

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

FINANCIAL STATEMENTS FOR THE YEARS
ENDED JUNE 30, 2014 AND 2013
an Independent Auditor's Report

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

FINANCIAL STATEMENTS FOR THE YEARS ENDED
JUNE 30, 2014 AND 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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.



MICHAEL J. PLYMALE INC., P.S.
Vancouver, Washington
November 7, 2014

Free Clinic of Southwest Washington
Statements of Financial Position
June 30, 2014 and 2013

	6/30/14	6/30/13
ASSETS		
Current Assets:		
Cash and Cash Equivalents	194,603	248,463
American Funds Investment Account	362,357	311,475
Accounts Receivable	23,131	2,818
Pledges Receivable	22,834	-
Prepaid Expense	21,529	25,644
Other Current Assets	5,000	-
Total Current Assets	629,454	588,400
Noncurrent Assets:		
Endowment Investments	305,014	276,261
Equipment	484,328	478,239
Less: Accumulated Depreciation	(375,816)	(334,851)
Leasehold Improvements	591,526	591,526
Less: Accumulated Amortization	(237,749)	(217,914)
Total Noncurrent Assets	767,303	793,261
Total Assets	1,396,757	1,381,661
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accrued Payroll	19,125	24,586
Payroll Withholdings	2,017	751
Accounts Payable	30,871	15,388
Accrued Vacation Payable	15,065	12,048
Total Current Liabilities	67,078	52,773
Net Assets:		
Unrestricted		
Available for General Operations	291,098	307,380
Board-Designated Reserves	100,000	100,000
Net Investment in Fixed Assets	462,289	517,000
Subtotal - Unrestricted	853,387	924,380
Temporarily Restricted	259,823	189,214
Permanently Restricted - Endowment	216,469	215,294
Total Net Assets	1,329,679	1,328,888
Total Liabilities and Net Assets	1,396,757	1,381,661

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Free Clinic of Southwest Washington
Statement of Activities
Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total FYE 6/30/14
Revenue, Gains and Other Support:				
Individual Donations	178,878	7,242	1,175	187,295
Business & Organization Donations	94,468	168,410	-	262,878
Patient Donations	39,385	-	-	39,385
Foundation Grants	-	121,903	-	121,903
Special Events	189,528	15,000	-	204,528
Gov't Contract Service Revenue	70,629	-	-	70,629
Bequests, Memorials, Planned Gifts	15,592	-	-	15,592
Interest & Investment Earnings	51,288	37,578	-	88,866
Other Income	300	-	-	300
Donated Materials	119,690	-	-	119,690
Donated Use of Facilities	95,820	-	-	95,820
Donated Services	1,263,115	-	-	1,263,115
Net Assets Released from Restrictions	279,523	(279,523)	-	-
Total Revenue, Gains and Other Support	<u>2,398,216</u>	<u>70,610</u>	<u>1,175</u>	<u>2,470,001</u>
Expenses:				
Program Service Expenses	2,199,086	-	-	2,199,086
Management & General Expenses	109,428	-	-	109,428
Fundraising Expenses	160,696	-	-	160,696
Total Expenses	<u>2,469,210</u>	<u>-</u>	<u>-</u>	<u>2,469,210</u>
Change in Net Assets	<u>(70,994)</u>	<u>70,610</u>	<u>1,175</u>	<u>791</u>
Net Assets at Beginning of Year	<u>924,381</u>	<u>189,213</u>	<u>215,294</u>	<u>1,328,888</u>
Net Assets at End of Year	<u><u>853,387</u></u>	<u><u>259,823</u></u>	<u><u>216,469</u></u>	<u><u>1,329,679</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	<u>3,201,171</u>	<u>(60,316)</u>	<u>2,758</u>	<u>3,143,613</u>
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	<u>3,302,709</u>	<u>-</u>	<u>-</u>	<u>3,302,709</u>
Change in Net Assets	<u>(101,538)</u>	<u>(60,316)</u>	<u>2,758</u>	<u>(159,096)</u>
Net Assets at Beginning of Year	<u>1,025,919</u>	<u>249,529</u>	<u>212,536</u>	<u>1,487,984</u>
Net Assets at End of Year	<u><u>924,381</u></u>	<u><u>189,213</u></u>	<u><u>215,294</u></u>	<u><u>1,328,888</u></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, 2014

	Program Expenses													Total Program Expenses	Mgmt. & General	Fund-Raising	Total Expenses
	Volunteer Program	Basic Health	Sports Physicals	Project Access	Dispensary	Diabetes			Health Screening	Dental Program	Immunization	Vision Program	Total Program Expenses				
						Transition Services	Screening	zation									
Salaries	-	90,059	4,235	107,192	49,441	-	5,670	84,596	15,227	-	4,216	360,636	37,439	93,416	491,491		
Payroll Taxes	452	9,145	453	11,103	5,155	-	580	9,331	829	-	1,204	38,252	3,891	9,590	51,733		
Health & Dental Insurance	-	7,050	200	9,853	5,247	-	200	8,612	1,402	-	360	32,924	1,242	5,889	40,055		
Retirement Benefits	-	1,635	46	2,286	1,217	-	46	1,998	325	-	84	7,637	288	1,366	9,291		
Accrued Vacation Expense	-	466	40	(1,156)	579	-	(1)	471	14	-	141	554	1,086	1,377	3,017		
Professional Fees	4,531	-	-	10,614	-	-	-	18,478	-	-	-	33,623	54,173	-	87,796		
Printing & Copying	141	1,995	-	601	-	-	-	582	-	-	-	3,319	220	377	3,916		
Postage & Delivery	27	472	-	360	-	-	-	366	-	-	-	1,225	101	1,102	2,428		
Advertising	-	17	-	13	-	-	-	38	-	-	-	68	2	5	75		
Technology	2,925	8,628	-	7,891	-	-	-	6,101	-	-	-	25,545	996	6,524	33,065		
Insurance	-	6,912	-	5,372	-	-	-	5,455	-	-	-	17,739	3,218	2,081	23,038		
Radiology	-	23,575	-	-	-	-	-	-	-	-	-	23,575	-	-	23,575		
Vouchered Prescriptions	-	6,664	-	8,699	932	-	-	-	-	-	-	16,406	-	-	16,406		
Bulk Pharmaceuticals	-	(65)	-	908	21,480	-	-	-	-	-	-	24,053	-	-	24,053		
Head Lice Kits	-	3,902	-	-	-	-	-	-	-	-	-	3,902	-	-	3,902		
Office Supplies	238	2,365	-	554	-	-	-	282	-	-	-	3,439	299	88	3,826		
Newsletters / Direct Mailing	-	-	-	-	-	-	-	-	-	-	-	-	-	3,059	3,059		
Medical, Dental & Clinic Supplies	-	11,487	-	586	178	-	3,132	19,313	182	-	64	44,454	-	-	44,454		
Occupancy	489	18,119	-	978	-	-	543	1,174	-	-	-	21,303	587	587	22,477		
Website	-	322	-	250	-	-	-	254	-	-	-	826	106	97	1,029		
Recognition & Board Expenses	712	-	-	-	-	-	-	-	-	-	-	712	1,358	-	2,070		
Volunteer Refreshments	-	1,654	-	-	-	-	-	138	-	-	-	1,792	-	-	1,792		
Travel & Mileage	-	408	-	228	-	-	21	1,942	-	-	-	2,599	-	-	2,599		
Dental Van Operations	-	-	-	-	-	-	-	4,481	-	-	-	4,481	-	-	4,481		
Dental Van Repairs & Maintenance	-	-	-	-	-	-	-	3,287	-	-	-	3,287	-	-	3,287		
Bank & Merchant Fees	-	368	-	286	-	-	-	291	-	-	-	945	843	111	1,899		
Dues & Fees	244	135	-	105	-	-	-	252	-	-	-	736	920	66	1,722		
Staff Development / Conferences	-	-	-	-	-	-	-	-	-	-	-	-	115	24	139		
Special Events	-	-	-	-	-	-	-	-	-	-	-	-	-	26,210	26,210		
Depreciation & Amortization	883	15,655	-	7,098	-	-	-	30,805	-	-	-	54,441	1,204	5,155	60,800		
Allocation of Volunteer Program Expenses	(12,261)	10,423	-	613	-	-	-	1,225	-	-	-	-	-	-	-		
In-Kind Expenses:																	
Donated Professional Services	-	408,736	-	701,163	45,822	23,790	6,733	57,896	9,013	8,722	1,261,875	-	1,240	-	1,263,115		
Donated Use of Facilities	-	95,820	-	-	-	-	-	-	-	-	95,820	-	-	-	95,820		
Donated Materials	1,619	70,940	-	2,500	183	3,885	-	7,366	19,936	6,489	112,918	100	3,572	-	116,590		
	-	796,887	4,974	878,097	130,234	39,592	16,360	264,734	46,928	21,280	2,199,086	109,428	160,696	-	2,489,210		

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

	Program Expenses											Total Program Expenses	Fund- Raising	Total Expenses
	Volunteer Program	Basic Health	Sports Physicals	Project Access	Dispensary	Diabetes Transition Services	Health Screening	Dental Program	Immu- nization	Vision Program	Mgmt. & General			
Salaries	-	91,557	5,022	112,242	50,607	-	6,414	90,453	15,666	4,797	37,440	90,431	504,629	
Payroll Taxes	-	9,628	542	12,045	5,477	-	669	10,309	913	1,294	4,063	9,721	54,661	
Health & Dental Insurance	-	8,632	245	12,065	6,425	-	245	10,544	1,717	441	1,520	7,210	49,044	
Retirement Benefits	-	1,756	50	2,356	1,307	-	50	2,243	349	90	274	1,466	9,941	
Accrued Vacation Expense	-	557	(1)	568	(17)	-	39	347	121	(34)	(614)	520	1,486	
Professional Fees	2,500	230	-	12,591	50	-	-	15,546	-	-	55,121	25	86,063	
Printing & Copying	182	699	6	369	145	31	6	492	60	32	132	971	3,125	
Postage & Delivery	198	163	1	392	23	5	1	117	10	5	625	606	2,146	
Advertising	-	-	-	-	-	-	-	55	-	-	-	-	55	
Technology	1,909	2,035	9	4,988	216	46	9	2,160	89	48	11,509	4,836	16,542	
Insurance	-	3,800	81	4,409	1,910	406	81	5,384	792	427	2,853	2,196	22,339	
Radiology	-	30,364	-	-	-	-	-	-	-	-	30,364	-	30,364	
Vouchered Prescriptions	-	5,159	-	10,466	2,114	438	-	-	-	-	18,177	-	18,177	
Bulk Pharmaceuticals	-	17,194	-	1,015	17,718	2,544	-	-	-	-	38,471	-	38,471	
Head Lice Kits	-	4,013	-	-	-	-	-	-	-	-	4,013	-	4,013	
Office Supplies	558	3,181	2	821	39	8	2	316	16	9	4,952	99	5,398	
Newsletters / Direct Mailing	-	-	-	-	-	-	-	-	-	-	-	1,850	1,850	
Medical, Dental & Clinic Supplies	-	10,787	-	4,204	-	9,027	4,843	16,014	1,712	194	46,781	-	46,781	
Occupancy	486	18,205	-	1,253	-	-	-	4,882	-	-	1,812	584	27,222	
Website	-	148	3	171	74	16	3	264	31	17	32	85	844	
Recognition & Board Expenses	9,032	(51)	-	-	-	-	-	20	-	-	9,001	26	10,072	
Volunteer Refreshments	-	1,557	-	-	-	-	-	174	-	-	1,731	-	3,135	
Travel & Mileage	279	445	-	156	-	-	-	154	-	-	1,034	-	1,034	
Dental Van Operations	-	-	-	-	-	-	-	3,916	-	-	3,916	-	3,916	
Dental Van Repairs & Maintenance	-	-	-	-	-	-	-	4,354	-	-	4,354	-	4,354	
Bank & Merchant Fees	-	-	-	-	-	-	-	-	-	-	3,700	-	3,700	
Dues & Fees	244	377	3	150	65	14	3	443	27	14	238	140	1,718	
Staff Development / Conferences	155	60	-	-	-	-	-	70	-	-	14	-	299	
Special Events	-	-	-	-	-	-	-	-	-	-	-	24,393	24,393	
Depreciation & Amortization	883	12,860	108	6,526	2,530	538	108	31,015	1,050	565	1,103	5,554	62,840	
Loss on Disposal of Fixed Assets	-	8,250	-	-	-	-	-	1,991	-	-	-	-	10,241	
Miscellaneous Expenses	-	29	-	-	-	-	-	-	-	-	-	-	41	
Allocation of Volunteer Program Expenses	(19,252)	16,365	-	963	-	-	-	1,924	-	-	-	-	-	
In-Kind Expenses:														
Donated Professional Services	-	501,116	-	1,296,917	44,753	25,925	6,294	90,402	13,895	10,028	1,989,320	-	1,989,320	
Donated Advertising	-	-	-	-	-	-	-	-	-	-	-	67,313	67,313	
Donated Use of Facilities	-	95,820	-	-	-	-	-	-	-	-	-	-	95,820	
Donated Materials	2,826	89,954	-	-	-	-	-	4,885	-	-	110	3,587	101,362	
	-	934,890	6,071	1,484,667	133,436	38,998	18,767	298,474	36,438	17,927	111,416	221,625	3,302,709	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Free Clinic of Southwest Washington
 Statements of Cash Flows
 Years Ended June 30, 2014 and 2013

	6/30/14	6/30/13
Cash Flows From Operating Activities:		
Increase (decrease) in net assets	791	(159,096)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	60,800	62,840
Donated equipment	(3,100)	-
Loss from disposal of equipment	-	10,242
Changes in:		
Investments	(79,634)	(45,789)
Accounts receivable	(20,312)	389
Grants & pledges receivable	(22,834)	11,500
Prepaid expenses	4,114	1,868
Other current assets	(5,000)	-
Accounts payable	15,482	2,507
Accrued payroll & related	(4,194)	7,504
Accrued vacation	3,017	1,486
Net cash provided by operating activities	(50,870)	(106,549)
Cash flows from investing activities:		
Purchase of equipment	(2,990)	-
	(2,990)	-
Net increase (decrease) in cash and cash equivalents	(53,860)	(106,549)
Cash and Cash Equivalents at Beginning of Year	248,463	355,012
Cash and Cash Equivalents at End of Year	194,603	248,463

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Free Clinic of Southwest Washington

Notes to Financial Statements

Years Ended June 30, 2014 and 2013

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, 2014, \$1,263,115 of contributed professional services were recorded. During the year ended June 30, 2013, \$1,989,320 of contributed professional services were recorded. Contributed professional services decreased in the year ended June 30, 2014 due to a 24% decrease in project access patient enrollments. This decline in patients was due to the Affordable Care Act which allowed uninsured patients to enroll in the Medicaid program. During the year ended June 30, 2014, total donated professional service hours were 12,642. Additional volunteer hours of service not included in the financial statements were 16,019.

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, 2014, \$119,690 of contributed medical supplies and other items were recorded. During the year ended June 30, 2013, \$101,362 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, 2011, 2012 and 2013 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, 2014 held in the Community Foundation for Southwest Washington investment pool resulted in investment gains of \$36,973. On May 27, 2014, the Free Clinic Board of Directors voted to move the bulk of the Free Clinic Endowment Fund out of the Community Foundation for Southwest Washington and into a pooled fund with Vanguard held directly by the Free Clinic, in order to reduce the administrative fees paid from the fund. In June 2014, \$293,074 was transferred from the Free Clinic Endowment Fund at the Community Foundation for Southwest Washington to the new Vanguard Fund. The ending fund balance at the Community Foundation for Southwest Washington was \$11,335. The investment for the year ended June 30, 2013 resulted in investment gains of \$27,296. The ending fund balance was \$276,261. 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, 2014 for the Vanguard account held by the Free Clinic resulted in net gains of \$605. The ending balance was \$293,679.

The investment for the year ended June 30, 2014 for the account held at LPL Financial Partners, Inc. resulted in net gains of \$50,882. The ending balance was \$362,357. The investment for the year ended June 30, 2013 resulted in net gains of \$40,735. The ending balance was \$311,475. All the funds managed by LPL Financial Partners are invested in American Funds mutual funds.

Investments consist of the following:

	<u>6/30/14</u>	<u>6/30/13</u>
Cash and Money Funds	\$ -	\$ -
Vanguard Balanced Index Fund	293,679	-
Vanguard Balanced Mutual Fund	11,335	276,261
American Funds Mutual Funds:		
Capital World Growth and Income Fund	-	36,081
Capital Income Builder	-	13,714
American Balanced Fund	8,406	7,188
Washington Mutual Investors Fund	9,234	7,541
The Income Fund of America	32,158	27,302
Intermediate Bond Fund of America	51,264	50,159
AMCAP Fund	19,653	15,028
EuroPacific Growth Fund	13,166	10,797
Growth Fund of America	35,457	28,012
International Growth & Income Fund	-	17,080
New Economy Fund	19,208	14,743
American Mutual Fund	8,877	7,335
New World Fund	-	11,221
SMALL CAP World Fund	-	3,022
Short-Term Bond Fund of America	85,595	-
Investment Company of America	79,339	62,252
	<u>\$ 667,371</u>	<u>\$ 587,736</u>
American Funds Investment Account	\$ 362,357	\$ 311,475
Endowment Vanguard Account	<u>305,014</u>	<u>276,261</u>
	<u>\$ 667,371</u>	<u>\$ 587,736</u>

The investment return for the year ending June 30, 2014 and 2013 breaks down as follows:

	<u>6/30/14</u>	<u>6/30/13</u>
Interest & Dividends	\$ 9,075	\$ 12,723
Gains & Losses (Realized & Unrealized)	<u>79,791</u>	<u>56,031</u>
Total	<u>\$ 88,866</u>	<u>\$ 68,754</u>

Investment advisory fees totaled \$5,702 for the fiscal year ended June 30, 2014 and \$5,601 for the fiscal year ended June 30, 2013.

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. Pledges Receivable

Pledges receivable are as follows:

	<u>6/30/14</u>	<u>6/30/13</u>
Pledges receivable due in less than one year	\$ 22,834	\$ -
	<u>\$ 22,834</u>	<u>\$ -</u>

7. Temporarily Restricted Net Assets

At June 30, 2014 and 2013, the balance in Temporarily Restricted Net Assets consists of donor restricted grants and donations which have been restricted to the following programs:

	<u>6/30/14</u>	<u>6/30/13</u>
Unappropriated Endowment Earnings	\$ 88,546	\$ 60,967
Project Access	876	14,789
Dental Program	54,232	55,015
Basic Health Clinics	640	2,988
Medications	4,417	-
Hearing Aids	515	515
Diabetes Transition Services	6,340	21,137
Oral Health Initiative	1,785	-
Outreach and Fund Raising	22,118	13,802
Equipment	20,354	20,000
General Support for FY 14-15	60,000	-
	<u>\$ 259,823</u>	<u>\$ 189,213</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 for the year ended June 30, 2013, 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, 2014, the Organization had the following endowment-related activities:

	Permanently Restricted Endowment Funds	Temporarily Restricted Endowment Funds	Total Endowment
Investment Returns			
Investment Income	\$ -	\$ 192	\$ 192
Net Appreciation	-	<u>37,386</u>	<u>37,386</u>
Total Investment return	-	37,578	37,578
Contributions to			
Perpetual endowment	1,175	-	1,175
Release of restrictions	-	-	-
Amounts appropriated			
For expenditure	-	<u>(10,000)</u>	<u>(10,000)</u>
Total Change in Endowment Funds	<u>\$ 1,175</u>	<u>\$ 27,578</u>	<u>\$ 28,753</u>

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
Investment Returns			
Investment Income	\$ -	\$ 5,779	\$ 5,779
Net Appreciation	-	<u>21,516</u>	<u>21,516</u>
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	-	<u>(20,000)</u>	<u>(20,000)</u>
Total Change in Endowment Funds	<u>\$ 2,758</u>	<u>\$ 2,295</u>	<u>\$ 5,053</u>

**Endowment Net Assets Composition by Type of Fund
As of June 30, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted Endowment Funds	\$ -	\$ -	\$ 216,469	\$ 216,469
Temporarily restricted – Gains on Endowment Funds	<u>-</u>	<u>88,545</u>	<u>-</u>	<u>88,545</u>
	<u>\$ -</u>	<u>\$ 88,545</u>	<u>\$ 216,469</u>	<u>\$ 305,014</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted Endowment Funds	\$ -	\$ -	\$ 215,294	\$ 215,294
Temporarily restricted – Gains on Endowment Funds	<u>-</u>	<u>60,967</u>	<u>-</u>	<u>60,967</u>
	<u>\$ -</u>	<u>\$ 60,967</u>	<u>\$ 215,294</u>	<u>\$ 276,261</u>

**Changes in Endowment Net Assets
For the Fiscal Year Ended June 30, 2014**

	<u>Donor- Restricted Endowment Funds</u>	<u>Temporarily Restricted Endowment Funds</u>	<u>Total Endowment</u>
Endowment net assets, Beginning of year	\$ 215,294	\$ 60,967	\$ 276,261
Investment return:			
Investment Income	-	192	192
Net Appreciation (realized and unrealized)	<u>-</u>	<u>37,386</u>	<u>37,386</u>
Total Investment return	-	37,578	37,578
Contributions	1,175	-	1,175
Release of restrictions	-	-	-
Appropriation of endowment Assets for expenditure	<u>-</u>	<u>(10,000)</u>	<u>(10,000)</u>
Total Change in Endowment Funds	<u>\$ 216,469</u>	<u>\$ 88,545</u>	<u>\$ 305,014</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)
Total Change in Endowment Funds	<u>\$ 215,294</u>	<u>\$ 60,967</u>	<u>\$ 276,261</u>

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

Permanently Restricted Net Assets

	<u>6/30/14</u>	<u>6/30/13</u>
(1) The portion of perpetual endowment funds that is retained permanently by explicit donor stipulation or by UPMIFA	\$ <u>216,469</u>	\$ <u>215,294</u>
	<u>\$ 216,469</u>	<u>\$ 215,294</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 \$9,291 to this plan for the year ended June 30, 2014. The Free Clinic contributed \$9,940 to this plan for the year ended June 30, 2013.

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 November 7, 2014, the date on which the financial statements were available to be issued.