

ARLINGTON FREE CLINIC
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

**ARLINGTON FREE CLINIC
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2012 AND 2011**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES	3
STATEMENTS OF FUNCTIONAL EXPENSES	4
STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6



CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Arlington Free Clinic
Arlington, Virginia

We have audited the accompanying statements of financial position of the Arlington Free Clinic (the "Organization") as of June 30, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years 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 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Arlington Free Clinic as of June 30, 2012 and 2011, and the change in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
October 15, 2012

**ARLINGTON FREE CLINIC
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011**

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 439,232	\$ 827,470
Grants and Contributions Receivable	375,161	283,057
Inventory	4,924	4,395
Prepaid Expenses	62,059	32,714
Total Current Assets	881,376	1,147,636
INVESTMENTS	2,033,915	1,820,574
GRANTS AND CONTRIBUTIONS RECEIVABLE, NET OF CURRENT PORTION	100,000	-
PROPERTY AND EQUIPMENT, NET	4,106,853	4,130,781
Total Assets	\$ 7,122,144	\$ 7,098,991
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 176,312	\$ 148,189
Capital Lease Payable, Current Portion	5,837	5,264
Total Current Liabilities	182,149	153,453
CAPITAL LEASE PAYABLE, NET OF CURRENT PORTION	7,618	13,455
Total Liabilities	189,767	166,908
NET ASSETS		
Unrestricted	5,797,932	5,770,230
Temporarily Restricted	766,171	793,579
Permanently Restricted	368,274	368,274
Total Net Assets	6,932,377	6,932,083
Total Liabilities and Net Assets	\$ 7,122,144	\$ 7,098,991

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT								
Contributions	\$ 134,781	\$ 692,386	\$ -	\$ 827,167	\$ 553,294	\$ 472,124	\$ -	\$ 1,025,418
Grants	657,349	331,500	-	988,849	1,129,815	266,970	-	1,396,785
Special Events, Net of Benefit Expense of \$136,926 and \$118,460, Respectively	553,274	-	-	553,274	458,075	-	-	458,075
Donated Goods and Services	4,083,651	-	-	4,083,651	3,767,787	-	-	3,767,787
Investment Income	5,966	(4,707)	-	1,259	69,080	33,905	-	102,985
Net Assets Released from Restrictions	1,046,587	(1,046,587)	-	-	553,798	(553,798)	-	-
Total Revenue and Other Support	6,481,608	(27,408)	-	6,454,200	6,531,849	219,201	-	6,751,050
EXPENSES								
Program Services:								
Arlington Free Clinic	5,800,091	-	-	5,800,091	5,445,894	-	-	5,445,894
Support Services:								
Management and General	265,471	-	-	265,471	178,987	-	-	178,987
Fund-Raising	388,344	-	-	388,344	338,893	-	-	338,893
Total Support Services	653,815	-	-	653,815	517,880	-	-	517,880
Total Expenses	6,453,906	-	-	6,453,906	5,963,774	-	-	5,963,774
CHANGE IN NET ASSETS	27,702	(27,408)	-	294	568,075	219,201	-	787,276
Net Assets - Beginning of Year	5,770,230	793,579	368,274	6,932,083	5,202,155	574,378	368,274	6,144,807
NET ASSETS - END OF YEAR	<u>\$ 5,797,932</u>	<u>\$ 766,171</u>	<u>\$ 368,274</u>	<u>\$ 6,932,377</u>	<u>\$ 5,770,230</u>	<u>\$ 793,579</u>	<u>\$ 368,274</u>	<u>\$ 6,932,083</u>

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012				2011			
	Program Services	Management and General	Fund-raising	Total	Program Services	Management and General	Fund-raising	Total
Salaries	\$ 1,174,344	\$ 163,950	\$ 266,409	\$ 1,604,703	\$ 1,117,785	\$ 113,878	\$ 222,478	\$ 1,454,141
Employee Benefits and Payroll Taxes	162,306	23,367	32,998	218,671	171,947	14,040	29,586	215,573
Professional and Consultant Fees	4,482	57,016	1,012	62,510	10,664	30,123	1,688	42,475
Clinic Expense	60,252	-	-	60,252	47,722	-	-	47,722
Event and Meeting Expenses	6,886	191	13,060	20,137	4,378	66	3,174	7,618
Internet and Communications	55,704	1,006	5,551	62,261	62,443	1,194	3,944	67,581
Postage and Shipping	4,336	86	13,210	17,632	4,789	147	15,726	20,662
Office Expense	26,186	535	1,241	27,962	26,775	801	1,200	28,776
Printing Expense	4,687	43	39,715	44,445	7,922	170	44,695	52,787
Occupancy and Other Related Expenses	90,723	2,414	3,830	96,967	97,437	2,039	4,082	103,558
Depreciation and Amortization	106,375	2,263	4,526	113,164	108,986	2,319	4,638	115,943
Insurance	4,038	2,523	47	6,608	4,644	36	73	4,753
Miscellaneous	20,774	11,827	2,342	34,943	17,330	10,136	6,932	34,398
Donated Goods and Services:								
Donated Medical Services	3,232,367	-	-	3,232,367	3,026,900	-	-	3,026,900
Donated Pharmaceuticals	840,331	-	-	840,331	720,271	-	-	720,271
Donated Accounting and Legal Services	-	250	-	250	-	3,700	-	3,700
Donated Computer Services	6,300	-	-	6,300	10,152	216	432	10,800
Donated Printing Services	-	-	4,403	4,403	5,749	122	245	6,116
Total Donated Goods and Services	<u>4,078,998</u>	<u>250</u>	<u>4,403</u>	<u>4,083,651</u>	<u>3,763,072</u>	<u>4,038</u>	<u>677</u>	<u>3,767,787</u>
 Total Expenses	 <u>\$ 5,800,091</u>	 <u>\$ 265,471</u>	 <u>\$ 388,344</u>	 <u>\$ 6,453,906</u>	 <u>\$ 5,445,894</u>	 <u>\$ 178,987</u>	 <u>\$ 338,893</u>	 <u>\$ 5,963,774</u>

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 294	\$ 787,276
Adjustments to Reconcile Change in Net Assets to Net Cash (Used) Provided by Operating Activities:		
Depreciation and Amortization	113,160	115,943
Loss on Disposal of Property and Equipment	455	640
Donated Securities Received	(10,676)	(13,681)
Unrealized Loss on Investments	14,665	(71,015)
Realized (Gain)/Loss on Sale of Investments	27,388	701
Changes in Assets and Liabilities:		
Grants and Contributions Receivable	(192,104)	162,809
Inventory	(529)	(940)
Prepaid Expenses	(29,345)	(2,658)
Accounts Payable and Accrued Expenses	28,123	(12,939)
Net Cash (Used) Provided by Operating Activities	(48,569)	966,136
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments and Reinvested Dividends	(1,211,873)	(1,003,492)
Proceeds from Sale of Investments	967,155	91,757
Purchase of Property and Equipment	(89,687)	(42,845)
Net Cash Used by Investing Activities	(334,405)	(954,580)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal Payments on Capital Lease Obligations	(5,264)	(4,186)
Net Cash Used by Financing Activities	(5,264)	(4,186)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(388,238)	7,370
Cash and Cash Equivalents - Beginning of Year	827,470	820,100
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 439,232	\$ 827,470
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Paid During the Year for Interest	\$ 1,696	\$ 1,614
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Receipt of Donated Investments	\$ 10,676	\$ 13,681
Assets Acquired through Capital Lease	\$ -	\$ 22,905

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

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 2009, 2010 and 2011 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. 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 collectibility. Write-off of accounts receivable occurs when all collection efforts have been exhausted or certain conditions or forgiveness have been reached.

ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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 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, 2012 AND 2011**

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

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, 2012 AND 2011**

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.

Subsequent Events

In preparing these financial statements, the Clinic has evaluated events and transactions for potential recognition or disclosure through October 15, 2012, 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, 2012 AND 2011**

NOTE 3 GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable consist of unconditional promises to give at June 30, 2012 and 2011.

Gross contributions receivable expected to be collected in:

	<u>2012</u>	<u>2011</u>
Less than One Year	\$ 375,161	\$ 283,057
One to Five Years	<u>100,000</u>	<u>-</u>
Total Contributions Receivable	<u>\$ 475,161</u>	<u>\$ 283,057</u>

NOTE 4 INVESTMENTS

Investments consist of the following at June 30, 2012 and 2011:

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Bond Mutual Funds	\$ 778,884	\$ 787,159	\$ 1,052,632	\$ 1,058,260
Equity Mutual Funds	856,624	868,994	411,220	438,725
Other Mutual Funds	95,000	95,113	234,506	236,795
Money Market Funds	<u>282,649</u>	<u>282,649</u>	<u>86,794</u>	<u>86,794</u>
Total	<u>\$ 2,013,157</u>	<u>\$ 2,033,915</u>	<u>\$ 1,785,152</u>	<u>\$ 1,820,574</u>

Net investment income for the years ended June 30, 2012 and 2011 is comprised of the following:

	<u>2012</u>	<u>2011</u>
Interest and Dividends	\$ 43,312	\$ 32,671
Realized Loss	(27,388)	(701)
Unrealized Gain (Loss)	<u>(14,665)</u>	<u>71,015</u>
Total	<u>\$ 1,259</u>	<u>\$ 102,985</u>

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 5 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, 2012 and 2011:

	2012			Total
	Level 1	Level 2	Level 3	
<i>Investments:</i>				
Bond Mutual Funds	\$ 787,159	\$ -	\$ -	\$ 787,159
Equity Mutual Funds	868,994	-	-	868,994
Other Mutual Funds	95,113	-	-	95,113
Money Market Funds	-	-	-	282,649
Total	<u>\$ 1,751,266</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,033,915</u>
	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
Money Market Funds	-	-	-	86,794
Total	<u>\$ 1,733,780</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,820,574</u>

Money market funds are cash equivalents that are not subject to fair value, however management has included in the above table since they are shown as part of the investment portfolio.

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2012 and 2011:

	2012	2011
Land	\$ 1,370,731	\$ 1,370,731
Buildings and Improvements	2,643,303	2,643,303
Computer Equipment	43,519	61,258
Computer Software	196,944	130,328
Furniture and Equipment	248,677	238,851
Clinic/Medical Equipment	3,169	3,169
	<u>4,506,343</u>	<u>4,447,640</u>
Less: Accumulated Depreciation	(399,490)	(316,859)
Net Property and Equipment	<u>\$ 4,106,853</u>	<u>\$ 4,130,781</u>

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 7 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, 2012 was \$5,726 and \$10,021, respectively.

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

Year	Total
2013	\$ 6,960
2014	6,960
2015	1,160
Total	15,080
Less Imputed Interest	(1,625)
Present Value of Future Minimum Lease Payments	\$ 13,455

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows at June 30, 2012 and 2011:

	2012	2011
Star Fund	\$ 244,653	\$ 255,752
Women's Health	65,036	167,500
Technology	16,643	137,270
Patient Centered Medical Home	337,500	-
Time Restricted	102,339	233,057
Total	\$ 766,171	\$ 793,579

NOTE 9 CONTRIBUTED SERVICES

During the years ended June 30, 2012 and 2011, the Clinic received pro bono services and donated pharmaceuticals and other goods having an estimated fair value of \$4,083,651 and \$3,767,787, 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 \$3,238,917 and \$3,041,400 for the years ended June 30, 2012 and 2011, 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) that provided lab fees, x-ray services and other medical tests with an estimated value of \$1,698,986 and \$1,102,090 for the years ended June 30, 2012 and 2011, respectively.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 9 CONTRIBUTED SERVICES (CONTINUED)

The value of donated goods and pharmaceuticals recorded in the financial statements for the years ended June 30, 2012 and 2011 is estimated to be \$844,734 and \$726,387, 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, 2012 and 2011, to be \$2,341,867 and \$1,933,952, respectively.

NOTE 10 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, 2012 and 2011 were \$39,600 and \$36,172, respectively.

NOTE 11 COMMITMENT

The Clinic has entered into agreements with hotels for room accommodations and other functions for its galas to be held subsequent to June 30, 2012. These agreements subject the Clinic to agreed-upon minimum fees. Additionally, the Clinic is committed for technology services subject to a cancellation clause. At June 30, 2012, the total commitment approximated \$163,000.

NOTE 12 RELATED PARTIES

In 2012, the Clinic received a grant in the amount of \$350,000 from an organization which shares a board member with the Clinic. As of June 30, 2012, there was \$225,000 outstanding from the grantor.

NOTE 13 ENDOWMENT

The Clinic's endowment consists of an endowment established through the Clinic's Starr 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.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 13 ENDOWMENT (CONTINUED)

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 the Starr Fund temporarily restricted net assets which includes a donor specified spending policy as endowment and 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, 2012 and 2011.

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.

**ARLINGTON FREE CLINIC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011**

NOTE 13 ENDOWMENT (CONTINUED)

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, 2012 and 2011:

Endowment Net Assets, July 1, 2010	\$ 225,323
Contributions	7,500
Investment Gain	33,905
Appropriations	<u>(10,976)</u>
Endowment Net Assets, June 30, 2011	255,752
Contributions	10,000
Investment Loss	(4,707)
Appropriations	<u>(16,392)</u>
Endowment Net Assets, June 30, 2012	<u><u>\$ 244,653</u></u>