

FREE CLINIC OF SOUTHWEST WASHINGTON
(A Non-Profit Corporation)

FINANCIAL STATEMENTS FOR THE YEARS
ENDED JUNE 30, 2018 AND 2017
an Independent Auditor's Report

FREE CLINIC OF SOUTHWEST WASHINGTON
(A Non-Profit Corporation)

FINANCIAL STATEMENTS FOR THE YEARS ENDED
JUNE 30, 2018 AND 2017

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MICHAEL J. PLYMALE, INC., P.S.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Finance Committee
The Board of Directors
Free Clinic of Southwest Washington

Report on the Financial Statements

We have audited the accompanying financial statements of Free Clinic of Southwest Washington (a non-profit organization) 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.

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 consolidated 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 consolidated 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 consolidated 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 Free Clinic of Southwest Washington 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.

A handwritten signature in black ink, appearing to read 'M. Plymale', is written over a horizontal line.

MICHAEL J. PLYMALE INC., P.S.
Vancouver, Washington
October 8, 2018

Free Clinic of Southwest Washington
 Statements of Financial Position
 June 30, 2018 and 2017

ASSETS	<u>6/30/18</u>	<u>6/30/17</u>
Current Assets:		
Cash and Cash Equivalents	\$ 200,306	\$ 149,390
American Funds Investment Account	300,364	281,488
Vanguard Investment Account - Reserves	165,445	138,488
Accounts Receivable	5,672	5,713
Pledges Receivable	30,000	30,000
Prepaid Expense	19,314	16,760
Total Current Assets	<u>721,101</u>	<u>621,839</u>
Noncurrent Assets:		
Pledges Receivable	-	25,000
Endowment Investments	340,827	326,324
Equipment	474,358	473,216
Less: Accumulated Depreciation	(431,907)	(418,691)
Leasehold Improvements	597,736	597,736
Less: Accumulated Amortization	<u>(317,358)</u>	<u>(297,190)</u>
Total Noncurrent Assets	<u>663,656</u>	<u>706,395</u>
Total Assets	<u>\$ 1,384,757</u>	<u>\$ 1,328,234</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accrued Payroll	\$ 19,740	\$ 14,582
Payroll Withholdings	883	-
Accounts Payable	2,874	6,921
Accrued Vacation Payable	15,833	16,140
Total Current Liabilities	<u>39,330</u>	<u>37,643</u>
Net Assets:		
Unrestricted		
Available for General Operations	379,886	350,537
Board-Designated Reserves	100,000	100,000
Net Investment in Fixed Assets	322,829	355,071
Subtotal - Unrestricted	<u>802,715</u>	<u>805,608</u>
Temporarily Restricted	317,164	263,192
Permanently Restricted - Endowment	225,548	221,791
Total Net Assets	<u>1,345,427</u>	<u>1,290,591</u>
Total Liabilities and Net Assets	<u>\$ 1,384,757</u>	<u>\$ 1,328,234</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Free Clinic of Southwest Washington
Statement of Activities
Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total FYE 6/30/18
Revenue, Gains and Other Support:				
Individual Donations	\$ 138,109	\$ 40,470	\$ 3,757	\$ 182,336
Business & Organization Donations	99,644	74,539	-	174,183
Patient Donations	49,326	-	-	49,326
Foundation Grants	1,000	92,006	-	93,006
Special Events	201,910	30,738	-	232,648
Contract Service Revenue	74,969	-	-	74,969
Bequests, Memorials, Planned Gifts	11,445	475	-	11,920
Interest & Investment Earnings	46,130	25,745	-	71,875
Donated Materials	160,777	-	-	160,777
Donated Use of Facilities	95,820	-	-	95,820
Donated Services	576,044	-	-	576,044
Net Assets Released from Restrictions	210,001	(210,001)	-	-
Total Revenue, Gains and Other Support	1,665,175	53,972	3,757	1,722,904
Expenses:				
Program Service Expenses	1,374,197	-	-	1,374,197
Management & General Expenses	104,218	-	-	104,218
Fundraising Expenses	189,653	-	-	189,653
Total Expenses	1,668,068	-	-	1,668,068
Change in Net Assets	(2,893)	53,972	3,757	54,836
Net Assets at Beginning of Year	805,608	263,192	221,791	1,290,591
Net Assets at End of Year	\$ 802,715	\$ 317,164	\$ 225,548	\$ 1,345,427

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Free Clinic of Southwest Washington
Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total FYE 6/30/17
Revenue, Gains and Other Support:				
Individual Donations	\$ 145,435	\$ 34,063	\$ 627	\$ 180,125
Business & Organization Donations	100,105	29,500	-	129,605
Patient Donations	40,561	10	-	40,571
Foundation Grants	25,000	45,000	-	70,000
Special Events	181,381	24,250	-	205,631
Contract Service Revenue	76,206	-	-	76,206
Bequests, Memorials, Planned Gifts	18,123	2,725	-	20,848
Interest & Investment Earnings	44,521	29,899	-	74,420
Donated Materials	124,643	-	-	124,643
Donated Use of Facilities	95,820	-	-	95,820
Donated Services	831,101	-	-	831,101
Net Assets Released from Restrictions	169,635	(169,635)	-	-
Total Revenue, Gains and Other Support	<u>1,853,249</u>	<u>(4,188)</u>	<u>627</u>	<u>1,849,688</u>
Expenses:				
Program Service Expenses	1,499,264	-	-	1,499,264
Management & General Expenses	122,923	-	-	122,923
Fundraising Expenses	257,038	-	-	257,038
Total Expenses	<u>1,879,225</u>	<u>-</u>	<u>-</u>	<u>1,879,225</u>
Change in Net Assets	<u>(25,976)</u>	<u>(4,188)</u>	<u>627</u>	<u>(29,537)</u>
Net Assets at Beginning of Year	<u>831,584</u>	<u>267,380</u>	<u>221,164</u>	<u>1,320,128</u>
Net Assets at End of Year	<u>\$ 805,608</u>	<u>\$ 263,192</u>	<u>\$ 221,791</u>	<u>\$ 1,290,591</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Free Clinic of Southwest Washington
Statement of Functional Expenses
Year Ended June 30, 2018

	Program Expenses											Total Program Expenses	Mgmt. & General	Fund- Raising	Total Expenses
	Volunteer Program	Basic Health	Project Access	Dispensary	Diabetes Transition Services	Health Screening	Dental Program	Immu- nization	Vision Program	Total Program Expenses					
Salaries	\$ 12,894	\$ 118,251	\$ 49,115	\$ 5,200	\$ -	\$ -	\$ 76,279	\$ 10,798	\$ 10,798	\$ 283,335	\$ 37,440	\$ 109,936	\$ 430,711		
Payroll Taxes	2,018	11,695	6,365	521	-	-	7,773	1,321	1,321	31,014	3,512	10,557	45,063		
Health & Dental Insurance	1,231	7,619	3,182	256	-	-	4,762	859	859	18,768	929	3,531	23,228		
Retirement Benefits	200	1,249	588	42	-	-	713	130	130	3,052	151	574	3,777		
Accrued Vacation Expense	(4)	858	473	201	-	-	333	-	-	1,861	47	(2,216)	(308)		
Professional Fees	-	-	13,502	-	-	-	9,488	-	-	22,990	49,278	770	73,038		
Printing & Copying	-	3,149	339	-	447	-	512	-	-	4,447	1,078	744	6,269		
Postage & Delivery	-	687	204	-	-	-	332	-	-	1,223	120	574	1,917		
Subscriptions & Periodicals	-	-	-	-	-	-	-	-	-	-	-	199	199		
Advertising	-	51	50	-	-	-	25	-	-	126	160	19	305		
Technology	1,992	5,123	3,762	-	-	-	2,355	-	-	13,232	880	6,317	20,429		
Insurance	-	8,747	2,591	-	-	-	4,226	-	-	15,564	2,557	3,196	21,317		
Radiology	-	16,647	-	-	-	-	-	-	-	16,647	-	-	16,647		
Vouchered Prescriptions	-	-	3,817	3,481	-	-	-	-	-	7,298	-	-	7,298		
Bulk Pharmaceuticals	-	636	-	24,171	6,528	-	-	-	-	31,335	-	-	31,335		
Head Lice Kits	-	4,756	-	-	-	-	-	-	-	4,756	-	-	4,756		
Office Supplies	-	3,602	74	-	-	-	355	-	-	4,031	248	34	4,313		
Newsletters / Direct Mailing	-	-	-	-	-	-	-	-	-	-	-	3,039	3,039		
Medical, Dental & Clinic Supplies	-	6,792	-	773	7,170	-	16,179	1,530	62	32,506	-	-	32,506		
Occupancy	380	20,384	1,141	-	-	-	1,712	-	-	23,617	354	380	24,351		
Website	-	369	109	-	-	-	178	-	-	656	57	135	848		
Recognition & Board Expenses	-	-	-	-	-	-	-	-	-	-	700	-	700		
Volunteer Refreshments	319	570	12	-	-	-	121	-	-	1,022	-	182	1,204		
Travel & Mileage	-	-	-	-	7	-	-	-	-	7	-	-	7		
Dental Van Operations	-	-	-	-	-	-	2,290	-	-	2,290	-	-	2,290		
Dental Van Repairs & Maintenance	-	-	-	-	-	-	8,417	-	-	8,417	-	-	8,417		
Bank & Merchant Fees	-	1,439	426	-	-	-	695	-	-	2,560	1,633	3,811	8,004		
Dues & Fees	10	182	45	-	-	-	73	-	-	310	611	345	1,266		
Staff Development / Conferences	-	-	-	-	-	-	-	-	-	-	313	-	313		
Special Events	-	-	-	-	-	-	-	-	-	-	-	28,445	28,445		
Depreciation & Amortization	-	16,271	3,335	-	-	-	7,920	-	-	27,526	1,743	4,115	33,384		
Miscellaneous Expenses	-	129	22	-	-	-	56	-	-	207	104	28	339		
Allocation of Volunteer Program Expenses	(19,040)	16,161	960	-	-	-	1,919	-	-	-	-	-	-		
In-Kind Expenses:															
Donated Professional Services	-	324,576	140,122	45,579	23,730	3,036	26,206	8,376	4,420	576,045	-	-	576,045		
Donated Use of Facilities	-	77,614	5,749	-	-	-	8,624	-	-	91,987	1,916	1,916	95,819		
Donated Materials	-	144,466	-	-	-	-	2,902	-	-	147,368	387	13,022	160,777		
Total	\$ -	\$ 792,023	\$ 235,983	\$ 80,224	\$ 37,882	\$ 3,036	\$ 184,445	\$ 23,014	\$ 17,590	\$ 1,374,197	\$ 104,218	\$ 189,653	\$ 1,668,068		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Free Clinic of Southwest Washington
Statement of Functional Expenses
Year Ended June 30, 2017

	Program Expenses											Total Program Expenses	Mgmt. & General	Fund-Raising	Total Expenses
	Volunteer Program	Basic Health	Project Access	Dispensary	Diabetes			Dental Program	Immunization	Vision Program	Total Program Expenses				
					Transition Services	Health Screening	Dental Program								
Salaries	\$ 3,576	\$ 82,654	\$ 48,890	\$ 5,165	\$ -	\$ -	\$ 82,815	\$ 10,520	\$ 10,520	\$ 244,140	\$ 41,600	\$ 116,402	\$ 402,142		
Payroll Taxes	1,166	8,681	5,753	598	-	143	8,126	1,192	1,233	26,892	3,950	11,236	42,078		
Health & Dental Insurance	523	5,709	5,431	1,233	-	196	6,503	661	873	21,129	1,236	4,447	26,812		
Retirement Benefits	49	539	510	117	-	19	614	62	82	2,529	117	420	2,529		
Accrued Vacation Expense	77	769	(308)	(161)	-	-	1,141	172	172	1,862	723	4,616	7,201		
Professional Fees	-	-	12,113	-	-	-	11,025	-	-	23,138	53,892	438	77,468		
Printing & Copying	43	1,209	1,026	-	-	-	770	-	21	3,069	243	1,451	4,763		
Postage & Delivery	-	424	378	-	-	-	283	-	-	1,085	86	210	1,381		
Subscriptions & Periodicals	26	-	-	-	-	-	-	-	-	26	-	199	225		
Advertising	-	-	-	-	-	-	-	-	-	-	69	-	69		
Technology	2,255	5,759	3,799	-	-	-	2,810	-	-	14,623	1,582	5,293	21,498		
Insurance	-	6,100	5,440	-	-	-	4,080	-	-	15,620	2,451	2,854	20,925		
Radiology	-	18,399	-	-	-	-	-	-	-	18,399	-	-	18,399		
Vouchered Prescriptions	-	9,844	7,150	4,198	609	-	-	-	-	21,801	-	-	21,801		
Bulk Pharmaceuticals	-	697	-	25,398	2,649	-	-	-	-	28,744	-	-	28,744		
Head Lice Kits	-	4,960	-	-	-	-	-	-	-	4,960	-	-	4,960		
Office Supplies	295	2,886	115	92	-	-	69	-	6	3,463	730	122	4,315		
Newsletters / Direct Mailing	-	-	-	-	-	-	-	-	-	-	-	2,039	2,039		
Medical, Dental & Clinic Supplies	-	10,751	533	122	5,695	411	11,561	578	309	29,960	-	856	29,960		
Occupancy	417	23,991	1,250	-	-	-	2,272	-	-	27,930	417	-	29,203		
Website	-	88	78	-	-	-	59	-	-	225	118	41	384		
Recognition & Board Expenses	276	-	-	-	-	-	-	-	-	276	1,072	-	1,348		
Volunteer Refreshments	-	315	-	-	-	-	92	-	-	407	-	-	407		
Travel & Mileage	-	18	-	-	-	-	-	-	-	18	1,259	-	1,277		
Dental Van Operations	-	-	-	-	-	-	3,792	-	-	3,792	-	-	3,792		
Dental Van Repairs & Maintenance	-	-	-	-	-	-	4,447	-	-	4,447	-	-	4,447		
Bank & Merchant Fees	-	1,295	1,154	-	-	-	866	-	-	3,315	717	2,750	6,782		
Dues & Fees	-	119	106	-	-	-	228	-	-	453	1,233	256	1,942		
Staff Development / Conferences	-	-	-	-	-	-	-	-	-	-	-	225	225		
Special Events	-	-	-	-	-	-	-	-	-	-	-	24,470	24,470		
Small Equipment	-	77	69	-	-	-	51	-	-	197	16	36	249		
Depreciation & Amortization	-	14,535	7,200	-	-	-	7,879	-	-	29,614	1,635	3,778	35,027		
Loss on Disposal of Fixed Assets	-	709	-	-	-	-	-	-	-	709	-	-	709		
Miscellaneous Expenses	-	90	-	-	-	-	-	-	-	90	-	-	90		
Allocation of Volunteer Program Expenses	(8,703)	7,398	435	-	-	-	870	-	-	-	-	-	-		
In-Kind Expenses:															
Donated Professional Services	-	261,414	323,708	49,110	32,234	4,933	81,824	10,174	4,755	768,152	139	62,810	831,101		
Donated Use of Facilities	-	77,614	5,749	-	-	-	8,624	-	-	91,987	1,916	-	95,819		
Donated Materials	-	66,079	-	28,101	8,420	-	254	-	3,895	106,749	7,497	10,398	124,644		
	\$ -	\$ 613,123	\$ 430,579	\$ 113,973	\$ 49,607	\$ 5,702	\$ 241,055	\$ 23,359	\$ 21,866	\$ 1,499,264	\$ 122,923	\$ 257,038	\$ 1,879,225		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Free Clinic of Southwest Washington
 Statements of Cash Flows
 Years Ended June 30, 2018 and 2017

	6/30/18	6/30/17
Cash Flows From Operating Activities:		
Increase (decrease) in net assets	\$ 54,836	\$ (29,537)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	33,384	35,027
Changes in:		
Investments	(50,467)	(74,150)
Accounts receivable	(797)	8,907
Grants & pledges receivable	25,836	43,066
Prepaid expenses	(2,552)	1,919
Accounts payable	(4,047)	(11,682)
Accrued payroll & related	6,042	(2,541)
Accrued vacation	(307)	7,203
Net cash provided by operating activities	61,928	(21,788)
Cash flows from investing activities:		
Purchase of equipment	(1,142)	(3,771)
Loss on disposition of equipment	-	709
Purchases of investments	(29,988)	(627)
Sales of investments	20,118	16,451
Net cash from investing activities	(11,012)	12,762
Net increase (decrease) in cash and cash equivalents	50,916	(9,026)
Cash and Cash Equivalents at Beginning of Year	149,390	158,416
Cash and Cash Equivalents at End of Year	\$ 200,306	\$ 149,390

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Free Clinic of Southwest Washington

Notes to Financial Statements

Years Ended June 30, 2018 and 2017

1. Organization

The Free Clinic of Southwest Washington (the “Free Clinic” or the “Organization”) is a nonprofit corporation located in Vancouver, Washington. The Organization provides free urgent health care for uninsured low income individuals and families. The Free Clinic serves adults and children. Services include urgent medical care and dental care, immunizations, sports physicals, dental sealants and fluoride treatments for children, health screening services, vision clinics, and emergency prescription assistance and diabetes care. The Free Clinic also coordinates access to specialty care and dental services in the community for uninsured individuals through the project access program. A unique feature of the Free Clinic is that all health services are provided by over 500 professional, technical and clerical volunteers.

2. Summary of Significant Accounting Policies

Basis of Accounting – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

Basis of Presentation – Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met by actions of the Organization and/or the passage of time.
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expiration of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition – All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. Bequests are recorded as revenue at the time the Organization has an established right to the bequest and the proceeds are measurable.

Contributions – Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period the pledge is made. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

In-Kind Contributions – The Free Clinic receives a significant amount of donated services requiring specialized clinical skills. Significant services received which create or enhance a non-financial asset or require specialized skills that the Organization would have purchased if not donated are recognized in the statement of activities. During the year ended June 30, 2018, \$576,044 of contributed professional services were recorded. During the year ended June 30, 2017, \$768,152 of contributed professional services were recorded. During the year ended June 30, 2018, total donated professional service hours recorded were 10,488. Additional volunteer hours of service not included in the financial statements were 7,096.

The U.S. Department of Labor, Bureau of Labor Statistics, is used to determine the value of professional and technical services provided at the Free Clinic. The value of Project Access program donated services is determined using Medicaid rates. Data submitted from specialists offices are sent to the Free Clinic and documented on spreadsheets. Monthly summaries are completed by Free Clinic staff.

The Free Clinic also receives in-kind contributions of medical supplies and other items which are recorded when there is an objective basis upon which to value those contributions and where the contributions are an essential part of the Organization's activities. During the year ended June 30, 2018, \$160,777 of contributed medical supplies and other items were recorded. During the year ended June 30, 2017, \$124,643 of contributed medical supplies and other items were recorded.

Capital Assets and Depreciation – Capital assets are reported at cost when purchased and at fair market value when acquired by gift. The Free Clinic capitalizes fixed assets costing at least \$1,000. Equipment is depreciated using the straight-line method over the estimated useful lives of the assets, which is generally 5 to 15 years. Leasehold improvements are amortized over the life of the lease.

Maintenance and Repairs – Improvements, additions and major renewals which extend the life of an asset are charged to the property and equipment accounts. Repairs and maintenance are expensed currently.

Advertising and Promotion – Advertising and promotion costs are expensed as incurred.

Income Tax – The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending June 30, 2015, 2016 and 2017 are subject to examination by the IRS and generally may be audited within three years after they were filed.

Investments – Investments are carried at market value. Net appreciation in the fair market value of investments, which consists of the realized gains or losses and the unrealized appreciation (or depreciation) of those investments, is shown in the statement of activities. Investment income is accrued as earned. Security transactions are recorded on a settlement date basis.

Cash and Cash Equivalents – The Organization considers all highly liquid debt instruments purchased with maturities of 90 days or less to be cash equivalents.

3. Investments

The Free Clinic invests part of its funds in a pool of mutual funds managed by the Community Foundation for Southwest Washington for the benefit of nonprofits, part of its funds in Free Clinic of Southwest Washington-managed accounts with Vanguard Fund and part of its funds with LPL Financial Partners, Inc. The investments are reported by all entities at fair market value, which is determined by using quoted market prices. The policies of both the Community Foundation for Southwest Washington, and the Free Clinic provide that no investment or group of investments may represent a significant concentration of market risk. The investment pool does not separately report realized and unrealized gains and losses on individual investments within the pool.

The Free Clinic did not give variance power to the Community Foundation for Southwest Washington. Earnings can be withdrawn upon written request of the President and Treasurer of the Free Clinic and can be payable only to the Free Clinic. The Free Clinic must give the Community Foundation for Southwest Washington at least 3 months notice for a withdrawal of all or a portion of the principal and at least 180 days notice for a withdrawal that exceeds \$100,000.

The investment for the year ended June 30, 2018 held in the Community Foundation for Southwest Washington investment pool resulted in investment gains of \$458. The ending fund balance was \$22,648. The investment for the year ended June 30, 2017 resulted in investment gains of \$1,134. The ending fund balance was \$18,433. All the funds managed by the Community Foundation for Southwest Washington are invested in Vanguard mutual funds.

The investment for the year ended June 30, 2018 for the Vanguard account held by the Free Clinic for endowment funds resulted in net gains of \$25,288. The ending balance was \$318,178. The investment for the year ended June 30, 2017 resulted in net gains of \$28,765. The ending balance was \$307,891.

The investment for the year ended June 30, 2018 for the account held at LPL Financial Partners, Inc. resulted in net gains of \$43,759. The ending balance was \$300,364. The investment for the year ended June 30, 2017 resulted in net gains of \$43,333. The ending balance was \$281,488. All the funds managed by LPL Financial Partners are invested in American Funds mutual funds.

The investment for the year ended June 30, 2018 for the Vanguard account held by the Free Clinic for reserves resulted in a net gain of \$2,088. The ending balance was \$165,445. The investment for the year ended June 30, 2017 resulted in a net gain of \$920. The ending balance was \$138,488.

Investments consist of the following:

	<u>6/30/18</u>	<u>6/30/17</u>
Vanguard Balanced Index Fund	\$ 318,178	\$ 307,891
Vanguard Balanced Mutual Fund	22,648	18,433
Vanguard Certificates of Deposit	165,445	138,488
American Funds Mutual Funds:		
Washington Mutual Investors Fund	45,959	56,149
AMCAP Fund	61,593	42,097
EuroPacific Growth Fund	57,202	56,507
Growth Fund of America	46,327	42,051
New Economy Fund	31,801	28,381
Investment Company of America	<u>57,482</u>	<u>56,303</u>
	<u>\$ 806,635</u>	<u>\$ 746,300</u>
	<u>6/30/18</u>	<u>6/30/17</u>
American Funds Investment Account	\$ 300,364	\$ 281,488
Reserves Vanguard Account	165,445	138,488
Endowment Vanguard Account	<u>340,826</u>	<u>326,324</u>
Total	<u>\$ 806,635</u>	<u>\$ 746,300</u>

The investment return for the year ending June 30, 2018 and 2017 breaks down as follows:

	<u>6/30/18</u>	<u>6/30/17</u>
Interest & Dividends	\$ 10,141	\$ 10,460
Gains & Losses (Realized & Unrealized)	<u>61,734</u>	<u>63,960</u>
Total	<u>\$ 71,875</u>	<u>\$ 74,420</u>

Investment advisory fees totaled \$333 for the fiscal year ended June 30, 2018 and \$363 for the fiscal year ended June 30, 2017.

The organization reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- *Level 1.* Quoted prices for identical assets or liabilities in active markets to which the organization has access at the measurement date.
- *Level 2.* Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets in markets that are not active;
 - observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
 - inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- *Level 3.* Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

When available, the organization measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. However, level 1 inputs are not available for many of the assets and liabilities that the organization is required to measure at fair value (for example, unconditional promises to give and in-kind contributions).

The fair value of the investments was determined using Level 1 inputs, except for mutual funds. Investments in mutual funds are valued at the daily closing price as reported by the fund. These investments are registered with the SEC and are required to publish their daily net asset value (NAV) and to transact at that price.

4. Commitments

The Free Clinic is obligated under an operating lease with the Vancouver School District No. 37 for a period of thirty years beginning August 22, 2000; however, the Organization has the right to terminate the lease at any time upon 90 days written notice to the School District. The terms of the agreement include a base amount of one dollar per year plus monthly janitorial maintenance expenses and certain utilities. The Organization is also responsible for all insurance, maintenance, repairs and taxes on their portion of the facility.

5. Concentration of Credit Risk

The Free Clinic maintains cash and certificates of deposit at two financial institutions in the Vancouver area. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization has adopted a policy to ensure that its funds remain within the insured limits.

6. Pledges Receivable

Pledges receivable are as follows:

	<u>6/30/18</u>	<u>6/30/17</u>
Pledges receivable due in less than one year	\$ 30,000	\$ 30,000
Pledges receivable due in 1–5 years	<u>-</u>	<u>25,000</u>
	<u>\$ 30,000</u>	<u>\$ 55,000</u>

No discount or allowance for uncollectable is recorded.

7. Temporarily Restricted Net Assets

At June 30, 2018 and 2017, the balance in Temporarily Restricted Net Assets consists of donor restricted grants and donations which have been restricted to the following programs:

	<u>6/30/18</u>	<u>6/30/17</u>
Unappropriated Endowment Earnings	\$ 115,279	\$ 104,534
Project Access	63,192	74,788
Dental Program	19,845	16,606
Basic Health Clinics	80,207	13,699
Children's Play Area	4,914	5,048
Diabetes Transition Services	10,720	1,688
Diabetes & Oral Health Programs	-	14,730
Outreach and Fund Raising	23,007	27,591
Equipment	<u>-</u>	<u>4,428</u>
	<u>\$ 317,164</u>	<u>\$ 263,192</u>

8. Endowment

Board's Interpretation of UPMIFA

The Board of Directors has interpreted Washington's adoption of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the Organization to adopt investment and spending policies that preserve the fair value of the original gift as of the date of the gift, absent explicit donor restrictions to the contrary. Although the Organization has a long-term fiduciary duty to the donor (and others) for a fund of perpetual duration, the preservation of the endowment's purchasing power is only one of several factors that are considered in managing and investing these funds. Furthermore, in accordance with UPMIFA, a portion of the endowment's historic dollar value may be appropriated for expenditure in support of the designated purposes of the endowment if this is consistent with a spending policy that otherwise satisfies the requisite standard of prudence under UPMIFA.

As a result of this interpretation, the Organization classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) subsequent gifts to the endowment, and (3) accumulations made pursuant to the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In general, investment returns on the Organization's endowment are available for retention or appropriation based on the same prudent standards and policies established by the Board of Directors and, therefore, are classified as temporarily restricted net assets until the returns are appropriated for expenditure by the Board of Directors and, if the use of the investment return is restricted by the donor, until the restriction has also been satisfied. Any investment return classified as permanently restricted net assets represents only those amounts required to be retained permanently as a result of explicit donor stipulations.

Overview of Endowment Funds Spending Policy

The Board of Directors of the Free Clinic recognize their responsibility to manage all funds entrusted to the Endowment Fund in a prudent manner, with the understanding that the primary purpose of these funds is to meet the long range needs of the Free Clinic. These policies are intended to assure the optimum investment opportunity for all of the money received, whether funds are to be expended in the short or long term.

A portion of the Endowment Funds may be needed annually; however, the Finance Committee shall determine each year, based on the annual budget, whether any of the Endowment Fund will be needed

for the upcoming year. If funds are needed, they should ensure that there is sufficient liquidity in the Free Clinic's investments to allow for such distributions.

On the other hand, it is expected that the Endowment Funds will be permanent in nature and therefore these funds shall be invested for the long-term. It is essential to follow coordinated policies regarding fund-raising, spending and investment which will protect the principal of the funds and produce a reasonable rate of return.

The annual expenditure from the Endowed Funds shall generally be equal to not more than 5% of the average ending balance in the Endowed Funds as of the end of the prior three fiscal years. To the extent such funds are not needed for operations, such amounts may remain in the Endowed Funds account to continue to grow for future needs.

The Endowment-Related Activities table for the year ended June 30, 2018 reflects total appropriated for expenditure of \$15,000, which is less than the 5% cap. The Endowment-Related Activities table for the year ended June 30, 2017 reflects total appropriated for expenditure of \$16,451, which is 5.3% of the average ending balance in the Endowment Fund as of the end of the prior three fiscal years. The annual expenditure was needed for operations in fiscal year 2016-2017 and was approved by the Board of Directors.

Overview of Endowment Investment Policy

To the extent consistent with UPMIFA, the Endowment Fund shall be invested in accordance with the Free Clinic's Investment Policy for Long-Term Investments, but also considering the following guidelines:

- Spending will be limited to a spending budget determined in advance each year. The funds needed to meet the approved spending budget will come from interest and dividends and from capital appreciation, as needed. Current income realized in excess of immediate spending requirements may be reinvested.
- While endowment funds will be pooled for investment purposes, the pools may be utilized to accommodate donors' special needs. When requested, the account will be reported clearly to account for specific donor gifts.

The expenditure goals for the Free Clinic's Endowment Fund, to the extent consistent with UPMIFA, are as follows:

- To provide an annual total return sufficient to support Free Clinic activities and programs. The targeted annual expenditure from the Endowment Fund shall generally be equal to, but not more than, 5% of the average ending balance in the Endowment Fund as of the end of the prior three fiscal years. If circumstances warrant, annual expenditures may be increased up to a maximum of 10%, upon approval by the Board of Directors.
- To pay up to 1% to cover the Free Clinic's administrative costs to oversee the Endowment Funds.
- Within defined risk parameters, to target a growth rate on the principal amount of the Endowment Fund over a market cycle of not less than the rate of inflation as measured by the Portland area Consumer Price Index. A market cycle is normally defined as a 3 to 5 year period.
- To the extent such funds are not needed from the Endowment Fund for operations, such amount may remain in the Endowment Fund account to continue to grow for future needs.

In the year ending June 30, 2018, the Organization had the following endowment-related activities:

	Permanently Restricted Endowment Funds	Temporarily Restricted Endowment Funds	Total Endowment
Investment Returns			
Investment Income	\$ -	\$ 4,919	\$ 4,919
Net Appreciation	<u>-</u>	<u>20,827</u>	<u>20,827</u>
Total Investment return	-	25,746	25,746
Contributions to Perpetual endowment	3,757	-	3,757
Release of restrictions	-	-	-
Amounts appropriated For expenditure	<u>-</u>	<u>(15,000)</u>	<u>(15,000)</u>
Total Change in Endowment Funds	<u>\$ 3,757</u>	<u>\$ 10,746</u>	<u>\$ 14,503</u>

In the year ending June 30, 2017, the Organization had the following endowment-related activities:

	Permanently Restricted Endowment Funds	Temporarily Restricted Endowment Funds	Total Endowment
Investment Returns			
Investment Income	\$ -	\$ 6,100	\$ 6,100
Net Appreciation	<u>-</u>	<u>23,799</u>	<u>23,799</u>
Total Investment return	-	29,899	29,899
Contributions to Perpetual endowment	627	-	627
Release of restrictions	-	-	-
Amounts appropriated For expenditure	<u>-</u>	<u>(16,451)</u>	<u>(16,451)</u>
Total Change in Endowment Funds	<u>\$ 627</u>	<u>\$ 13,448</u>	<u>\$ 14,075</u>

**Endowment Net Assets Composition by Type of Fund
As of June 30, 2018**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted Endowment Funds	\$ -	\$ -	\$ 225,548	\$ 225,548
Temporarily restricted – Gains on Endowment Funds	<u>-</u>	<u>115,279</u>	<u>-</u>	<u>115,279</u>
	<u>\$ -</u>	<u>\$ 115,279</u>	<u>\$ 225,548</u>	<u>\$ 340,827</u>

**Endowment Net Assets Composition by Type of Fund
As of June 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted Endowment Funds	\$ -	\$ -	\$ 221,791	\$ 221,791
Temporarily restricted – Gains on Endowment Funds	<u>-</u>	<u>104,533</u>	<u>-</u>	<u>104,533</u>
	<u>\$ -</u>	<u>\$ 104,533</u>	<u>\$ 221,791</u>	<u>\$ 326,324</u>

**Changes in Endowment Net Assets
For the Fiscal Year Ended June 30, 2018**

	<u>Donor- Restricted Endowment Funds</u>	<u>Temporarily Restricted Endowment Funds</u>	<u>Total Endowment</u>
Endowment net assets, Beginning of year	\$ 221,791	\$ 104,533	\$ 326,324
Investment return:			
Investment Income	-	4,919	4,919
Net Appreciation (realized and unrealized)	<u>-</u>	<u>20,827</u>	<u>20,827</u>
Total Investment return	-	25,746	25,746
Contributions	3,757	-	3,757
Appropriation of endowment Assets for expenditure	<u>-</u>	<u>(15,000)</u>	<u>(15,000)</u>
Endowment net assets, End of year	<u>\$ 225,548</u>	<u>\$ 115,279</u>	<u>\$ 340,827</u>

**Changes in Endowment Net Assets
For the Fiscal Year Ended June 30, 2017**

	Donor- Restricted Endowment Funds	Temporarily Restricted Endowment Funds	Total Endowment
Endowment net assets, Beginning of year	\$ 221,164	\$ 91,086	\$ 312,250
Investment return:			
Investment Income	-	6,100	6,100
Net Appreciation (realized and unrealized)	<u>-</u>	<u>23,798</u>	<u>23,798</u>
Total Investment return	-	28,898	28,898
Contributions	627	-	627
Appropriation of endowment Assets for expenditure	<u>-</u>	<u>(16,451)</u>	<u>(16,451)</u>
Endowment net assets, End of Year	<u>\$ 221,791</u>	<u>\$ 104,533</u>	<u>\$ 326,324</u>

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowment Only)

Permanently Restricted Net Assets

	<u>6/30/18</u>	<u>6/30/17</u>
(1) The portion of perpetual endowment funds that is retained permanently by explicit donor stipulation or by UPMIFA	\$ <u>225,548</u>	\$ <u>221,179</u>
	\$ <u>225,548</u>	\$ <u>221,179</u>

Any earnings in excess of the permanently restricted endowment balance are available for any purpose within the Free Clinic's mission.

9. Retirement Plan

The Free Clinic sponsors a SIMPLE retirement plan for the benefit of its eligible employees. Employer contributions to the plan are made at the rate of 3% of eligible compensation. The Free Clinic contributed \$3,775 to this plan for the year ended June 30, 2018. The Free Clinic contributed \$2,528 to this plan for the year ended June 30, 2017.

10. Board-Designated Reserves

The board has set aside funds designated as Board-Designated Reserves to be used for general operations in the event of unexpected circumstances. The Reserves are meant to ensure the ongoing operation of services in the event of an unexpected drop in revenues, and they are not intended for current operations.

11. Subsequent Events

The Organization has evaluated subsequent events through October 8, 2018, the date on which the financial statements were available to be issued.