

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

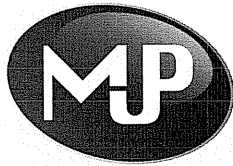
FINANCIAL STATEMENTS FOR THE YEARS  
ENDED JUNE 30, 2012 AND 2011  
an Independent Auditor's Report

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

FINANCIAL STATEMENTS FOR THE YEARS ENDED  
JUNE 30, 2012 AND 2011

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

## INDEPENDENT AUDITOR'S REPORT

To the Finance Committee  
Board of Directors  
Free Clinic of Southwest Washington  
Vancouver, Washington

We have audited the accompanying statements of financial position of Free Clinic of Southwest Washington (a non-profit organization) as of June 30, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the fiscal years then ended. These financial statements are the responsibility of Free Clinic of Southwest Washington's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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 and the changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

MICHAEL J. PLYMALE, INC., P.S.

Vancouver, Washington  
October 12, 2012

Free Clinic of Southwest Washington  
Statements of Financial Position  
June 30, 2012 and 2011

ASSETS	<u>6/30/12</u>	<u>6/30/11</u>
Current Assets:		
Cash and Cash Equivalents	355,012	393,224
American Funds Investment Account	270,740	274,505
Accounts Receivable	3,208	2,055
Grants Receivable	-	57,835
Pledges Receivable	11,500	6,040
Prepaid Expenses	27,512	31,773
Total Current Assets	<u>667,972</u>	<u>765,432</u>
Noncurrent Assets:		
Endowment Investments	271,208	256,149
Equipment	529,098	526,429
Less: Accumulated Depreciation	(332,674)	(311,016)
Leasehold Improvements	591,525	591,525
Less: Accumulated Amortization	(197,868)	(177,821)
Total Noncurrent Assets	<u>861,289</u>	<u>885,266</u>
Total Assets	<u><u>1,529,261</u></u>	<u><u>1,650,698</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accrued Payroll	17,423	19,801
Payroll Withholdings	410	231
Accounts Payable	12,882	9,498
Accrued Vacation Payable	10,562	13,818
Total Current Liabilities	<u>41,277</u>	<u>43,348</u>
Net Assets:		
Unrestricted		
Available for General Operations	335,838	319,460
Board-Designated Reserves	100,000	100,000
Net Investment in Fixed Assets	590,081	629,117
Subtotal - Unrestricted	<u>1,025,919</u>	<u>1,048,577</u>
Temporarily Restricted	249,529	350,273
Permanently Restricted - Endowment	212,536	208,500
Total Net Assets	<u>1,487,984</u>	<u>1,607,350</u>
Total Liabilities and Net Assets	<u><u>1,529,261</u></u>	<u><u>1,650,698</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Free Clinic of Southwest Washington  
Statement of Activities  
Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total FYE 6/30/12
Revenue, Gains and Other Support:				
Individual Donations	216,220	36,286	4,036	256,542
Business & Organization Donations	171,961	136,500	-	308,461
Patient Donations	43,143	10	-	43,153
Foundation Grants		70,543	-	70,543
Special Events	175,676		-	175,676
Gov't Contract Service Revenue	14,865		-	14,865
Bequests, Memorials, Planned Gifts	9,170	620	-	9,790
Interest & Investment Earnings	(2,236)	11,023	-	8,787
Other Income	727		-	727
Donated Materials	109,659		-	109,659
Donated Use of Facilities	95,820		-	95,820
Donated Services	578,527		-	578,527
Net Assets Released from Restrictions	355,726	(355,726)	-	-
Total Revenue, Gains and Other Support	1,769,258	(100,744)	4,036	1,672,550
Expenses:				
Program Service Expenses	1,547,791	-	-	1,547,791
Management & General Expenses	101,880	-	-	101,880
Fundraising Expenses	142,245	-	-	142,245
Total Expenses	1,791,916	-	-	1,791,916
Change in Net Assets	(22,658)	(100,744)	4,036	(119,366)
Net Assets at Beginning of Year	1,048,577	350,273	208,500	1,607,350
Net Assets at End of Year	1,025,919	249,529	212,536	1,487,984

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Free Clinic of Southwest Washington  
Statement of Activities  
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total FYE 6/30/11
Revenue, Gains and Other Support:				
Individual Donations	234,384	67,240	-	301,624
Business & Organization Donations	151,964	108,700	-	260,664
Patient Donations	41,709	-	-	41,709
Foundation Grants	3,750	111,196	-	114,946
Bequests, Memorials, Planned Gifts	15,841	360	-	16,201
Interest & Investment Earnings	51,064	39,336	-	90,400
Other Income	2,114	-	-	2,114
Donated Materials	160,929	-	-	160,929
Donated Use of Facilities	97,620	-	-	97,620
Donated Services	478,784	-	-	478,784
Net Assets Released from Restrictions	375,182	(375,182)	-	-
Total Revenue, Gains and Other Support	1,757,778	(48,350)	-	1,709,428
Expenses:				
Program Service Expenses	1,464,439	-	-	1,464,439
Management & General Expenses	101,894	-	-	101,894
Fundraising Expenses	151,704	-	-	151,704
Total Expenses	1,718,037	-	-	1,718,037
Change in Net Assets	39,741	(48,350)	-	(8,609)
Net Assets at Beginning of Year	1,008,836	398,623	208,500	1,615,959
Net Assets at End of Year	1,048,577	350,273	208,500	1,607,350

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Free Clinic of Southwest Washington  
Statement of Functional Expenses  
Year Ended June 30, 2012

Volunteer Program	Basic Health	Sports Physicals	Project Access	Program Expenses					Total Program Expenses	Mgmt. & General	Fund-Raising	Total Expenses
				Diabetes Transition Services	Health Screening	Dental Program	Immunization	Vision Program				
Salaries	73,593	3,169	98,336	49,241	475	3,169	12,915	5,223	340,579	29,950	74,988	445,517
Payroll Taxes	400	8,547	11,257	5,719	47	391	11,253	601	40,129	3,769	8,777	52,675
Health & Dental Insurance	7,307	208	10,161	5,439	208	8,926	1,453	373	34,075	1,287	6,103	41,465
Retirement Benefits	1,107	31	1,505	824	31	1,445	220	57	195	195	924	6,339
Accrued Vacation Expense	(1,641)	837	(654)	(21)	(813)	(128)	(125)		(2,545)	(20)	(693)	(3,258)
Professional Fees	4,482		39,552	250	1,241	22,684	1,200	1,200	71,177	49,940	125	121,242
Printing & Copying	794	781	611	70	15	3	348	16	2,670	449	741	3,860
Postage & Delivery	212	164	808	25	5	1	117	6	1,349	674	968	2,991
Advertising		5	30	2	1	32	1		71	200	3	274
Technology	2,145	1,629	1	79	7	1	253	8	4,418	15	3,817	8,250
Insurance	4,202	90	4,876	2,112	449	90	5,955	472	19,122	3,187	2,427	24,736
Radiology	24,103		11,936			132			24,103			24,103
Vouchered Prescriptions	4,138		2,247	45					18,498			18,498
Bulk Pharmaceuticals	24,914		7,720	3,658					36,292			36,292
Head Lice Kits	4,456								4,456			4,456
Office Supplies	5,684	9	1,595	202	43	21	1,423	45	9,435	1,269	751	11,455
Newsletters / Direct Mailing									-		3,757	3,757
Medical, Dental & Clinic Supplies	11,356			91	7,026	4,729	765	272	42,025			42,025
Occupancy	19,540		2,517			2,047	1,491		26,083	586	586	27,255
Website	177	4	206	89	19	4	1,767	20	2,323	39	102	2,464
Recognition & Board Expenses	5,088	53	1,036	16	3	1	232	3	6,439	1,506	18	7,963
Volunteer Refreshments			83			70			1,838			1,838
Travel & Mileage	39	356	466			193			1,054	67	39	1,160
Dental Van Operations						5,643			5,643			5,643
Dental Van Repairs & Maintenance						5,202			5,202			5,202
Bank & Merchant Fees									-	5,341		5,341
Dues & Fees	88	80	93	40	9	2	437	9	777	633	636	2,046
Staff Development / Conferences	130	85	120			73			408	113	2,750	3,271
Special Events									-		28,199	28,199
Depreciation & Amortization	883	15,660	7,481	2,935	624	125	32,211	656	61,898	1,280	6,020	69,198
Loss on Disposal of Fixed Assets		1,366	1,586	687	146	29	1,936	153	6,217	300	789	7,306
Misc. Expenses		13				33			46			46
Allocation of Volunteer Program Expenses	(11,052)	9,394	553			1,105			-			-
In-Kind Expenses:												
Donated Professional Services		420,191				59,984	13,982	15,387	577,527	1,000		578,527
Donated Use of Facilities		97,620							97,620			97,620
Donated Materials	510	96,642		592			5,898		103,642	100	418	104,160
	510	837,689	4,901	203,313	119,547	26,029	13,426	275,617	1,547,791	101,880	142,245	1,791,916

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Free Clinic of Southwest Washington  
Statement of Functional Expenses  
Year Ended June 30, 2011

	Program Expenses										Total Program Expenses	Mgmt. & General	Fund-Raising	Total Expenses
	Volunteer Program	Basic Health	Sports Physicals	Project Access	Dispensary	Transition Services	Health Screening	Dental Program	Immunization	Vision Program				
Salaries	-	72,736	5,743	83,626	51,721	-	3,193	88,341	14,835	4,815	325,010	25,967	83,054	434,031
Payroll Taxes	1,493	8,299	684	10,125	6,148	-	365	10,407	1,673	553	39,737	2,988	9,493	52,218
Health & Retirement Benefits	-	7,784	374	12,167	5,950	-	229	9,506	1,699	412	38,121	1,242	6,424	45,787
Accrued Vacation Expense	-	120	(54)	(523)	(792)	-	(54)	219	(8)	(31)	(1,123)	623	1,363	863
Professional Fees	3,675	5,600	-	14,402	-	219	-	24,523	167	158	48,744	48,180	2,850	99,774
Printing & Copying	203	211	3	161	36	-	1	112	13	5	745	55	1,469	2,269
Postage & Delivery	40	354	10	1,351	153	-	6	396	52	19	2,381	550	1,220	4,151
Subscriptions & Periodicals	12	-	-	-	-	-	-	-	-	-	12	-	-	12
Advertising	-	-	-	50	-	-	-	50	-	-	100	75	-	175
Technology	1,508	1,237	11	413	160	-	-	846	1,039	20	5,240	1,106	3,758	10,104
Insurance	-	4,558	160	5,993	2,324	-	91	5,219	798	296	19,439	4,928	1,322	25,689
Radiology	-	22,529	-	-	-	-	-	-	-	-	22,529	-	-	22,529
Vouchered Prescriptions	-	3,891	-	5,644	1,872	-	-	-	-	-	11,407	-	-	11,407
Bulk Pharmaceuticals	-	16,059	-	-	13,243	1,786	-	-	-	-	31,088	-	-	31,088
Head Lice Kits	-	4,907	-	-	-	-	-	-	-	-	4,907	-	-	4,907
Vaccines	-	1,868	-	-	-	-	-	-	84	-	1,952	-	-	1,952
Office Supplies	583	5,461	17	2,023	242	-	10	1,108	303	164	9,911	1,955	382	12,248
Newsletters / Direct Mailing	-	-	-	-	-	-	-	-	-	-	-	-	3,220	3,220
Medical, Dental & Clinic Supplies	-	8,652	-	-	-	2,008	5,999	41,637	511	182	58,989	-	-	58,989
Occupancy	510	18,774	3	1,118	38	-	1	2,645	239	5	23,333	671	633	24,637
Website	-	16	1	21	8	-	-	888	3	1	918	876	5	1,799
Recognition & Board Expenses	1,037	143	-	-	-	-	-	64	-	-	1,244	3,714	-	4,958
Volunteer Refreshments	-	1,425	-	13	-	-	-	-	-	-	1,438	-	17	1,455
Travel & Mileage	83	237	-	1,215	-	-	-	617	110	-	2,262	379	178	2,819
Dental Van Operations	-	-	-	-	-	-	-	9,609	-	-	9,609	-	-	9,609
Dental Van Repairs & Maintenance	-	-	-	-	-	-	-	2,332	-	-	2,332	-	-	2,332
Merchant Fees	-	-	-	-	-	-	-	-	-	-	-	3,597	-	3,597
Dues & Fees	60	337	5	180	70	-	3	157	24	9	845	455	290	1,590
Staff Development / Conferences	37	37	-	190	-	-	-	37	-	-	301	-	15	316
Volunteer Training	178	-	-	-	-	-	-	-	-	-	178	-	-	178
Special Events	-	-	-	-	-	-	-	-	-	-	-	-	27,885	27,885
Depreciation & Amortization	883	8,733	306	11,483	4,454	-	175	33,640	1,528	568	61,770	3,885	5,179	70,834
Loss on Disposal of Fixed Assets	-	1,466	49	1,916	744	-	30	1,667	255	95	6,212	648	422	7,282
Allocation of Volunteer Program Expenses	(10,302)	8,757	515	-	-	-	-	1,030	-	-	-	-	-	-
In-Kind Expenses:														
Donated Professional Services	-	332,227	-	7,929	38,551	9,659	3,780	50,405	15,673	20,560	478,784	-	-	478,784
Donated Use of Facilities	-	97,620	-	-	-	-	-	-	-	-	97,620	-	-	97,620
Donated Materials	-	152,396	-	-	-	-	-	6,008	-	-	158,404	-	2,525	160,929
	-	786,414	7,312	160,012	124,922	13,672	13,835	291,443	38,998	27,831	1,484,439	101,894	151,704	1,718,037

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS



Free Clinic of Southwest Washington  
Statements of Cash Flows  
Years Ended June 30, 2012 and 2011

	<u>6/30/12</u>	<u>6/30/11</u>
Cash Flows From Operating Activities:		
Increase in net assets	(119,366)	(8,609)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	69,198	70,834
Donated equipment	(3,700)	-
Loss from disposal of equipment	7,306	7,282
Changes in:		
Investments	(11,295)	(88,070)
Accounts receivable	(1,153)	(2,055)
Grants & pledges receivable	52,375	44,960
Prepaid expenses	4,260	(5,158)
Accounts payable	3,383	(654)
Accrued payroll & related	(2,199)	981
Accrued vacation	(3,256)	863
Net cash provided by operating activities	<u>(4,447)</u>	<u>20,374</u>
Cash flows from investing activities:		
Purchase of equipment	(33,765)	(13,378)
Purchase of investments	-	(50,000)
	<u>(33,765)</u>	<u>(63,378)</u>
Net increase (decrease) in cash and cash equivalents	(38,212)	(43,004)
Cash and Cash Equivalents at Beginning of Year	<u>393,224</u>	<u>436,228</u>
Cash and Cash Equivalents at End of Year	<u><u>355,012</u></u>	<u><u>393,224</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

# Free Clinic of Southwest Washington

## Notes to Financial Statements

### Years Ended June 30, 2012 and 2011

#### 1. Organization

The Free Clinic of Southwest Washington ("FCSW" 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. FCSW 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. FCSW also coordinates access to specialty care and dental services in the community for uninsured individuals through the project access program. A unique feature of FCSW is that all health services are provided by over 600 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** – FCSW 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, 2012, \$578,527 of contributed professional services were recorded. During the year ended June 30, 2011, \$478,784 of contributed professional services were recorded. Total donated professional service hours were 12,748. Additional volunteer hours of service not included in the financial statements were 15,176.

FCSW 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, 2012, \$109,659 of contributed medical supplies and other items were recorded. During the year ended June 30, 2011, \$160,929 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. FCSW 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.

**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, 2009, 2010 and 2011 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

FCSW invests part of its funds in a pool of mutual funds managed by the Community Foundation for Southwest Washington for the benefit of nonprofits, and part of its funds with LPL Financial. The investments are reported by both entities at fair market value, which is determined by using quoted market prices. The policies of both the Community Foundation

for Southwest Washington, and FCSW 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.

FCSW 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 FCSW and can be payable only to FCSW. FCSW 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, 2012 from the Community Foundation for Southwest Washington investment pool resulted in investment gains of \$15,059. The ending fund balance was \$266,208. The investment for the year ended June 30, 2011 resulted in investment gains of \$39,337. The ending fund balance was \$251,149. 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, 2012 for the account held at LPL Financial Partners, Inc. resulted in net losses of \$3,765. The ending balance was \$270,740. The investment for the year ended June 30, 2011 resulted in net gains of \$48,736. The ending balance was \$274,505. All the funds managed by LPL Financial Partners are invested in American Funds mutual funds.

Investments consist of the following:

	<u>6/30/12</u>	<u>6/30/11</u>
Cash and Money Funds	\$ 5,000	\$ 5,000
Vanguard Balanced Mutual Fund	266,208	251,149
American Funds Mutual Funds:		
Capital World Growth and Income Fund	\$ 30,239	\$ 43,189
Capital Income Builder	12,362	16,993
American Balanced Fund	6,206	-
Washington Mutual Investors Fund	6,258	-
The Income Fund of America	23,991	16,919
Intermediate Bond Fund of America	50,375	48,727
AMCAP Fund	12,361	12,073
EuroPacific Growth Fund	9,350	10,739
Growth Fund of America	22,785	22,819
International Growth & Income Fund	14,425	21,794
New Economy Fund	11,697	11,687
American Mutual Fund	6,216	-
New World Fund	10,104	11,311
SMALLCAP World Fund	2,480	13,707
Investment Company of America	51,891	44,547
	<u>\$ 541,948</u>	<u>\$ 530,654</u>

The investment return for the year ending June 30, 2012 and 2011 breaks down as follows:

	6/30/12	6/30/11
Interest and Dividends	\$ 12,484	\$ 12,518
Gains & Losses (Realized & Unrealized)	(3,697)	77,882
Total	\$ 8,787	\$ 90,400

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.

#### 4. Commitments

FCSW 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

FCSW maintains cash and certificates of deposit at three 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, and after June 30, 2010 the policy is to maintain less than \$250,000 at any one institution regardless of the amount of interest being earned.

6. Contributions Receivable

Contributions receivable are as follows:

	<u>6/30/12</u>	<u>6/30/11</u>
Grant receivable from Meyer Memorial Trust for Project Access Clark County Program	-	57,835
Misc. contributions receivable	<u>11,500</u>	<u>6,040</u>
	<u>\$ 11,500</u>	<u>\$ 63,875</u>

7. Temporarily Restricted Net Assets

At June 30, 2012 and 2011, the balance in Temporarily Restricted Net Assets consists of donor restricted grants and donations which have been restricted to the following programs:

	<u>6/30/12</u>	<u>6/30/11</u>
Unappropriated Endowment Earnings	\$ 58,672	\$ 47,649
Project Access	56,018	173,859
Dental Program	76,095	107,389
Basic Health Clinics	6,547	1,547
Medications	2,000	2,107
Immunization program	-	248
Hearing Aids	515	515
Diabetes Transition Services	22,915	15,309
Oral Health Initiative	17,767	-
Volunteer Recognition Event	7,500	-
Outreach and Fund Raising	<u>1,500</u>	<u>1,650</u>
	<u>\$ 249,529</u>	<u>\$ 350,273</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 FCSW 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 FCSW. 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 FCSW'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.

#### 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, 2012, the Organization had the following endowment-related activities:

	Permanently Restricted Endowment Funds	Temporarily Restricted Endowment Funds	Total Endowment
<b>Investment Returns</b>			
Investment Income	\$ -	\$ 5,665	\$ 5,665
Net Appreciation	-	5,358	5,358
Total investment return	-	11,023	11,023
Contributions to perpetual endowment	4,036	-	4,036
<b>Total change in endowment funds</b>	\$ 4,036	\$ 11,023	\$ 15,059

In the year ending June 30, 2011, the Organization had the following endowment-related activities:

	Permanently Restricted Endowment Funds	Temporarily Restricted Endowment Funds	Total Endowment
<b>Investment Returns</b>			
Investment Income	\$ -	\$ 5,782	\$ 5,782
Net Appreciation	-	33,554	33,554
Total investment return	-	39,336	39,336
<b>Total change in endowment funds</b>	\$ -	\$ 39,336	\$ 39,336



**Endowment Net Asset Composition by Type of Fund  
As of June 30, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 212,536	\$ 212,536
Temporarily restricted - gains on endowment funds	-	58,672	-	58,672
	<u>\$ -</u>	<u>\$ 58,672</u>	<u>\$ 212,536</u>	<u>\$ 271,208</u>

**Endowment Net Asset Composition by Type of Fund  
As of June 30, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 208,500	\$ 208,500
Temporarily restricted - gains on endowment funds	-	47,649	-	47,649
	<u>\$ -</u>	<u>\$ 47,649</u>	<u>\$ 208,500</u>	<u>\$ 256,149</u>

**Changes in Endowment Net Assets  
for the Fiscal Year Ended June 30, 2012**

	<u>Donor- Restricted Endowment Funds</u>	<u>Temporarily Restricted Endowment Funds</u>	<u>Total - Endowment</u>
Endowment net assets, beginning of year	\$ 208,500	\$ 47,648	\$ 256,148
Investment return:			
Investment income	-	5,665	5,665
Net appreciation (realized and unrealized)	-	5,359	5,359
Total investment return	-	11,024	11,024
Contributions	4,036	-	4,036
Endowment net assets, end of year	\$ 212,536	\$ 58,672	\$ 271,208

**Changes in Endowment Net Assets  
for the Fiscal Year Ended June 30, 2011**

	Donor- Restricted Endowment Funds	Temporarily Restricted Endowment Funds	Total - Endowment
Endowment net assets, beginning of year	\$ 208,500	\$ 8,312	\$ 216,812
Investment return:			
Investment income	-	5,782	5,782
Net appreciation (realized and unrealized)	-	33,555	33,555
Total investment return	-	39,337	39,337
Endowment net assets, end of year	\$ 208,500	\$ 47,649	\$ 256,149

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

**Permanently Restricted Net Assets**

	6/30/12	6/30/11
(1) The portion of perpetual endowment funds that is retained permanently by explicit donor stipulation or by UPMIFA	\$ 212,536	208,500
<b>Total endowment funds classified as permanently restricted net assets</b>	<b>\$ 212,536</b>	<b>208,500</b>

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

**9. Retirement Plan**

FCSW 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. FCSW contributed \$6,339 to this plan for the year ended June 30, 2012. FCSW contributed \$5,403 to this plan for the year ended June 30, 2011.

**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 12, 2012, the date on which the financial statements were available to be issued.