

**ARLINGTON FREE CLINIC**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2013 AND 2012**

**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, 2013 and 2012, 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, 2013 and 2012, 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 23, 2013

**ARLINGTON FREE CLINIC  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2013 AND 2012**

	2013	2012
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 179,759	\$ 439,232
Grants and Contributions Receivable	391,174	375,161
Inventory	6,101	4,924
Prepaid Expenses	63,248	62,059
Total Current Assets	640,282	881,376
<b>INVESTMENTS</b>	2,230,898	2,033,915
<b>GRANTS AND CONTRIBUTIONS RECEIVABLE, NET OF CURRENT PORTION</b>	71,644	100,000
<b>PROPERTY AND EQUIPMENT, NET</b>	3,987,254	4,106,853
Total Assets	\$ 6,930,078	\$ 7,122,144
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 154,445	\$ 176,312
Capital Lease Payable, Current Portion	6,472	5,837
Total Current Liabilities	160,917	182,149
<b>CAPITAL LEASE PAYABLE, NET OF CURRENT PORTION</b>	1,146	7,618
Total Liabilities	162,063	189,767
<b>NET ASSETS</b>		
Unrestricted	5,587,096	5,797,932
Temporarily Restricted	812,645	766,171
Permanently Restricted	368,274	368,274
Total Net Assets	6,768,015	6,932,377
Total Liabilities and Net Assets	\$ 6,930,078	\$ 7,122,144

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC  
STATEMENTS OF ACTIVITIES  
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND OTHER SUPPORT</b>								
Contributions	\$ 657,563	\$ 217,784	\$ -	\$ 875,347	\$ 134,781	\$ 692,386	\$ -	\$ 827,167
Grants	76,000	544,700	-	620,700	657,349	331,500	-	988,849
Special Events, Net of Benefit Expense of \$124,159 and \$136,926, Respectively	585,393	-	-	585,393	553,274	-	-	553,274
Donated Goods and Services	4,050,287	-	-	4,050,287	4,083,651	-	-	4,083,651
Investment Income	148,565	27,333	-	175,898	5,966	(4,707)	-	1,259
Other Income	12,592	-	-	12,592	-	-	-	-
Net Assets Released from Restrictions	743,343	(743,343)	-	-	1,046,587	(1,046,587)	-	-
Total Revenue and Other Support	6,273,743	46,474	-	6,320,217	6,481,608	(27,408)	-	6,454,200
<b>EXPENSES</b>								
Program Services:								
Arlington Free Clinic	5,785,280	-	-	5,785,280	5,800,091	-	-	5,800,091
Support Services:								
Management and General	275,900	-	-	275,900	265,471	-	-	265,471
Fund-Raising	423,399	-	-	423,399	388,344	-	-	388,344
Total Support Services	699,299	-	-	699,299	653,815	-	-	653,815
Total Expenses	6,484,579	-	-	6,484,579	6,453,906	-	-	6,453,906
<b>CHANGE IN NET ASSETS</b>	(210,836)	46,474	-	(164,362)	27,702	(27,408)	-	294
Net Assets - Beginning of Year	5,797,932	766,171	368,274	6,932,377	5,770,230	793,579	368,274	6,932,083
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 5,587,096</u>	<u>\$ 812,645</u>	<u>\$ 368,274</u>	<u>\$ 6,768,015</u>	<u>\$ 5,797,932</u>	<u>\$ 766,171</u>	<u>\$ 368,274</u>	<u>\$ 6,932,377</u>

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC  
STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013				2012			
	Program Services	Management and General	Fund-raising	Total	Program Services	Management and General	Fund-raising	Total
Salaries	\$ 1,189,745	\$ 168,824	\$ 291,236	\$ 1,649,805	\$ 1,174,344	\$ 163,950	\$ 266,409	\$ 1,604,703
Employee Benefits and Payroll Taxes	167,406	19,214	40,598	227,218	162,306	23,367	32,998	218,671
Professional and Consultant Fees	5,617	62,358	173	68,148	4,482	57,016	1,012	62,510
Clinic Expense	68,582	-	-	68,582	60,252	-	-	60,252
Event and Meeting Expenses	8,321	499	3,759	12,579	6,886	191	13,060	20,137
Internet and Communications	55,898	1,029	6,455	63,382	55,704	1,006	5,551	62,261
Postage and Shipping	4,717	62	14,768	19,547	4,336	86	13,210	17,632
Office Expense	21,892	565	1,724	24,181	26,186	535	1,241	27,962
Printing Expense	5,693	48	40,324	46,065	4,687	43	39,715	44,445
Occupancy and Other Related Expenses	66,151	1,900	2,739	70,790	90,723	2,414	3,830	96,967
Depreciation and Amortization	127,021	2,702	5,405	135,128	106,375	2,263	4,526	113,164
Insurance	4,150	2,526	52	6,728	4,038	2,523	47	6,608
Miscellaneous	19,020	12,973	10,146	42,139	20,774	11,827	2,342	34,943
Donated Goods and Services:								
Donated Medical Services	3,076,881	-	-	3,076,881	3,232,367	-	-	3,232,367
Donated Pharmaceuticals	964,186	-	-	964,186	840,331	-	-	840,331
Donated Accounting and Legal Services	-	3,200	-	3,200	-	250	-	250
Donated Computer Services	-	-	-	-	6,300	-	-	6,300
Donated Printing Services	-	-	6,020	6,020	-	-	4,403	4,403
Total Donated Goods and Services	<u>4,041,067</u>	<u>3,200</u>	<u>6,020</u>	<u>4,050,287</u>	<u>4,078,998</u>	<u>250</u>	<u>4,403</u>	<u>4,083,651</u>
 Total Expenses	 <u>\$ 5,785,280</u>	 <u>\$ 275,900</u>	 <u>\$ 423,399</u>	 <u>\$ 6,484,579</u>	 <u>\$ 5,800,091</u>	 <u>\$ 265,471</u>	 <u>\$ 388,344</u>	 <u>\$ 6,453,906</u>

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (164,362)	\$ 294
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation and Amortization	135,129	113,160
Loss on Disposal of Property and Equipment	-	455
Donated Securities Received	(34,243)	(10,676)
Unrealized (Gain)/Loss on Investments	(104,386)	14,665
Realized (Gain)/Loss on Sale of Investments	(8,618)	27,388
Changes in Assets and Liabilities:		
Grants and Contributions Receivable	12,343	(192,104)
Inventory	(1,177)	(529)
Prepaid Expenses	(1,189)	(29,345)
Accounts Payable and Accrued Expenses	(21,867)	28,123
Net Cash Used by Operating Activities	(188,370)	(48,569)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Investments and Reinvested Dividends	(625,210)	(1,211,873)
Proceeds from Sale of Investments	575,474	967,155
Purchase of Property and Equipment	(15,530)	(89,687)
Net Cash Used by Investing Activities	(65,266)	(334,405)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal Payments on Capital Lease Obligations	(5,837)	(5,264)
Net Cash Used by Financing Activities	(5,837)	(5,264)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(259,473)	(388,238)
Cash and Cash Equivalents - Beginning of Year	439,232	827,470
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 179,759	\$ 439,232
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash Paid During the Year for Interest	\$ 1,123	\$ 1,696
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>		
Receipt of Donated Investments	\$ 34,243	\$ 10,676

See accompanying Notes to Financial Statements.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**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 2010, 2011 and 2012 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, 2013 AND 2012**

**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, 2013 AND 2012**

**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 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.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**Subsequent Events**

In preparing these financial statements, the Clinic has evaluated events and transactions for potential recognition or disclosure through September 23, 2013, 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, 2013 and 2012.

Gross contributions receivable expected to be collected in:

	<u>2013</u>	<u>2012</u>
Less than One Year	\$ 391,174	\$ 375,161
One to Five Years	71,644	100,000
Total Contributions Receivable	<u>\$ 462,818</u>	<u>\$ 475,161</u>

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 4 INVESTMENTS**

Investments consist of the following at June 30, 2013 and 2012:

	2013		2012	
	Cost	Market	Cost	Market
Bond Mutual Funds	\$ 969,696	\$ 942,012	\$ 778,884	\$ 787,159
Equity Mutual Funds	1,096,705	1,249,534	856,624	868,994
Other Mutual Funds	-	-	95,000	95,113
Money Market Funds	39,352	39,352	282,649	282,649
Total	\$ 2,105,753	\$ 2,230,898	\$ 2,013,157	\$ 2,033,915

Net investment income for the years ended June 30, 2013 and 2012 is comprised of the following:

	2013	2012
Interest and Dividends	\$ 62,894	\$ 43,312
Realized Gains (Losses)	8,618	(27,388)
Unrealized Gain (Loss)	104,386	(14,665)
Total	\$ 175,898	\$ 1,259

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**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, 2013 and 2012:

	2013			Total
	Level 1	Level 2	Level 3	
<i>Investments:</i>				
Bond Mutual Funds	\$ 942,012	\$ -	\$ -	\$ 942,012
Equity Mutual Funds	1,249,534	-	-	1,249,534
Other Mutual Funds	-	-	-	-
Money Market Funds	-	-	-	39,352
Total	<u>\$ 2,191,546</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,230,898</u>
	2012			
	Level 1	Level 2	Level 3	Total
<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>

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, 2013 and 2012:

	2013	2012
Land	\$ 1,370,731	\$ 1,370,731
Buildings and Improvements	2,643,303	2,643,303
Computer Equipment	59,048	43,519
Computer Software	196,944	196,944
Furniture and Equipment	248,677	248,677
Clinic/Medical Equipment	3,169	3,169
	<u>4,521,872</u>	<u>4,506,343</u>
Less: Accumulated Depreciation	(534,618)	(399,490)
Net Property and Equipment	<u>\$ 3,987,254</u>	<u>\$ 4,106,853</u>

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**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, 2013 was \$5,726 and \$15,747, respectively.

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

Year	Total
2014	\$ 6,960
2015	1,160
Total	8,120
Less Imputed Interest	(502)
Present Value of Future Minimum Lease Payments	\$ 7,618

**NOTE 8 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are as follows at June 30, 2013 and 2012:

	2013	2012
Star Fund	\$ 266,216	\$ 244,653
Women's Health	220,075	65,036
Technology	-	16,643
Patient Centered Medical Home	244,000	337,500
Time Restricted	82,354	102,339
Total	\$ 812,645	\$ 766,171

**ARLINGTON FREE CLINIC**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

**NOTE 9 CONTRIBUTED SERVICES**

During the years ended June 30, 2013 and 2012, the Clinic received pro bono services and donated pharmaceuticals and other goods having an estimated fair value of \$4,050,287 and \$4,083,651, 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 \$3,086,026 and \$3,243,320 for the years ended June 30, 2013 and 2012, respectively. Included in these totals are amounts donated by Virginia Hospital Center – Arlington (a related party – Director of Case Management 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 \$1,620,153 and \$1,698,986 for the years ended June 30, 2013 and 2012, respectively.

The value of donated goods and pharmaceuticals recorded in the financial statements for the years ended June 30, 2013 and 2012 is estimated to be \$964,261 and \$840,331, 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, 2013 and 2012, to be \$1,331,515 and \$1,896,465, 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, 2013 and 2012 were \$36,812 and \$39,600, respectively.

**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**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 the Star 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, 2013 and 2012.

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.



**ARLINGTON FREE CLINIC  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013 AND 2012**

**NOTE 11 ENDOWMENT (CONTINUED)**

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, 2013 and 2012:

Endowment Net Assets, July 1, 2011	\$	255,752
Contributions		10,000
Investment Loss		(4,707)
Appropriations		(16,392)
Endowment Net Assets, June 30, 2012		244,653
Contributions		7,000
Investment Gain		27,333
Appropriations		(12,770)
Endowment Net Assets, June 30, 2013	\$	266,216

**NOTE 12 SUBSEQUENT EVENT**

Effective July 1, 2013, the Clinic changed the retirement plan offering from a 403(b) plan to a 401(k) plan.