

**HARRISONBURG-ROCKINGHAM
FREE CLINIC, INC.**

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Harrisonburg-Rockingham Free Clinic, Inc.
Harrisonburg, Virginia

We have audited the accompanying statements of assets, liabilities, and net assets recognized of Harrisonburg-Rockingham Free Clinic, Inc. (the Organization) as of December 31, 2007 and 2006, and the related statements of revenue collected and expenses, and functional expenses 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 audits 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.

As described in Note 1 to the financial statements, these financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principals generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2007 and 2006, and the results of its operations for the years then ended, on the basis of accounting described in Note 1.

PBGH LLP

Fredericksburg, Virginia
August 5, 2008

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

**STATEMENTS OF ASSETS, LIABILITIES AND
NET ASSETS RECOGNIZED**

December 31, 2007 and 2006

	2007	2006
ASSETS RECOGNIZED		
Current Assets		
Cash and cash equivalents	\$ 439,047	\$ 343,377
Noncurrent Assets		
Property and equipment, net	1,546,891	1,594,336
Investments	1,313,409	57,104
	<hr/>	<hr/>
Total assets recognized	\$ 3,299,347	\$ 1,994,817
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND NET ASSETS RECOGNIZED		
Current Liabilities		
Payroll withholding liability	\$ 5,122	\$ 230
Amounts due for building construction	-	69,930
Note payable	-	163,500
	<hr/>	<hr/>
	5,122	233,660
	<hr/>	<hr/>
Net Assets Recognized		
Unrestricted and undesignated	1,964,378	1,543,333
Unrestricted - board designated	124,715	-
Temporarily restricted	205,132	167,824
Permanently restricted	1,000,000	50,000
	<hr/>	<hr/>
	3,294,225	1,761,157
	<hr/>	<hr/>
Total liabilities and net assets recognized	\$ 3,299,347	\$ 1,994,817
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See Notes to Financial Statements.

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

STATEMENT OF REVENUE COLLECTED AND EXPENSES

Year Ended December 31, 2007

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Change in Net Assets Recognized				
Support:				
Contributions	\$ 379,142	\$ 108,879	\$ 950,000	\$ 1,438,021
United Way allocation	14,011	29,443	-	43,454
Other grants	11,451	40,523	-	51,974
Local government support	41,250	515,000	-	556,250
Total support	445,854	693,845	950,000	2,089,699
Revenue collected:				
Special events	104,097	-	-	104,097
Interest and dividends	3,724	76,524	-	80,248
Rental revenue	6,000	-	-	6,000
Other	1,143	-	-	1,143
Total revenue collected	114,964	76,524	-	191,488
Net Assets Released From Restrictions	733,061	(733,061)	-	-
Total support and revenue collected	1,293,879	37,308	950,000	2,281,187
Expenses:				
Program services	476,012	-	-	476,012
Management and general	181,143	-	-	181,143
Fundraising	90,964	-	-	90,964
Total expenses	748,119	-	-	748,119
Change in net assets recognized	545,760	37,308	950,000	1,533,068
Net Assets Recognized, beginning	1,543,333	167,824	50,000	1,761,157
Net Assets Recognized, ending	\$ 2,089,093	\$ 205,132	\$ 1,000,000	\$ 3,294,225

See Notes to Financial Statements.

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

STATEMENT OF REVENUE COLLECTED AND EXPENSES

Year Ended December 31, 2006

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Change in Net Assets Recognized				
Support:				
Contributions	\$ 473,916	\$ -	\$ -	\$ 473,916
United Way allocation	44,794	-	-	44,794
Other grants	16,276	113,287	-	129,563
Local government support	46,464	500,000	-	546,464
Total support	581,450	613,287	-	1,194,737
Revenue collected:				
Special events	90,453	-	-	90,453
Interest and dividends	9,995	3,049	-	13,044
Other	7,853	-	-	7,853
Total revenue collected	108,301	3,049	-	111,350
Net Assets Released From Restrictions	1,108,534	(1,108,534)	-	-
Total support and revenue collected	1,798,285	(492,198)	-	1,306,087
Expenses:				
Program services	328,951	-	-	328,951
Management and general	152,878	-	-	152,878
Fundraising	99,471	-	-	99,471
Total expenses	581,300	-	-	581,300
Change in net assets recognized	1,216,985	(492,198)	-	724,787
Net Assets Recognized, beginning	326,348	660,022	50,000	1,036,370
Net Assets Recognized, ending	\$ 1,543,333	\$ 167,824	\$ 50,000	\$ 1,761,157

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2007

	Program Services	Management and General	Fundraising Activities	Total
Salaries and wages	\$ 219,686	\$ 89,854	\$ 49,684	\$ 359,224
Supplies	42,207	9,740	-	51,947
Utilities	19,139	1,063	1,063	21,265
Payroll taxes	22,457	6,626	3,734	32,817
Postage	3,580	398	-	3,978
Equipment rental and maintenance	15,281	849	849	16,979
Printing and publication	2,257	2,496	-	4,753
Travel and conferences	5,415	-	-	5,415
Insurance	8,744	346	346	9,436
Dues and subscriptions	7,097	582	582	8,261
Contract services	15,667	1,322	1,322	18,311
Special events	-	-	16,794	16,794
Employee benefits	20,637	25,894	10,780	57,311
Interest expense	-	5,213	-	5,213
Other operating expenses	4,594	13,200	5,810	23,604
Professional fees	1,080	20,040	-	21,120
Specific assistance	16,547	-	-	16,547
Total functional expenses before depreciation	404,388	177,623	90,964	672,975
Depreciation on building and equipment	71,624	3,520	-	75,144
Total functional expenses	\$ 476,012	\$ 181,143	\$ 90,964	\$ 748,119

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2006

	Program Services	Management and General	Fundraising Activities	Total
Salaries and wages	\$ 151,584	\$ 82,390	\$ 65,741	\$ 299,715
Supplies	37,801	8,741	-	46,542
Utilities	11,838	623	-	12,461
Payroll taxes	11,597	6,715	5,075	23,387
Postage	3,673	-	-	3,673
Equipment rental and maintenance	8,767	-	-	8,767
Printing and publication	3,695	-	-	3,695
Travel and conferences	3,608	-	-	3,608
Insurance	9,779	-	-	9,779
Dues and subscriptions	7,029	-	-	7,029
Training	3,332	-	-	3,332
Contract services	9,906	-	-	9,906
Special events	-	-	23,990	23,990
Rent expense	33,995	1,789	-	35,784
Employee benefits	-	41,949	4,661	46,610
Other operating expenses	1,051	9,567	4	10,622
Specific assistance	10,314	-	-	10,314
Total functional expenses before depreciation	307,969	151,774	99,471	559,214
Depreciation on building and equipment	20,982	1,104	-	22,086
Total functional expenses	\$ 328,951	\$ 152,878	\$ 99,471	\$ 581,300

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of the Organization and Summary of Significant Accounting Policies

Nature of organization: Harrisonburg-Rockingham Free Clinic, Inc. (the Organization) is a not-for-profit health clinic whose primary purpose is to provide free or low cost health care to qualified low-income individuals in the Harrisonburg and Rockingham County, Virginia areas.

The Organization receives support through donations from individuals, businesses, churches and other organizations in the Harrisonburg and Rockingham County areas, and through grants obtained from local governments, the United Way and other charitable organizations.

Significant accounting policies are as follows:

Basis of accounting: The Organization's policy is to prepare its financial statements on a modified cash basis of accounting that includes recognition of fixed assets and depreciation thereon, and liabilities for the acquisition of long-lived assets. Under this basis, revenue is recognized when collected rather than when earned, and expenditures are generally recognized when paid rather than when the related liability is incurred. Consequently, accounts receivable, contributions receivable, accounts payable, accrued expenses and the value of contributed materials and services are not included in the financial statements. Investments are carried at cost rather than fair value.

Support and revenue recognition: Contributions are recognized as revenue only in the period they are actually received. Promises to give in future periods are not recognized until payment is received. Contributions restricted by donors and not fully expended in the current year are reported as temporarily restricted net assets. Temporarily restricted net assets are released from restriction upon the passage of time or satisfaction of purpose restrictions. Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained in perpetuity. Donors of these assets generally permit the Organization to use the income earned on any related investments for general or specific purposes.

Cash and cash equivalents: Cash and cash equivalents consists of cash in banks and short-term debt instruments with original maturities of 90 days or less. Cash and cash equivalents are stated at cost plus accrued interest. The Organization maintains its cash in bank deposit accounts, which at times may exceed federally insured limits.

Property and equipment: Property and equipment are stated at cost. Depreciation is provided by straight-line and accelerated methods based on estimated useful lives as follows:

Building and improvements	39 years
Equipment	5 years
Furniture and fixtures	5-7 years

Functional allocation of expenses: Program, fundraising and administrative costs have been summarized on a functional basis in the statement of functional expenses. Certain indirect costs have been allocated to programs and supporting services on the basis of the activity benefited.

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of the Organization and Summary of Significant Accounting Policies (Continued)

Income tax status: The Organization is exempt from income taxes under Code Section 501(c)(3) of the Internal Revenue Code (the Code). In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Code and has been classified as an organization that is not a private foundation under Code Section 509(a)(2).

Estimates and assumptions: The preparation of financial statements in conformity with a modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue collected and expenses paid during the reporting period. Actual results could differ from those estimates.

Note 2. Property and Equipment

Property and equipment consisted of the following as of December 31, 2007 and 2006:

	2007	2006
Land	\$ 32,199	\$ 32,199
Buildings and improvements	1,455,664	1,495,088
Equipment	63,688	41,652
Furniture and fixtures	61,336	52,844
Leasehold improvements	36,595	-
	<u>1,649,482</u>	<u>1,621,783</u>
Less: accumulated depreciation	<u>(102,591)</u>	<u>(27,447)</u>
	<u>\$ 1,546,891</u>	<u>\$ 1,594,336</u>

Depreciation expense amounted to \$75,145 for 2007 and \$22,806 for 2006.

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Investments

Investments consisted of the following at December 31, 2007 and 2006:

	2007	2006
Beneficial interest in assets held by Community Foundation:		
Baird Endowment Fund	\$ 1,038,694	\$ 57,104
Board designated	124,715	-
Certificates of deposit	150,000	-
	<u>\$ 1,313,409</u>	<u>\$ 57,104</u>

During 2004, the Organization received an endowed contribution from a major donor in the amount of \$50,000 and a pledge of an additional \$950,000 payable upon the donor's death. During 2007, the donor passed away and the remaining \$950,000 was received. These funds have been invested with the Community Foundation of Harrisonburg and Rockingham County ("The Community Foundation" or the "Foundation") which has established a component fund within the Foundation known as The Baird Endowment Fund (the "Fund") and holds the funds as part of a pool of investments with Wachovia Charitable Trust. The purpose of the Fund is to support the mission of the Organization. Distributions from the Fund will be made to the Organization each year in accordance with the Foundation's endowed funds annual distribution policy. The Board of the Community Foundation has the right to modify any restrictions or conditions on the distribution of the funds for any specified charitable purpose or to specified organizations, if in their sole judgment, such restriction or bequest becomes incapable of fulfillment. The fair value of the Organization's beneficial interest in the Free Clinic Endowment Fund, as determined by quoted market prices, was \$1,038,694 and \$57,104 at December 31, 2007 and 2006, respectively.

During 2007, the Organization invested funds with the Community Foundation, which can be withdrawn only with the approval of the Organization's board. The Community Foundation holds the funds as part of a pool of investments with Wachovia Charitable Trust. The fair value of this investment, as determined by quoted market prices was \$124,715 at December 31, 2007.

The Organization had two certificates of deposit with First Citizens Bank at December 31, 2007. These certificates mature between August 2008 and August 2009 and accrue interest at rates ranging from 5.02% to 5.40%.

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at December 31, 2007 and 2006:

	2007	2006
Shull Dental Fund	\$ 73,980	\$ 86,692
Anthem-Diabetes Care Program (GAP)	-	18,618
Other	49,826	-
United Way Transportation	-	1,116
Pharmacy Program	42,633	61,398
Baird Fund Interest	38,693	-
	<u>\$ 205,132</u>	<u>\$ 167,824</u>

Net assets were released from restriction as expenses were paid that satisfied the following purpose restrictions:

	2007	2006
Shull Dental Fund	\$ 15,609	\$ 8,923
Anthem-Diabetes Care Program (GAP)	18,618	-
Chronic Care	29,443	-
Capital Building	500,000	1,063,011
United Way Transportation	1,116	1,392
General Medical	12,994	-
Baird Fund Interest	34,934	-
Pharmacy Program	119,294	35,208
Other	1,053	-
	<u>\$ 733,061</u>	<u>\$ 1,108,534</u>

Note 5. Operating Leases

The Organization leases office equipment under a noncancelable lease agreement which calls for monthly payments of \$148 through September 2012. Future minimum lease payments for noncancelable leases as of December 31, 2007 are due in future years as follows: \$1,776 for 2008 through 2011 and \$1,332 for 2012.

HARRISONBURG-ROCKINGHAM FREE CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

Note 6. Notes Payable

The Organization had a \$1,200,000 non-revolving construction line of credit with First Citizens Bank, with an outstanding balance of \$163,500 at December 31, 2006. The line required monthly interest only payments through maturity in November 2007. Interest accrued on outstanding balances at one-month LIBOR plus 1.1%, subject to a minimum floor rate of 4.75% and a maximum cap rate of 7.15%. The line was paid in full in August 2007.