

ARLINGTON FREE CLINIC
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015

**ARLINGTON FREE CLINIC
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Arlington Free Clinic
Arlington, Virginia

We have audited the accompanying financial statements of Arlington Free Clinic (the Clinic), which comprise the statements of financial position as of June 30, 2016 and 2015, 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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 Arlington Free Clinic as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

Arlington, Virginia
September 21, 2016

**ARLINGTON FREE CLINIC
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015**

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 267,974	\$ 268,358
Grants and Contributions Receivable	397,587	456,102
Inventory	7,814	8,885
Prepaid Expenses	46,043	39,902
Total Current Assets	719,418	773,247
INVESTMENTS	2,669,541	2,690,832
GRANTS AND CONTRIBUTIONS RECEIVABLE, NET OF CURRENT PORTION	40,000	139,606
PROPERTY AND EQUIPMENT, NET	3,672,381	3,786,031
Total Assets	\$ 7,101,340	\$ 7,389,716
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 214,994	\$ 148,629
Capital Lease Payable, Current Portion	6,284	5,725
Total Current Liabilities	221,278	154,354
CAPITAL LEASE PAYABLE, NET OF CURRENT PORTION	5,702	11,986
Total Liabilities	226,980	166,340
NET ASSETS		
Unrestricted	5,635,326	5,968,940
Temporarily Restricted	870,760	886,162
Permanently Restricted	368,274	368,274
Total Net Assets	6,874,360	7,223,376
Total Liabilities and Net Assets	\$ 7,101,340	\$ 7,389,716

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT								
Contributions	\$ 708,619	\$ 499,517	\$ -	\$ 1,208,136	\$ 696,492	\$ 309,100	\$ -	\$ 1,005,592
Grants	-	541,500	-	541,500	31,000	595,621	-	626,621
Special Events, Net of Benefit Expense of \$189,479 and \$213,225 Respectively	637,068	-	-	637,068	1,139,608	-	-	1,139,608
Donated Goods and Services	4,339,564	-	-	4,339,564	4,758,547	-	-	4,758,547
Investment Income	58,116	703	-	58,819	32,147	5,060	-	37,207
Net Assets Released from Restrictions	1,057,122	(1,057,122)	-	-	907,756	(907,756)	-	-
Total Revenue and Other Support	<u>6,800,489</u>	<u>(15,402)</u>	<u>-</u>	<u>6,785,087</u>	<u>7,565,550</u>	<u>2,025</u>	<u>-</u>	<u>7,567,575</u>
EXPENSES								
Program Services:								
Arlington Free Clinic	6,348,292	-	-	6,348,292	6,475,776	-	-	6,475,776
Support Services:								
Management and General	346,226	-	-	346,226	313,566	-	-	313,566
Fund-Raising	439,585	-	-	439,585	575,276	-	-	575,276
Total Support Services	<u>785,811</u>	<u>-</u>	<u>-</u>	<u>785,811</u>	<u>888,842</u>	<u>-</u>	<u>-</u>	<u>888,842</u>
Total Expenses	<u>7,134,103</u>	<u>-</u>	<u>-</u>	<u>7,134,103</u>	<u>7,364,618</u>	<u>-</u>	<u>-</u>	<u>7,364,618</u>
CHANGE IN NET ASSETS	(333,614)	(15,402)	-	(349,016)	200,932	2,025	-	202,957
Net Assets - Beginning of Year	<u>5,968,940</u>	<u>886,162</u>	<u>368,274</u>	<u>7,223,376</u>	<u>5,768,008</u>	<u>884,137</u>	<u>368,274</u>	<u>7,020,419</u>
NET ASSETS - END OF YEAR	<u><u>\$ 5,635,326</u></u>	<u><u>\$ 870,760</u></u>	<u><u>\$ 368,274</u></u>	<u><u>\$ 6,874,360</u></u>	<u><u>\$ 5,968,940</u></u>	<u><u>\$ 886,162</u></u>	<u><u>\$ 368,274</u></u>	<u><u>\$ 7,223,376</u></u>

See accompanying Notes to Financial Statements.

ARLINGTON FREE CLINIC
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2016 AND 2015

	2016				2015			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,396,977	\$ 197,427	\$ 323,552	\$ 1,917,956	\$ 1,222,053	\$ 165,044	\$ 367,305	\$ 1,754,402
Employee Benefits and Payroll Taxes	212,885	36,559	35,210	284,654	190,300	24,403	44,823	259,526
Professional and Consultant Fees	-	81,207	-	81,207	1,390	88,907	-	90,297
Clinic Expense	98,777	-	-	98,777	70,433	-	-	70,433
Event and Meeting Expenses	7,347	542	3,519	11,408	5,905	8,398	5,434	19,737
Internet and Communications	64,971	991	8,403	74,365	70,037	1,105	19,328	90,470
Postage and Shipping	2,758	120	11,711	14,589	4,018	134	10,320	14,472
Office Expense	22,739	602	1,703	25,044	20,841	571	930	22,342
Printing Expense	2,810	37	17,915	20,762	3,089	21	24,594	27,704
Occupancy and Other Related Expenses	62,087	4,095	2,578	68,760	71,238	1,465	2,917	75,620
Depreciation and Amortization	125,334	2,667	5,333	133,334	127,815	2,719	5,439	135,973
Insurance	6,287	2,540	79	8,906	7,251	309	78	7,638
Miscellaneous	27,544	11,994	15,239	54,777	18,655	20,160	2,142	40,957
Donated Goods and Services:								
Donated Medical Services	3,387,490	-	-	3,387,490	3,434,187	-	-	3,434,187
Donated Pharmaceuticals	919,571	-	-	919,571	1,212,597	-	-	1,212,597
Donated Benefit Expenses	-	-	12,335	12,335	-	-	76,868	76,868
Donated Accounting and Legal Services	-	7,445	-	7,445	-	-	-	-
Donated Other Services	10,715	-	2,008	12,723	15,967	330	15,098	31,395
Total Donated Goods and Services	<u>4,317,776</u>	<u>7,445</u>	<u>14,343</u>	<u>4,339,564</u>	<u>4,662,751</u>	<u>330</u>	<u>91,966</u>	<u>4,755,047</u>
 Total Expenses	 <u>\$ 6,348,292</u>	 <u>\$ 346,226</u>	 <u>\$ 439,585</u>	 <u>\$ 7,134,103</u>	 <u>\$ 6,475,776</u>	 <u>\$ 313,566</u>	 <u>\$ 575,276</u>	 <u>\$ 7,364,618</u>

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (349,016)	\$ 202,957
Adjustments to Reconcile Change in Net Assets to Net Cash (Used in) Provided by Operating Activities:		
Depreciation and Amortization	133,334	135,973
Donated Securities Received	(47,687)	(17,462)
Donated Property and Equipment Received	-	(3,500)
Unrealized Loss on Investments	7,621	50,537
Realized Loss (Gain) on Sale of Investments	6,551	(22,678)
Changes in Assets and Liabilities:		
Grants and Contributions Receivable	158,121	(164,753)
Inventory	1,071	(3,792)
Prepaid Expenses	(6,141)	45,122
Accounts Payable and Accrued Expenses	66,365	(6,049)
Net Cash (Used in) Provided by Operating Activities	(29,781)	216,355
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments and Reinvested Dividends	(208,134)	(737,614)
Proceeds from Sales of Investments	262,940	494,498
Purchases of Property and Equipment	(19,684)	(21,647)
Net Cash Provided by (Used in) Investing Activities	35,122	(264,763)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Capital Lease Obligations	(5,725)	(5,216)
Net Cash Used in Financing Activities	(5,725)	(5,216)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(384)	(53,624)
Cash and Cash Equivalents - Beginning of Year	268,358	321,982
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 267,974	\$ 268,358
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	\$ 1,415	\$ 1,924
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Receipt of Donated Investments	\$ 47,687	\$ 17,462
Receipt of Donated Property and Equipment	\$ -	\$ 3,500

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Arlington Free Clinic, Inc. was organized in June 1993 to operate a health clinic that provides free medical and dental services and educational information to Arlington County residents who are unable to afford basic medical services. The Arlington Free Clinic, Inc. (the Clinic) opened in January 1994 through the efforts of physicians with the Arlington Medical Society. Currently the Clinic is run largely by volunteers including physicians, nurses, nurse practitioners, pharmacists and lab technicians, as well as nonmedical volunteers and is funded through general contributions and foundation grants.

Basis of Presentation

The Clinic prepares its financial statements on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when the obligations are incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax Status

The Clinic is exempt from the payment of federal income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has determined that the Organization is not a private foundation.

The tax returns for the Clinic are subject to review and examination by federal, state and local authorities. The Clinic is not aware of any activities that would jeopardize its tax-exempt status.

Cash and Cash Equivalents

For financial statement purposes, the Clinic considers its demand deposits and its short-term certificates of deposit that are highly-liquid and for which the current redemption value approximates carrying value to be cash and cash equivalents. The Clinic does not consider money market funds included in investment portfolios to be cash equivalents.

Grants and Contributions Receivable

Receivables are stated at net realizable value. Accounts are individually analyzed for collectability. Write-off of accounts receivable occurs when all collection efforts have been exhausted or certain conditions or forgiveness have been reached. Management believes that all receivables are fully collectible. Therefore, no allowance for doubtful accounts has been recognized.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory represents pharmaceuticals purchased and is stated at the lower of cost or market based on the first-in first-out method.

Investments

The Clinic carries its investments at fair market value. Accordingly, unrealized gains and losses due to market fluctuations during the year are reflected in the statement of activities. Realized gains or losses are recognized upon sale or disposal.

Fair Value Measurements

The Clinic accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement. The Clinic has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy based upon the transparency of inputs to the valuation of an asset or liability. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1

Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Clinic has the ability to access. These include investments that are recorded at fair value on a recurring basis and fair value measurement is based upon quoted prices, if available. Securities valued using Level 1 inputs include those traded on active exchanges (such as the New York Stock Exchange), as well as U.S. Treasury and other exchange traded securities.

Level 2

Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3

Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 are recorded at cost and depreciated using the straight-line method over the useful lives of assets of five to 39 years.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

Net assets and changes therein are classified into the following categories:

Unrestricted Net Assets

The Clinic's unrestricted net assets represent funds available for general operations.

Temporarily Restricted Net Assets

Represents resources received by the Clinic that are specifically time-restricted or restricted by donors for various programs.

Permanently Restricted Net Assets

Represents funds received from the Federal Government for construction and equipping the Clinic's facilities. The Federal Government retains a percentage of ownership security interest in the property, which may require reimbursement upon any transfer, sale, disposal or change in use of the property. As the property is expected to be used by the Clinic in its clinic operation indefinitely, it is considered unlikely that the Federal security interest will have any future financial impact on the Clinic.

Revenue Recognition

Contributions, including grants, are recorded when awarded or pledged and classified as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Temporarily restricted contributions that are received and used according to donor restrictions in the same period are recognized as temporarily restricted contributions and reclassified as net assets released from restrictions in the same period.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Assets received in connection with conditional promises are reported as refundable advances or refundable sponsorships until such time the conditions are substantially met.

In-kind donations are recorded at their estimated fair market value on the date of receipt. In-kind services are recorded at their estimated fair market value if such services are specialized and would typically be purchased if not donated.

Allocation of Expenses

The costs of providing various programs and supporting activities have been summarized on a functional basis in the notes to financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on personnel efforts or space usage.

Uniform Prudent Management of Institutional Funds Act

In 2008, the Commonwealth of Virginia enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Under UPMIFA, all unexpended endowment earnings are considered temporarily restricted.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these financial statements, the Clinic has evaluated events and transactions for potential recognition or disclosure through September 21, 2016, the date the financial statements were available to be issued.

NOTE 2 CONCENTRATION OF FINANCIAL AND CREDIT RISK

Financial instruments which subject the Clinic to a concentration of credit risk consist of demand deposits placed with financial institutions. At times during the year, the Clinic had funds invested with local financial institutions in excess of the Federal Deposit Insurance Corporation limits.

NOTE 3 GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable consist of unconditional promises to give at June 30, 2016 and 2015.

Gross contributions receivable expected to be collected in:

	2016	2015
Less than One Year	\$ 397,587	\$ 456,102
One to Five Years	40,000	139,606
Total Contributions Receivable	<u>\$ 437,587</u>	<u>\$ 595,708</u>

NOTE 4 INVESTMENTS

Investments consist of the following at June 30:

	2016		2015	
	Cost	Market	Cost	Market
Bond Mutual Funds	\$ 1,149,461	\$ 1,141,005	\$ 1,171,881	\$ 1,145,539
Equity Mutual Funds	1,186,380	1,486,440	1,180,683	1,506,631
Common Stock	1,941	1,974	-	-
Money Market Funds	40,122	40,122	38,662	38,662
Total	<u>\$ 2,377,904</u>	<u>\$ 2,669,541</u>	<u>\$ 2,391,226</u>	<u>\$ 2,690,832</u>

Investment income consists of the following for the years ended June 30:

	2016	2015
Interest and Dividends	\$ 72,991	\$ 65,066
Realized (Loss) Gain	(6,551)	22,678
Unrealized Loss	(7,621)	(50,537)
Total	<u>\$ 58,819</u>	<u>\$ 37,207</u>

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 5 FAIR VALUE MEASUREMENTS

The following table presents the Clinic's fair value hierarchy for those assets measured at fair value on a recurring basis as of June 30, 2016 and 2015:

	2016			
	Level 1	Level 2	Level 3	Total
<i>Investments:</i>				
Bond Mutual Funds	\$ 1,141,005	\$ -	\$ -	\$ 1,141,005
Equity Mutual Funds	1,486,440	-	-	1,486,440
Common Stock	1,974	-	-	1,974
Money Market Funds	40,122	-	-	40,122
Total	\$ 2,669,541	\$ -	\$ -	\$ 2,669,541
	2015			
	Level 1	Level 2	Level 3	Total
<i>Investments:</i>				
Bond Mutual Funds	\$ 1,145,539	\$ -	\$ -	\$ 1,145,539
Equity Mutual Funds	1,506,631	-	-	1,506,631
Money Market Funds	38,662	-	-	38,662
Total	\$ 2,690,832	\$ -	\$ -	\$ 2,690,832

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2016	2015
Land	\$ 1,370,731	\$ 1,370,731
Buildings and Improvements	2,643,303	2,643,303
Computer Equipment	55,634	58,778
Computer Software	184,475	221,810
Furniture and Equipment	249,522	249,522
Clinic/Medical Equipment	24,910	24,910
	4,528,575	4,569,054
Less: Accumulated Depreciation	(856,194)	(783,023)
Net Property and Equipment	\$ 3,672,381	\$ 3,786,031

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 7 CAPITAL LEASE PAYABLE

The Clinic has two copiers under a capital lease valued at \$23,750, being depreciated over a four-year lease life. Accumulated depreciation related to this equipment was \$12,865 and \$6,927 at June 30, 2016 and 2015, respectively.

The following is a schedule of future minimum payments required under the lease:

<u>Years Ending June 30,</u>	<u>Total</u>
2017	\$ 7,140
2018	5,950
Total	<u>13,090</u>
Less: Amount Representing Interest	(1,104)
Present Value of Future Minimum Lease Payments	<u>\$ 11,986</u>

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows at June 30:

	<u>2016</u>	<u>2015</u>
Star Fund	\$ 281,576	\$ 296,460
Oral Health	130,486	119,573
Women's Health	93,894	176,788
Tuition Assistance	26,600	26,000
Physical Activity Counseling	23,638	-
Management Assistance	20,000	-
Healthy Choices for Life	7,173	-
Technology and Other	5,272	12,644
Pharmacy Services	-	5,000
Time Restricted	282,121	249,697
Total	<u>\$ 870,760</u>	<u>\$ 886,162</u>

NOTE 9 CONTRIBUTED GOODS AND SERVICES

The Clinic received pro bono services and donated pharmaceuticals and other goods having an estimated fair value as follows during the years ended June 30:

	<u>2016</u>	<u>2015</u>
Contributed Services - Medical & Pharmaceutical	\$ 3,387,490	\$ 3,434,187
Donated Goods and Pharmaceuticals	931,906	1,289,465
Contributed Goods and Services - Other	20,168	34,895
Total	<u>\$ 4,339,564</u>	<u>\$ 4,758,547</u>

Included in these totals are amounts donated by Virginia Hospital Center – Arlington (a related party – Senior Vice President and Chief Medical Officer of the Hospital Center is also on the Clinic's Board of Directors) that provided lab fees, x-ray services and other medical tests with an estimated value of \$1,596,393 and \$1,637,559 for the years ended June 30, 2016 and 2015, respectively.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 9 CONTRIBUTED GOODS AND SERVICES (CONTINUED)

Donated pharmaceutical samples from attending physicians and other non-profit groups are not reflected in inventory. In sample form, they have no market for sale and therefore no market value. In addition, the Clinic estimates that all pharmaceutical samples donated are distributed within one operating cycle.

The Clinic has elected not to record various donated pharmaceuticals from the Prescription Assistance Program. The Program donations are for specific patients and are treated as an agency transaction with the Clinic acting in an intermediary capacity. The Clinic estimates the retail value of these prescriptions received and delivered during the fiscal years ended June 30, 2016 and 2015 to be approximately \$1,700,000 and \$1,200,000, respectively.

NOTE 10 RETIREMENT PLAN

The Clinic maintains a 401(k) retirement plan that covers substantially all employees. The Clinic makes a contribution of 3% of each participant's eligible compensation subject to certain limitations. The Clinic's contributions to the Plan for the years ended June 30, 2016 and 2015, totaled \$41,195 and \$37,786, respectively.

NOTE 11 ENDOWMENT

The Clinic's endowment consists of an endowment established through the Clinic's Star Fund during the fiscal year ended June 30, 2007, to support the medical needs of patients. As required by GAAP, net assets associated with endowment funds are classified and reported based on the temporarily restricted unexpended endowment earnings and permanently restricted net assets.

The Board of Directors has interpreted UPMIFA as requiring the preservation of the gift in accordance with the donor's stipulation. As a result of this interpretation, the Clinic classifies the Star Fund component of temporarily restricted net assets as an endowment. The Star Fund includes a donor specified spending policy and such amounts are appropriated for expenditure by the Clinic in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Clinic considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Clinic and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Clinic
- The investment policies of the Clinic

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 11 ENDOWMENT (CONTINUED)

Return Objectives and Risk Parameters

Management of the endowment assets is designed to ensure a total return (income plus capital change) necessary to preserve and enhance (in real dollar terms) the principal of the fund and, at the same time, provide a dependable source of support for current operations and programs. Therefore, the Clinic's goal for its endowment funds is to preserve and enhance purchasing power after accounting for investment returns, spending, and inflation (but excluding gifts). The return goal is to generate a real return (after inflation) equal to or greater than 5% per year, on average.

Strategies Employed for Achieving Objectives

Reasonable diversification is sought at all times. Experience has shown financial markets and inflation rates are cyclical and, therefore, control of volatility will be achieved through diversification of asset classes and selection of managers of diverse investment styles. The Finance Committee of the Board of Directors reviews the performance and diversification of the portfolio in relation to the Clinic's Investment Policy.

Spending Policy

The Clinic may distribute each year up to 5% of its endowment fund's average fair value of the prior three (3) years.

The following is a summary of endowment funds subject to UPMIFA which are included in the total investment amounts on the statements of financial position for the years ended June 30, 2016 and 2015:

	Temporarily Restricted
Endowment Net Assets, June 30, 2014	\$ 300,394
Contributions	5,000
Investment Gain	5,060
Appropriations	(13,994)
Endowment Net Assets, June 30, 2015	296,460
Contributions	51
Investment Gain	703
Appropriations	(15,638)
Endowment Net Assets, June 30, 2016	\$ 281,576

NOTE 12 EMPLOYMENT AGREEMENT

The Clinic has entered into an employment agreement with its Executive Director. Under the terms of the agreement, the Clinic would be obligated to pay 180 days' severance should services be terminated as defined in the agreement.