

**NORTH CAROLINA ASSOCIATION
OF FREE AND CHARITABLE CLINICS, INC.**

Financial Statements

Years Ended December 31, 2018 and 2017



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities	3-4
Statements of Functional Expenses	5-6
Statements of Cash Flows	7
Notes to Financial Statements	8-12



INDEPENDENT AUDITOR'S REPORT

To the Board Members of
North Carolina Association of Free and Charitable Clinics, Inc.
Winston-Salem, North Carolina

We have audited the accompanying financial statements of North Carolina Association of Free and Charitable Clinics, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 North Carolina Association of Free and Charitable Clinics, Inc. as of December 31, 2018 and 2017, 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.

A handwritten signature in cursive script that reads 'Crouch Joslyn PLLC'.

Winston-Salem, North Carolina
September 18, 2019

NORTH CAROLINA ASSOCIATION OF FREE AND CHARITABLE CLINICS, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash	\$ 608,169	\$ 441,847
Prepaid expenses	6,220	5,195
Accounts receivable - grantors	23,789	-
Accounts receivable - other	291	587
Accounts receivable - employee advances	718	-
TOTAL CURRENT ASSETS	639,187	447,629
PROPERTY AND EQUIPMENT:		
Office equipment	17,271	16,212
Furniture, fixtures and improvements	14,957	14,957
Computer software	21,224	17,486
	53,452	48,655
Less: accumulated depreciation	36,424	28,459
NET PROPERTY AND EQUIPMENT	17,028	20,196
OTHER ASSETS:		
Rent deposit	1,884	1,884
TOTAL OTHER ASSETS	1,884	1,884
TOTAL ASSETS	\$ 658,099	\$ 469,709
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Cash - overdraft	\$ -	\$ 3,520
Accounts payable	22,116	3,278
Payroll liabilities	15,686	8,289
Deferred revenue - membership	19,089	6,649
TOTAL CURRENT LIABILITIES	56,891	21,736
NET ASSETS		
Without donor restrictions		
Unrestricted	297,372	371,723
With donor restrictions		
Temporarily restricted	303,836	76,250
TOTAL NET ASSETS	601,208	447,973
TOTAL LIABILITIES AND NET ASSETS	\$ 658,099	\$ 469,709

The accompanying notes are an integral part of this statement.

NORTH CAROLINA ASSOCIATION OF FREE AND CHARITABLE CLINICS, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Foundation grants	\$ -	\$ 1,191,000	\$ 1,191,000
Other grants and contracts	3,587	26,456	30,043
Conference income	15,825	-	15,825
Membership	35,045	-	35,045
Investment income	962	-	962
Donations	7,847	20,000	27,847
Donations in kind	1,213	-	1,213
Other	1,500	-	1,500
	65,979	1,237,456	1,303,435
Net assets released from restrictions	1,009,870	(1,009,870)	-
	1,075,849	227,586	1,303,435
EXPENSES:			
Program services	734,677	-	734,677
General and administrative	209,021	-	209,021
Fundraising	48,349	-	48,349
Member services	158,153	-	158,153
Training and technical assistance	-	-	-
	1,150,200	-	1,150,200
CHANGE IN NET ASSETS	(74,351)	227,586	153,235
NET ASSETS AT BEGINNING OF YEAR	371,723	76,250	447,973
NET ASSETS - END OF YEAR	\$ 297,372	\$ 303,836	\$ 601,208

The accompanying notes are an integral part of this statement.

NORTH CAROLINA ASSOCIATION OF FREE AND CHARITABLE CLINICS, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Foundation grants	\$ 2,867	\$ 696,347	\$ 699,214
Other grants and contracts	1,250	67,548	68,798
Conference income	17,500	-	17,500
Membership	33,617	-	33,617
Investment income	207	-	207
Donations	7,520	60,000	67,520
Other	231	-	231
	63,192	823,895	887,087
Net assets released from restrictions	897,645	(897,645)	-
	960,837	(73,750)	887,087
EXPENSES:			
Program services	637,712	-	637,712
General and administrative	225,089	-	225,089
Fundraising	51,133	-	51,133
Member services	138,302	-	138,302
Training and technical assistance	58,228	-	58,228
	1,110,464	-	1,110,464
CHANGE IN NET ASSETS	(149,627)	(73,750)	(223,377)
NET ASSETS AT BEGINNING OF YEAR	521,350	150,000	671,350
NET ASSETS - END OF YEAR	\$ 371,723	\$ 76,250	\$ 447,973

The accompanying notes are an integral part of this statement.

NORTH CAROLINA ASSOCIATION OF FREE AND CHARITABLE CLINICS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018

	Program Services	General and Administrative	Fund- raising	Member Services	Training and Tech Assist	Total
EXPENSES:						
Grants and assistance	\$ 399,452	\$ -	\$ -	\$ -	\$ -	\$ 399,452
Salaries	132,457	80,899	37,329	88,614	-	339,299
Payroll taxes	8,078	9,313	2,226	6,709	-	26,326
Employee benefits	6,712	63,854	-	489	-	71,055
Insurance	996	1,727	531	2,059	-	5,313
Printing and postage	-	2,973	-	17	-	2,990
Conferences and conventions	1,872	5,126	-	-	-	6,998
Office supplies	1,202	2,039	264	1,230	-	4,735
Telephones	1,329	2,304	709	2,747	-	7,089
Communications	-	8,674	-	-	-	8,674
Rent	5,194	9,002	2,770	10,734	-	27,700
Professional fees	169,065	8,938	2,750	18,157	-	198,910
Dues and subscriptions	-	920	-	-	-	920
Travel and entertainment	3,054	3,148	-	10,108	-	16,310
Meetings	-	1,323	-	10,445	-	11,768
Repair and maintenance	-	56	-	-	-	56
Member projects	-	-	-	-	-	-
Technology project	2,186	3,770	974	3,759	-	10,689
Payroll processing	-	2,097	-	-	-	2,097
Contributions	-	-	-	-	-	-
Miscellaneous	1,587	269	-	-	-	1,856
Depreciation	1,493	2,589	796	3,085	-	7,963
	<u>\$ 734,677</u>	<u>\$ 209,021</u>	<u>\$ 48,349</u>	<u>\$ 158,153</u>	<u>\$ -</u>	<u>\$ 1,150,200</u>

The accompanying notes are an integral part of this statement.

NORTH CAROLINA ASSOCIATION OF FREE AND CHARITABLE CLINICS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017

	Program Services	General and Administrative	Fund- raising	Member Services	Training and Tech Assist	Total
EXPENSES:						
Grants and assistance	\$ 481,097	\$ -	\$ -	\$ -	\$ -	\$ 481,097
Salaries	53,972	102,184	36,444	66,568	40,862	300,030
Payroll taxes	4,162	9,377	2,220	5,493	3,052	24,304
Employee benefits	-	57,783	-	9,641	-	67,424
Insurance	781	1,263	417	1,110	573	4,144
Printing and postage	-	3,090	-	-	-	3,090
Conferences and conventions	700	4,503	-	-	217	5,420
Office supplies	662	1,459	233	1,160	390	3,904
Telephones	1,187	2,057	633	1,582	870	6,329
Communications	-	10,536	2,500	307	-	13,343
Rent	4,828	8,368	2,575	6,437	3,540	25,748
Professional fees	81,186	9,205	4,082	10,205	5,613	110,291
Dues and subscriptions	-	1,405	-	-	-	1,405
Travel and entertainment	5,172	3,498	-	13,433	321	22,424
Meetings	-	1,054	-	17,242	-	18,296
Repair and maintenance	-	77	-	-	-	77
Member projects	-	-	-	-	-	-
Technology project	2,190	3,662	1,083	2,748	1,489	11,172
Payroll processing	-	2,409	-	-	-	2,409
Contributions	-	-	-	-	-	-
Miscellaneous	-	83	-	10	-	93
Depreciation	1,775	3,076	946	2,366	1,301	9,464
	<u>\$ 637,712</u>	<u>\$ 225,089</u>	<u>\$ 51,133</u>	<u>\$ 138,302</u>	<u>\$ 58,228</u>	<u>\$ 1,110,464</u>

The accompanying notes are an integral part of this statement.

NORTH CAROLINA ASSOCIATION OF FREE AND CHARITABLE CLINICS, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (Decrease) in net assets	\$ 153,235	\$ (223,377)
Adjustment to reconcile increase (decrease) in net assets to net cash provided by operations:		
Depreciation	7,963	9,464
(Increase) Decrease in accounts receivable grantor	(23,789)	-
(Increase) Decrease in accounts receivable other	(422)	(587)
(Increase) Decrease in prepaid expenses	(1,025)	(784)
Increase (Decrease) in accounts payable	18,838	(5,823)
Increase (Decrease) in payroll liabilities	7,396	2,014
Increase (Decrease) in deferred revenues	12,440	(2,716)
	174,636	(221,809)
NET CASH FROM OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for property and equipment	(4,794)	-
	(4,794)	-
NET CASH USED BY INVESTING ACTIVITIES		
INCREASE (DECREASE) IN CASH	169,842	(221,809)
Cash at beginning of the year	438,327	660,136
CASH AT END OF YEAR	\$ 608,169	\$ 438,327

The accompanying notes are an integral part of this statement.

NORTH CAROLINA ASSOCIATION OF FREE AND CHARITABLE CLINICS, INC.

Notes to Financial Statements

December 31, 2018

Note 1 – Nature of Organization and Significant Accounting Policies

Nature of organization: The North Carolina Association of Free and Charitable Clinics, Inc. (NCAFCC) is a North Carolina not-for-profit corporation (501(c)(3) tax exempt) organized to conduct advocacy, research, public relations, resource development, training and technical assistance for its member Free Clinics and the people they serve. The organization was previously known as the North Carolina Association of Free Clinics, Inc. and changed its name to North Carolina Association of Free and Charitable Clinics, Inc. through the filing of an amendment to its articles of incorporation with the North Carolina Secretary of State's office effective July 31, 2015. The underlying goal of NCAFCC is to serve the uninsured and underinsured people of North Carolina. Funding for the programs carried out by the Association has been received from various sources including private foundations, charitable trusts, other tax-exempt organizations, annual conference receipts, private contributions and membership fees (charged to all member clinics).

Beginning in the year 2018 the Association changed accounting policies related to the presentation of its financial statements by adopting FASB Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the NCAFCC and changes therein are classified and reported as follows:

Net Assets without Donor Restrictions - The part of net assets of a not-for-profit entity that is not subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants).

Net Assets with Donor Restrictions - The part of net assets of a not-for-profit entity that is subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants).

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the NCAFCC and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by NCAFCC. Generally, the donors of these assets would permit the NCAFCC to use all or part of the income earned on any related investments for general or specific purposes. There are no permanently restricted net assets at this time.

Revenue recognition: Support that is restricted by the donor is reported as an increase in restricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily (or permanently restricted, if applicable) net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

NORTH CAROLINA ASSOCIATION OF FREE AND CHARITABLE CLINICS, INC.

Notes to Financial Statements December 31, 2018

Note 1 – Nature of Organization and Significant Accounting Policies (continued)

Basis of accounting and financial statement presentation: The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

Fair value of financial instruments: The carrying values of cash and cash equivalents, investments, accounts payable and other accrued liabilities approximate fair value as of December 31, 2018 and 2017.

Property and equipment: Property and equipment are stated at cost, or if donated they are recorded as support at their estimated fair value at the date of donation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, generally 5 to 15 years. It is the management's policy to capitalize all significant asset acquisitions that have an expected useful life greater than one year. The Association does not have any contributed long-lived assets with donor restrictions.

Intangible assets: Intangible assets are included with property and equipment for reporting purposes. Management evaluates the recoverability of intangible assets periodically by taking into account events or circumstances that may warrant revised estimates of useful lives or that indicate that the asset may be impaired. The fair value of the Association's intangible assets are estimated and compared to carrying value.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported support, revenue and expenses. Estimates were made by management regarding the useful lives of property and equipment. Management also estimates that all accounts receivable, if any, will be received and that an allowance for doubtful accounts is not necessary. Actual results could differ from those estimates.

Income tax status: NCAFCC is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and North Carolina General Statute 105.130.11(a), therefore, no provision has been made for income taxes. See Note 6.

Subsequent events: The Association evaluates events or transactions that occur subsequent to year end for potential recognition and disclosure in the financial statements through the date on which the financial statements are available for issue. NCAFCC has evaluated subsequent events through September 18, 2019, which is the date the financial statements were available for issuance.

Concentration of credit risk: The Association maintains significant cash deposit accounts and money market accounts with a single bank that would ordinarily at times exceed federally insured limits. The Company has never experienced any losses on its cash deposits. The amount in excess of FDIC insurance limits was \$346,957 and \$191,648 at December 31, 2018 and 2017 respectively.

NORTH CAROLINA ASSOCIATION OF FREE AND CHARITABLE CLINICS, INC.

Notes to Financial Statements

December 31, 2018

Note 1 – Nature of Organization and Significant Accounting Policies (continued)

Contribution of assets other than cash: The organization reports contributions of assets other than cash at their estimated fair market value. These contributions amounted to \$1,213 and \$-0- during the years ended December 31, 2018 and 2017 respectively.

Cash Equivalents: The Association considers short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash at the day of purchase, and they have a maturity date no longer than ninety days.

Accounts Receivable: The Association recognizes receivables from grantors when qualifying expenditures have been incurred and relevant available funding has not been received. Based on past experience with the collectability of qualifying expenditures the Association does not consider an allowance necessary.

Concentration of support: The Association received a significant amount of its support from a three-year \$2,812,000 Initiative to provide resources to enhance member clinics' ability to provide high quality care for the uninsured and underinsured people of North Carolina. The grant, from the Blue Cross and Blue Shield of North Carolina Foundation, began January 20, 2017 and ends December 31, 2019. This funding from the Blue Cross and Blue Shield of North Carolina Foundation represented 80% and 75% of the Association's recognized total support and revenue for the years ended December 31, 2018 and 2017, respectively.

Functional allocation of expenses: The costs of providing the various programs and activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted based on the Association's ongoing analysis. Salaries are allocated based on the amount of time devoted by various employees to the various purposes. Other costs are likewise allocated based on the Association's analysis and judgement of the purposes benefitted.

Note 2 – Property and Equipment

The following is an analysis of property and equipment by major category.

	<u>2018</u>	<u>2017</u>
Furniture and Fixtures	\$ 13,457	\$ 13,457
Computer equipment	15,240	14,181
Other equipment	2,031	2,031
Computer software	21,224	17,486
Leasehold improvements	1,500	1,500
	<hr/> 53,452	<hr/> 48,655
Less accumulated depreciation and amortization	36,424	28,459
	<hr/> <u>\$ 17,028</u>	<hr/> <u>\$ 20,196</u>

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 was \$7,963 and \$9,464 respectively.

NORTH CAROLINA ASSOCIATION OF FREE AND CHARITABLE CLINICS, INC.

**Notes to Financial Statements
December 31, 2018**

Note 3 – Retirement Benefits

NCAFCC participates in 403(b) annuity plan sponsored by the North Carolina Association of Free and Charitable Clinics, Inc. and employees can voluntarily contribute on a tax deferred basis into the annuity plan subject to IRS limitations. In addition, NCAFCC can make discretionary contributions to the plan for the benefit of its employees. During the year ended December 31, 2018 NCAFCC recognized contributions of \$10,000 to the plan and for 2017, NCAFCC contributed \$10,000 to the plan.

Note 4 – Lease Commitments

The Association leases its Winston-Salem, North Carolina office space under a four year lease agreement which began July 1, 2015. Rent payments under the agreement are \$1,884 per month plus common area maintenance for the first year with a 3% increase in the rent beginning in July of each subsequent year. The office space monthly rent and common area maintenance for the period ending June 30,2019 is \$2,242. NCAFCC also leases certain office equipment under operating lease that expires October 2022. The office equipment lease payments are included in the printing and postage expense. Future minimum rental payments required under these leases are as follows:

2019	\$	15,553
2020		2,099
2021		2,099
2022		1,749
2023 and thereafter		-
	\$	21,500

Rent expenses under this and the prior leases amounted to \$29,799 and \$26,987 for the years ended December 31, 2018 and 2017 respectively.

Note 5 – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
KB Reynolds Charitable Trust/ Winston Salem Foundation		
Increase Sustainability for Member Clinics	\$ 129,591	\$ -
Blue Cross and Blue Shield of NC Foundation:		
Initiative to Sustain and Expand the Free Clinic Model	174,245	76,250
	\$ 303,836	\$ 76,250

NORTH CAROLINA ASSOCIATION OF FREE AND CHARITABLE CLINICS, INC.

Notes to Financial Statements

December 31, 2018

Note 6 – Public Support

The Association's status as a 501(c)(3) public charity depends upon its ability to maintain the required levels of funding from entities meeting the IRS definition of public support (such as government grants). The levels of support are considered and computed over the most recent five-year period. Only a portion of the support received from the Blue Cross and Blue Shield of North Carolina Foundation (BCBSNCF), the Association's primary benefactor, meets the IRS definition of public support.

Because the Association went through a period in which it did not receive significant other funding (relative to that from BCBSNCF meeting the public support definition during the years 2013 to 2016) the calculation to determine its 501(c)(3) public charity status for 2018 and 2017 has warranted the close attention of management.

The Association has taken steps to maintain its 501(c)(3) public charity status in future periods by diversifying its sources of public support. The Association's public support percentage increased from 2016 to 2018 and management expects this trend to continue. By implementing and attaining the goals of these actions the Association can maintain levels of support that will meet the IRS parameters for 501(c)(3) public charity status. If an entity no longer meets the IRS requirements to be a 501(c)(3) public charity it may qualify as a private foundation for tax purposes.

Note 7 – Availability of Financial Assets

NCAFCC has \$329,131 of financial assets available within 1 year of the balance sheet date to meet cash needs for general expenditure consisting of cash of \$304,333 and receivables of \$24,798. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date.

NCAFCC has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$68,500. NCAFCC has structured its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, NCAFCC invests cash in excess of daily requirements in short-term investments through the financial institution that maintains its operating cash account.

NCAFCC has \$303,836 of financial assets available as of the balance sheet date to meet cash needs for restricted and designated expenditure consisting of cash of \$303,836