

Virginia Association of Free and Charitable Clinics, Inc.

Financial Statements

June 30, 2016 and 2015

Virginia Association of Free and Charitable Clinics, Inc.

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Independent Auditor's Report

Board of Directors
Virginia Association of Free and
Charitable Clinics, Inc.
Richmond, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Virginia Association of Free and Charitable Clinics, Inc., which comprise the statements of financial position as of June 30, 2016 and 2015, 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.

Auditor's 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 auditor's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Association of Free and Charitable Clinics, Inc. as of June 30, 2016 and 2015, and its change 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.

Mitchell, Wiggins & Company LLP

Petersburg, Virginia
October 6, 2016

Virginia Association of Free and Charitable Clinics, Inc.

Statements of Financial Position
June 30, 2016 and 2015

Assets	2016	2015
Cash	\$ 292,041	\$ 228,599
Accounts receivable	1,643,549	810,961
Accrued management fee receivable	112,881	78,247
Prepaid expenses	4,558	2,583
Investments	188,769	175,788
Deposit	2,000	2,000
Furniture, fixtures and equipment, less accumulated depreciation \$9,997 in 2016; \$7,907 in 2015	4,133	5,491
Total assets	\$ 2,247,931	\$ 1,303,669
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 7,928	\$ 7,617
Grants payable	1,680,663	848,976
Accrued expenses	18,022	13,150
Employee payroll deductions	4,971	2,648
Total liabilities	1,711,584	872,391
Net Assets		
Unrestricted	502,878	427,770
Temporarily restricted	33,469	3,508
Total net assets	536,347	431,278
Total liabilities and net assets	\$ 2,247,931	\$ 1,303,669

See Notes to Financial Statements

Virginia Association of Free and Charitable Clinics, Inc.

Statement of Activities

For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Conference and meeting income	\$ 39,020	\$ 19,900	\$ 58,920
Contributions	9,281	14,000	23,281
COPN Charity Care	-	566,950	566,950
Other income	2,106	-	2,106
Grants	-	25,000	25,000
Investment return	14,222	-	14,222
Management fees	477,823	-	477,823
Membership dues	95,353	-	95,353
State funding	6,298,027	-	6,298,027
Net assets released from restrictions	595,889	(595,889)	-
Total revenues, gains and other support	7,531,721	29,961	7,561,682
Grants and Other Functional Expenses			
Program services	424,814	-	424,814
Management and general	142,890	-	142,890
Fundraising	21,425	-	21,425
Member clinic contractual fees	6,300,534	-	6,300,534
COPN Charity Care payments	566,950	-	566,950
Total expenses	7,456,613	-	7,456,613
Change in net assets	75,108	29,961	105,069
Net assets, beginning	427,770	3,508	431,278
Net assets, ending	\$ 502,878	\$ 33,469	\$ 536,347

See Notes to Financial Statements

Virginia Association of Free and Charitable Clinics, Inc.

Statement of Activities

For the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Conference and meeting income	\$ 49,864	\$ 25,500	\$ 75,364
Contributions	6,316	5,225	11,541
COPN Charity Care	-	334,543	334,543
Other income	4,935	-	4,935
Grants	-	3,500	3,500
Investment return	3,234	-	3,234
Management fees	346,428	-	346,428
Membership dues	90,746	-	90,746
State funding	3,250,937	-	3,250,937
Net assets released from restrictions	368,920	(368,920)	-
Total revenues, gains and other support	4,121,380	(152)	4,121,228
Grants and Other Functional Expenses			
Program services	322,724	-	322,724
Management and general	124,035	-	124,035
Fundraising	31,860	-	31,860
Member clinic contractual fees	3,259,834	-	3,259,834
COPN Charity Care payments	337,154	-	337,154
Total expenses	4,075,607	-	4,075,607
Change in net assets	45,773	(152)	45,621
Net assets, beginning	381,997	3,660	385,657
Net assets, ending	\$ 427,770	\$ 3,508	\$ 431,278

See Notes to Financial Statements

Virginia Association of Free and Charitable Clinics, Inc.

Statements of Cash Flows

For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Change in net assets	\$ 105,069	\$ 45,621
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	2,090	993
Loss on disposal of property and equipment	-	160
Realized loss on sale of investments	9,307	-
Unrealized (gain) loss on investments	(18,158)	10,754
Changes in operating assets		
Accounts receivable	(832,588)	12,675
Accrued management fee receivable	(34,634)	3,293
Prepaid expenses	(1,975)	(207)
Changes in operating liabilities		
Accounts payable	311	3,966
Grants payable	831,687	33,425
Accrued expenses	4,872	(4,732)
Deferred revenue	-	(106,797)
Employee payroll deductions	2,323	(1,306)
Net cash provided by (used in) operating activities	68,304	(2,155)
Cash Flows from Investing Activities		
Purchase of property and equipment	(732)	(4,072)
Purchase of investments	(195,437)	(113,932)
Proceeds from sale of investments	191,307	-
Net cash (used in) investing activities	(4,862)	(118,004)
Net change in cash and cash equivalents	63,442	(120,159)
Cash and cash equivalents, beginning	228,599	348,758
Cash and cash equivalents, ending	\$ 292,041	\$ 228,599

See Notes to Financial Statements

Virginia Association of Free and Charitable Clinics, Inc.

*Statement of Functional Expenses
For the Year Ended June 30, 2016*

	Program Services	Management & General	Fundraising
Salaries	\$ 205,184	\$ 75,456	\$ 14,544
Employee benefits	19,615	7,615	993
Payroll taxes	16,367	6,066	1,130
Total salaries and related expenses	241,166	89,137	16,667
Board and Committee Support	3,363	396	198
Conferences	48,209	-	-
Consultants	67,623	-	-
Depreciation	-	2,090	-
Dues and publications	19,088	5,090	1,273
Insurance	-	4,611	-
Investment fees	-	1,178	-
Office	9,014	2,404	601
Printing	1,370	226	16
Professional fees	-	32,245	-
Rent	19,323	3,623	1,208
Staff development	597	70	35
Telephone	4,741	1,264	316
Travel	9,447	556	1,111
Workshops and other	873	-	-
Total expenses	\$ 424,814	\$ 142,890	\$ 21,425

See Notes to Financial Statements

Virginia Association of Free and Charitable Clinics, Inc.

**Statement of Functional Expenses
For the Year Ended June 30, 2015**

	Program Services	Management & General	Fundraising
Salaries	\$ 153,518	\$ 59,553	\$ 21,431
Employee benefits	19,860	8,777	3,909
Payroll taxes	10,148	6,647	2,610
Total salaries and related expenses	183,526	74,977	27,950
Board and Committee Support	3,661	431	215
Conferences	45,643	-	-
Consultants	36,265	-	-
Depreciation	-	993	-
Dues and publications	9,739	2,597	649
Insurance	-	4,756	-
Office	11,458	3,056	764
Printing	802	132	9
Professional fees	-	31,998	-
Rent	19,323	3,623	1,208
Staff development	549	65	32
Telephone	3,813	1,017	254
Travel	6,625	390	779
Utilities	-	-	-
Workshops and other	1,320	-	-
Total expenses	\$ 322,724	\$ 124,035	\$ 31,860

See Notes to Financial Statements

Virginia Association of Free and Charitable Clinics, Inc.

Notes to Financial Statements

June 30, 2016 and 2015

Note 1. Nature of Business and Significant Accounting Policies

Virginia Association of Free and Charitable Clinics, Inc.'s (the "Organization") mission is to support and advocate for our member clinics so that Virginia's underserved have access to quality care. To this end, the Organization provides education, training, technical assistance, research, marketing, resource development, financial support through contractual relationships with member clinics that serve in a subcontractor capacity on behalf of the Organization, policy analysis and legislative monitoring for Virginia's Free and Charitable Clinics.

The Organization administers funding from the Commonwealth of Virginia and contracts with its member clinics (i.e., subcontractors) for the purpose of providing access to medical, dental, mental health care and prescription medications for patients. Although certain requirements are stipulated for each contractual relationship with the member clinics, management has assessed the possibility that those requirements will not be met as remote and, therefore, they are considered as unconditional. The member clinics (i.e., subcontractors) are reimbursed for health care and pharmaceutical services per the "Memorandum of Agreement" on a quarterly basis.

General

The Organization maintains its accounts on the accrual basis. These financial statements have been prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of balances and transactions into classes of net assets, either unrestricted, temporarily restricted or permanently restricted.

Cash equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts receivable

The Organization will routinely extend credit in connection with its activities to Virginia's member clinics located in the Commonwealth of Virginia. Receivables past due are considered delinquent receivables and are written off based on individual credit evaluation of the collectability of individual accounts receivable.

Accounts receivable are charged off to bad debts by the direct write-off method in the year in which the account is determined to be uncollectible. If the reserve method of accounting for uncollectible accounts were used, it would not have a material effect on the financial statements.

Investments

Investments in common stocks with readily determinable fair values and all investments in corporate bonds, money market funds and mutual funds are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Virginia Association of Free and Charitable Clinics, Inc.

Notes to Financial Statements

June 30, 2016 and 2015

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The Organization evaluates securities for other-than-temporary impairment at least on an annual basis, and more frequently when economic or market concerns warrant such evaluation. The Organization employs a systematic methodology that considers available evidence in evaluating potential impairment of its investments. In the event that the cost of an investment exceeds its fair value, the Organization evaluates, among other factors, the magnitude and duration of the decline in fair value; for equity and debt securities the financial health of and business outlook for the issuer; the performance of the underlying assets for interests in securitized assets; and the Organization's intent and ability to hold the investment. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded in investment income and a new cost basis in the investment is established.

Member clinic contractual fees

The Organization makes payments to various member free and charitable clinics, who serve as subcontractors, to carry out its mission. Member clinic contractual fees are recognized as an expense in the year the Organization's Funds-Accreditation-Membership Committee authorizes the member clinic contractual fees. Although certain requirements are stipulated for each contract, the Organization has assessed the possibility that those requirements will not be met as remote and, therefore, they are considered to be unconditional.

Property and equipment

Property and equipment are recorded at cost. Major additions and betterments are capitalized while maintenance and repairs which do not improve or extend the life of the respective assets are expensed currently. Depreciation is recorded using the straight-line method over the estimated useful lives of the related assets.

Revenue recognition

Contributions that include unconditional promises to give are recognized as revenues in the period received or promised. Conditional contributions are recorded when the conditions have been substantially met. Contributions are considered to be unrestricted unless specifically restricted by the donor. Program support grants are recognized as revenue at the time of award if they are unconditional.

The Organization reports grants and contributions in the temporarily restricted net asset class if they are received with donor stipulations as to their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released and reclassified to unrestricted net assets in the statements of activities. However, if restrictions on grants and contributions are met in the same reporting period as the grant or contribution is received, the revenues are reported as increases in unrestricted net assets.

Virginia Association of Free and Charitable Clinics, Inc.

Notes to Financial Statements

June 30, 2016 and 2015

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Revenues from exchange contracts and cost reimbursement grants are recognized to the extent allowable expenses are incurred under the respective agreements. Amounts reported as accounts receivable include amounts billed for dues and management fees. Income from dues is recognized over the period to which the dues relate and management fee revenue is recognized when services are provided.

Unrestricted net assets

The Organization reports assets whose use is not restricted by donors as unrestricted net assets. Contributions are available for unrestricted use unless specifically restricted by the donor. In general, the unrestricted net assets of the Organization may be used at the discretion of the Organization's management and Board of Directors to support the Organization's purpose and operations.

Temporarily restricted net assets

The Organization reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and change in net assets as net assets released from restrictions.

Permanently restricted net assets

Permanently restricted net assets are those which are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and the income only be utilized for purposes specified by the donor. The Organization had no permanently restricted net assets as of the years ended June 30, 2016 and 2015.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Income taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

Virginia Association of Free and Charitable Clinics, Inc.

Notes to Financial Statements

June 30, 2016 and 2015

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The Organization follows generally accepted accounting principles regarding "Accounting for Uncertain Tax Positions". This accounting standard provides detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in the Organization's financial statements. It requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will not be sustained upon examination. The tax years 2013 to 2015 remain subject to examination by the taxing authorities.

The Organization includes penalties and interest assessed by income taxing authorities in operating expenses. No penalties or interest were incurred for the years ended June 30, 2016 and 2015.

Note 2. Investments

Investments at June 30, 2016 and 2015 consist of the following:

	June 30, 2016			
	Cost	Fair Value	Gross Unrealized Losses	Gross Unrealized Gains
Money market funds	\$ 6,523	\$ 6,523	\$ -	\$ -
Common stock	167,521	182,246	(3,674)	18,399
	\$ 174,044	\$ 188,769	\$ (3,674)	\$ 18,399

	June 30, 2015			
	Cost	Fair Value	Gross Unrealized Losses	Gross Unrealized Gains
Money market funds	\$ 5,000	\$ 5,000	\$ -	\$ -
Mutual funds	174,221	170,788	(3,433)	-
	\$ 179,221	\$ 175,788	\$ (3,433)	\$ -

The following schedules summarize the investment return and its classification in the statements of activities for the years ended June 30, 2016 and 2015:

Virginia Association of Free and Charitable Clinics, Inc.

Notes to Financial Statements

June 30, 2016 and 2015

Note 2. Investments (Continued)

	June 30, 2016			
	Temporarily		Permanently	Total
	Unrestricted	Restricted	Restricted	
Dividend income	\$ 5,308	\$ -	\$ -	\$ 5,308
Interest income	63	-	-	63
Net unrealized gains	18,158	-	-	18,158
Realized losses	(9,307)	-	-	(9,307)
Total investment return	\$ 14,222	\$ -	\$ -	\$ 14,222

	June 30, 2015			
	Temporarily		Permanently	Total
	Unrestricted	Restricted	Restricted	
Dividend income	\$ 13,932	\$ -	\$ -	\$ 13,932
Interest income	56	-	-	56
Net unrealized gains	(10,754)	-	-	(10,754)
Total investment return	\$ 3,234	\$ -	\$ -	\$ 3,234

Note 3. Concentrations of Credit Risk

The Organization grants credit to member clinics, all of whom are located in the Commonwealth of Virginia. The Organization also maintains various deposit accounts that are occasionally in excess of federally insured limits. The risk is managed by maintaining these accounts in a high quality financial institution.

Note 4. Economic Dependency

The Organization received approximately 83% and 79% of its support from the Commonwealth of Virginia for the years ended June 30, 2016 and 2015, respectively. A significant reduction in the level of this support, if this were to occur, may have a significant effect on the Organization's programs and activities. The Commonwealth of Virginia also comprised approximately 96% and 99% of the Organization's outstanding receivable balance at June 30, 2016 and 2015, respectively.

Recognizing the increasing need for health care for low-income, uninsured residents of the Commonwealth of Virginia, the General Assembly increased the state appropriation for the Organization to \$6,296,400 for fiscal year 2016 with the intent to double the number of patients served with state funds. The Organization does not anticipate these funds will be an on-going allocation, but rather temporary support for uninsured patients to receive care at free and charitable clinics.

Virginia Association of Free and Charitable Clinics, Inc.

Notes to Financial Statements

June 30, 2016 and 2015

Note 5. Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes or period:

	<u>2016</u>	<u>2015</u>
Mel Leaman Memorial Scholarship	\$ 7,351	\$ 3,358
Resource Development Education Initiative	25,967	-
Other	150	150
	<u>\$ 33,469</u>	<u>\$ 3,508</u>

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by grantors as follows:

	<u>2016</u>	<u>2015</u>
Purpose restrictions accomplished:		
Annual Conference	\$ 19,900	\$ 25,500
Grants made from COPN Charity Care funds	566,950	334,543
Resource Development Education Initiative	6,533	3,500
Mel Leaman Memorial Scholarship	2,506	5,377
	<u>\$ 595,889</u>	<u>\$ 368,920</u>

Note 6. Fair Value Measurements

U. S. GAAP has established a framework to measure fair value and defined the required disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance also established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

Virginia Association of Free and Charitable Clinics, Inc.

Notes to Financial Statements

June 30, 2016 and 2015

Note 6. Fair Value Measurements (Continued)

The classification of investments by level within the valuation hierarchy as of June 30, 2016 and 2015 is as follows:

	Fair Value Measurements at Reporting Date Using			
	June 30			
	2016	Level 1	Level 2	Level 3
Assets				
Money market funds	\$ 6,523	\$ 6,523	\$ -	\$ -
Common stock:				
Consumer discretionary	18,506	18,506	-	-
Consumer staples	30,053	30,053	-	-
Energy	13,617	13,617	-	-
Financials	31,492	31,492	-	-
Health care	13,267	13,267	-	-
Industrials	25,976	25,976	-	-
Information technology	6,195	6,195	-	-
Materials	12,095	12,095	-	-
Real estate investment trusts	20,213	20,213	-	-
Telecommunications	6,934	6,934	-	-
Utilities	3,898	3,898	-	-
	\$ 188,769	\$ 188,769	\$ -	\$ -

	Fair Value Measurements at Reporting Date Using			
	June 30			
	2015	Level 1	Level 2	Level 3
Assets				
Money market funds	\$ 5,000	\$ 5,000	\$ -	\$ -
Mutual fund, bond	76,350	76,350	-	-
Mutual fund, equity	94,438	94,438	-	-
	\$ 175,788	\$ 175,788	\$ -	\$ -

Note 7. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Virginia Association of Free and Charitable Clinics, Inc.

Notes to Financial Statements

June 30, 2016 and 2015

Note 8. Lease Commitments

The Organization leases office space in Henrico, Virginia. Total rental expense recognized on the straight line basis for the years ended June 30, 2016 and 2015 was \$24,154. During fiscal year 2016, the lease agreement was renewed for an additional term from August 1, 2016 to July 31, 2019. The minimum long-term rental commitments under this noncancelable lease as of June 30, 2016 are as follows:

June 30, 2017	\$ 26,263
June 30, 2018	26,985
June 30, 2019	27,795
June 30, 2020	<u>2,322</u>
	<u>\$ 83,365</u>

Note 9. Donated Services

During the years ended June 30, 2016 and 2015, the value of contributed services meeting the criteria for recognition in the financial statements was not material and has not been recorded.

Note 10. Employee Savings Plan

The Organization had a tax deferred annuity plan under Section 403(b) of the Internal Revenue Code that was offered to all full-time employees commencing on the date of employment which was terminated by the Organization on July 26, 2013. In addition, the Organization has a SEP-IRA plan for all employees 21 years or older who have been employed by the Organization for at least two years and who make at least \$450 per year. The SEP-IRA plan calls for a 4% discretionary employer contribution for all eligible employees. The retirement provision provided by the Board of Directors for the years ended June 30, 2016 and 2015 was \$6,308 and \$8,570, respectively.

Note 11. Subsequent Events

Management has evaluated subsequent events through October 6, 2016, the date the financial statements were available for issue.