE AND OTHER SUPPORT</b>			
Grants and Contributions	\$ 1,798,535	\$ 2,313,258	\$ 4,111,793
Special Events	1,109,250	-	1,109,250
Special Events: Direct Expense	(12,276)	-	(12,276)
Donated Goods and Services	7,561,141	-	7,561,141
Investment Loss	(662,863)	-	(662,863)
Forgiveness of Note Payable	-	-	-
Net Assets Released from Restrictions	1,381,176	(1,381,176)	-
Total Revenue and Other Support	11,174,963	932,082	12,107,045
<b>EXPENSES</b>			
Program Services:			
Arlington Free Clinic	9,551,676	-	9,551,676
Support Services:			
Management and General	661,720	-	661,720
Fundraising	556,022	-	556,022
Total Support Services	1,217,742	-	1,217,742
Total Expenses	10,769,418	-	10,769,418
<b>CHANGE IN NET ASSETS</b>	405,545	932,082	1,337,627
Net Assets, Beginning of Year, as Previously Stated	8,803,331	1,317,282	10,120,613
Prior Period Adjustment	287,866	-	287,866
Net Assets - Beginning of Year (Restated)	9,091,197	1,317,282	10,408,479
<b>NET ASSETS - END OF YEAR</b>	\$ 9,496,742	\$ 2,249,364	\$ 11,746,106

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2022**

	Program Services	Supporting Services			Total
		Management and General	Fundraising	Direct Benefit to Donors	
Salaries	\$ 2,089,802	\$ 292,537	\$ 350,197	\$ -	\$ 2,732,536
Employee Benefits and Payroll Taxes	304,768	42,717	45,503	-	392,988
Clinic Expense	108,490	-	-	-	108,490
Depreciation and Amortization	45,510	127,478	-	-	172,988
Event and Meeting Expenses	2,964	10,313	30,665	12,276	56,218
Insurance	13,995	5,506	-	-	19,501
Internet and Communications	29,183	672	14,464	-	44,319
Loss on Disposal of Property and Equipment	15,780	371	2,413	-	18,564
Occupancy and Related Expenses	66,813	4,353	35,321	-	106,487
Office Expense	67,860	23,128	14,596	-	105,584
Pharmaceuticals	26,039	-	-	-	26,039
Postage and Shipping	-	-	-	-	-
Printing Expense	84	591	15,848	-	16,523
Professional and Consultant Fees	-	100,135	7,305	-	107,440
Miscellaneous	31,491	23,006	7,647	-	62,144
<b>Total Expenses Excluding Donated Goods and Services</b>	<b>2,802,779</b>	<b>630,807</b>	<b>523,959</b>	<b>12,276</b>	<b>3,969,821</b>
<b>Donated Goods and Services:</b>					
Donated Medical Services	5,195,647	-	-	-	5,195,647
Donated Pharmaceuticals	1,482,916	-	-	-	1,482,916
Donated Professional Fees	70,334	30,913	7,230	-	108,477
Donated Benefit Expenses	-	-	24,833	-	24,833
Donated Other Services	-	-	-	-	-
<b>Total Donated Goods and Services</b>	<b>6,748,897</b>	<b>30,913</b>	<b>32,063</b>	<b>-</b>	<b>6,811,873</b>
<b>Total Expenses</b>	<b>9,551,676</b>	<b>661,720</b>	<b>556,022</b>	<b>12,276</b>	<b>10,781,694</b>
Less Direct Benefit to Donors (Included with Special Event Revenue on the Statement of Activities)	-	-	-	(12,276)	(12,276)
<b>Expenses per Statements of Activities</b>	<b>\$ 9,551,676</b>	<b>\$ 661,720</b>	<b>\$ 556,022</b>	<b>\$ -</b>	<b>\$ 10,769,418</b>

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2022**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in Net Assets	\$ 1,337,627
Adjustments to Reconcile Change in Net Assets to	
Net Cash Provided by Operating Activities:	
Depreciation and Amortization	172,989
Loss on Disposal of Property and Equipment	18,565
Donated Property and Equipment	(52,464)
Change in Donated Inventory	(696,804)
Unrealized Loss on Investments	744,291
Realized Loss on Sale of Investments	10,070
Change in Discount on Grants and Contributions Receivable	24,491
Changes in Assets and Liabilities:	
Grants and Contributions Receivable	(795,787)
Purchased Inventory	206
Prepaid Expenses	29,615
Accounts Payable and Accrued Expenses	(70,554)
Right-of-Use Asset - Operating Lease, Net of Lease Liability	1,817
Net Cash Provided by Operating Activities	724,062

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchases of Investments and Reinvested Dividends	(5,462,260)
Proceeds from Sales of Investments	4,861,974
Purchases of Property and Equipment	(6,836)
Net Cash Used by Investing Activities	(607,122)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Principal Payments on Finance Lease Obligations	(4,744)
Net Cash Used by Financing Activities	(4,744)

**NET CHANGE IN CASH AND CASH EQUIVALENTS**

112,196

Cash and Cash Equivalents - Beginning of Year

859,361

**CASH AND CASH EQUIVALENTS - END OF YEAR**

\$ 971,557

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash Paid During the Year for Interest	\$ 189
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**SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES**

Equipment Acquired through Lease Liability - Finance Lease	\$ 18,804
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See accompanying Notes to Financial Statements.



**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022**

**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, 2022**

**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. Contributions and grants to be received after one year are discounted at an appropriate discount commensurate with the risks involved. 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. Grants and contributions receivable as of June 30, 2022 are expected to be collected as follows:

Less than One Year	\$ 668,698
One to Five Years	476,688
Subtotal	<u>1,145,386</u>
Less Discount to Net Present Value	(24,491)
Total Grants and Contributions Receivable	<u><u>\$ 1,120,895</u></u>

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022**

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

**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.

**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.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022**

**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.

**Leases**

The Clinic leases office space and equipment and determines if an arrangement is a lease at inception. Operating leases are included in operating right-of-use (ROU) assets and operating ROU liabilities on the statements of financial position. Finance leases are included in financing ROU assets and financing ROU liabilities on the statements of financial position.

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.

The Clinic has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or right of use assets on the statements of financial position.

The Clinic has elected not to separate nonlease components from lease components and instead accounts for each separate lease component and the nonlease component as a single lease component.

**Revenue Recognition**

*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.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022**

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

**Revenue Recognition (Continued)**

*Contributions and Grants (Continued)*

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 previous paragraph.

Information related to conditional contributions received during the fiscal year ended June 30, 2022 is summarized as follows:

Condition	Conditional Amounts Available	Conditions Expired	Conditions Met	Conditional Promises to Give	Conditions Expiration
<b>Reimbursable Costs:</b>					
Diabetes Program	\$ 11,507	\$ (5,307)	\$ (6,200)	\$ -	6/30/22
Women's Health	112,500	-	(25,000)	87,500	12/31/25
COVID-19 Patient Transportation	20,000	-	-	20,000	6/30/23
Telehealth Connection	60,775	-	(6,096)	54,679	4/29/31
Interpreters	2,000	-	-	2,000	6/30/23
Patient Medical Home	225,000	-	-	225,000	6/30/25
Oral Health Program	10,000	-	(7,804)	2,196	8/31/22
COVID-19 Testing Center	233,484	-	(4,004)	229,480	6/30/25
Total	<u>\$ 675,266</u>	<u>\$ (5,307)</u>	<u>\$ (49,104)</u>	<u>\$ 620,855</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 for the fiscal year ended 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 held in person include separate performance obligations related to event tickets that are 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.

***Donated Goods and Services***

Donated services consist of medical, pharmaceutical and other professional services and are recorded at their estimated fair market value on the date the services are provided if such services are specialized and would typically be purchased if not donated. The estimated fair market value is determined primarily based on third party pricing obtained from the providers of medical, pharmaceutical & other professional services. Medical and professional services provided outside of the Clinic are deemed to be at the provider's normal and customary rates for the same services provided to the general public. Medical and professional volunteer services provided inside the Clinic are determined based on volunteer logged hours at Department of Labor local hourly pay rates for each occupational title and adjusted by using a 2.5 billing rate factor for those titles with billable hours.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022**

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

**Revenue Recognition (Continued)**

*Donated Goods and Services (Continued)*

Donated goods consist of pharmaceutical inventory and computer hardware/software and are recorded at their estimated fair market value on the date the good are received. The estimated fair market value is determined based on third party pricing obtained from the donors. Pharmaceutical fair market values provided by donors were a combination of national data base wholesale acquisition costs, average wholesale prices, donor catalogues, and donor self-reporting product value guides. Sample of these donated unit values were compared to local pharmacy prices through a national drug pricing app and found to be consistent with those prices. Computer equipment values were provided by the donor. Comparable prices for similar equipment were noted by the Clinic's through it historical purchase records as well as informal online searches.

**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.

**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.

**ARLINGTON FREE CLINIC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2022**

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

**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.

**Concentration of Contributions and Grants**

One donor represented 14% of total grants and contributions revenue for the year ended June 30, 2022. Three donors represented 78% of total grants and contributions receivable as of June 30, 2022.

**Recently Adopted Accounting Pronouncement**

During the year ended June 30, 2022, the Clinic adopted the requirements of the Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) No. 2020-07, Not-for-Profit Entities (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires not-for-profits to present contributed nonfinancial assets as a separate line in the statement of activities and provide additional disclosures about contributions of nonfinancial assets. The adoption of this guidance did not have a significant impact on the financial statements.

**Subsequent Events**

In preparing these financial statements, the Clinic has evaluated events and transactions for potential recognition or disclosure through May 26, 2023, the date the financial statements were available to be issued.

**NOTE 2 PRIOR PERIOD RESTATEMENT**

An error resulting in an understatement of previously reported net assets without donor restrictions was determined during the current year after a detailed analysis and physical observation were performed of donated pharmaceuticals in conjunction with the current year audit. The effect of this prior period adjustment was an increase to previously reported net assets without donor restrictions of \$287,866.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022**

**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.

Cash	\$ 971,557
Investments	4,838,700
Expected Endowment Appropriations	17,329
Grants and Contributions Receivable, Current Portion	<u>668,698</u>
Total	<u>6,496,284</u>
Less: Funds Unavailable for General Expenditure	
Within One Year Due to:	
Donor Restrictions in Excess of One Year	(298,010)
Donor Restricted for Star Fund	(320,021)
Board-Designated to Maintain as Reserve Fund	<u>(4,298,506)</u>
Total	<u>(4,916,537)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within the One Year	<u><u>\$ 1,579,747</u></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 2023 are budgeted to be approximately \$2,957,300. General expenditures are budgeted to be approximately \$3,757,000 in FYE 2023.

An additional \$173,173 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.



**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 4 INVESTMENTS AND FAIR VALUE MEASUREMENTS**

Investments consist of the following at June 30, 2022:

	<u>Cost</u>	<u>Market</u>
Bond Mutual Funds	\$ 1,381,915	\$ 1,379,900
Equity Mutual Funds	2,639,010	3,155,190
Money Market Funds	50,066	50,066
Certificate of Deposit	253,544	253,544
Total	<u>\$ 4,324,535</u>	<u>\$ 4,838,700</u>

Investment income consists of the following for the year ended June 30, 2022:

Interest and Dividends	\$ 122,522
Investment Fees	(31,024)
Realized Loss	(10,070)
Unrealized Loss	(744,291)
Total	<u>\$ (662,863)</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, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Bond Mutual Funds	\$ 1,379,900	\$ -	\$ -	\$ 1,379,900
Equity Mutual Funds	3,155,190	-	-	3,155,190
Certificate of Deposit	-	253,544	-	253,544
Total Investments at Fair Value	<u>\$ 4,535,090</u>	<u>\$ 253,544</u>	<u>\$ -</u>	4,788,634
Money Market Funds				50,066
Total Investments				<u>\$ 4,838,700</u>

**NOTE 5 PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30, 2022:

Land	\$ 1,370,731
Buildings and Improvements	3,333,093
Computer Equipment	98,979
Computer Software	177,895
Furniture and Equipment	302,092
Clinic/Medical Equipment	170,454
Total Property and Equipment	<u>5,453,244</u>
Less: Accumulated Depreciation	(1,603,484)
Property and Equipment, Net	<u>\$ 3,849,760</u>

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 6 LEASES**

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.

During fiscal year 2022, the Clinic acquired office equipment under the terms of a noncancellable lease agreement classified as a financing lease. The cost of equipment was \$18,804 as of June 30, 2022 and is being depreciated over the lease life. Accumulated depreciation related to the lease was \$392 at June 30, 2022.

The following table provides quantitative information concerning the Clinic's leases:

Lease Costs

Finance Lease Cost:	
Amortization of Right-of-Use Assets	\$ 392
Interest on Lease Liabilities	-
Operating Lease Cost	33,795
Total Lease Costs	<u>\$ 34,187</u>

Other Information

Cash Paid for Amounts Included in the Measurement

Measurement of Lease Liabilities:

Operating Cash Flows from Finance Lease	\$ -
Operating Cash Flows from Operating Lease	\$ 31,979
Financing Cash Flows from Finance Lease	\$ 4,744

Weighted-Average Remaining Lease Term:

Finance Lease	4 Years
Operating Lease	10 Years

Weighted-Average Discount Rate:

Finance Lease	11.77%
Operating Lease	6.75%

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 6 LEASES (CONTINUED)**

A maturity analysis of annual undiscounted cash flows for lease liabilities is as follows as of June 30, 2022:

<u>Year Ending June 30,</u>	<u>Financing Lease</u>	<u>Operating Lease</u>
2023	\$ 5,916	\$ 32,938
2024	5,916	33,927
2025	5,916	34,944
2026	5,916	35,993
2027	-	37,072
Thereafter	-	47,801
Total	<u>23,664</u>	<u>222,675</u>
Less: Imputed Interest	<u>(4,860)</u>	<u>(42,572)</u>
Total	<u>\$ 18,804</u>	<u>\$ 180,103</u>

**NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consist of the following at June 30, 2022:

Subject to Expenditure for a Specific Purpose:	
Oral Health	\$ 37,500
Vision and Hearing Program	214,286
Women's Health	13,750
Tuition Assistance	73,010
Social Services Case Management	285,417
Pharmacy and Medicine Program	133,004
Diabetes Education	45,313
Other Programs	3,822
Subtotal	<u>806,102</u>
Subject to the Passage of Time	454,967
Subject to the Clinic's Endowment Spending Policy	
Star Fund - Medical Expenses	320,021
Diabetes Education	300,000
Not Subject to Spending Policy or Appropriation:	
Federal Grant Appropriation for Condo Purchase	<u>368,274</u>
Total	<u>\$ 2,249,364</u>

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2022**

**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, 2022:

Purpose Restrictions Accomplished:	
Oral Health	\$ 212,678
Vision and Hearing Program	35,714
Women's Health	95,507
Social Services Case Management	177,470
Pharmacy and Medicine Program	132,939
Diabetes Education	32,238
Other Programs	71,437
Release of Net Assets With Purpose Restrictions	<u>757,983</u>
Release of Net Assets With Time Restrictions	606,715
Release of Appropriated Endowment Returns Without Purpose Restrictions	<u>16,478</u>
Total	<u><u>\$ 1,381,176</u></u>

**NOTE 8 DONOR-RESTRICTED ENDOWMENT**

The Clinic's endowment consists of two endowments as follows:

- Established through the Clinic's Star Fund to support the medical needs of patients.
- Established through the Clinic's Diabetes Education Fund to support programs and activities related to diabetes education. This endowment was established by an anonymous donor who has provided a 4-year plan to fully fund an endowment that will sustain the Clinic's diabetes education programs and activities. The total \$300,000 endowment will be paid in annual installments of \$75,000 beginning in 2022 and continuing through 2025. In addition, four annual donations totaling \$37,500 will be paid by the donor to supplement the annual endowment draw as noted in the Diabetes Education Fund spending policy below.

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 both funds as perpetual endowments. 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.

**ARLINGTON FREE CLINIC  
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**NOTE 8 DONOR-RESTRICTED ENDOWMENT (CONTINUED)**

The endowment funds include 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.

**Spending Policy for the Star Fund**

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

**Spending Policy for the Diabetes Education Fund**

The Clinic may distribute up to \$15,000 from the endowment. In years 2,3, & 4, the Clinic may distribute \$3,750, \$7,500, and \$11,250, respectively, from the initial endowment funding. Subsequent to year 4, the Clinic may distribute up to 5% of the endowment fund's average fair value of the prior three years.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 8 DONOR-RESTRICTED ENDOWMENT (CONTINUED)**

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:

	Star Fund	Diabetes Education Fund	Total With Donor Restrictions
Endowment Net Assets, June 30, 2021	\$ 380,761	\$ -	\$ 380,761
Contributions	5,000	300,000	305,000
Investment Loss	(49,262)	-	(49,262)
Appropriations	(16,478)	-	(16,478)
Endowment Net Assets, June 30, 2022	<u>\$ 320,021</u>	<u>\$ 300,000</u>	<u>\$ 620,021</u>

**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, 2022:

Contributed Medical and Pharmaceutical Services	\$ 5,194,891
Contributed Pharmaceuticals	2,179,720
Contributed Computer Hardware and Software	127,032
Contributed Professional Services	30,759
Contributed Goods and Services - Other	28,739
Total	<u>\$ 7,561,141</u>

Included in contributed medical and pharmaceutical services are amounts donated by Virginia Hospital Center–Arlington that provided lab fees, x-ray services, and other medical tests with an estimated value of approximately \$3,681,000 for the year June 30, 2022. Included in contributed pharmaceuticals are amounts donated by Rx Partnership and Americares that provided pharmaceuticals with an estimated value of approximately \$1,512,000 for the year ended June 30, 2022. Donations from these donors totaled 69% of total donated goods and services for the year ended June 30, 2022.

No donated goods or services were restricted. The Clinic does not sell donated pharmaceutical inventory and only distributes goods for program use. It is the Clinic's policy to utilize contributed non-financial assets in its daily operations of providing medical care to its patients.

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  
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**NOTE 9 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 year ended June 30, 2022 to be approximately \$2,655,000.

**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 contribution to the plan for the year ended June 30, 2022 totaled \$55,144.

**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.

**NOTE 12 RELATED PARTY TRANSACTIONS**

The Clinic has contributions from board members totaling approximately \$407,500 for the year ended June 30, 2022.



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