

ARLINGTON FREE CLINIC
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

**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, 2015 and 2014, 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.

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, 2015 and 2014, 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 16, 2015

**ARLINGTON FREE CLINIC
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014**

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 268,358	\$ 321,982
Grants and Contributions Receivable	456,102	370,955
Inventory	8,885	5,093
Prepaid Expenses	39,902	85,024
Total Current Assets	773,247	783,054
INVESTMENTS	2,690,832	2,458,113
GRANTS AND CONTRIBUTIONS RECEIVABLE, NET OF CURRENT PORTION	139,606	60,000
PROPERTY AND EQUIPMENT, NET	3,786,031	3,896,857
Total Assets	\$ 7,389,716	\$ 7,198,024
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 148,629	\$ 154,678
Capital Lease Payable, Current Portion	5,725	5,216
Total Current Liabilities	154,354	159,894
CAPITAL LEASE PAYABLE, NET OF CURRENT PORTION	11,986	17,711
Total Liabilities	166,340	177,605
NET ASSETS		
Unrestricted	5,968,940	5,768,008
Temporarily Restricted	886,162	884,137
Permanently Restricted	368,274	368,274
Total Net Assets	7,223,376	7,020,419
Total Liabilities and Net Assets	\$ 7,389,716	\$ 7,198,024

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT								
Contributions	\$ 696,492	\$ 309,100	\$ -	\$ 1,005,592	\$ 789,467	\$ 258,143	\$ -	\$ 1,047,610
Grants	31,000	595,621	-	626,621	-	708,250	-	708,250
Special Events, Net of Benefit Expense of \$213,225 and \$154,370 Respectively	1,139,608	-	-	1,139,608	701,961	-	-	701,961
Donated Goods and Services	4,758,547	-	-	4,758,547	4,885,118	-	-	4,885,118
Investment Income	32,147	5,060	-	37,207	259,747	42,527	-	302,274
Net Assets Released from Restrictions	907,756	(907,756)	-	-	937,428	(937,428)	-	-
Total Revenue and Other Support	<u>7,565,550</u>	<u>2,025</u>	<u>-</u>	<u>7,567,575</u>	<u>7,573,721</u>	<u>71,492</u>	<u>-</u>	<u>7,645,213</u>
EXPENSES								
Program Services:								
Arlington Free Clinic	6,475,776	-	-	6,475,776	6,598,782	-	-	6,598,782
Support Services:								
Management and General	313,566	-	-	313,566	324,287	-	-	324,287
Fund-Raising	575,276	-	-	575,276	469,740	-	-	469,740
Total Support Services	<u>888,842</u>	<u>-</u>	<u>-</u>	<u>888,842</u>	<u>794,027</u>	<u>-</u>	<u>-</u>	<u>794,027</u>
Total Expenses	<u>7,364,618</u>	<u>-</u>	<u>-</u>	<u>7,364,618</u>	<u>7,392,809</u>	<u>-</u>	<u>-</u>	<u>7,392,809</u>
CHANGE IN NET ASSETS	200,932	2,025	-	202,957	180,912	71,492	-	252,404
Net Assets - Beginning of Year	<u>5,768,008</u>	<u>884,137</u>	<u>368,274</u>	<u>7,020,419</u>	<u>5,587,096</u>	<u>812,645</u>	<u>368,274</u>	<u>6,768,015</u>
NET ASSETS - END 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>

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015				2014			
	Program Services	Management and General	Fund-raising	Total	Program Services	Management and General	Fund-raising	Total
Salaries	\$ 1,222,053	\$ 165,044	\$ 367,305	\$ 1,754,402	\$ 1,165,529	\$ 182,183	\$ 350,810	\$ 1,698,522
Employee Benefits and Payroll Taxes	190,300	24,403	44,823	259,526	171,226	23,520	46,491	241,237
Professional and Consultant Fees	1,390	88,907	-	90,297	1,390	80,213	-	81,603
Clinic Expense	70,433	-	-	70,433	60,051	-	-	60,051
Event and Meeting Expenses	5,905	8,398	5,434	19,737	7,661	5,818	16,963	30,442
Internet and Communications	70,037	1,105	19,328	90,470	59,947	910	4,463	65,320
Postage and Shipping	4,018	134	10,320	14,472	5,010	118	11,441	16,569
Office Expense	20,841	571	930	22,342	20,057	644	1,716	22,417
Printing Expense	3,089	21	24,594	27,704	4,105	49	26,402	30,556
Occupancy and Other Related Expenses	71,238	1,465	2,917	75,620	63,200	1,669	2,616	67,485
Depreciation and Amortization	127,815	2,719	5,439	135,973	128,170	3,002	5,454	136,626
Insurance	7,251	309	78	7,638	4,709	2,538	75	7,322
Miscellaneous	18,655	20,160	2,142	40,957	34,582	12,573	2,386	49,541
Donated Goods and Services:								
Donated Medical Services	3,434,187	-	-	3,434,187	3,574,317	-	-	3,574,317
Donated Pharmaceuticals	1,212,597	-	-	1,212,597	1,298,828	-	-	1,298,828
Donated Benefit Expenses	-	-	76,868	76,868	-	-	-	-
Donated Accounting and Legal Services	-	-	-	-	-	11,050	-	11,050
Donated Other Services	15,967	330	15,098	31,395	-	-	923	923
Total Donated Goods and Services	<u>4,662,751</u>	<u>330</u>	<u>91,966</u>	<u>4,755,047</u>	<u>4,873,145</u>	<u>11,050</u>	<u>923</u>	<u>4,885,118</u>
 Total Expenses	 <u>\$ 6,475,776</u>	 <u>\$ 313,566</u>	 <u>\$ 575,276</u>	 <u>\$ 7,364,618</u>	 <u>\$ 6,598,782</u>	 <u>\$ 324,287</u>	 <u>\$ 469,740</u>	 <u>\$ 7,392,809</u>

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 202,957	\$ 252,404
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	135,973	136,627
Loss on Disposal of Property and Equipment	-	115
Donated Securities Received	(17,462)	(60,200)
Donated Property and Equipment Received	(3,500)	-
Unrealized Loss (Gain) on Investments	50,537	(229,847)
Realized Gains on Sale of Investments	(22,678)	(14,732)
Changes in Assets and Liabilities:		
Grants and Contributions Receivable	(164,753)	31,863
Inventory	(3,792)	1,008
Prepaid Expenses	45,122	(21,776)
Accounts Payable and Accrued Expenses	(6,049)	233
Net Cash Provided by Operating Activities	216,355	95,695
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments and Reinvested Dividends	(737,614)	(327,728)
Proceeds from Sales of Investments	494,498	405,292
Purchases of Property and Equipment	(21,647)	(22,595)
Net Cash (Used in) Provided by Investing Activities	(264,763)	54,969
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Capital Lease Obligations	(5,216)	(8,441)
Net Cash Used in Financing Activities	(5,216)	(8,441)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(53,624)	142,223
Cash and Cash Equivalents - Beginning of Year	321,982	179,759
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 268,358	\$ 321,982
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	\$ 1,924	\$ 821
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Purchase of Equipment Through Capital Lease	\$ -	\$ 23,750
Receipt of Donated Investments	\$ 17,462	\$ 60,200
Receipt of Donated Property and Equipment	\$ 3,500	\$ -

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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 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, 2015 AND 2014

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.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Subsequent Events

In preparing these financial statements, the Clinic has evaluated events and transactions for potential recognition or disclosure through September 16, 2015, 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, 2015 and 2014.

Gross contributions receivable expected to be collected in:

	<u>2015</u>	<u>2014</u>
Less than One Year	\$ 456,102	\$ 370,955
One to Five Years	139,606	60,000
Total Contributions Receivable	<u>\$ 595,708</u>	<u>\$ 430,955</u>

NOTE 4 INVESTMENTS

Investments consist of the following at June 30, 2015 and 2014:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Bond Mutual Funds	\$ 1,171,881	\$ 1,145,539	\$ 1,047,857	\$ 1,041,576
Equity Mutual Funds	1,180,683	1,506,631	1,039,502	1,402,481
Money Market Funds	38,662	38,662	14,056	14,056
Total	<u>\$ 2,391,226</u>	<u>\$ 2,690,832</u>	<u>\$ 2,101,415</u>	<u>\$ 2,458,113</u>

ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 4 INVESTMENTS (CONTINUED)

Investment income for the years ended June 30, 2015 and 2014 is comprised of the following:

	2015	2014
Interest and Dividends	\$ 65,066	\$ 57,695
Realized Gains	22,678	14,732
Unrealized (Loss) Gain	(50,537)	229,847
Total	\$ 37,207	\$ 302,274

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, 2015 and 2014:

	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
	2014			
	Level 1	Level 2	Level 3	Total
<i>Investments:</i>				
Bond Mutual Funds	\$ 1,041,576	\$ -	\$ -	\$ 1,041,576
Equity Mutual Funds	1,402,481	-	-	1,402,481
Money Market Funds	14,056	-	-	14,056
Total	\$ 2,458,113	\$ -	\$ -	\$ 2,458,113

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2015 and 2014:

	2015	2014
Land	\$ 1,370,731	\$ 1,370,731
Buildings and Improvements	2,643,303	2,643,303
Computer Equipment	58,778	55,373
Computer Software	221,810	221,810
Furniture and Equipment	249,522	249,522
Clinic/Medical Equipment	24,910	3,169
	4,569,054	4,543,908
Less: Accumulated Depreciation	(783,023)	(647,051)
Net Property and Equipment	\$ 3,786,031	\$ 3,896,857

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

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 \$6,927 and \$990 at June 30, 2015 and 2014, respectively.

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

Years Ending June 30,	Total
2016	\$ 7,140
2017	7,140
2018	5,945
Total	20,225
Less: Imputed Interest	(2,514)
Present Value of Future Minimum Lease Payments	\$ 17,711

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows at June 30:

	2015	2014
Star Fund	\$ 296,460	\$ 300,394
Women's Health	176,788	100,034
Oral Health	119,573	-
Tuition Assistance	26,000	-
Technology and Other	12,644	41,441
Pharmacy Services	5,000	-
Patient Centered Medical Home	-	118,166
Time Restricted	249,697	324,102
Total	\$ 886,162	\$ 884,137

NOTE 9 CONTRIBUTED SERVICES

During the years ended June 30, 2015 and 2014, the Clinic received pro bono services and donated pharmaceuticals and other goods having an estimated fair value of \$4,758,547 and \$4,885,118, 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 \$3,465,582 and \$3,586,290 for the years ended June 30, 2015 and 2014, respectively. 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 \$1,637,559 and \$1,550,076 for the years ended June 30, 2015 and 2014, respectively.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 9 CONTRIBUTED SERVICES (CONTINUED)

The value of donated goods and pharmaceuticals recorded in the financial statements for the years ended June 30, 2015 and 2014, is estimated to be \$1,289,465 and \$1,298,828, 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 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, 2015 and 2014, to be \$1,200,000 and \$1,600,000, 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, 2015 and 2014, totaled \$37,786 and \$40,101, 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 accounting principles generally accepted in the United States of America, 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.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 11 ENDOWMENT (CONTINUED)

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

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.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014**

NOTE 11 ENDOWMENT (CONTINUED)

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, 2015 and 2014:

	Temporarily Restricted
Endowment Net Assets, June 30, 2013	\$ 266,216
Contributions	5,200
Investment Gain	42,527
Appropriations	(13,549)
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