

ARLINGTON FREE CLINIC
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017

**ARLINGTON FREE CLINIC
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YEARS ENDED JUNE 30, 2018 AND 2017**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Arlington Free Clinic
Arlington, Virginia

We have audited the accompanying financial statements of Arlington Free Clinic (the Clinic), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
Arlington Free Clinic

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arlington Free Clinic as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Clinic adopted a recently issued accounting standard relating to the recognition of leases. The new standard requires lessees to recognize the right-of-use asset and corresponding liability for all operating and finance leases with lease terms greater than one year. Our opinion is not modified with respect to this matter.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
September 25, 2018

**ARLINGTON FREE CLINIC
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017**

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 595,449	\$ 379,871
Grants and Contributions Receivable, Current Portion	820,659	332,218
Inventory	11,397	10,409
Prepaid Expenses	84,760	58,796
Total Current Assets	1,512,265	781,294
INVESTMENTS	3,140,817	2,955,800
GRANTS AND CONTRIBUTIONS RECEIVABLE, Less Current Portion	161,331	50,000
RIGHT-OF-USE ASSET - OPERATING LEASE	237,118	-
PROPERTY AND EQUIPMENT, NET	3,612,769	3,561,200
Total Assets	\$ 8,664,300	\$ 7,348,294
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 200,006	\$ 184,393
Total Current Liabilities	200,006	184,393
LEASE LIABILITY - FINANCE LEASE	19,965	-
LEASE LIABILITY - OPERATING LEASE	234,661	-
Total Liabilities	454,632	184,393
NET ASSETS		
Unrestricted	6,155,273	5,775,965
Temporarily Restricted	1,686,121	1,019,662
Permanently Restricted	368,274	368,274
Total Net Assets	8,209,668	7,163,901
Total Liabilities and Net Assets	\$ 8,664,300	\$ 7,348,294

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT								
Contributions	\$ 850,851	\$ 1,086,319	\$ -	\$ 1,937,170	\$ 760,235	\$ 507,577	\$ -	\$ 1,267,812
Grants	-	982,464	-	982,464	-	769,897	-	769,897
Special Events, Net of Benefit Expense of \$179,977 and \$196,358, Respectively	783,694	-	-	783,694	743,047	-	-	743,047
Donated Goods and Services	4,731,717	-	-	4,731,717	5,021,408	-	-	5,021,408
Investment Income	145,266	31,589	-	176,855	249,377	30,777	-	280,154
Net Assets Released from Restrictions	1,433,913	(1,433,913)	-	-	1,159,349	(1,159,349)	-	-
Total Revenue and Other Support	7,945,441	666,459	-	8,611,900	7,933,416	148,902	-	8,082,318
EXPENSES								
Program Services:								
Arlington Free Clinic	6,723,371	-	-	6,723,371	7,017,110	-	-	7,017,110
Support Services:								
Management and General	365,305	-	-	365,305	332,389	-	-	332,389
Fundraising	477,457	-	-	477,457	443,278	-	-	443,278
Total Support Services	842,762	-	-	842,762	775,667	-	-	775,667
Total Expenses	7,566,133	-	-	7,566,133	7,792,777	-	-	7,792,777
CHANGE IN NET ASSETS	379,308	666,459	-	1,045,767	140,639	148,902	-	289,541
Net Assets - Beginning of Year	5,775,965	1,019,662	368,274	7,163,901	5,635,326	870,760	368,274	6,874,360
NET ASSETS - END OF YEAR	\$ 6,155,273	\$ 1,686,121	\$ 368,274	\$ 8,209,668	\$ 5,775,965	\$ 1,019,662	\$ 368,274	\$ 7,163,901

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018				2017			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,406,330	\$ 203,664	\$ 309,414	\$ 1,919,408	\$ 1,381,049	\$ 186,903	\$ 316,971	\$ 1,884,923
Employee Benefits and Payroll Taxes	235,546	32,334	40,439	308,319	221,916	28,669	48,234	298,819
Professional and Consultant Fees	-	73,375	37,025	110,400	11,955	68,466	147	80,568
Clinic Expense	89,452	-	-	89,452	82,999	-	-	82,999
Event and Meeting Expenses	6,170	430	17,854	24,454	9,058	1,369	19,098	29,525
Internet and Communications	75,493	1,936	13,319	90,748	68,624	1,115	9,383	79,122
Postage and Shipping	2,569	52	13,817	16,438	3,063	245	10,590	13,898
Office Expense	22,104	940	877	23,921	22,983	418	959	24,360
Printing Expense	1,695	43	16,766	18,504	1,676	29	20,275	21,980
Occupancy and Related Expenses	65,093	2,074	2,727	69,894	57,702	3,928	2,378	64,008
Depreciation and Amortization	116,654	2,482	4,964	124,100	127,124	2,705	5,409	135,238
Insurance	5,712	2,810	81	8,603	8,181	40	81	8,302
Miscellaneous	25,916	20,776	2,019	48,711	29,612	16,919	5,882	52,413
Total Expenses Excluding Donated Goods and Services:	2,052,734	340,916	459,302	2,852,952	2,025,942	310,806	439,407	2,776,155
Donated Goods and Services:								
Donated Medical Services	3,529,282	-	-	3,529,282	3,699,163	-	-	3,699,163
Donated Pharmaceuticals	1,130,660	-	-	1,130,660	1,281,300	-	-	1,281,300
Donated Benefit Expenses	-	-	18,155	18,155	-	-	3,871	3,871
Donated Professional Fees	-	16,749	-	16,749	-	1,583	-	1,583
Donated Other Services	10,695	7,640	-	18,335	10,705	20,000	-	30,705
Total Donated Goods and Services	4,670,637	24,389	18,155	4,713,181	4,991,168	21,583	3,871	5,016,622
 Total Expenses	 <u>\$ 6,723,371</u>	 <u>\$ 365,305</u>	 <u>\$ 477,457</u>	 <u>\$ 7,566,133</u>	 <u>\$ 7,017,110</u>	 <u>\$ 332,389</u>	 <u>\$ 443,278</u>	 <u>\$ 7,792,777</u>

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,045,767	\$ 289,541
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	124,100	135,238
Unrealized Gain on Investments	(14,059)	(160,529)
Realized Gain on Sale of Investments	(83,192)	(54,061)
Changes in Assets and Liabilities:		
Grants and Contributions Receivable	(599,772)	55,369
Inventory	(988)	(2,595)
Prepaid Expenses	(25,964)	(12,753)
Accounts Payable and Accrued Expenses	15,613	(42,587)
Lease Liability	(2,457)	-
Net Cash Provided by Operating Activities	459,048	207,623
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments and Reinvested Dividends	(675,077)	(503,029)
Proceeds from Sales of Investments	587,311	431,360
Purchases of Property and Equipment	(155,704)	(24,057)
Net Cash Used by Investing Activities	(243,470)	(95,726)
NET INCREASE IN CASH AND CASH EQUIVALENTS	215,578	111,897
Cash and Cash Equivalents - Beginning of Year	379,871	267,974
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 595,449	\$ 379,871
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	\$ 247	\$ 856
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Right of Use Asset and Lease Liability - Operating Lease	\$ 327,057	\$ -
Equipment Acquired through Lease Liability - Finance Lease	\$ 19,965	\$ -

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Arlington Free Clinic Inc. 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 Arlington Free Clinic, Inc. (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 Presentation

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.

Estimates

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

Income Tax Status

The Clinic is exempt from the payment of federal income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has determined that the organization is not a private foundation.

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

Cash and Cash Equivalents

For financial statement purposes, the Clinic considers its demand deposits and 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. The Clinic does not consider money market funds included in investment portfolios to be 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.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

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

Investments

The Clinic carries its investments at fair market value. 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, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

The Clinic has early adopted the accounting guidance in FASB Accounting Standards Codification (ASC) No. 842, *Leases*. The new standard requires lessees to recognize a right-of-use asset and corresponding lease liability for all operating and finance leases with lease terms greater than one year, measured at its present value. The adoption of the standard had no effect on the previously reported net assets, as the Clinic had no operating lease agreements prior to FY2018. The ASC is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The organization has elected to adopt this change in accounting principle as of June 30, 2018, prior to its effective date.

In accordance with the new standard, the Clinic determines if an arrangement is a lease at inception, and recognizes a right-of-use-asset and corresponding lease liability for all operating and finance leases with lease terms greater than one year. Right-of-use assets represent the Clinic's right to use an underlying asset for the lease term and lease liabilities represents the Clinic's obligation to make lease payments arising from the lease.

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

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

Property and Equipment

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

Net Assets

Net assets and changes therein are classified into the following categories:

Unrestricted Net Assets – The Clinic's unrestricted net assets represent funds available for general operations.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

Temporarily Restricted Net Assets – Represents resources received by the Clinic that are specifically time-restricted or restricted by donors for various programs.

Permanently Restricted Net Assets – Represents 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, it is considered unlikely that the federal security interest will have any future financial impact on the Clinic.

Revenue Recognition

Contributions, including grants, are recorded when awarded or pledged and classified as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted contributions that are received and used according to donor restrictions in the same period are recognized as temporarily restricted contributions and reclassified as net assets released from restrictions in the same period.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Assets received in connection with conditional promises are reported as refundable advances or refundable sponsorships until such time the conditions are substantially met.

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

Uniform Prudent Management of Institutional Funds Act

In 2008, the Commonwealth of Virginia enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Under UPMIFA, all unexpended endowment earnings are considered temporarily restricted.

Allocation of Expenses

The costs of providing various programs and supporting activities have been summarized on a functional basis in the notes to financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on personnel efforts or space usage.

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the presentation in the 2018 financial statements. There was no effect on the change in net assets previously reported.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these financial statements, the Clinic has evaluated events and transactions for potential recognition or disclosure through September 25, 2018, the date the financial statements were available to be issued.

NOTE 2 CONCENTRATION OF FINANCIAL AND CREDIT RISK

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

NOTE 3 GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable consist of unconditional promises to give at June 30, 2018 and 2017.

Gross contributions receivable expected to be collected in:

	<u>2018</u>	<u>2017</u>
Less than One Year	\$ 820,659	\$ 332,218
One to Five Years	161,331	50,000
Total Contributions Receivable	<u>\$ 981,990</u>	<u>\$ 382,218</u>

NOTE 4 INVESTMENTS

Investments consist of the following at June 30:

	<u>2018</u>		<u>2017</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Bond Mutual Funds	\$ 1,456,363	\$ 1,394,305	\$ 1,227,480	\$ 1,206,589
Equity Mutual Funds	1,190,254	1,715,398	1,246,388	1,715,332
Money Market Funds	31,114	31,114	33,879	33,879
Total	<u>\$ 2,677,731</u>	<u>\$ 3,140,817</u>	<u>\$ 2,507,747</u>	<u>\$ 2,955,800</u>

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

	<u>2018</u>	<u>2017</u>
Interest and Dividends	\$ 79,604	\$ 65,564
Realized Gain	83,192	54,061
Unrealized Gain	14,059	160,529
Total	<u>\$ 176,855</u>	<u>\$ 280,154</u>

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 5 FAIR VALUE MEASUREMENTS

The following table presents the Clinic's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2018 and 2017:

	2018			Total
	Level 1	Level 2	Level 3	
Investments:				
Bond Mutual Funds	\$ 1,394,305	\$ -	\$ -	\$ 1,394,305
Equity Mutual Funds	1,715,398	-	-	1,715,398
Money Market Funds	31,114	-	-	31,114
Total	\$ 3,140,817	\$ -	\$ -	\$ 3,140,817
	2017			Total
	Level 1	Level 2	Level 3	
Investments:				
Bond Mutual Funds	\$ 1,206,589	\$ -	\$ -	\$ 1,206,589
Equity Mutual Funds	1,715,332	-	-	1,715,332
Money Market Funds	33,879	-	-	33,879
Total	\$ 2,955,800	\$ -	\$ -	\$ 2,955,800

NOTE 6 LEASES

Operating Lease

Effective May 24, 2018, the Clinic entered into an office lease agreement with an unrelated party for office space. The lease term commences upon completion of the tenant improvements to the leased space (which is anticipated to be October 2018) and expires June 30, 2023, with an option to extend the term for an additional five years. The lease also requires the Clinic to reimburse the landlord for its share of maintenance, taxes and other operating costs. The lease agreement includes escalating rent payments over the term of the lease. The lease is classified as an operating lease that will be recognized on a straight-line basis over the term of the related lease.

Amount recognized under an operating lease agreement is as follows as of June 30, 2018:

Operating Lease Cost	\$ 237,118
Less: Lease Expense	-
Right-of-use Asset	\$ 237,118
Cash paid for amounts included in the measurement of lease liability:	
Operating cash flows from operating leases	2,457
Right-of-use asset obtained in exchange for new operating lease liability	\$ 237,118
Weighted-average remaining lease term - operating lease	10 years
Weighted-average discount rate - operating lease	6.75%

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 6 LEASES (CONTINUED)

Operating Lease (Continued)

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 27,023
2020	30,364
2021	31,275
2022	32,214
2023	33,180
Thereafter	<u>181,442</u>
Total	335,498
Less: Imputed Interest	<u>(98,380)</u>
Total	<u><u>\$ 237,118</u></u>

Financing Lease

In May 2018, the Clinic acquired office equipment under the terms of a noncancellable lease agreement for that is classified as a financing lease. The cost was \$19,965 and is being depreciated over a four-year lease life. Accumulated depreciation related to this lease was \$832 at June 30, 2018 and 2017. The asset is included in property and equipment on the accompanying statement of financial position.

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

<u>Year Ending June 30,</u>	<u>Total</u>
2019	\$ 5,916
2020	5,916
2021	5,916
2022	<u>5,632</u>
	23,380
Less: Amount Representing Interest	<u>(3,415)</u>
Present Value of Future Minimum Lease Payments	<u><u>\$ 19,965</u></u>

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 7 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Land	\$ 1,370,731	\$ 1,370,731
Buildings and Improvements	2,656,726	2,651,160
Computer Equipment	67,560	66,072
Computer Software	200,556	184,475
Furniture and Equipment	266,321	249,522
Clinic/Medical Equipment	48,468	30,672
Construction in Process	85,164	-
Total Property and Equipment	<u>4,695,526</u>	<u>4,552,632</u>
Less: Accumulated Depreciation	<u>(1,082,757)</u>	<u>(991,432)</u>
Property and Equipment, Net	<u>\$ 3,612,769</u>	<u>\$ 3,561,200</u>

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows at June 30:

	<u>2018</u>	<u>2017</u>
Oral Health	\$ 876,209	\$ 119,274
Star Fund	323,177	301,964
Technology	100,000	-
Women's Health	68,903	138,594
Tuition Assistance	25,731	25,731
Healthy Choices for Life	5,684	9,444
Community Bridge	-	61,620
Management Assistance	-	61,386
Physical Activity Counseling	-	23,447
Mental Health	-	4,999
Time Restricted	286,417	273,203
Total	<u>\$ 1,686,121</u>	<u>\$ 1,019,662</u>

NOTE 9 ENDOWMENT

The Clinic's endowment consists of an endowment established through the Clinic's Star Fund during the fiscal year ended June 30, 2007, to support the medical needs of patients. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the temporarily restricted unexpended endowment earnings and permanently restricted net assets.

The Board of Directors has interpreted UPMIFA as requiring the preservation of the gift in accordance with the donor's stipulation. As a result of this interpretation, the Clinic classifies the Star Fund component of temporarily restricted net assets as an endowment. The Star Fund includes a donor specified spending policy and such amounts are appropriated for expenditure by the Clinic in a manner consistent with the standard of prudence prescribed by UPMIFA.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 9 ENDOWMENT (CONTINUED)

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

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

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Spending Policy

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

The following is a summary of endowment funds subject to UPMIFA which are included in the total investment amounts on the statements of financial position for the years ended June 30, 2018 and 2017:

	Temporarily Restricted
Endowment Net Assets, June 30, 2016	\$ 281,576
Contributions	4,103
Investment Gain	30,777
Appropriations	(14,492)
Endowment Net Assets, June 30, 2017	301,964
Contributions	18,100
Investment Gain	13,489
Appropriations	(10,376)
Endowment Net Assets, June 30, 2018	\$ 323,177

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NOTE 10 CONTRIBUTED GOODS AND SERVICES

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

	2018	2017
Contributed Services - Medical and Pharmaceutical	\$ 3,529,282	\$ 3,699,163
Donated Goods and Pharmaceuticals	1,148,815	1,285,171
Contributed Goods and Services - Other	53,620	37,074
Total	\$ 4,731,717	\$ 5,021,408

Included in these totals are amounts donated by Virginia Hospital Center–Arlington (a related party – senior vice president and chief medical officer of the Virginia Hospital Center–Arlington is also on the Clinic’s Board of Directors) that provided lab fees, x-ray services, and other medical tests with an estimated value of \$1,644,086 and \$1,667,421 for the years ended June 30, 2018 and 2017, respectively.

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

The Clinic has elected not to record various donated pharmaceuticals from the Prescription Assistance Program. The Program donations are for specific patients and are treated as an agency transaction with the Clinic acting in an intermediary capacity. The Clinic estimates the retail value of these prescriptions received and delivered during the fiscal years ended June 30, 2018 and 2017, to be approximately \$2,400,000 and \$1,600,000, respectively.

NOTE 11 RETIREMENT PLAN

The Clinic maintains a 401(k) retirement plan that covers substantially all employees. The Clinic makes a contribution of 3% of each participant’s eligible compensation subject to certain limitations. The Clinic’s contributions to the plan for the years ended June 30, 2018 and 2017, totaled \$43,767 and \$42,403, respectively.

NOTE 12 COMMITMENTS

Employment Agreement

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

**ARLINGTON FREE CLINIC
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NOTE 12 COMMITMENTS (CONTINUED)

Dental Clinic Expansion

The Clinic has estimated a cost of \$885,000 for a dental office expansion. The project is expected to be completed within the next fiscal year. As of June 30, 2018, the Clinic has committed \$264,000 of the estimated costs in signed contracts. Incurred work in process project costs totaling approximately \$85,000 are included as property and equipment on the accompanying statements of financial position, as well as approximately \$33,000 included in prepaid expenses representing deposits on furniture and equipment.