

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

FINANCIAL STATEMENTS FOR THE YEARS  
ENDED JUNE 30, 2013 AND 2012  
an Independent Auditor's Report

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

FINANCIAL STATEMENTS FOR THE YEARS ENDED  
JUNE 30, 2013 AND 2012

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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 statement of financial position as of June 30, 2013 and 2012, 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, 2013 and 2012, 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 black ink, appearing to read 'M. Plymale', is written over a horizontal line.

MICHAEL J. PLYMALE INC., P.S.  
Vancouver, Washington  
October 10, 2013

Free Clinic of Southwest Washington  
Statements of Financial Position  
June 30, 2013 and 2012

ASSETS		
	6/30/13	6/30/12
Current Assets:		
Cash and Cash Equivalents	248,463	355,012
American Funds Investment Account	311,475	270,740
Accounts Receivable	2,818	3,208
Pledges Receivable	-	11,500
Prepaid Expenses	25,644	27,512
Total Current Assets	<u>588,400</u>	<u>667,972</u>
Noncurrent Assets:		
Endowment Investments	276,261	271,208
Equipment	478,239	529,098
Less: Accumulated Depreciation	(334,851)	(332,674)
Leasehold Improvements	591,526	591,525
Less: Accumulated Amortization	(217,914)	(197,868)
Total Noncurrent Assets	<u>793,261</u>	<u>861,289</u>
Total Assets	<u><u>1,381,661</u></u>	<u><u>1,529,261</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accrued Payroll	24,586	17,423
Payroll Withholdings	751	410
Accounts Payable	15,388	12,882
Accrued Vacation Payable	12,048	10,562
Total Current Liabilities	<u>52,773</u>	<u>41,277</u>
Net Assets:		
Unrestricted		
Available for General Operations	307,380	335,838
Board-Designated Reserves	100,000	100,000
Net Investment in Fixed Assets	517,000	590,081
Subtotal - Unrestricted	<u>924,380</u>	<u>1,025,919</u>
Temporarily Restricted	189,214	249,529
Permanently Restricted - Endowment	215,294	212,536
Total Net Assets	<u><u>1,328,888</u></u>	<u><u>1,487,984</u></u>
Total Liabilities and Net Assets	<u><u>1,381,661</u></u>	<u><u>1,529,261</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, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total FYE 6/30/13
Revenue, Gains and Other Support:				
Individual Donations	134,430	13,025	2,758	150,213
Business & Organization Donations	130,372	140,492	-	270,864
Patient Donations	42,610	-	-	42,610
Foundation Grants	5,000	122,591	-	127,591
Special Events	200,435	-	-	200,435
Gov't Contract Service Revenue	15,121	-	-	15,121
Bequests, Memorials, Planned Gifts	14,145	25	-	14,170
Interest & Investment Earnings	41,458	27,296	-	68,754
Other Income	40	-	-	40
Donated Materials	101,362	-	-	101,362
Donated Use of Facilities	95,820	-	-	95,820
Donated Advertising	67,313	-	-	67,313
Donated Services	1,989,320	-	-	1,989,320
Net Assets Released from Restrictions	363,745	(363,745)	-	-
Total Revenue, Gains and Other Support	3,201,171	(60,316)	2,758	3,143,613
Expenses:				
Program Service Expenses	2,969,668	-	-	2,969,668
Management & General Expenses	111,416	-	-	111,416
Fundraising Expenses	221,625	-	-	221,625
Total Expenses	3,302,709	-	-	3,302,709
Change in Net Assets	(101,538)	(60,316)	2,758	(159,096)
Net Assets at Beginning of Year	1,025,919	249,529	212,536	1,487,984
Net Assets at End of Year	924,381	189,213	215,294	1,328,888

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 Functional Expenses  
Year Ended June 30, 2013

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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

	Program Expenses										Total Program Expenses
	Volunteer Program	Basic Health	Sports Physicals	Project Access	Dispensary	Transition Services	Health Screening	Dental Program	Immun- ization	Vision Program	
Salaries	-	73,593	3,169	98,336	49,241	475	3,169	94,458	12,915	5,223	340,579
Payroll Taxes	400	8,547	391	11,257	5,719	47	391	11,253	1,523	601	40,129
Health & Dental Insurance	-	7,307	208	10,161	5,439	-	208	8,926	1,453	373	34,075
Retirement Benefits	-	1,107	31	1,505	824	-	31	1,445	220	57	6,339
Accrued Vacation Expense	-	(1,641)	837	(554)	(21)	-	(813)	(126)	(125)	-	(2,545)
Professional Fees	568	4,482	-	39,552	250	1,241	-	22,684	1,200	1,200	71,177
Printing & Copying	794	781	3	611	70	15	3	348	29	16	2,670
Postage & Delivery	212	164	1	808	25	5	1	117	10	6	1,349
Advertising	-	5	-	30	2	1	-	32	1	-	71
Technology	2,145	1,629	1	79	34	7	1	253	261	8	4,418
Insurance	-	4,202	90	4,876	2,112	449	90	5,955	876	472	19,122
Radiology	-	24,103	-	-	-	-	-	-	-	-	24,103
Vouchered Prescriptions	-	4,138	-	-	-	-	-	132	-	-	18,498
Bulk Pharmaceuticals	-	24,914	-	11,936	2,247	45	-	-	-	-	36,292
Head Lice Kits	-	4,456	-	-	7,720	3,658	-	-	-	-	4,456
Office Supplies	217	5,684	-	1,595	202	43	21	1,423	196	45	9,435
Newsletters / Direct Mailing	-	-	-	-	-	-	-	-	-	-	1,269
Medical, Dental & Clinic Supplies	-	11,356	-	-	-	-	4,729	17,786	765	272	42,025
Occupancy	488	19,540	-	2,517	-	-	-	2,047	1,491	-	26,083
Website	-	177	4	206	89	19	4	1,767	37	20	2,323
Recognition & Board Expenses	5,088	53	1	1,036	16	3	1	232	6	3	6,439
Volunteer Refreshments	-	1,685	-	83	-	-	-	70	-	-	1,838
Travel & Mileage	39	356	-	466	-	-	-	193	-	-	1,160
Dental Van Operations	-	-	-	-	-	-	-	5,643	-	-	5,643
Dental Van Repairs & Maintenance	-	-	-	-	-	-	-	5,202	-	-	5,202
Bank & Merchant Fees	-	-	-	-	-	-	-	-	-	-	5,341
Dues & Fees	88	80	2	93	40	9	2	437	17	9	777
Staff Development / Conferences	130	85	-	120	-	-	-	73	-	-	408
Special Events	-	-	-	-	-	-	-	-	-	-	636
Depreciation & Amortization	-	-	-	-	-	-	-	-	-	-	2,750
Loss on Disposal of Fixed Assets	883	15,660	125	7,461	2,935	624	125	32,211	1,218	656	28,199
Miscellaneous Expenses	-	1,366	29	1,566	687	146	29	1,936	285	153	6,020
Allocation of Volunteer Program Expenses	-	13	-	-	-	-	-	33	-	-	300
In-Kind Expenses:	(11,052)	9,394	-	553	-	-	-	1,105	-	-	46
Donated Professional Services	-	420,191	-	9,100	41,233	12,216	5,434	59,984	13,982	15,387	577,527
Donated Use of Facilities	-	97,620	-	-	-	-	-	-	-	-	97,620
Donated Materials	510	96,642	-	-	592	-	-	-	5,898	-	103,642
	510	837,689	4,901	203,313	119,547	26,029	13,426	275,617	42,258	24,501	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  
Statements of Cash Flows  
Years Ended June 30, 2013 and 2012

	<u>6/30/13</u>	<u>6/30/12</u>
Cash Flows From Operating Activities:		
Increase in net assets	(159,096)	(119,366)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	62,840	69,198
Donated equipment	-	(3,700)
Loss from disposal of equipment	10,242	7,306
Changes in:		
Investments	(45,789)	(11,295)
Accounts receivable	389	(1,153)
Grants & pledges receivable	11,500	52,375
Prepaid expenses	1,868	4,260
Accounts payable	2,507	3,383
Accrued payroll & related	7,504	(2,199)
Accrued vacation	1,486	(3,256)
Net cash provided by operating activities	<u>(106,549)</u>	<u>(4,447)</u>
Cash flows from investing activities:		
Purchase of equipment	<u>-</u>	<u>(33,765)</u>
	<u>-</u>	<u>(33,765)</u>
Net increase (decrease) in cash and cash equivalents	(106,549)	(38,212)
Cash and Cash Equivalents at Beginning of Year	355,012	393,224
Cash and Cash Equivalents at End of Year	<u><u>248,463</u></u>	<u><u>355,012</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, 2013 and 2012

### 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 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** –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, 2013, \$1,989,320 of contributed professional services were recorded. During the year ended June 30, 2012, \$578,527 of contributed professional services were recorded. Contributed services increased in the year ended June 30, 2013, due to specialty professional services donated through the Project Access program. In the year ended June 30, 2012, this donated value was attributed to Project Access NOW, a partner organization in Portland. This partnership was discontinued as of June 30, 2012. Beginning July 1, 2012, all specialty services provided by specialists in the community are donated to the Project Access program of the Free Clinic and attributed as in-kind services. Total donated professional service hours were 15,252. Additional volunteer hours of service not included in the financial statements were 13,867.

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. The Project Access program in-kind reports are provided by Columbia United Providers, who collects the data from specialty offices.

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, 2013, \$101,362 of contributed medical supplies and other items were recorded. During the year ended June 30, 2012, \$109,659 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.

**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, 2010, 2011 and 2012 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, and part of its funds with LPL Financial Partners, Inc.. 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 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, 2013 held in the Community Foundation for Southwest Washington investment pool resulted in investment gains of \$27,296. The ending fund balance was \$276,261. The investment for the year ended June 30, 2012 resulted in investment gains of \$15,059. The ending fund balance was \$266,208. 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, 2013 for the account held at LPL Financial Partners, Inc. resulted in net gains of \$40,735. The ending balance was \$311,475. The investment for the year ended June 30, 2012 resulted in net losses of \$3,765. The ending balance was \$270,740. All the funds managed by LPL Financial Partners are invested in American Funds mutual funds.

Investments consist of the following:

	6/30/13	6/30/12
Cash and Money Funds	\$ -	\$ 5,000
Vanguard Balanced Mutual Fund	276,261	266,208
American Funds Mutual Funds:		
Capital World Growth and Income Fund	\$ 36,081	\$ 30,239
Capital Income Builder	13,714	12,362
American Balanced Fund	7,188	6,206
Washington Mutual Investors Fund	7,541	6,258
The Income Fund of America	27,302	23,991
Intermediate Bond Fund of America	50,159	50,375
AMCAP Fund	15,028	12,361
EuroPacific Growth Fund	10,797	9,350
Growth Fund of America	28,012	22,785
International Growth & Income Fund	17,080	14,425
New Economy Fund	14,743	11,697
American Mutual Fund	7,335	6,216
New World Fund	11,221	10,104
SMALLCAP World Fund	3,022	2,480
Investment Company of America	62,252	51,891
	\$ 587,736	\$ 541,948

The investment return for the year ending June 30, 2013 and 2012 breaks down as follows:

	6/30/13	6/30/12
Interest and Dividends	\$ 12,723	\$ 12,484
Gains & Losses (Realized & Unrealized)	56,031	(3,697)
Total	\$ 68,754	\$ 8,787

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

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 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>6/30/13</u>	<u>6/30/12</u>
Misc. contributions receivable	\$ <u>-</u>	\$ <u>11,500</u>
	\$ <u>-</u>	\$ <u>11,500</u>

## 7. Temporarily Restricted Net Assets

At June 30, 2013 and 2012, the balance in Temporarily Restricted Net Assets consists of donor restricted grants and donations which have been restricted to the following programs:

	<u>6/30/13</u>	<u>6/30/12</u>
Unappropriated Endowment Earnings	\$ 60,967	\$ 58,672
Project Access	14,789	56,018
Dental Program	55,015	76,095
Basic Health Clinics	2,988	6,547
Medications	-	2,000
Hearing Aids	515	515
Diabetes Transition Services	21,137	22,915
Oral Health Initiative	-	17,767
Volunteer Recognition Event	-	7,500
Equipment	20,000	-
Outreach and Fund Raising	<u>13,802</u>	<u>1,500</u>
	\$ <u>189,213</u>	\$ <u>249,529</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.

In the Endowment-Related Activities table, it shows a total appropriated for expenditure of \$20,000, which is more than 5%. \$10,000 was withdrawn from this fund at the beginning of Fiscal Year 2012-2013. The length of time to receive the \$10,000 from the Community Foundation for Southwest Washington was several months. Therefore, a request was made in June 2013 for \$10,000 to be used in Fiscal Year 2013-2014, assuming it would be received in July or August 2013. The response to this funding request was immediate and resulted in the receipt of \$10,000 in June 2013.

#### 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, 2013, the Organization had the following endowment-related activities:

	Permanently Restricted Endowment Funds	Temporarily Restricted Endowment Funds	Total Endowment
<b>Investment Returns</b>			
Investment Income	\$ -	\$ 5,779	\$ 5,779
Net Appreciation	-	21,516	21,516
Total investment return	-	27,295	27,295
Contributions to perpetual endowment	2,758	-	2,758
Release of restrictions	-	(5,000)	(5,000)
Amounts appropriated for expenditure	-	(20,000)	(20,000)
<b>Total change in endowment funds</b>	\$ 2,758	\$ 2,295	\$ 5,053

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

**Endowment Net Asset Composition by Type of Fund**  
As of June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 215,294	\$ 215,294
Temporarily restricted - gains on endowment funds	-	60,967	-	60,967
	<u>\$ -</u>	<u>\$ 60,967</u>	<u>\$ 215,294</u>	<u>\$ 276,261</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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>

**Changes in Endowment Net Assets  
for the Fiscal Year Ended June 30, 2013**

	Donor- Restricted Endowment Funds	Temporarily Restricted Endowment Funds	Total - Endowment
Endowment net assets, beginning of year	\$ 212,536	\$ 58,672	\$ 271,208
Investment return:			
Investment income	-	5,779	5,779
Net appreciation (realized and unrealized)	-	21,516	21,516
Total investment return	-	27,295	27,295
Contributions	2,758	-	2,758
Release of restrictions	-	(5,000)	(5,000)
Appropriation of endowment assets for expenditure	-	(20,000)	(20,000)
Endowment net assets, end of year	\$ 215,294	\$ 60,967	\$ 276,261

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

	Donor- Restricted Endowment Funds	Temporarily Restricted Endowment Funds	Total - Endowment
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

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

**Permanently Restricted Net Assets**

	<u>6/30/13</u>	<u>6/30/12</u>
(1) The portion of perpetual endowment funds that is retained permanently by explicit donor stipulation or by UPMIFA	\$ <u>215,294</u>	\$ <u>212,536</u>
<b>Total endowment funds classified as permanently restricted net assets</b>	<b>\$ <u>215,294</u></b>	<b>\$ <u>212,536</u></b>

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 \$9,940 to this plan for the year ended June 30, 2013. The Free Clinic contributed \$6,339 to this plan for the year ended June 30, 2012.

**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 10, 2013, the date on which the financial statements were available to be issued.