

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

FINANCIAL STATEMENTS FOR THE YEARS
ENDED JUNE 30, 2016 AND 2015
an Independent Auditor's Report

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

FINANCIAL STATEMENTS FOR THE YEARS ENDED
JUNE 30, 2016 AND 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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', with a stylized, cursive script.

MICHAEL J. PLYMALE INC., P.S.
Vancouver, Washington
October 21, 2016

Free Clinic of Southwest Washington
Statements of Financial Position
June 30, 2016 and 2015

ASSETS	<u>6/30/16</u>	<u>6/30/15</u>
Current Assets:		
Cash and Cash Equivalents	158,416	137,553
American Funds Investment Account	238,155	236,587
Vanguard Investment Account - Reserves	137,568	137,026
Accounts Receivable	10,687	7,031
Pledges Receivable	52,000	9,500
Prepaid Expense	18,679	17,809
Total Current Assets	<u>615,505</u>	<u>545,506</u>
Noncurrent Assets:		
Pledges Receivable	50,000	-
Endowment Investments	312,250	313,322
Equipment	472,993	479,846
Less: Accumulated Depreciation	(406,683)	(393,167)
Leasehold Improvements	597,736	591,526
Less: Accumulated Amortization	(277,010)	(257,302)
Total Noncurrent Assets	<u>749,286</u>	<u>734,225</u>
Total Assets	<u><u>1,364,791</u></u>	<u><u>1,279,731</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accrued Payroll	16,908	16,129
Payroll Withholdings	215	619
Accounts Payable	18,603	11,066
Accrued Vacation Payable	8,937	13,770
Total Current Liabilities	<u>44,663</u>	<u>41,584</u>
Net Assets:		
Unrestricted		
Available for General Operations	344,548	317,444
Board-Designated Reserves	100,000	100,000
Net Investment in Fixed Assets	387,036	420,903
Subtotal - Unrestricted	<u>831,584</u>	<u>838,347</u>
Temporarily Restricted	267,380	180,331
Permanently Restricted - Endowment	221,164	219,469
Total Net Assets	<u><u>1,320,128</u></u>	<u><u>1,238,147</u></u>
Total Liabilities and Net Assets	<u><u>1,364,791</u></u>	<u><u>1,279,731</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, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total FYE 6/30/16
Revenue, Gains and Other Support:				
Individual Donations	115,999	22,034	1,695	139,728
Business & Organization Donations	111,550	187,007	-	298,557
Patient Donations	38,446	-	-	38,446
Foundation Grants	1,000	30,080	-	31,080
Special Events	188,227	19,000	-	207,227
Gov't Contract Service Revenue	59,555	-	-	59,555
Bequests, Memorials, Planned Gifts	50,940	700	-	51,640
Interest & Investment Earnings	2,329	12,233	-	14,562
Insurance Proceeds	2,007	-	-	2,007
Donated Materials	69,715	-	-	69,715
Donated Use of Facilities	95,820	-	-	95,820
Donated Services	880,739	-	-	880,739
Net Assets Released from Restrictions	184,005	(184,005)	-	-
Total Revenue, Gains and Other Support	1,800,332	87,049	1,695	1,889,076
Expenses:				
Program Service Expenses	1,536,456	-	-	1,536,456
Management & General Expenses	103,776	-	-	103,776
Fundraising Expenses	166,863	-	-	166,863
Total Expenses	1,807,095	-	-	1,807,095
Change in Net Assets	(6,763)	87,049	1,695	81,981
Net Assets at Beginning of Year	838,347	180,331	219,469	1,238,147
Net Assets at End of Year	831,584	267,380	221,164	1,320,128

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Free Clinic of Southwest Washington
Statement of Activities
Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total FYE 6/30/15
Revenue, Gains and Other Support:				
Individual Donations	135,378	14,600	3,000	152,978
Business & Organization Donations	105,322	68,637	-	173,959
Patient Donations	40,140	-	-	40,140
Foundation Grants	-	58,750	-	58,750
Special Events	196,994	19,000	-	215,994
Gov't Contract Service Revenue	53,255	-	-	53,255
Bequests, Memorials, Planned Gifts	18,300	500	-	18,800
Interest & Investment Earnings	10,537	15,308	-	25,845
Donated Materials	33,577	-	-	33,577
Donated Use of Facilities	95,820	-	-	95,820
Donated Services	881,548	-	-	881,548
Net Assets Released from Restrictions	256,287	(256,287)	-	-
Total Revenue, Gains and Other Support	1,827,158	(79,492)	3,000	1,750,666
Expenses:				
Program Service Expenses	1,583,422	-	-	1,583,422
Management & General Expenses	96,555	-	-	96,555
Fundraising Expenses	162,221	-	-	162,221
Total Expenses	1,842,198	-	-	1,842,198
Change in Net Assets	(15,040)	(79,492)	3,000	(91,532)
Net Assets at Beginning of Year	853,387	259,823	216,469	1,329,679
Net Assets at End of Year	838,347	180,331	219,469	1,238,147

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Free Clinic of Southwest Washington
Statement of Functional Expenses
Year Ended June 30, 2016

	Program Expenses												Total Expenses	
	Volunteer Program	Basic Health	Sports Physicals	Project Access	Dispensary	Diabetes Transition Services	Health Screening	Dental Program	Immunization	Vision Program	Total Program Expenses	Mgmt. & General		Fund-Raising
Salaries	-	69,617	353	43,771	20,827	-	3,530	91,540	5,234	8,874	243,746	37,793	91,863	373,402
Payroll Taxes	42	7,402	31	4,736	2,240	-	381	9,644	567	965	26,008	3,608	9,057	38,673
Health & Dental Insurance	-	5,287	-	3,711	1,674	-	291	6,621	437	752	18,773	1,213	4,269	24,255
Retirement Benefits	-	1,056	-	741	334	-	58	1,322	87	150	3,748	241	853	4,842
Accrued Vacation Expense	-	(729)	(19)	520	(1,111)	-	(188)	(1,362)	(188)	(184)	(3,261)	(835)	(736)	(4,832)
Professional Fees	-	-	-	14,616	-	-	-	12,150	-	-	26,766	49,456	-	76,222
Printing & Copying	14	1,578	-	567	-	-	-	885	-	-	3,044	404	777	4,225
Postage & Delivery	-	545	-	251	-	-	-	426	-	-	1,222	150	289	1,661
Technology	1,992	3,373	-	3,046	-	-	-	2,123	-	-	10,534	378	4,903	15,815
Insurance	-	6,556	-	3,023	-	-	-	5,123	-	-	14,702	2,629	3,474	20,805
Radiology	-	17,587	-	-	-	-	-	-	-	-	17,587	-	-	17,587
Vouchered Prescriptions	-	2,099	-	4,608	2,811	-	-	69	-	-	9,587	-	-	9,587
Bulk Pharmaceuticals	-	-	-	143	17,341	4,871	-	-	-	-	22,355	-	-	22,355
Head Lice Kits	-	4,390	-	-	-	-	-	-	-	-	4,390	-	-	4,390
Office Supplies	15	2,891	-	138	-	-	-	29	-	-	3,073	335	-	3,408
Newsletters / Direct Mailing	-	-	-	-	-	-	-	-	-	-	-	-	2,812	2,812
Medical, Dental & Clinic Supplies	-	11,552	-	513	-	6,119	1,630	17,875	590	363	38,642	-	-	38,642
Occupancy	391	20,269	-	1,428	-	-	-	1,899	-	-	23,987	559	395	24,941
Website	-	95	-	44	-	-	-	74	-	-	213	21	300	534
Recognition & Board Expenses	395	-	-	-	-	-	-	-	-	-	395	832	-	1,227
Volunteer Refreshments	-	464	-	-	-	-	-	77	-	-	541	-	-	541
Travel & Mileage	-	14	-	-	-	-	-	-	-	-	14	-	-	14
Dental Van Operations	-	-	-	-	-	-	-	1,852	-	-	1,852	-	-	1,852
Dental Van Repairs & Maintenance	-	-	-	-	-	-	-	665	-	-	665	-	-	665
Bank & Merchant Fees	-	823	-	379	-	-	-	643	-	-	1,845	321	3,068	5,234
Dues & Fees	-	289	-	133	-	-	-	226	-	-	648	689	478	1,815
Staff Development / Conferences	-	-	-	-	-	-	-	2,020	-	-	2,020	904	-	2,924
Special Events	-	-	-	-	-	-	-	-	-	-	-	-	24,649	24,649
Depreciation & Amortization	680	16,606	-	4,147	-	-	-	9,907	-	-	31,340	1,993	6,806	40,139
Loss on Disposal of Fixed Assets	-	1,643	-	-	-	-	-	-	-	-	1,643	-	-	1,643
Miscellaneous Expenses	-	554	-	-	-	-	-	-	-	-	554	240	-	794
Allocation of Volunteer Program Expenses	(3,529)	3,000	-	176	-	-	-	353	-	-	-	-	-	-
In-Kind Expenses:														
Donated Professional Services	-	296,451	-	312,710	47,378	28,234	5,796	170,788	13,360	6,023	880,740	-	-	880,740
Donated Use of Facilities	-	77,614	-	5,749	-	-	-	8,624	-	-	91,987	1,916	1,916	95,819
Donated Materials	-	41,881	-	-	-	13,486	-	1,729	-	-	57,096	929	11,690	69,715
	-	592,907	365	405,150	91,494	52,710	11,498	345,302	20,087	16,943	1,536,456	103,776	166,863	1,807,095

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Free Clinic of Southwest Washington
Statement of Functional Expenses
Year Ended June 30, 2015

	Program Expenses										Fund- Raising	Total Expenses
	Volunteer Program	Basic Health	Sports Physicals	Project Access	Dispensary	Diabetes Transition Services	Health Screening	Dental Program	Immunization	Vision Program		
Salaries	-	73,044	1,750	48,489	38,935	-	4,097	95,863	5,149	11,673	37,706	406,810
Payroll Taxes	752	7,362	210	5,442	3,995	-	422	9,836	630	1,086	3,735	8,920
Health & Dental Insurance	-	6,098	284	6,940	3,204	-	374	8,833	462	834	899	42,390
Retirement Benefits	-	1,386	56	1,543	712	-	106	1,994	85	190	211	31,150
Accrued Vacation Expense	-	(783)	(69)	141	371	-	35	728	15	(88)	12	7,044
Professional Fees	469	57	-	14,402	-	-	-	13,825	-	-	46,044	(1,295)
Printing & Copying	25	1,966	-	1,309	-	-	-	1,375	-	-	488	74,797
Postage & Delivery	-	507	-	393	-	-	-	419	-	-	88	6,184
Advertising	-	-	-	-	-	-	-	-	-	-	-	1,559
Technology	1,992	2,919	-	4,125	-	-	-	3,162	-	-	-	85
Insurance	-	6,586	-	5,118	-	-	-	5,198	-	-	343	17,337
Radiology	-	17,758	-	-	-	-	-	-	-	-	2,462	21,348
Vouchered Prescriptions	-	3,777	-	5,418	377	118	-	-	-	-	-	17,758
Bulk Pharmaceuticals	-	3,656	-	-	15,990	4,498	-	-	-	-	-	9,690
Head Lice Kits	-	3,600	-	-	-	-	-	-	-	-	-	24,144
Office Supplies	682	1,560	-	313	1,012	-	-	161	-	-	192	3,600
Newsletters / Direct Mailing	-	-	-	-	-	-	-	-	-	-	-	4,436
Medical, Dental & Clinic Supplies	-	8,125	-	699	-	5,890	1,682	14,647	342	65	-	2,669
Occupancy	540	20,531	-	1,275	-	-	-	1,499	-	-	-	31,450
Website	-	19	-	15	-	-	-	16	-	-	696	25,270
Recognition & Board Expenses	2,651	-	-	-	-	-	-	-	-	-	3	59
Volunteer Refreshments	-	677	-	10	-	-	-	100	-	-	393	3,044
Travel & Mileage	-	76	-	13	-	-	-	308	-	-	2	793
Dental Van Operations	-	-	-	-	-	-	-	2,488	-	-	229	676
Dental Van Repairs & Maintenance	-	-	-	-	-	-	-	2,565	-	-	-	2,488
Bank & Merchant Fees	-	520	-	404	-	-	-	410	-	-	-	2,565
Dues & Fees	274	569	-	286	-	-	-	291	-	-	831	5,188
Staff Development / Conferences	194	-	-	-	-	-	-	-	-	-	93	2,008
Special Events	-	-	-	-	-	-	-	-	-	-	-	194
Depreciation & Amortization	883	16,454	-	6,342	-	-	-	29,460	-	-	-	31,344
Loss on Disposal of Fixed Assets	-	-	-	-	-	-	-	-	-	-	1,179	59,424
Allocation of Volunteer Program Expenses	(8,462)	7,193	-	423	-	-	-	846	-	-	44	44
In-Kind Expenses:												
Donated Professional Services	-	363,573	-	320,093	46,265	20,908	4,991	109,180	10,960	5,578	-	881,548
Donated Use of Facilities	-	95,820	-	-	-	-	-	-	-	-	-	95,820
Donated Materials	30	13,040	-	-	1	901	-	4,537	194	2,098	905	30,577
	30	656,090	2,211	423,193	110,862	32,315	11,707	307,741	17,837	21,436	96,555	1,842,198

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

Free Clinic of Southwest Washington
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>6/30/16</u>	<u>6/30/15</u>
Cash Flows From Operating Activities:		
Increase (decrease) in net assets	81,981	(91,532)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	40,138	59,424
Receipt of donated equipment	-	(3,000)
Changes in:		
Investments	(1,038)	(19,565)
Accounts receivable	(3,655)	16,100
Grants & pledges receivable	(92,500)	13,334
Prepaid expenses	(871)	3,721
Other current assets	-	5,000
Accounts payable	7,536	(19,804)
Accrued payroll & related	375	(4,394)
Accrued vacation	(4,833)	(1,295)
Net cash provided by operating activities	<u>20,924</u>	<u>(42,011)</u>
Cash flows from investing activities:		
Purchase of equipment	(1,704)	(15,082)
Leasehold Improvements	(6,210)	-
Loss on disposition of equipment	1,643	44
	<u>(61)</u>	<u>(15,038)</u>
Net increase (decrease) in cash and cash equivalents	20,863	(57,049)
Cash and Cash Equivalents at Beginning of Year	<u>137,553</u>	<u>194,602</u>
Cash and Cash Equivalents at End of Year	<u><u>158,416</u></u>	<u><u>137,553</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, 2016 and 2015

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, 2016, \$880,739 of contributed professional services were recorded. During the year ended June 30, 2015, \$881,548 of contributed professional services were recorded. During the year ended June 30, 2016, total donated professional service hours recorded were 9,954. Additional volunteer hours of service not included in the financial statements were 9,909.

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, 2016, \$69,715 of contributed medical supplies and other items were recorded. During the year ended June 30, 2015, \$33,577 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, 2013, 2014 and 2015 are subject to examination by the IRS and generally may be audited within three years after they were filed.

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

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

3. Investments

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

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

The investment for the year ended June 30, 2016 held in the Community Foundation for Southwest Washington investment pool resulted in investment gains of \$210. The ending fund balance was \$16,672. The investment for the year ended June 30, 2015 held in the Community Foundation for Southwest Washington investment pool resulted in investment gains of \$432. The ending fund balance was \$14,767. 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, 2016 for the Vanguard account held by the Free Clinic for endowment funds resulted in net gains of \$12,023. The ending balance was \$295,578. The investment for the year ended June 30, 2015 resulted in net gains of \$14,876. The ending balance was \$298,555.

The investment for the year ended June 30, 2016 for the account held at LPL Financial Partners, Inc. resulted in net gains of \$1,568. The ending balance was \$238,155. The investment for the year ended June 30, 2015 resulted in net gains of \$10,344. The ending balance was \$236,587. In February 2015, the Free Clinic transferred \$137,097 out of the account held at LPL Financial Partners and moved these funds into a new self-managed account with ladder CD's at Vanguard. All the funds managed by LPL Financial Partners are invested in American Funds mutual funds.

The investment for the year ended June 30, 2016 for the Vanguard account held by the Free Clinic for reserves resulted in a net gain of \$542. The ending balance was \$137,568. The investment for the year ended June 30, 2015 resulted in a net loss of \$88. The ending balance was \$137,026.

Investments consist of the following:

	<u>6/30/16</u>	<u>6/30/15</u>
Vanguard Balanced Index Fund	295,578	298,555
Vanguard Balanced Mutual Fund	16,672	14,767
Vanguard Certificates of Deposit	137,568	137,026
American Funds Mutual Funds:		
Washington Mutual Investors Fund	44,542	41,933
AMCAP Fund	20,840	21,126
EuroPacific Growth Fund	28,344	31,454
Growth Fund of America	38,651	38,344
New Economy Fund	19,036	20,902
Investment Company of America	<u>86,742</u>	<u>82,828</u>
	<u>\$ 687,973</u>	<u>\$ 686,935</u>
	<u>6/30/16</u>	<u>6/30/15</u>
American Funds Investment Account	\$ 238,155	\$ 236,587
Reserves Vanguard Account	137,568	137,026
Endowment Vanguard Account	<u>312,250</u>	<u>313,322</u>
Total	<u>\$ 687,973</u>	<u>\$ 686,935</u>

The investment return for the year ending June 30, 2016 and 2015 breaks down as follows:

	<u>6/30/16</u>	<u>6/30/15</u>
Interest & Dividends	\$ 9,978	\$ 12,986
Gains & Losses (Realized & Unrealized)	<u>4,584</u>	<u>12,859</u>
Total	<u>\$ 14,562</u>	<u>\$ 25,845</u>

Investment advisory fees totaled \$345 for the fiscal year ended June 30, 2016 and \$1,223 for the fiscal year ended June 30, 2015.

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 two financial institutions in the Vancouver area. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization has adopted a policy to ensure that its funds remain within the insured limits, 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>6/30/16</u>	<u>6/30/15</u>
Pledges receivable due in less than one year	\$ 52,000	\$ 9,500
Pledges receivable due in more than one year	<u>\$ 50,000</u>	<u>\$ -</u>
	<u>\$ 102,000</u>	<u>\$ 9,500</u>

7. Temporarily Restricted Net Assets

At June 30, 2016 and 2015, the balance in Temporarily Restricted Net Assets consists of donor restricted grants and donations which have been restricted to the following programs:

	<u>6/30/16</u>	<u>6/30/15</u>
Unappropriated Endowment Earnings	\$ 91,086	\$ 93,853
Project Access	76,713	1,671
Dental Program	7,260	23,003
Basic Health Clinics	13,516	-
Medications	-	690
Hearing Aids	-	515
Diabetes Transition Services	11,488	21,250
Diabetes & Oral Health Programs	34,330	-
Outreach and Fund Raising	22,513	25,381
Equipment	<u>10,474</u>	<u>13,968</u>
	<u>\$ 267,380</u>	<u>\$ 180,331</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, 2016, it shows a total appropriated for expenditure of \$15,000, which is less than the 5% cap. In the table for the year ended June 30, 2015, it also shows a total appropriated for expenditure of \$10,000.

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, 2016, the Organization had the following endowment-related activities:

	Permanently Restricted Endowment Funds	Temporarily Restricted Endowment Funds	*Total Endowment
Investment Returns			
Investment Income	\$ -	\$ 6,174	\$ 6,174
Net Appreciation	-	6,059	6,059
Total Investment return	-	12,233	12,233
Contributions to Perpetual endowment	1,695	-	1,695
Release of restrictions	-	-	-
Amounts appropriated For expenditure	-	(15,000)	(15,000)
Total Change in Endowment Funds	<u>\$ 1,695</u>	<u>\$ (2,767)</u>	<u>\$ (1,072)</u>

In the year ending June 30, 2015, the Organization had the following endowment-related activities:

	Permanently Restricted Endowment Funds	Temporarily Restricted Endowment Funds	Total Endowment
Investment Returns			
Investment Income	\$ -	\$ 6,090	\$ 6,090
Net Appreciation	-	9,218	9,218
Total Investment return	-	15,308	15,308
Contributions to Perpetual endowment	3,000	-	3,000
Release of restrictions	-	-	-
Amounts appropriated For expenditure	-	(10,000)	(10,000)
Total Change in Endowment Funds	<u>\$ 3,000</u>	<u>\$ 5,308</u>	<u>\$ 8,308</u>

**Endowment Net Assets Composition by Type of Fund
As of June 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted Endowment Funds	\$ -	\$ -	\$ 221,164	\$ 221,164
Temporarily restricted – Gains on Endowment Funds	-	91,086	-	91,086
	<u>\$ -</u>	<u>\$ 91,086</u>	<u>\$ 221,164</u>	<u>\$ 312,250</u>

**Endowment Net Assets Composition by Type of Fund
As of June 30, 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted Endowment Funds	\$ -	\$ -	\$ 219,469	\$ 219,469
Temporarily restricted – Gains on Endowment Funds	-	93,853	-	93,583
	<u>\$ -</u>	<u>\$ 93,853</u>	<u>\$ 219,469</u>	<u>\$ 313,322</u>

**Changes in Endowment Net Assets
For the Fiscal Year Ended June 30, 2016**

	<u>Donor- Restricted Endowment Funds</u>	<u>Temporarily Restricted Endowment Funds</u>	<u>Total Endowment</u>
Endowment net assets, Beginning of year	\$ 219,469	\$ 93,853	\$ 313,322
Investment return:			
Investment Income	-	6,174	6,174
Net Appreciation (realized and unrealized)	-	6,059	6,059
Total Investment return	-	12,233	12,233
Contributions	1,695	-	1,695
Appropriation of endowment Assets for expenditure	-	(15,000)	(15,000)
Total Change in Endowment Funds	<u>\$ 221,164</u>	<u>\$ 91,086</u>	<u>\$ 312,250</u>

**Changes in Endowment Net Assets
For the Fiscal Year Ended June 30, 2015**

	Donor- Restricted Endowment Funds	Temporarily Restricted Endowment Funds	Total Endowment
Endowment net assets, Beginning of year	\$ 216,469	\$ 88,545	\$ 305,014
Investment return:			
Investment Income	-	6,090	6,090
Net Appreciation (realized and unrealized)	-	9,218	9,218
Total Investment return	-	15,308	15,308
Contributions	3,000	-	3,000
Appropriation of endowment Assets for expenditure	-	(10,000)	(10,000)
Total Change in Endowment Funds	\$ 219,469	\$ 93,853	\$ 313,322

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

Permanently Restricted Net Assets

	<u>6/30/16</u>	<u>6/30/15</u>
(1) The portion of perpetual endowment funds that is retained permanently by explicit donor stipulation or by UPMIFA	\$ 221,164	\$ 219,469
	<u>\$ 221,164</u>	<u>\$ 219,469</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 \$4,843 to this plan for the year ended June 30, 2016. The Free Clinic contributed \$7,044 to this plan for the year ended June 30, 2015.

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 21, 2016, the date on which the financial statements were available to be issued.