

T.H.E. CLINIC, INC.

REPORTS REQUIRED BY OMB CIRCULAR A-133

YEAR ENDED JUNE 30, 2012

T.H.E. CLINIC, INC.

REPORTS REQUIRED BY OMB CIRCULAR A-133

YEAR ENDED JUNE 30, 2012

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
T.H.E. Clinic, Inc.

We have audited the financial statements of T.H.E. Clinic, Inc. (the Organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting. Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal controls such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

Compliance and Other Matters. As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that are opportunities for strengthening internal controls and operating efficiency. Our comments and suggestions concerning these matters have been reported to the management of the Organization in a separate letter dated December 28, 2012.

To the Board of Directors
T.H.E. Clinic, Inc.

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the board of directors, audit committee, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Green Hasson & Janks LLP

December 28, 2012
Los Angeles, California

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
T.H.E. Clinic, Inc.

Compliance. We have audited T.H.E. Clinic, Inc.'s (the Organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2012. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance. Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

To the Board of Directors
T.H.E. Clinic, Inc.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of directors, audit committee, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Green Hasson & Janks LLP

December 28, 2012
Los Angeles, California

T.H.E CLINIC, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133? yes no

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes no

T.H.E CLINIC, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

SECTION I - SUMMARY OF AUDITORS' RESULTS (continued)

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.224	U.S. Department of Health and Human Services Health Resources and Services Administration Consolidated Health Center Programs
93.918	U.S. Department of Health and Human Services Health Resources and Services Administration Grant to Provide Outpatient Early Intervention Services with Respect to HIV Disease
93.526	U.S. Department of Health and Human Services Health Resources and Services Administration Affordable Care Act – Capital Development Grants

SECTION II - FINANCIAL STATEMENTS FINDINGS

There are no findings required to be reported in accordance with *Generally Accepted Government Auditing Standards*.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are neither findings nor questioned costs for federal awards as defined in OMB Circular A-133.

SECTION IV - PRIOR YEAR FINDINGS AND CORRECTIVE ACTION PLAN

• **2011-1: Financial Reporting**

Condition: The Organization's financial statements required adjustments to be in conformity with generally accepted accounting principles. Areas in which adjustments were proposed including those which management recorded, include:

- Patient accounts receivable and revenue
- Grants and contributions receivable and revenue
- Contract advances and deferred grant revenue

Current Year Status: The Organization resolved this in the current year.

T.H.E CLINIC, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2012

SECTION IV - PRIOR YEAR FINDINGS AND CORRECTIVE ACTION PLAN (continued)

- **2011-2: Inadequate Billing and Reconciliation Procedures**

Condition: During the course of our audit we noted various issues related to the billing process and account reconciliation procedures:

- There were two patients out of 40 patients sampled that were billed under incorrect service codes for retinal screenings.
- There were two patients out of 40 patients sampled that were not billed for a main vaccine/injection per review of the Super Bills.
- There were three patients out of 40 patients sampled where service codes were charged in the billing system but not checked off on the Super Bill.
- There was one patient out of 40 patients sampled that was missing eligibility forms to verify he was served by the Organization.
- The Organization switched from a manual billing system to an electronic system in February 2011 where they were unable to bill out from the new electronic system from February - April 2011. As a result, the Organization used the old billing system to bill out some of that period's fees. However, since the old system did not have the most up-to-date fees being used by the Organization, there were five instances out of 40 sampled where the payors were billed out at lower rates.
- There were six patients out of 40 patients sampled that we were unable to tie out reimbursements submitted from the County of Los Angeles into the accounting system.
- There were 12 patients out of 40 patients sampled that we were unable to tie out amounts due from patients into the accounting system.

Current Year Status: The Organization resolved this in the current year by hiring additional employees and reviewing service codes and rates for accuracy.

APPENDIX

T.H.E CLINIC, INC.
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

T.H.E. CLINIC, INC.
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
T.H.E. Clinic, Inc.

We have audited the accompanying balance sheet of T.H.E. Clinic, Inc. (the Organization) as of June 30, 2012, and the related statements of operations and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the June 30, 2011 financial statements of the Organization and in our report dated February 29, 2012, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 the 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 audit provides 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 Organization as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2012 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Organization taken as a whole. The accompanying Schedule of Expenditures of Federal and Nonfederal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget, Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

Green Hasson & Janks LLP

December 28, 2012
Los Angeles, California

T.H.E. CLINIC, INC.

BALANCE SHEET

June 30, 2012

With Summarized Totals at June 30, 2011

ASSETS	2012	2011
CURRENT ASSETS:		
Cash	\$ 318,090	\$ 70,265
Investments	25,634	334,276
Government Grants	202,549	524,691
Patient Accounts Receivable	626,829	325,157
Estimated Amounts Due from Third-Party Payers	462,603	229,379
Private Grants	-	185,000
Prepaid Expenses	30,902	18,411
TOTAL CURRENT ASSETS	1,666,607	1,687,179
PROPERTY AND EQUIPMENT (Net)	1,740,216	755,004
OTHER ASSETS:		
Estimated Amounts Due from Third-Party Payers	368,677	364,437
Private Grants	-	75,000
TOTAL OTHER ASSETS	368,677	439,437
TOTAL ASSETS	\$ 3,775,500	\$ 2,881,620
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	\$ 639,147	\$ 360,601
Accrued Expenses	398,966	369,527
Current Portion of Long-Term Debt	42,691	250,000
Current Portion of Payable to the County of Los Angeles	49,212	-
Contract Advances	20,538	599,407
TOTAL CURRENT LIABILITIES	1,150,554	1,579,535
OTHER LIABILITIES:		
Accrued Expenses - Long-Term	199,030	-
Long-Term Debt	207,309	-
Payable to the County of Los Angeles	-	397,401
TOTAL OTHER LIABILITIES	406,339	397,401
TOTAL LIABILITIES	1,556,893	1,976,936
NET ASSETS:		
Unrestricted	2,057,278	534,913
Temporarily Restricted	161,329	369,771
TOTAL NET ASSETS	2,218,607	904,684
TOTAL LIABILITIES AND NET ASSETS	\$ 3,775,500	\$ 2,881,620

The Accompanying Notes are an Integral Part of These Financial Statements

T.H.E. CLINIC, INC.

STATEMENT OF OPERATIONS

Year Ended June 30, 2012

With Summarized Totals for the Year Ended June 30, 2011

	2012	2011
REVENUE AND OTHER SUPPORT:		
Net Patient Service Revenue	\$ 4,229,439	\$ 3,876,066
Government Grants	1,836,099	1,718,227
Contributions	481,523	413,818
Pilot Program Incentive Revenue	180,860	-
Debt Forgiveness	348,189	89,610
Other Income	21,996	56,166
Net Assets Released from Restrictions	358,442	227,146
	7,456,548	6,381,033
EXPENSES:		
Salaries and Wages	3,966,585	3,723,106
Employee Benefits	657,242	644,813
Purchased Services and Professional Fees	906,815	748,815
Supplies and Other	1,247,994	1,198,329
Rent	198,017	127,853
Depreciation and Amortization	234,733	139,308
Interest Expense	6,943	15,113
Bad Debt Expense	-	209,060
	7,218,329	6,806,397
OPERATING INCOME (LOSS)	238,219	(425,364)
OTHER INCOME:		
Investment Income	703	1,612
	238,922	(423,752)
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	238,922	(423,752)
Grants for Acquisition of Property and Equipment	1,283,443	309,346
	1,522,365	(114,406)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	1,522,365	(114,406)
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions and Other Support	150,000	442,750
Net Assets Released from Purpose Restrictions	(358,442)	(227,146)
	(208,442)	215,604
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(208,442)	215,604
CHANGE IN NET ASSETS	1,313,923	101,198
Net Assets - Beginning of Year	904,684	803,486
NET ASSETS - END OF YEAR	\$ 2,218,607	\$ 904,684

The Accompanying Notes are an Integral Part of These Financial Statements

T.H.E. CLINIC, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2012

With Summarized Totals for the Year Ended June 30, 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 1,313,923	\$ 101,198
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	234,733	139,308
Bad Debt Expense	-	209,060
Debt Forgiveness	(348,189)	(89,610)
Grants for Acquisition of Property and Equipment	(158,020)	(100,177)
(Increase) Decrease in:		
Government Grants	322,142	(297,312)
Patient Accounts Receivable	(301,672)	(217,575)
Estimated Amounts Due from Third-Party Payers	(237,464)	(138,116)
Private Grants	260,000	(110,000)
Prepaid Expenses	(12,491)	(6,791)
Increase (Decrease) in:		
Accounts Payable	278,546	23,443
Accrued Expenses	228,469	56,800
Contract Advances	(578,869)	593,013
	1,001,108	163,241
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the Sale of Investments	308,642	-
Purchase of Investments	-	(1,590)
Purchase of Property and Equipment	(1,219,945)	(382,559)
	(911,303)	(384,149)
NET CASH USED IN INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Grants for Acquisition of Property and Equipment	158,020	100,177
Proceeds from Issuance of Long-Term Debt	250,000	141,976
Payment of Long-Term Debt	(250,000)	-
	158,020	242,153
NET CASH PROVIDED BY FINANCING ACTIVITIES		
NET INCREASE IN CASH	247,825	21,245
Cash - Beginning of Year	70,265	49,020
CASH - END OF YEAR	\$ 318,090	\$ 70,265
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid During the Year for Interest	\$ 6,943	\$ 15,113

The Accompanying Notes are an Integral Part of These Financial Statements

T.H.E. CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 1 - ORGANIZATION

The mission of T.H.E. (To Help Everyone) Clinic, Inc. (the Organization) is to provide high quality, customer-friendly primary care and related services to all residents of Los Angeles, especially those who are underserved. The Organization accomplishes its mission by providing culturally sensitive and quality comprehensive health services at affordable costs, and by encouraging and educating people to take a proactive role in maintaining their own health.

The Organization is a federally qualified health center providing services to well over 12,100 men, women and children of all ages and ethnic profiles. The Organization is also one of the first organizations nationwide to achieve the dual designation of Joint Commission Gold Seal of Quality and Primary Care Medical Home which was awarded in 2011. The Organization provides the following primary care services throughout its main center and five satellite sites: annual physical exams, family planning, pediatric care, teen clinic services, cancer screening, chronic disease screening and treatment, STD care, HIV/AIDS screening and treatment, prostate exams, nutrition health education and sports physicals for teens. The Organization is one of the few non-profit health care clinics in Southwest Los Angeles, serving part of a dense urban area of over one million people, of which almost one-third are uninsured. The health care model the Organization practices is designed to serve the whole person, not just symptoms or problems. The Organization is "healing the body and raising the spirit."

The Organization began life on February 5, 1974 as T.H.E. Clinic for Women, a new health care facility that would provide low-cost, high-quality health care for mainly women of South Los Angeles. Initially, patients were usually low-income, uninsured single mothers desperately in need of such services for their children, their other relatives and themselves.

Working at first with limited daily hours and no pay, the Organization faced an uphill struggle to survive while it gradually got the word out to the women in its service area. Since then, the Organization employs a full time staff of over 80 medical and specialized support staff and has garnered long-time support from strategic partners at all levels of government as well as more than 30 foundations, corporations and organizations within the communities served.

The Organization remains at the forefront of crafting treatment and educational regimens to address such widely-discussed health care and social problems as cancer in all its manifestations (especially breast, cervical, and prostate cancer), obesity (including obesity among children and teenagers), and the immunization of children against a wide range of diseases, along with its traditional attention to prenatal and postnatal care for mothers as well as pediatric care for their babies and older children.

The multi-ethnic, multi-racial character of the Organization's patients and staff is another element that makes it unique. The Organization is a rare and invaluable social institution, especially for a hotbed of national and international diversity like Los Angeles, because both its patients and staff cover the racial-social-ethnic-age-linguistic spectrum.

For example, at various times during its history, the languages spoken by staff members have included English, Spanish, Japanese, Thai, Vietnamese, Laotian, Tagalog, Ibo, Chinese, French, Amharic, Yoruba and Russian. Some clinic staff members speak as many as four languages. Such skills have proven to be indispensable because so many of the Organization's patients are recent immigrants who speak only their native tongues. This aspect of the Organization's culture also reflects the way that it has long been known as a medical facility where anyone can feel at home regardless of background.

T.H.E. CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting.

(b) ACCOUNTING

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Organization are maintained in accordance with the principles of net assets accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

- **Unrestricted.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving income from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.
- **Temporarily Restricted.** The Organization reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the 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 purpose or time restrictions. The Organization has temporarily restricted net assets of \$161,329 at June 30, 2012.
- **Permanently Restricted.** These net assets are received from donors who stipulate that resources are to be maintained permanently, but permit the Organization to expend all of the income (or other economic benefits) derived from the donated assets. The Organization has no permanently restricted net assets at June 30, 2012.

(c) CASH

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on these accounts.

(d) INVESTMENTS

Investments in certificates of deposit are valued at fair value. Investment return includes interest income and is reported in the statement of operations.

T.H.E. CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) ACCOUNTS RECEIVABLE

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The allowance for doubtful accounts is estimated based on historical collection trends, type of customer, the age of outstanding receivables and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectibility of those balances and the allowance is adjusted accordingly. Past due receivable balances are written-off when internal collection efforts have been unsuccessful in collecting the amount due. There was no allowance for doubtful accounts at June 30, 2012.

(f) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost at the date of acquisition if purchased or at estimated fair value at the date of donation if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are as follows:

Leasehold Improvements	39 Years
Equipment	5-10 Years

Expenditures for repairs and maintenance are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$500 and the useful life is greater than one year. Expenditures for fixed assets from certain grant funds are expensed when acquired because the grantor retains title to such assets.

(g) LONG-LIVED ASSETS

The Organization evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future cash flows is less than the carrying amount of the asset, in which case a write-down is recorded to reduce the related asset to its estimated realizable value. During the year ended June 30, 2012, no impairment loss was recognized.

(h) INCOME TAXES

The Organization is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

(i) USE OF 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 reported amounts of assets, liabilities, revenues and expenses as of the date and for the period presented. Accordingly, actual results could differ from those estimates.

T.H.E. CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) NET PATIENT SERVICE REVENUE AND MANAGED CARE CONTRACTS

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for service rendered. Net patient service revenue also includes estimated retroactive adjustments under reimbursement agreements with third-party payors. The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per service, reimbursed costs discounted charges, and per diem payments. Retroactive adjustments are accrued on an estimated basis in the period the services are rendered and adjusted in future periods, as final settlements are determined. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement. Estimated third-party payor settlement amounts included in the accompanying balance sheets approximate fair value.

Payment agreements have been established with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. Premiums are due monthly (calculated on a prospectively determined capitated rate) and are recognized as revenue during the period in which the Organization is obligated to provide services to its members.

(k) CONTRACT AND GRANT REVENUE RECOGNITION

Revenue from cost-reimbursable grants and contracts is recorded to the extent of expenses incurred applicable to the grant or contract. Any difference between expenses incurred and the total funds received (not to exceed the grant or contract maximum) is recorded as a receivable or a contract advance liability, whichever is applicable. Revenue from other grants is recognized on an accrual basis as earned according to the provisions of the grant.

(l) PRIVATE GRANTS RECEIVABLE

Unconditional contributions, including grants recorded at estimated fair value, are recognized as revenues when the grant is received. The Organization reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Conditional promises to give are not included as support until such time as the conditions are substantially met.

(m) DONATED MATERIALS AND SERVICES

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services are recognized if the services received (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Organization recognized donated materials of medical supplies valued at \$161,823 which is included in contributions for the year ended June 30, 2012.

T.H.E. CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) RECLASSIFICATION

For comparability, certain June 30, 2011 amounts have been reclassified, where appropriate, to conform with the financial statement presentation used at June 30, 2012.

(o) SUBSEQUENT EVENTS

The Organization has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2012 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through December 28, 2012, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.

NOTE 3 - FAIR VALUE MEASUREMENTS

The Organization has implemented the accounting standard for those assets that are re-measured and reported at fair value at each reporting period. This standard establishes a single authoritative definition of fair value, sets out a framework for measuring fair value based on inputs used, and requires additional disclosures about fair value measurements. This standard applies to fair value measurements already required or permitted by existing standards.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset and include situations where there is little, if any, market activity for the asset.

The following table presents information about the Organization's assets that are measured at fair value on a recurring basis at June 30, 2012 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Fair Value Measurements Using			
	Year Ended June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificate of Deposit	\$ 25,634	\$ -	\$ 25,634	\$ -

The fair value of investments within Level 2 was determined by discounting the related cash flows based on current yields of similar instruments with comparable durations and considering the credit worthiness of the issuers.

T.H.E. CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 4 - GOVERNMENT GRANTS

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care service delivery for residents of Los Angeles, California, and the surrounding area. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. During the year ended June 30, 2012, the Organization recognized \$523,916 in CHC grant revenue.

The Organization's grant project period extends through January 31, 2015. The Organization's current grant award covers the grant budget period ending January 31, 2013. Future funding will be determined by the granting agency.

In addition to the above grant, the Organization receives additional financial support from other federal, state and private sources.

NOTE 5 - NET PATIENT SERVICE REVENUE/THIRD-PARTY PAYERS

The Organization is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medi-Cal reimbursement purposes. The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Organization and audit thereof by the Medicare fiscal intermediary. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medi-Cal. Covered FQHC services rendered to Medi-Cal program beneficiaries are paid based on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for all services provided. Services not covered under the FQHC benefit are paid based on established fee schedules.

The Organization is required to submit an annual Medi-Cal Reconciliation Request Form to the California Department of Health Care Services (the "Department") for purposes of determining whether it was paid appropriately for certain Medi-Cal visits. These annual reconciliations result in the determination of any underpayment or overpayment by the Medi-Cal program for the affected visits. The Organization has recorded a receivable for estimated settlements expected to be received for Medi-Cal Reconciliation Request Forms for the years ended June 30, 2009 through 2012. Such amounts are recorded on the balance sheet as estimated amounts due from third-party payers. Following submission of the Medi-Cal Reconciliation Request Form, the Organization will generally receive a tentative settlement from the Medi-Cal program with a final settlement made within three years of the date of submission.

Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

T.H.E. CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 5 - NET PATIENT SERVICE REVENUE/THIRD-PARTY PAYERS (continued)

The Organization is a partner in the Healthy Way Program with the County of Los Angeles. Covered primary care services, including laboratory, radiology and pharmacy ancillary services, rendered to Healthy Way Program beneficiaries are paid by the County of Los Angeles to the extent of the County's contracted maximum obligation. The Organization's current Healthy Way Program agreement with the County covers the annual period ending June 30, 2012. Future funding will be determined by the County of Los Angeles.

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates and discounts from established charges.

NOTE 6 - PROPERTY AND EQUIPMENT

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

Leasehold Improvements	\$ 1,204,383
Equipment	<u>1,684,828</u>
TOTAL	2,889,211
Less: Accumulated Depreciation	<u>(1,148,995)</u>
TOTAL PROPERTY AND EQUIPMENT (NET)	<u>\$ 1,740,216</u>

Depreciation and amortization expense for the year ended June 30, 2012 was \$234,733.

NOTE 7 - NOTE PAYABLE

The Organization has a note payable with a bank of \$250,000 as of June 30, 2012. The loan is secured by the Organization's assets. Principal is payable, plus interest at 3.175% per annum, in monthly installments of \$4,517 starting on August 2012. The maturity date of the note is July 1, 2017. Borrowings under this note payable are subject to certain financial covenants.

Future maturities of note payable are as follows:

Years Ending June 30	
2013	\$ 42,691
2014	48,316
2015	49,872
2016	51,479
2017	<u>57,642</u>
TOTAL	<u>\$ 250,000</u>

T.H.E. CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 8 - PAYABLE TO THE COUNTY OF LOS ANGELES

The Organization partially occupies the Ruth Temple Health Center owned by the County of Los Angeles (the County). Under an agreement between the Organization and the County, the Organization was not charged for occupying space at this facility in exchange for providing medical services to uninsured patients of the County. The Organization was required to pay for its prorated share of space support costs. As of June 30, 2010, the Organization owed the County \$487,011 for space support costs incurred during the year ended June 30, 2010 and previous fiscal years.

In January 2011, the Organization entered into a new agreement with the County. Under the terms of this agreement, the Organization will continue to partially occupy the Ruth Temple Health Center and pay monthly rent of \$5,000 to the County. The agreement provides for an original ten year lease term with two ten year renewal periods at the discretion of the County.

The new agreement also allows for the forgiveness of the \$487,011 payable to the County provided the Organization completes tenant improvements totaling \$1,559,000. The Organization was awarded the \$1,559,000 under the Affordable Care Act Capital Development Grant Program for the period of October 1, 2010 to September 30, 2012 for facility renovation and the required tenant improvements are to be funded with proceeds from this award. The Organization has spent \$1,401,465 for this project and has recognized \$437,799 of the debt forgiveness as of June 30, 2012. As of June 30, 2012, the payable to the County of Los Angeles was \$49,212.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

The Organization leases facilities under operating leases with various terms expiring through July 2021. Future minimum payments, by year, and in the aggregate, under these leases are as follows:

Years Ending June 30

2013	\$	128,582
2014		133,700
2015		139,034
2016		144,594
2017		88,879
Thereafter		346,559
TOTAL	\$	<u>981,348</u>

Rent expense under facility operating leases for the year ended June 30, 2012 was \$198,017.

(b) GOVERNMENT GRANTS

The Organization has received local, state and federal funds for specific purposes that are subject to review and audit by the contracting agencies. Although such audits could generate expenditure disallowances under the terms of the grants and contracts, it is management's opinion that any required reimbursements will not be material.

T.H.E. CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

(c) MEDI-CAL AND MEDICARE

The Organization has elected to participate in the Federally Qualified Health Center (FQHC) Medi-Cal Prospective Payment System (PPS). Under this payment system, the Organization is required to file a reconciliation report at the end of its fiscal year. The purpose of this report is to reconcile reimbursement for services provided to Managed Medi-Cal patients versus what the Organization would have received if these services were provided to regular Medi-Cal patients. The reconciliation reports are subject to review and audit by the Audits and Investigations branch of the Department of Health Services.

(d) MEDICAL MALPRACTICE CLAIMS

Effective June 8, 2009, the U.S. Department of Health and Human Services has deemed the Organization and its practicing providers covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions.

The Organization purchases primary and excess liability malpractice insurance under claims-made policies for areas not covered under FTCA. Adjustments of estimated to actual expense, if any, after the policy terms, are included in the period such adjustments are determined.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Organization's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

NOTE 10 - CONCENTRATIONS

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payer agreements at June 30, 2012 is:

Medicare	2%
Medicaid	23%
Other Third-Party Payers	75%

T.H.E. CLINIC, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2012 consist of the following:

Education Programs	\$	139,130
Capacity Building		17,199
Breast Health Education Programs		<u>5,000</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$	<u>161,329</u>

NOTE 12 - PENSION PLAN

The Organization has a 403(b) defined contribution plan covering substantially all employees. The Board of Directors annually determines the amount, if any, of the Organization's contribution to the plan. No contributions were made during the year ended June 30, 2012.

T.H.E CLINIC, INC.
SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2012

T.H.E. CLINIC, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS
Year Ended June 30, 2012**

Agency - Program Grant Title	Contract Number	Federal CFDA Number	Grant Period	Governmental Revenue		Program Expenditures from Governmental Revenue
				Federal	Nonfederal	
FEDERAL AWARDS						
MAJOR AWARDS						
U.S. Department of Health and Human Services Health Resources and Services Administration Consolidated Health Center Programs	H80CS00755	93.224	02/01/11 - 01/31/12	\$ 323,902	\$ -	\$ 323,902
	H80CS00755	93.224	02/01/12 - 01/31/13	200,014	-	200,014
				<u>523,916</u>		<u>523,916</u>
Grant to Provide Outpatient Early Intervention Services with Respect to HIV Disease	H76HA00734	93.918	04/01/11 - 03/31/12	192,946	-	192,946
	H76HA00734	93.918	04/01/12 - 03/31/13	75,512	-	75,512
				<u>268,458</u>	<u>-</u>	<u>268,458</u>
Affordable Care Act - Capital Development Grants	C8ACS21313	93.526	10/1/10-10/31/12	1,125,423	-	1,125,423
				<u>1,917,797</u>	<u>-</u>	<u>1,917,797</u>
TOTAL MAJOR AWARDS						
NON-MAJOR AWARDS						
U.S. Department of Health and Human Services Passed through the California Family Health Council, Inc. Family Planning Services (Title X)	2406-5320-71209-11	93.217	01/01/11 - 12/31/11	43,545	96,481	140,026
	2406-5320-71209-12	93.217	01/01/12 - 12/31/12	46,728	93,588	140,316
				<u>90,273</u>	<u>190,069</u>	<u>280,342</u>
HIV Emergency Relief Project Grants	H-209012	93.914	03/01/11 - 02/28/12	201,315	-	201,315
	H-209012	93.914	03/01/12 - 02/28/13	110,181	-	110,181
				<u>311,496</u>	<u>-</u>	<u>311,496</u>
Affordable Care Act - School Based Health Center Capital Program	C12CS22048	93.501	07/01/11 - 06/30/13	11,598	-	11,598
Pass-through, County of Los Angeles Center for Disease Control and Prevention Health Department Based	H-700873	93.940	10/1/10 - 09/30/11	34,837	-	34,837
	H-700873	93.940	10/1/11 - 09/30/12	78,040	-	78,040
				<u>112,877</u>	<u>-</u>	<u>112,877</u>
Pass-through, Los Angeles Homeless Services Authority, A Community of Friends: Supportive Housing Program	N/A	N/A	02/01/11 - 01/31/12	-	37,779	37,779
	N/A	N/A	02/01/12 - 01/31/13	-	13,356	13,356
				<u>-</u>	<u>51,135</u>	<u>51,135</u>

See Independent Auditors' Report

T.H.E. CLINIC, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS
Year Ended June 30, 2012**

FEDERAL AWARDS Agency - Program Grant Title	Contract Number	Federal CFDA Number	Grant Period	Governmental Revenue		Program Expenditures from Governmental Revenue
				Federal	Nonfederal	
Los Angeles County						
Pass-through, Children and Family First Proposition 10						
Commission First 5 LA, Harbor Corridor Best Babies Collaborative	N/A	N/A	07/01/11- 06/30/12	-	56,700	56,700
SB 474	H-703486	N/A	07/01/11 - 06/30/12	-	219,577	219,577
Los Angeles County, Department of Health and Human Services						
Clinic Capacity Expansion Project	H-704227	N/A	07/01/11 - 06/30/12	-	158,020	158,020
TOTAL NON-MAJOR AWARDS				<u>526,244</u>	<u>675,501</u>	<u>1,201,745</u>
TOTAL FEDERAL AND NONFEDERAL AWARDS				<u>\$ 2,444,041</u>	<u>\$ 675,501</u>	<u>\$ 3,119,542</u>

Summary of Significant Accounting Policies:

1. Basis of Accounting - The Schedule of Expenditures of Federal and Nonfederal Awards has been reported on the accrual basis of accounting.
2. The Organization is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.

See Independent Auditors' Report