

Arlington Free Clinic
Financial Statements
and
Independent Auditor's Report
Year Ended June 30, 2023

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Independent Auditor's Report

To the Board of Directors
Arlington Free Clinic
Arlington, VA

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, 2023, 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, 2023, and the changes in its net assets and its 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 Auditor's 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.

Other Matter

As part of our audit of the June 30, 2023 financial statements, we also audited the adjustments described in Note 1 that were applied to restate the June 30, 2022 financial statement, and is shown as an adjustment to net assets on the statement of activities. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the June 30, 2022 financial statements of the entity other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the June 30, 2022 financial statements as a whole.

Responsibilities of Management for the 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.



Auditor's 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 auditor's 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 auditing standards generally accepted in the United States of America, 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 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 Clinic's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



SNYDER COHN, PC
North Bethesda, Maryland
February 20, 2024

Arlington Free Clinic
Statement of Financial Position

June 30, 2023

Assets

Cash and cash equivalents	\$ 1,010,272
Grants and contributions receivable	541,742
Investments	5,407,273
Inventory	483,758
Prepaid expenses	93,222
Property and equipment, net	3,711,174
Right of use asset - operating lease	146,363

Total assets \$ 11,393,804

Liabilities and net assets

Liabilities:

Accounts payable and accrued expenses	\$ 249,435
Operating lease liability	158,673
Deferred revenue	85,221

Total liabilities 493,329

Commitments

Net assets:

Net assets without donor restrictions - undesignated	4,131,735
Net assets without donor restrictions - board designated	4,804,538
Total net assets without donor restrictions	<u>8,936,273</u>

Net assets with donor restrictions	1,964,202
Total net assets	<u>10,900,475</u>

Total liabilities and net assets \$ 11,393,804

Arlington Free Clinic
Statement of Activities

For the year ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and other support:			
Grants and contributions	\$ 1,645,624	\$ 1,313,551	\$ 2,959,175
Special events	1,194,531	-	1,194,531
Special events: direct expense	(172,380)	-	(172,380)
Donated goods and services	6,286,134	-	6,286,134
Investment income	389,467	-	389,467
Net assets released from restrictions	1,315,385	(1,315,385)	-
Total revenue and other support	<u>10,658,761</u>	<u>(1,834)</u>	<u>10,656,927</u>
Expenses:			
Program services	9,842,244	-	9,842,244
Management and general	828,792	-	828,792
Fundraising	548,194	-	548,194
Total expenses	<u>11,219,230</u>	<u>-</u>	<u>11,219,230</u>
Change in net assets	(560,469)	(1,834)	(562,303)
Net assets - beginning of year , as previously stated	9,496,742	2,249,364	11,746,106
Prior period adjustment	<u>-</u>	<u>(283,328)</u>	<u>(283,328)</u>
Net assets - beginning of year, restated	<u>9,496,742</u>	<u>1,966,036</u>	<u>11,462,778</u>
Net assets - end of year	<u>\$ 8,936,273</u>	<u>\$ 1,964,202</u>	<u>\$ 10,900,475</u>

See Accompanying Notes

Arlington Free Clinic

Statement of Functional Expenses

For the year ended June 30, 2023

	Program Services	Supporting Services			Total
		Management and General	Fundraising	Direct Benefit to Donors	
Salaries	\$ 2,180,320	\$ 372,565	\$ 303,160	\$ -	\$ 2,856,045
Employee benefits and payroll taxes	295,111	82,400	42,545	-	420,056
Clinic expense	123,587	-	-	-	123,587
Depreciation and amortization	127,864	46,915	-	-	174,779
Event and meeting expenses	4,837	9,126	3,243	172,380	189,586
Insurance	-	13,955	-	-	13,955
Internet and communications	33,527	668	4,436	-	38,631
Occupancy and related expenses	79,430	6,579	30,595	-	116,604
Office expense	82,167	1,963	13,035	-	97,165
Pharmaceuticals	33,662	-	-	-	33,662
Postage and shipping	48	1,515	4,982	-	6,545
Printing expense	583	662	31,758	-	33,003
Professional and consultant fees	8,262	218,860	72,000	-	299,122
Miscellaneous	37,043	36,726	13,305	-	87,074
Total expenses excluding donated goods and services	3,006,441	791,934	519,059	172,380	4,489,814
Donated goods and services:					
Donated medical services	4,891,741	-	-	-	4,891,741
Donated pharmaceuticals	1,901,577	-	-	-	1,901,577
Donated professional fees	42,485	36,858	-	-	79,343
Donated benefit expenses	-	-	29,135	-	29,135
Total donated goods and services	6,835,803	36,858	29,135	-	6,901,796
Total expenses	9,842,244	828,792	548,194	172,380	11,391,610
Less direct benefit to donors (included with special events revenue on the statement of activities)	-	-	-	(172,380)	(172,380)
Total expenses per statement of activities	\$ 9,842,244	\$ 828,792	\$ 548,194	\$ -	\$ 11,219,230

See Accompanying Notes

Arlington Free Clinic
Statement of Cash Flows

For the year ended June 30, 2023

Cash flows from operating activities:

Change in net assets	\$	(562,303)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		174,779
Donated investments		(132,016)
Net unrealized and realized (gain) on investments		(298,580)
Adjustments to right of use asset - operating lease		21,895
(Increase) Decrease in:		
Grants and contributions receivable		295,825
Inventory		616,432
Prepaid expenses		12,067
Increase (Decrease) in:		
Accounts payable and accrued expenses		20,995
Operating lease liability		(21,430)
Deferred revenue		85,221
Net cash provided by operating activities		212,885

Cash flows from investing activities:

Purchase of investments		(2,373,312)
Proceeds from sale of investments		2,235,335
Purchase of property and equipment		(36,193)
Net cash used in investing activities		(174,170)

Net increase in cash and cash equivalents		38,715
Cash and cash equivalents - beginning		971,557
Cash and cash equivalents - ending	\$	1,010,272

Supplemental disclosure of cash flow information:

Cash paid during the year for:		
Interest	\$	-

See Accompanying Notes

Arlington Free Clinic

Notes to Financial Statements

June 30, 2023

Note 1: Summary of significant accounting policies:

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 - Net assets 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 - Net assets 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, 2023

Note 1: Summary of significant accounting policies: (continued)

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

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

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Grants and contributions receivable - Receivables are stated at net realizable value. Accounts are individually analyzed for collectability. Write-off of accounts receivable occurs when all collection efforts have been exhausted or certain conditions or forgiveness have been reached. Management believes that all receivables are fully collectible. Therefore, no allowance for doubtful accounts has been recognized. Grants and contributions receivable as of June 30, 2023 are expected to be collected as follows:

Less than one year	\$ 254,983
One to five years, discounted to NPV	<u>286,759</u>
Total grants and contributions receivable	<u>\$ 541,742</u>

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

Arlington Free Clinic
Notes to Financial Statements

June 30, 2023

Note 1: Summary of significant accounting policies: (continued)

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

Donated securities are recorded at their fair value, 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 the 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, 2023

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 ROU 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 ROU 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.

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 statement of financial position.

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

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 previous paragraph.

Arlington Free Clinic
Notes to Financial Statements

June 30, 2023

Note 1: Summary of significant accounting policies: (continued)

Revenue recognition (continued) - Information related to conditional contributions received during the fiscal year ended June 30, 2023 is summarized as follows:

Condition	Conditional Amounts Available	Conditions Expired	Conditions Met	Conditional Promises to Give	Conditions Expiration
Reimbursable costs:					
Women's health	\$ 87,500	\$ -	\$ (25,000)	\$ 62,500	12/31/25
Behavioral health workforce	600,000	-	(200,000)	400,000	9/30/25
Telehealth connection	54,679	-	-	54,679	4/29/31
Patient medical home	225,000	-	-	225,000	6/30/25
Oral health program	2,196	-	(2,196)	-	8/31/22
COVID-19 patient transportation	20,000	-	(20,000)	-	6/30/23
Interpreters	2,000	-	(2,000)	-	6/30/23
COVID-19 testing center	229,480	(229,480)	-	-	6/30/25
Health care services	300,324	-	(150,324)	150,000	6/30/24
Medication & pharmacy	256,856	-	(133,004)	123,852	6/30/24
Total	\$ 1,778,035	\$ (229,480)	\$ (532,524)	\$ 1,016,031	

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 Clinic'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. 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.

Arlington Free Clinic
Notes to Financial Statements

June 30, 2023

Note 1: Summary of significant accounting policies: (continued)

Revenue recognition (continued) - 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. Donated goods consist of pharmaceutical inventory and computer hardware/software and are recorded at their estimated fair market value on the date the goods are received. The estimated fair market value is determined based on third party pricing obtained from the donors. The pharmaceutical fair market values provided by donors were a combination of national database 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 its 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.

Advertising - The Clinic expenses advertising costs as incurred. The Clinic incurred \$7,491 of advertising expenses as of June 30, 2023.

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.

Accounting for uncertainty in income taxes - The Clinic accounts for the effect of any uncertain tax positions based on a "more likely than not" threshold to the recognition of tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax effect is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for uncertain tax positions. Interest and penalties, if any, are accrued as a component of general and administrative expenses when assessed.

Arlington Free Clinic
Notes to Financial Statements

June 30, 2023

Note 1: Summary of significant accounting policies: (continued)

Accounting for uncertainty in income taxes (continued) - The Clinic has identified its tax status as a tax-exempt entity under Section 501(c)(3) and its determination that it has no unrelated business income as tax positions; however, the Clinic has determined that such tax positions do not result in an uncertainty requiring recognition. Income tax years ended prior to June 30, 2020 are no longer subject to audit by taxing authorities.

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 benefitted. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one functional category 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.

Risks and uncertainties - The Clinic invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Prior period adjustment - During the year ended June 30, 2023, management determined that a grant that had been recorded in the year June 30, 2022 was actually conditional, and for which the conditions were not met until the year ended June 30, 2023. As a result, \$283,328 of revenue was incorrectly recognized as revenue in fiscal year 2022 rather than fiscal year 2023. Donor restricted net assets as of June 30, 2022 have been reduced as a result of this correction.

Arlington Free Clinic
Notes to Financial Statements

June 30, 2023

Note 1: Summary of significant accounting policies: (continued)

Concentration of contributions and grants - Two donors represented 25% of total grants and contributions revenue for the year ended June 30, 2023. Four donors represented 86% of total grants and contributions receivable as of June 30, 2023.

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.

Cash	\$ 1,010,272
Investments	5,407,273
Expected endowment appropriations	17,361
Grants and contributions receivable	<u>541,742</u>
Total	<u>6,976,648</u>
Less: funds unavailable for general expenditure within one year due to:	
Donor restrictions in excess of one year	(555,198)
Donor restrictions for Star Fund	(347,210)
Board-designated to maintain as reserve fund	<u>(4,804,538)</u>
Total	<u>(5,706,946)</u>
Financial assets available to meet cash needs for general expenditures within the one year	<u>\$ 1,269,702</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 2024 are budgeted to be approximately \$3,780,000. General expenditures are budgeted to be approximately \$4,518,000 in FYE 2024.

An additional \$183,254 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

June 30, 2023

Note 3: Investments and fair value measurements:

Investments consist of the following at June 30, 2023:

	<u>Cost</u>	<u>Market</u>
Bond mutual funds	\$ 1,571,580	\$ 1,553,230
Equity mutual funds	2,846,830	3,555,834
Money market funds	42,684	42,684
Certificate of deposit	<u>255,525</u>	<u>255,525</u>
 Total	 <u>\$ 4,716,619</u>	 <u>\$ 5,407,273</u>

Investment income consists of the following for the year ended June 30, 2023:

Interest and dividends	\$ 120,937
Investments fees	(30,050)
Net unrealized and realized gain	<u>298,580</u>
 Total	 <u>\$ 389,467</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, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Bond mutual funds	\$ 1,553,230	\$ -	\$ -	\$ 1,553,230
Equity mutual funds	3,555,834	-	-	3,555,834
Certificate of deposit	-	<u>255,525</u>	-	<u>255,525</u>
Total investments at fair value	<u>\$ 5,109,064</u>	<u>\$ 255,525</u>	<u>\$ -</u>	<u>\$ 5,364,589</u>
Money market funds				<u>42,684</u>
Total investments				<u>\$ 5,407,273</u>

Arlington Free Clinic
Notes to Financial Statements

June 30, 2023

Note 4: Property and equipment:

Property and equipment consist of the following at June 30, 2023:

Land	\$ 1,370,731
Buildings and improvements	3,333,093
Computer equipment	98,979
Computer software	186,139
Furniture and equipment	302,092
Clinic/medical equipment	<u>198,402</u>
 Total property and equipment	 5,489,436
Less: accumulated depreciation	<u>(1,778,262)</u>
 Property and equipment, net	 <u>\$ 3,711,174</u>

Note 5: Commitments:

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 was set to expire on January 31, 2024, with an option to extend the term for an additional five years. In May 2023, the Clinic extended the lease term for the additional five years per the agreement and will expire on January 31, 2029. 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.

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

<u>Lease Costs</u>	
Operating lease cost	\$ 33,795
Variable lease costs	<u>4,417</u>
Total lease costs	<u>\$ 38,212</u>
 <u>Other information</u>	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating lease	\$ 32,938
 Weighted-average remaining lease term:	
Operating lease	5.25 years
 Weighted-average discount rate:	
Operating lease	4.75%

Arlington Free Clinic
Notes to Financial Statements

June 30, 2023

Note 5: Commitments: (continued)

A maturity analysis of annual undiscounted cash flows for lease liabilities is as follows as of June 30, 2023:

<u>Years ending June 30</u>	<u>Operating lease</u>
2024	\$ 33,926
2025	34,944
2026	35,993
2027	37,073
2028	38,185
Thereafter	9,616
Subtotal	<u>189,737</u>
Less: imputed interest	<u>(31,064)</u>
Total	<u>\$ 158,673</u>

Note 6: Net assets with donor restrictions:

Net assets with donor restrictions consist of the following at June 30, 2023:

Subject to expenditure for a specific purpose:	
Oral health	\$ 37,500
Vision and hearing program	230,000
Women's health	25,000
Tuition assistance	73,010
Social services case management	532,731
Diabetes education	11,250
Other programs	6,250
Subtotal	<u>915,741</u>
Subject to the passage of time	32,977
Subject to clinic's endowment spending policy:	
Star fund – medical expenses	347,210
Diabetes education	300,000
Not subject to spending policy or appropriation:	
Federal grant appropriation for condo purchase	<u>368,274</u>
Total	<u>\$ 1,964,202</u>

Arlington Free Clinic
Notes to Financial Statements

June 30, 2023

Note 6: 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, 2023:

Purpose restrictions accomplished:	
Oral health	\$ 162,511
Vision and hearing program	14,286
Women's health	43,750
Social services case management	182,686
Pharmacy and medicine program	146,798
Diabetes education	104,063
Other programs	<u>49,572</u>
Release of net assets with purpose restrictions	703,666
Release of net assets with time restrictions	594,390
Release of appropriated endowment returns without purpose restrictions	<u>17,329</u>
Total	<u><u>\$ 1,315,385</u></u>

Note 7: 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.

Arlington Free Clinic
Notes to Financial Statements

June 30, 2023

Note 7: Donor-restricted endowment: (continued)

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 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.

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.

Arlington Free Clinic
Notes to Financial Statements

June 30, 2023

Note 7: Donor-restricted endowment: (continued)

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.

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, 2022	\$ 320,021	\$ 300,000	\$ 620,021
Contributions	5,000	-	5,000
Investment gain	39,518	-	39,518
Appropriations	(17,329)	-	(17,329)
Endowment net assets, June 30, 2023	<u>\$ 347,210</u>	<u>\$ 300,000</u>	<u>\$ 647,210</u>

Note 8: 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 year ended June 30, 2023:

Contributed medical and pharmaceutical services	\$ 4,891,741
Contributed pharmaceuticals	1,285,915
Contributed computer hardware and software	42,485
Contributed professional services	16,858
Contributed goods and services - other	<u>49,135</u>
Total	<u>\$ 6,286,134</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 \$3,510,000 for the year June 30, 2023. Included in contributed pharmaceuticals are amounts donated by Direct Relief and Americares that provided pharmaceuticals with an estimated value of approximately \$1,112,000 for the year ended June 30, 2023. Donations from these donors totaled 86% of total donated goods and services for the year ended June 30, 2023.

Arlington Free Clinic
Notes to Financial Statements

June 30, 2023

Note 8: Donated goods and services: (continued)

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.

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, 2023 to be approximately \$1,286,000.

Note 9: Retirement plan:

The Clinic maintains a 401(k) retirement plan that covers substantially all employees. The Clinic contributes 3% of each participant's eligible compensation subject to certain limitations. The Clinic's contribution to the plan for the year ended June 30, 2023 totaled \$58,758.

Note 10: 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 11: Related party transactions:

The Clinic has contributions from board members totaling approximately \$122,900 for the year ended June 30, 2023.

Note 12: Subsequent events:

Subsequent events have been evaluated through February 20, 2024, which is the date the financial statements were available to be issued.

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