

LESTONNAC FREE CLINIC

Financial Statements

Years ended December 31, 2006 and 2005

(With Independent Auditors' Report Thereon)

LESTONNAC FREE CLINIC

Financial Statements

Years ended December 31, 2006 and 2005

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statement of Functional Expenses - Year ended December 31, 2006	5
Statement of Functional Expenses - Year ended December 31, 2005	6
Statements of Cash Flows	7
Notes to Financial Statements	8



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200  
Irvine, California 92612  
949-474-2020 ph  
949-263-5520 fx  
www.mhm-pc.com

Board of Directors  
Lestonnac Free Clinic  
Orange, California

### **INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying statements of financial position of the Lestonnac Free Clinic (a nonprofit organization) as of December 31, 2006 and 2005 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Clinic's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 aforementioned financial statements present fairly, in all material respects, the financial position of the Lestonnac Free Clinic as of December 31, 2006 and 2005, and the changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Mayer Hoffman McCann P.C.*

Irvine, California  
June 29, 2007

FINANCIAL STATEMENTS

LESTONNAC FREE CLINIC  
 Statements of Financial Position  
 December 31, 2006 and 2005

<u>Assets</u>	<u>2006</u>	<u>2005</u>
Cash and cash equivalents (note 3)	\$ 292,553	321,617
Investments (note 5)	713,823	678,542
Receivables:		
United Way	-	23,614
Other	460	560
Grants	61,180	25,923
Rent	1,000	-
Inventory	9,658	216,815
Prepaid expenses	<u>5,596</u>	<u>6,122</u>
Total current assets	<u>1,084,270</u>	<u>1,273,193</u>
Property, plant and equipment, net of accumulated depreciation of \$564,006 for 2006 and \$522,221 for 2005 (note 6)	<u>1,162,190</u>	<u>1,203,975</u>
Total assets	<u>\$2,246,460</u>	<u>2,477,168</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 16,438	15,929
Accrued expenses	<u>3,337</u>	<u>6,140</u>
Total liabilities	<u>19,775</u>	<u>22,069</u>
Net assets (note 8):		
Unrestricted	1,983,637	2,188,437
Temporarily restricted	-	23,614
Permanently restricted	<u>243,048</u>	<u>243,048</u>
Total net assets	<u>2,226,685</u>	<u>2,455,099</u>
Total liabilities and net assets	<u>\$2,246,460</u>	<u>2,477,168</u>

See accompanying notes to financial statements.

LESTONNAC FREE CLINIC

Statements of Activities

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Unrestricted Net Assets</u>		
Support and revenues:		
Contributions:		
United Way	\$ 29,989	23,803
Other contributions	<u>124,934</u>	<u>60,694</u>
Total contributions	<u>154,923</u>	<u>84,497</u>
Special events:		
Tea party	-	675
Direct expenses	<u>-</u>	<u>(917)</u>
Net support from tea party	<u>-</u>	<u>(242)</u>
Annual fundraiser	10,884	-
Direct expenses	<u>(4,564)</u>	<u>-</u>
Net support from annual fundraiser	<u>6,320</u>	<u>-</u>
Total special events	<u>6,320</u>	<u>(242)</u>
Grants from government agencies	499,594	526,773
Investment income (note 5)	38,040	30,650
Rental income	20,410	-
Donated materials	-	809,574
Donated services	69,250	96,700
Miscellaneous	723	-
Unrealized gains from investments (note 5)	<u>30,991</u>	<u>10,554</u>
Total revenues and gains	<u>659,008</u>	<u>1,474,251</u>
Subtotal support and revenues	820,251	1,558,506
Net assets released from restrictions (note 7)	<u>23,614</u>	<u>24,014</u>
Total support and revenues	<u>843,865</u>	<u>1,582,520</u>
Expenses:		
Program services:		
Medical and dental	<u>861,448</u>	<u>1,420,482</u>
Supporting services:		
Management and general	187,217	217,743
Fundraising	<u>-</u>	<u>1,416</u>
Total supporting services	<u>187,217</u>	<u>219,159</u>
Total expenses	<u>1,048,665</u>	<u>1,639,641</u>
Increase (decrease) in unrestricted net assets	<u>(204,800)</u>	<u>(57,121)</u>

(Continued)

LESTONNAC FREE CLINIC

Statements of Activities

(Continued)

	<u>2006</u>	<u>2005</u>
<u>Temporarily Restricted Net Assets</u>		
Support and revenues:		
Contributions:		
United Way	-	<u>23,614</u>
Total support and revenues	-	23,614
Net assets released from restrictions (note 7)	<u>(23,614)</u>	<u>(24,014)</u>
Increase (decrease) in temporarily restricted net assets	<u>(23,614)</u>	<u>(400)</u>
<u>Permanently Restricted Net Assets</u>		
Support and revenues:		
Contributions:		
Other contributions	-	-
Increase in permanently restricted net assets	-	-
Increase (decrease) in net assets	(228,414)	(57,521)
Net assets at beginning of year	<u>2,455,099</u>	<u>2,512,620</u>
Net assets at end of year	<u>\$2,226,685</u>	<u>2,455,099</u>

See accompanying notes to financial statements.

LESTONNAC FREE CLINIC

Statement of Functional Expenses

Year ended December 31, 2006

	Program Services		Supporting Services		
	Medical and Dental	Management and General	Fundraising	Total	Total
Salaries	\$314,173	108,387	-	108,387	422,560
Contract labor	54,021	-	-	-	54,021
Payroll taxes	26,116	9,010	-	9,010	35,126
Emergency services	-	225	-	225	225
Repairs and maintenance	14,998	14,998	-	14,998	29,996
Meetings	-	494	-	494	494
Dues and subscriptions	-	3,507	-	3,507	3,507
Legal and accounting	-	8,758	-	8,758	8,758
Licenses	-	1,158	-	1,158	1,158
Auto expenses	-	1,433	-	1,433	1,433
Investment expenses	-	4,902	-	4,902	4,902
Insurance	36,782	6,175	-	6,175	42,957
Office expense	-	5,410	-	5,410	5,410
Telephone	3,412	379	-	379	3,791
Clinic and medical supplies	290,244	-	-	-	290,244
Utilities	13,522	5,795	-	5,795	19,317
Trash	1,585	679	-	679	2,264
Pest control	1,045	448	-	448	1,493
Property taxes	5,824	2,496	-	2,496	8,320
Depreciation	29,611	12,174	-	12,174	41,785
Advertising	-	58	-	58	58
Food bank expense	403	-	-	-	403
Alarm expense	462	198	-	198	660
Bank service charges	-	533	-	533	533
Donated services	69,250	-	-	-	69,250
Total expenses	<u>\$861,448</u>	<u>187,217</u>	<u>-</u>	<u>187,217</u>	<u>1,048,665</u>

See accompanying notes to financial statements.

LESTONNAC FREE CLINIC  
Statement of Functional Expenses  
Year ended December 31, 2005

	Program Services	Supporting Services			Total
	Medical and Dental	Management and General	Fundraising	Total	
Salaries	\$ 287,032	123,014	-	123,014	410,046
Contract labor	48,522	-	-	-	48,522
Payroll taxes	22,301	9,557	-	9,557	31,858
Emergency services	3,689	3,689	-	3,689	7,378
Repairs and maintenance	12,395	11,465	-	11,465	23,860
Meetings	-	504	-	504	504
Dues and subscriptions	-	4,164	-	4,164	4,164
Legal and accounting	-	7,070	-	7,070	7,070
Licenses	-	300	-	300	300
Auto expenses	-	463	-	463	463
Investment expenses	-	4,628	-	4,628	4,628
Insurance	27,785	3,087	-	3,087	30,872
Office expense	-	1,137	-	1,137	1,137
Telephone	5,405	601	-	601	6,006
Clinic and medical supplies	907,023	-	-	-	907,023
Utilities	7,223	7,223	-	7,223	14,446
Trash	960	786	-	786	1,746
Pest control	720	720	-	720	1,440
Property taxes	4,108	4,108	-	4,108	8,216
Depreciation	11,819	30,452	-	30,452	42,271
Advertising	-	262	-	262	262
Fundraising expenses	-	-	1,416	1,416	1,416
Bad debt	-	3,000	-	3,000	3,000
Other	-	1,034	-	1,034	1,034
Bank service charges	-	479	-	479	479
Donated services	81,500	-	-	-	81,500
<b>Total expenses</b>	<b>\$ 1,420,482</b>	<b>217,743</b>	<b>1,416</b>	<b>219,159</b>	<b>1,639,641</b>

See accompanying notes to financial statements.

LESTONNAC FREE CLINIC

Statements of Cash Flows

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from support and revenues	\$ 654,581	727,937
Rental payments received	19,410	-
Investment income	38,040	30,650
Cash paid for programs and administrative expenses	<u>(736,805)</u>	<u>(701,055)</u>
Net cash provided by (used for) operating activities	<u>(24,774)</u>	<u>57,532</u>
Cash flows from investing activities:		
Purchase of investments	( 4,290)	(19,304)
Purchase of equipment	<u>-</u>	<u>(20,701)</u>
Net cash provided by (used for) investing activities	<u>( 4,290)</u>	<u>(40,005)</u>
Net increase (decrease) in cash	(29,064)	17,527
Cash and cash equivalents at beginning of year	<u>321,617</u>	<u>304,090</u>
Cash and cash equivalents at end of year	<u>\$ 292,553</u>	<u>321,617</u>
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Decrease in net assets	\$(228,414)	(57,521)
Adjustments:		
Depreciation	41,785	42,271
Donated leasehold improvements	-	(15,200)
Unrealized (gains) loss for investments	(30,991)	(10,554)
Decrease (increase) in receivables	(12,543)	93,295
Decrease (increase) in inventory	207,157	-
Decrease (increase) in prepaid expenses	526	979
Increase (decrease) in accounts payable	509	7,540
Increase (decrease) in accrued expenses	<u>(2,803)</u>	<u>(3,278)</u>
Net cash provided by (used for) operating activities	<u>\$ (24,774)</u>	<u>57,532</u>
<u>Supplemental disclosures:</u>		
Noncash transactions:		
Donated services	\$ 69,250	81,500
Donated materials and inventory	-	809,574

See accompanying notes to financial statements.

# LESTONNAC FREE CLINIC

## Notes to Financial Statements

Years ended December 31, 2006 and 2005

### (1) Summary of Significant Accounting Policies

#### (a) Basis of presentation

The accompanying financial statements of Lestonnac Free Clinic (Clinic) are presented on the accrual basis of accounting and accordingly, reflect all significant receivables, payables, and other liabilities.

#### (b) Financial Statement Presentation

The Clinic has implemented the financial statement presentation recommended by the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. In accordance with SFAS No. 117, the Clinic reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

#### (c) Property and equipment

The Clinic follows the practice of capitalizing all material expenses greater than \$2,000 for property, vehicles and equipment at cost, except for those that are funded by the government grants. The equipment, subsidized by these government grants, is used strictly for the Clinic's health care services. Donated property is capitalized at the estimated fair market value at the time of donation. Depreciation of vehicles, furniture and equipment is recorded on the straight-line or double-declining-balance basis over the estimated useful life of the property (three to eight years).

The building is being depreciated on the straight line method over a period of 31.5 years. Depreciation is calculated using a method allowed for Federal income tax purposes and amounts do not vary significantly from amounts under generally accepted accounting principles.

#### (d) Donated Materials and Services

Donated materials and other noncash contributions are reflected in the accompanying statements at their estimated market values at date of receipt. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis of deriving their value. The Clinic has valued the donated services of its doctors, dentists and nurses requiring specialized skills.

LESTONNAC FREE CLINIC

Notes to Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(e) Investments

Investments consist of mutual funds and are reported in the accompanying balance sheet at fair value in accordance with SFAS No. 124. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon liquidation, maturity, or sale of investments. The difference between market value and cost is recorded as an unrealized gain (loss).

(f) Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

(g) Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the "Statement of Activities" and in the "Statement of Functional Expenses." Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(h) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

(i) Restricted and Unrestricted Revenue and Support

The Clinic has implemented SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

LESTONNAC FREE CLINIC

Notes to Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(i) Restricted and Unrestricted Revenue and Support, (Continued)

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period which the support is recognized. All other support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

(j) Inventory

Inventory consists of the pharmaceutical supplies and are stated at cost using the first-in-first-out (FIFO) method. The Clinic has stopped its pharmaceutical operations effective January 1, 2007. Target Pharmacy has taken over the Clinic's inventory since then.

(k) Accrued Vacation

The Clinic's policy is to record accumulated vacation when earned. As of December 31, 2006 and 2005, accrued vacation liabilities were \$0.

(2) Organization and Nature of Services

Lestonnac Free Clinic, a private, non-profit, tax-exempt organization under Internal Revenue Code Section 501(c)(3) and Section 23701d of the California Revenue and Taxation Code, was incorporated on September 1, 1979. The Clinic's primary purpose is to provide basic health care needs to the poor by motivating self sufficiency and confidence in those who are dependent on the Clinic's health care services. The services are aimed toward disease prevention and promotion of physical and mental well being of the underprivileged in Orange County. Its sources of revenue are mainly from government grants and private donations.

(3) Cash and Cash Equivalents

Cash, with the exception of checking accounts, was held in interest bearing accounts. Cash held at December 31, 2006 and 2005 exceeded the federally insured limits by \$173,352 and \$201,952, respectively.

LESTONNAC FREE CLINIC

Notes to Financial Statements

(Continued)

(4) Contingent Commitment/Liabilities

Periodic audits may be performed by Federal or State grantor agencies and certain costs may be questioned as not being reimbursable expenditures under the terms of the contract. Such audits could lead to reimbursement to the Grantor. The Clinic's management believes disallowances, if any, will be immaterial.

(5) Investments

The Clinic carries its investments at fair value. The difference between fair value and cost is recorded as an unrealized gain (loss). The change in the unrealized gain (loss) for the years ended December 31, 2006 and 2005 is as follows:

	<u>2006</u>		
	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain/(Loss)</u>
Mutual Funds	<u>\$672,278</u>	<u>713,823</u>	41,545
Unrealized (gain) loss recognized in prior year			<u>(10,554)</u>
Unrealized gain for the year ended December 31, 2006			<u>30,991</u>
	<u>2005</u>		
	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Gain/(Loss)</u>
Mutual Funds	<u>\$643,263</u>	<u>678,542</u>	35,279
Unrealized (gain) loss recognized in prior year			<u>(24,725)</u>
Unrealized gain for the year ended December 31, 2005			<u>10,554</u>

LESTONNAC FREE CLINIC

Notes to Financial Statements

(Continued)

(5) Investments. (Continued)

Investment income is comprised of the following for fiscal year ended December 31:

	<u>2006</u>	<u>2005</u>
Interest	\$ 5,331	2,012
Dividends	22,480	19,249
Realized gain on sale of investments	<u>10,229</u>	<u>9,389</u>
Total investment income	<u>\$38,040</u>	<u>30,650</u>

(6) Property, Plant and Equipment

Property, plant and equipment consists of the following at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Land	\$ 520,000	520,000
Buildings and improvements	1,091,500	1,091,500
Furniture and equipment	<u>114,696</u>	<u>114,696</u>
Total	1,726,196	1,726,196
Less accumulated depreciation	<u>(564,006)</u>	<u>(522,221)</u>
Property, plant and equipment, net of accumulated depreciation	<u>\$1,162,190</u>	<u>1,203,975</u>

Depreciation expense for the years ended December 31, 2006 and 2005 was \$41,785 and \$42,271, respectively.

(7) Net Assets Released from Restrictions

	<u>2006</u>	<u>2005</u>
Expiration of time restrictions: United Way funding	<u>\$23,614</u>	<u>24,014</u>
Total net assets released from restrictions	<u>\$23,614</u>	<u>24,014</u>

LESTONNAC FREE CLINIC

Notes to Financial Statements

(Continued)

(8) Net Assets

The following is a summary of net assets at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Unrestricted net assets:		
Unrestricted, available for programs	\$ 821,447	984,462
Invested in property, plant and equipment	<u>1,162,190</u>	<u>1,203,975</u>
	1,983,637	2,188,437
Temporarily restricted net assets:		
Subsequent years operations and programs	-	23,614
Permanently restricted net assets:		
Sister Therese Endowment Fund	<u>243,048</u>	<u>243,048</u>
Total net assets at end of year	<u>\$2,226,685</u>	<u>2,455,099</u>

(9) Concentrations

The Clinic's sources of revenues are mainly from government grants and private donations. Of the total revenues, approximately 36% and 34% respectively were received from the County of Orange for the years ended December 31, 2006 and 2005.