

ARLINGTON FREE CLINIC
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2011 AND 2010

**ARLINGTON FREE CLINIC
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YEARS ENDED JUNE 30, 2011 AND 2010**

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CPAs, Consultants & Advisors
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Arlington Free Clinic
Arlington, Virginia

We have audited the accompanying statement of financial position of the Arlington Free Clinic as of June 30, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Arlington Free Clinic as of June 30, 2010 were audited by other auditors whose report, dated January 28, 2011, expressed an unqualified opinion on those statements.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of the Arlington Free Clinic as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

LarsonAllen LLP
LarsonAllen LLP

Arlington, Virginia
September 30, 2011

**ARLINGTON FREE CLINIC
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010**

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 827,470	\$ 820,100
Grants and Contributions Receivable	283,057	445,866
Inventory	4,395	3,455
Prepaid Expenses	32,714	30,056
Total Current Assets	1,147,636	1,299,477
INVESTMENTS	1,820,574	824,844
PROPERTY AND EQUIPMENT, NET	4,130,781	4,181,614
Total Assets	\$ 7,098,991	\$ 6,305,935
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 148,189	\$ 161,128
Capital Lease Payable, Current Portion	5,264	-
Total Current Liabilities	153,453	161,128
LONG TERM LIABILITIES		
Capital Lease Payable, Net of Current Portion	13,455	-
Total Liabilities	166,908	161,128
NET ASSETS		
Unrestricted	5,770,230	5,202,155
Temporarily Restricted	793,579	574,378
Permanently Restricted	368,274	368,274
Total Net Assets	6,932,083	6,144,807
Total Liabilities and Net Assets	\$ 7,098,991	\$ 6,305,935

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2011 AND 2010**

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT								
Contributions	\$ 553,294	\$ 472,124	\$ -	\$ 1,025,418	\$ 648,234	\$ 152,676	\$ -	\$ 800,910
Grants	1,129,815	266,970	-	1,396,785	487,739	537,540	-	1,025,279
Special Events, Net of Benefit Expense of \$118,460 and \$128,685, Respectively	458,075	-	-	458,075	413,147	-	-	413,147
Donated Goods and Services	3,767,787	-	-	3,767,787	3,148,246	-	-	3,148,246
Investment Income	69,080	33,905	-	102,985	70,611	15,751	-	86,362
Net Assets Released from Restrictions	553,798	(553,798)	-	-	651,023	(651,023)	-	-
Total Revenue and Other Support	<u>6,531,849</u>	<u>219,201</u>	<u>-</u>	<u>6,751,050</u>	<u>5,419,000</u>	<u>54,944</u>	<u>-</u>	<u>5,473,944</u>
EXPENSES								
Program Services:								
Arlington Free Clinic	5,445,894	-	-	5,445,894	4,878,467	-	-	4,878,467
Support Services:								
Management and General	178,987	-	-	178,987	162,081	-	-	162,081
Fund-Raising	338,893	-	-	338,893	257,789	-	-	257,789
Total Support Services	<u>517,880</u>	<u>-</u>	<u>-</u>	<u>517,880</u>	<u>419,870</u>	<u>-</u>	<u>-</u>	<u>419,870</u>
Total Expenses	<u>5,963,774</u>	<u>-</u>	<u>-</u>	<u>5,963,774</u>	<u>5,298,337</u>	<u>-</u>	<u>-</u>	<u>5,298,337</u>
CHANGE IN NET ASSETS	568,075	219,201	-	787,276	120,663	54,944	-	175,607
Net Assets - Beginning of Year	<u>5,202,155</u>	<u>574,378</u>	<u>368,274</u>	<u>6,144,807</u>	<u>5,081,492</u>	<u>519,434</u>	<u>368,274</u>	<u>5,969,200</u>
NET ASSETS - END OF YEAR	<u>\$ 5,770,230</u>	<u>\$ 793,579</u>	<u>\$ 368,274</u>	<u>\$ 6,932,083</u>	<u>\$ 5,202,155</u>	<u>\$ 574,378</u>	<u>\$ 368,274</u>	<u>\$ 6,144,807</u>

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2011 AND 2010**

	2011				2010			
	Program Services	Management and General	Fund-raising	Total	Program Services	Management and General	Fund-raising	Total
Salaries	\$ 1,117,785	\$ 113,878	\$ 222,478	\$ 1,454,141	\$ 1,142,638	\$ 92,378	\$ 167,105	\$ 1,402,121
Employee Benefits and Payroll Taxes	171,947	14,040	29,586	215,573	169,239	16,436	16,388	202,063
Professional and Consultant Fees	10,664	30,123	1,688	42,475	44,569	21,242	2,291	68,102
Clinic Expense	47,722	-	-	47,722	40,883	-	-	40,883
Event and Meeting Expenses	4,378	66	3,174	7,618	8,255	2,249	1,886	12,390
Internet and Communications	62,443	1,194	3,944	67,581	36,028	588	4,633	41,249
Postage and Shipping	4,789	147	15,726	20,662	2,463	431	13,421	16,315
Office Expense	26,775	801	1,200	28,776	19,828	1,265	824	21,917
Printing Expense	7,922	170	44,695	52,787	16,989	2,546	28,813	48,347
Occupancy and Other Related Expenses	97,437	2,039	4,082	103,558	89,171	2,019	3,491	94,681
Depreciation and Amortization	108,986	2,319	4,638	115,943	106,650	2,208	4,417	113,275
Insurance	4,644	36	73	4,753	7,053	150	300	7,503
Miscellaneous	17,330	10,136	6,932	34,398	68,542	9,007	13,696	91,245
Donated Goods and Services:								
Donated Medical Services	3,026,900	-	-	3,026,900	2,420,415	-	-	2,420,415
Donated Pharmaceuticals	720,271	-	-	720,271	677,763	-	-	677,763
Donated Accounting and Legal Services	-	3,700	-	3,700	-	11,300	-	11,300
Donated Computer Services	10,152	216	432	10,800	15,667	-	-	15,667
Donated Printing Services	5,749	122	245	6,116	11,257	240	479	11,975
Donated Meeting Expense	-	-	-	-	1,058	23	45	1,126
Total Donated Goods and Services	<u>3,763,072</u>	<u>4,038</u>	<u>677</u>	<u>3,767,787</u>	<u>3,126,160</u>	<u>11,562</u>	<u>524</u>	<u>3,138,246</u>
 Total Expenses	 <u>\$ 5,445,894</u>	 <u>\$ 178,987</u>	 <u>\$ 338,893</u>	 <u>\$ 5,963,774</u>	 <u>\$ 4,878,467</u>	 <u>\$ 162,081</u>	 <u>\$ 257,789</u>	 <u>\$ 5,298,337</u>

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 787,276	\$ 175,607
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Donated Property and Equipment	-	(10,000)
Depreciation and Amortization	115,943	113,275
Loss on Disposal of Property and Equipment	640	-
Donated Securities Received	(13,681)	-
Unrealized (Gain)/Loss on Investments	(71,015)	39,153
Realized (Gain)/Loss on Sale of Investments	701	(91,054)
Changes in Assets and Liabilities:		
Grants and Contributions Receivable	162,809	81,408
Inventory	(940)	(671)
Prepaid Expenses	(2,658)	(7,006)
Accounts Payable and Accrued Expenses	(12,939)	(60,777)
Net Cash Provided by Operating Activities	966,136	239,935
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments and Reinvested Dividends	(1,003,492)	(952,462)
Proceeds from Sale of Investments	91,757	780,095
Purchase of Property and Equipment	(42,845)	(61,271)
Net Cash Used by Investing Activities	(954,580)	(233,638)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Capital Lease Obligations	(4,186)	-
Net Cash Used by Financing Activities	(4,186)	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,370	6,297
Cash and Cash Equivalents - Beginning of Year	820,100	813,803
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 827,470	\$ 820,100
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	\$ 1,614	\$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Receipt of Donated Investments	\$ 13,681	\$ -
Assets Acquired through Capital Lease	\$ 22,905	\$ -

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

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 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, physician's assistants, nurse practitioners, pharmacists and lab technicians, as well as nonmedical volunteers and is funded through general contributions and grants from various health related foundations.

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 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 Clinic has adopted the guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The adoption of this standard had no impact on the Organization's financial statements. The Organization files as a tax-exempt organization. Should that status be challenged in the future, the Organization's 2008, 2009 and 2010 tax years are open for examination by the IRS.

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.

Grants and Contributions Receivable

Receivables are stated at net realizable value. Accounts are individually analyzed for collectibility. Write-off of accounts receivable occurs when all collection efforts have been exhausted or certain conditions or forgiveness have been reached. All grants and contributions receivable are expected to be collected within one year.

ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

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

Investments

The Clinic carries its investments at market value and realized and unrealized gains and losses are reflected in the statements of activities.

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 accounts for certain financial assets and liabilities at fair value under various accounting literature. The Clinic also accounts for certain assets at fair value under applicable industry guidance.

Fair Value Hierarchy

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. 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.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Acquisitions of property and equipment in excess of \$750 are recorded at cost and depreciated using the straight-line method over the useful lives of assets of five to 39 years.

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

Contributions 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 received that are 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.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Government Grants

Revenue from government grants is recognized in the year when expenses are incurred and/or activities have occurred on the basis of the direct costs, plus allowable indirect costs as allowable by the government grants and contracts. Expenditures under government grants and contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these grants and contracts, the Clinic will record such disallowance at the time the final assessment is made.

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 unappropriated endowment fund assets are considered restricted.

Reclassifications

Certain 2010 amounts have been reclassified to conform to the 2011 presentation.

Subsequent Events

In preparing these financial statements, the Clinic has evaluated events and transactions for potential recognition or disclosure through September 30, 2011, 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.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 3 INVESTMENTS

Investments consist of the following at June 30, 2011 and 2010:

	2011		2010	
	Cost	Market	Cost	Market
Bond Mutual Funds	\$ 1,052,632	\$ 1,058,260	\$ 480,514	\$ 484,336
Equity Mutual Funds	411,220	438,725	255,694	216,979
Other Mutual Funds	234,506	236,795	65,000	64,302
Money Market Funds	86,794	86,794	59,227	59,227
Total	<u>\$ 1,785,152</u>	<u>\$ 1,820,574</u>	<u>\$ 860,435</u>	<u>\$ 824,844</u>

Net investment income for the years ended June 30, 2011 and 2010 is comprised of the following:

	2011	2010
Interest and Dividends	\$ 32,671	\$ 34,461
Realized Gain (Loss)	(701)	91,054
Unrealized Gain (Loss)	71,015	(39,153)
Total	<u>\$ 102,985</u>	<u>\$ 86,362</u>

NOTE 4 FAIR VALUE MEASUREMENTS

The following table presents the Clinic's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 and 2010:

	2011			
	Level 1	Level 2	Level 3	Total
<i>Investments:</i>				
Bond Mutual Funds	\$ 1,058,260	\$ -	\$ -	\$ 1,058,260
Equity Mutual Funds	438,725	-	-	438,725
Other Mutual Funds	236,795	-	-	236,795
Total	<u>\$ 1,733,780</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,733,780</u>
	2010			
	Level 1	Level 2	Level 3	Total
<i>Investments:</i>				
Bond Mutual Funds	\$ 484,336	\$ -	\$ -	\$ 484,336
Equity Mutual Funds	216,979	-	-	216,979
Other Mutual Funds	64,302	-	-	64,302
Total	<u>\$ 765,617</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 765,617</u>

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2011 and 2010:

	2011	2010
Land	\$ 1,370,731	\$ 1,370,731
Buildings & Improvements	2,643,303	2,643,303
Computer Equipment	61,258	59,316
Computer Software	130,328	101,348
Furniture and Equipment	238,851	215,946
Clinic/Medical Equipment	3,169	3,169
	4,447,640	4,393,813
Less: Accumulated Depreciation	(316,859)	(212,199)
Net Property and Equipment	\$ 4,130,781	\$ 4,181,614

NOTE 6 CAPITAL LEASE PAYABLE

During fiscal year 2011, the Clinic acquired two new copiers under a capital lease. The fair value of the copiers was valued at \$22,905 and is being depreciated over a four-year lease life. Depreciation expense and accumulated depreciation on this capital lease for the year ended June 30, 2011 was \$4,295.

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

Year	Total
2012	\$ 6,960
2013	6,960
2014	6,960
2015	1,160
Total	22,040
Less Imputed Interest	(3,321)
Present Value of Future Minimum Lease Payments	\$ 18,719

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 7 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows at June 30, 2011 and 2010:

	2011	2010
Star Fund	\$ 255,752	\$ 225,323
Women's Health	167,500	51,805
Technology	137,270	14,000
Mental Health	-	20,700
Time Restricted	<u>233,057</u>	<u>262,550</u>
Total	<u>\$ 793,579</u>	<u>\$ 574,378</u>

NOTE 8 CONTRIBUTED SERVICES

During the years ended June 30, 2011 and 2010, the Clinic received pro bono services and donated pharmaceuticals and other goods having an estimated fair value of \$3,767,787 and \$3,148,246, respectively.

The value of contributed services used by the Clinic and meeting the requirements for recognition as revenues and expenses in the financial statements was \$3,041,400 and \$2,447,382 for the years ended June 30, 2011 and 2010, respectively. Included in these totals are amounts donated by Virginia Hospital Center – Arlington (a related party – director of case management of the hospital is also on the Clinic's board of directors) who provided lab fees, x-ray services and other medical tests with an estimated value of \$1,102,090 and \$921,655 for the years ended June 30, 2011 and 2010, respectively.

The value of donated goods and pharmaceuticals recorded in the financial statements for the years ended June 30, 2011 and 2010 are estimated to be \$726,387 and \$700,864, respectively.

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 a 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, 2011 and 2010, to be \$1,933,952 and \$1,524,853, respectively.

NOTE 9 RETIREMENT PLAN

The Clinic maintains a Section 403(b) 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, 2011 and 2010 were \$36,172 and \$34,662, respectively.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 10 COMMITMENT

Contract

During the fiscal year 2011 the Clinic entered into a contract to develop new management software for use in the Clinic. The Clinic expended \$28,980 during the year ended June 30, 2011, and is committed up to \$67,620 for future services to be performed.

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 generally accepted accounting principles, 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 the Commonwealth of Virginia UPMIFA as requiring the preservation of the gift in accordance with the donor's stipulation. As a result of this interpretation, the Clinic classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization 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

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Clinic to retain as a fund for perpetual duration. In accordance with GAAP, deficiencies of this nature are reported as a reduction of unrestricted net assets. There were no deficiencies as of June 30, 2011 and 2010.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

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 for the years ended June 30, 2011 and 2010:

Endowment Net Assets, July 1, 2009	\$ 209,777
Contributions	7,610
Investment Gain	15,751
Appropriations	<u>(7,815)</u>
Endowment Net Assets, June 30, 2010	225,323
Contributions	7,500
Investment Gain	33,905
Appropriations	<u>(10,976)</u>
Endowment Net Assets, June 30, 2011	<u><u>\$ 255,752</u></u>