T.H.E. CLINIC, INC.
dba T.H.E. HEALTH AND
WELLNESS CENTERS

REPORTS REQUIRED BY OMB CIRCULAR A-133

YEAR ENDED JUNE 30, 2014

T.H.E. CLINIC, INC.
dba T.H.E. HEALTH AND WELLNESS CENTERS

REPORTS REQUIRED BY OMB CIRCULAR A-133

YEAR ENDED JUNE 30, 2014

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INDEPENDENT AUDITOR'S 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.
dba T.H.E. Health and Wellness Centers

We have audited, in accordance with the 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, the financial statements of T.H.E. Clinic, Inc. dba T.H.E. Health and Wellness Centers (the Organization), which comprise the balance sheet as of June 30, 2014, and the related statements of operations and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 2, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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 control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from 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*.

To the Board of Directors
T.H.E. Clinic, Inc.
dba T.H.E. Health and Wellness Centers

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Green Hasson & Janks LLP

March 2, 2015
Los Angeles, California

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

To the Board of Directors
T.H.E. Clinic, Inc.
dba T.H.E Health and Wellness Centers

Report on Compliance for Each Major Federal Program

We have audited T.H.E. Clinic, Inc.'s dba T.H.E. Health and Wellness Centers (the Organization) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (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, 2014. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of 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, 2014.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.
dba T.H.E. Health and Wellness Centers

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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Green Hasson & Janks LLP

March 2, 2015
Los Angeles, California

T.H.E. CLINIC, INC.
dba T.H.E. HEALTH AND WELLNESS CENTERS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
• Material weaknesses identified?	___ yes	_x_ no
• Significant deficiencies identified?	___ yes	_x_ none reported
Noncompliance material to financial statements noted?	___ yes	_x_ no

Federal Awards

Internal control over major programs:		
• Material weaknesses identified?	___ yes	_x_ no
• Significant deficiencies identified?	___ yes	_x_ none reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	___ yes	_x_ no
Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000	
Auditee qualified as low-risk auditee?	_x_ yes	___ no

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.224	U.S. Department of Health and Human Services Health Resources and Services Administration Consolidated Health Center Programs

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

There were no prior year Federal award findings or questioned costs.

APPENDIX

T.H.E. CLINIC, INC.
dba T.H.E. HEALTH AND WELLNESS CENTERS

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

T.H.E. CLINIC, INC.
dba T.H.E. HEALTH AND WELLNESS CENTERS

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
T.H.E. Clinic, Inc.
dba T.H.E. Health and Wellness Centers

Report on the Financial Statements
We have audited the accompanying financial statements of T.H.E. Clinic, Inc. dba T.H.E. Health and Wellness Centers (the Organization), which comprise the balance sheet as of June 30, 2014, and the related statements of operations and cash flows for the year 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.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. 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 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 auditor's 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 the Organization as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information
We have previously audited the Organization's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 23, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

To the Board of Directors
T.H.E. Clinic, Inc.
dba T.H.E. Health and Wellness Centers

Other Matters - Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal and Nonfederal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations,* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2015 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Green Hasson & Janks LLP

March 2, 2015
Los Angeles, California

T.H.E. CLINIC, INC.
dba T.H.E. HEALTH AND WELLNESS CENTERS

BALANCE SHEET
June 30, 2014
With Summarized Totals at June 30, 2013

ASSETS		2014		2013
CURRENT ASSETS:				
Cash	$	1,521,189	$	274,739
Investments		10,002		25,680
Government Grants		362,785		483,087
Patient Accounts Receivable		850,486		888,853
Estimated Amounts Due from Third-Party Payers		142,865		389,000
Private Grants		207,242		125,993
Prepaid Expenses		67,890		35,328
TOTAL CURRENT ASSETS		3,162,459		2,222,680
PROPERTY AND EQUIPMENT (Net)		2,075,844		1,901,079
OTHER ASSETS:				
Estimated Amounts Due from Third-Party Payers		523,610		322,169
TOTAL ASSETS	$	5,761,913	$	4,445,928

LIABILITIES AND NET ASSETS		2014		2013
CURRENT LIABILITIES:				
Accounts Payable	$	673,301	$	558,903
Accrued Expenses		559,166		487,767
Current Portion of Notes Payable		138,306		60,000
Contract Advances		-		307,118
TOTAL CURRENT LIABILITIES		1,370,773		1,413,788
OTHER LIABILITIES:				
Notes Payable		675,000		235,000
TOTAL LIABILITIES		2,045,773		1,648,788
NET ASSETS:				
Unrestricted		3,528,640		2,709,640
Temporarily Restricted		187,500		87,500
TOTAL NET ASSETS		3,716,140		2,797,140
TOTAL LIABILITIES AND NET ASSETS	$	5,761,913	$	4,445,928

The Accompanying Notes are an Integral Part of These Financial Statements

T.H.E. CLINIC, INC.
dba T.H.E. HEALTH AND WELLNESS CENTERS

STATEMENT OF OPERATIONS
Year Ended June 30, 2014
With Summarized Totals for the Year Ended June 30, 2013

	2014	2013
REVENUE AND OTHER SUPPORT:		
Net Patient Service Revenue	$ 6,608,311	$ 5,906,468
Government Grants	3,047,101	1,960,419
Contributions	446,759	261,312
Pilot Program Incentive Revenue	10,000	44,404
Debt Forgiveness	-	49,212
Other Income	306,489	258,689
Net Assets Released from Restrictions	320,000	248,829
TOTAL REVENUE AND OTHER SUPPORT	10,738,660	8,729,333
EXPENSES:		
Salaries and Wages	4,860,453	4,209,932
Employee Benefits	1,025,492	757,943
Purchased Services and Professional Fees	1,212,142	851,303
Supplies and Other	2,141,535	1,699,968
Rent	481,184	254,416
Depreciation and Amortization	452,010	441,890
Interest Expense	9,580	7,899
Bad Debt Expense	23,889	195,884
TOTAL EXPENSES	10,206,285	8,419,235
OPERATING INCOME	532,375	310,098
OTHER INCOME:		
Investment Income	45	67
EXCESS OF REVENUE OVER EXPENSES	532,420	310,165
Government Grant for Acquisition of Property and Equipment	286,580	342,197
INCREASE IN UNRESTRICTED NET ASSETS	819,000	652,362
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions and Other Support	420,000	175,000
Net Assets Released from Purpose Restrictions	(320,000)	(248,829)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	100,000	(73,829)
CHANGE IN NET ASSETS	919,000	578,533
Net Assets - Beginning of Year	2,797,140	2,218,607
NET ASSETS - END OF YEAR	$ 3,716,140	$ 2,797,140

The Accompanying Notes are an Integral Part of These Financial Statements

T.H.E. CLINIC, INC.
dba T.H.E. HEALTH AND WELLNESS CENTERS

STATEMENT OF CASH FLOWS
Year Ended June 30, 2014
With Summarized Totals for the Year Ended June 30, 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	$ 919,000	$ 578,533
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	452,010	441,890
Investment Income Reinvested	(45)	(46)
Bad Debt Expense	23,889	195,884
Debt Forgiveness	-	(49,212)
Grants for Acquisition of Property and Equipment	(286,580)	(342,197)
(Increase) Decrease in:		
Government Grants	120,302	(280,538)
Patient Accounts Receivable	14,478	(457,908)
Estimated Amounts Due from Third-Party Payers	44,694	120,111
Private Grants	(81,249)	(125,993)
Prepaid Expenses	(32,562)	(4,426)
Increase (Decrease) in:		
Accounts Payable	114,398	(183,864)
Accrued Expenses	71,399	(110,229)
Contract Advances	(307,118)	286,580
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,052,616	68,585
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the Sale of Investments	15,723	-
Purchase of Property and Equipment	(626,775)	(499,133)
NET CASH USED IN INVESTING ACTIVITIES	(611,052)	(499,133)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Grants for Acquisition of Property and Equipment	286,580	342,197
Proceeds from Issuance of Long-Term Debt	605,748	50,000
Payment of Long-Term Debt	(87,442)	(5,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	804,886	387,197
NET INCREASE (DECREASE) IN CASH	1,246,450	(43,351)
Cash - Beginning of Year	274,739	318,090
CASH - END OF YEAR	$ 1,521,189	$ 274,739
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid During the Year for Interest	$ 9,580	$ 7,899
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Proceeds from Issuance of Long-Term Debt	$ 248,362	$ 250,000
Payment of Long-Term Debt	(248,362)	(250,000)
Property and Equipment Purchased through Accounts Payable	-	103,620

The Accompanying Notes are an Integral Part of These Financial Statements

NOTE 1 - ORGANIZATION

The mission of T.H.E. Clinic, Inc. dba T.H.E. Health and Wellness Centers (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 14,400 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 centers 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.

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 $187,500 at June 30, 2014.

- **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, 2014.

(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.

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 collectability 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, 2014.

(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, 2014, 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.

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. As of June 30, 2014 conditional grants outstanding totaled $125,000.

(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 $186,945 which is included in contributions for the year ended June 30, 2014.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) ELECTRONIC HEALTH RECORDS INCENTIVE PROGRAM

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009,* provides for one-time incentive payments under both the Medicare and Medi-Cal programs to eligible health centers that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medi-Cal program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medi-Cal Services. Payment under both programs are contingent on the health center continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Organization recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2014, the Organization completed the second-year requirements under the Medi-Cal program and has recorded revenue of $10,000, which is included in other revenue in the statement of operations.

(o) COMPARATIVE TOTALS

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2013 from which summarized information was derived.

(p) SUBSEQUENT EVENTS

The Organization has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2014 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through March 2, 2015, 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.

NOTE 3 - FAIR VALUE MEASUREMENTS (continued)

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, 2014 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	Fair Value Measurements Using			
	Year Ended June 30, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificate of Deposit	$ 10,002	$ -	$ 10,002	$ -

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.

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, 2014, the Organization recognized $1,787,315 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, 2015. 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:

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

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 2013. 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.

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 covered the period ended September 30, 2014. The new program titled My Health LA took affect beginning on October 1, 2014. 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, 2014:

Leasehold Improvements	$ 2,275,090
Equipment	1,843,650
TOTAL	4,118,740
Less: Accumulated Depreciation	(2,042,896)
TOTAL PROPERTY AND EQUIPMENT (NET)	$ 2,075,844

Depreciation and amortization expense for the year ended June 30, 2014 was $452,010.

NOTE 7 - NOTE PAYABLE

The Organization has a note payable with an organization for $750,000 as of June 30, 2014. The loan is secured by the Organization's assets. Six monthly consecutive installments of accrued and unpaid interest only shall be paid beginning on the second month after the closing date of the note at an interest rate of 3.175% per annum. From and after December 1, 2014, the note shall be repaid in successive monthly installments of principal and interest calculated pursuant to a 60 month amortization schedule with interest calculated on the unpaid principal balance at a rate of 3.175% per annum. Borrowings under this note payable are subject to certain financial covenants.

The Organization has an equipment note payable with a leasing company for $63,306 as of June 30, 2014. The loan is secured by equipment purchased by the Organization. Principal is payable, plus interest at 2.26% per annum, in quarterly installments of $13,572. The maturity date of the note is February 2016.

Future maturities of note payables are as follows:

Years Ending June 30	
2015	$ 138,306
2016	150,000
2017	150,000
2018	150,000
2019	150,000
Thereafter	75,000
TOTAL	$ 813,306

NOTE 8 - 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	
2015	$ 377,760
2016	485,980
2017	421,280
2018	411,932
2019	413,763
Thereafter	568,149
TOTAL	$ 2,678,864

Rent expense under facility operating leases for the year ended June 30, 2014 was $481,184.

NOTE 8 - COMMITMENTS AND CONTINGENCIES (continued)

(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.

(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.

(e) LITIGATION

In the ordinary course of doing business, the Organization may become involved in various lawsuits. Some of these proceedings may result in judgments being assessed against the Organization which, from time to time, may have an impact on changes in net assets. The Organization does not believe that these proceedings, individually or in the aggregate, are material effect on the accompanying financial statements.

NOTE 9 - 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, 2014 is:

Medicare	2%
Medicaid	13%
Other Third-Party Payers	85%

NOTE 10 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2014 consist of amounts restricted due to time restrictions and amount to $187,500.

NOTE 11 - 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, 2014.

T.H.E. CLINIC, INC.
dba T.H.E. HEALTH AND
WELLNESS CENTERS

SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2014

T.H.E. CLINIC, INC.
dba T.H.E. HEALTH AND WELLNESS CENTERS

SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS
Year Ended June 30, 2014

FEDERAL AWARDS Agency - Program Grant Title	Contract Number	Federal CFDA Number	Grant Period	Governmental Revenue Federal	Governmental Revenue Nonfederal	Program Expenditures from Governmental Revenue
MAJOR AWARDS						
U.S. Department of Health and Human Services						
Health Resources and Services Administration						
Consolidated Health Center Programs	H80CS00755	93.224	02/01/13 - 01/31/14	$ 483,333	$ -	$ 483,333
	H80CS00755	93.224	02/01/13 - 01/31/14	833,135	-	833,135
	H80CS00755	93.224	02/01/14 - 01/31/15	470,847	-	470,847
TOTAL MAJOR AWARDS				1,787,315		1,787,315
NON-MAJOR AWARDS						
U.S. Department of Health and Human Services						
Health Resources and Services Administration						
HIV Emergency Relief Project Grants	H-209012	93.914	10/01/13 - 09/30/14	142,181	-	142,181
	H-209012	93.914	03/01/14 - 02/28/15	89,283	-	89,283
				231,464	-	231,464
Passed through the California Family						
Health Council, Inc. Family Planning Services (Title X)	2406-5320-71209-12	93.217	01/01/13 - 12/31/14	45,207	86,125	131,332
	2406-5320-71262-13-14	93.217	01/01/14 - 12/31/15	44,926	75,072	119,998
	2406-5320-71209-13	93.217	10/01/13 - 09/30/14	70,049	-	70,049
				160,182	161,197	321,379
Grant to Provide Outpatient Early Intervention						
Services with Respect to HIV Disease	H76HA00734	93.918	07/01/13 - 03/31/14	219,763	-	219,763
	H76HA00734	93.918	04/01/14 - 03/31/15	55,716	-	55,716
				275,479	-	275,479
Affordable Care Act - School Based Health Center						
Capital Program	C12CS22048	93.501	07/01/11 - 12/31/13	286,580	-	286,580
Pass-through, County of Los Angeles Center for						
Disease Control and Prevention						
Health Department Based	H-700873	93.940	10/01/12 - 09/30/13	15,415	-	15,415
	H-700873	93.940	10/31/13 - 12/31/13	22,735	-	22,735
	H-700873	93.940	01/01/14 - 12/31/14	36,076	-	36,076
				74,226	-	74,226

See Independent Auditor's Report

T.H.E. CLINIC, INC.
dba T.H.E. HEALTH AND WELLNESS CENTERS

SCHEDULE OF EXPENDITURES OF FEDERAL AND NONFEDERAL AWARDS
Year Ended June 30, 2014

FEDERAL AWARDS Agency - Program Grant Title	Contract Number	Federal CFDA Number	Grant Period	Governmental Revenue		Program Expenditures from Governmental Revenue
				Federal	Nonfederal	
Pass-through, Los Angeles Homeless Services Authority, A Community of Friends:						
Supportive Housing Program	N/A	N/A	02/01/13 - 01/31/14	-	2,455	2,455
Los Angeles County						
Pass-through, Children and Family First Proposition 10						
Commission First 5 LA, Harbor Corridor Best Babies Collaborative	N/A	N/A	07/01/13 - 06/30/14	-	29,021	29,021
SB 474	N/A	N/A	07/01/13 - 06/30/14	-	254,888	254,888
				-	283,909	283,909
Pass-through, Special Services for Groups Department of Mental Health						
HOPICS	N/A	N/A	07/01/13 - 06/30/14	-	70,874	70,874
TOTAL NON-MAJOR AWARDS				1,027,931	518,435	1,546,366
TOTAL FEDERAL AND NONFEDERAL AWARDS				2,815,246	518,435	3,333,681

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 Auditor's Report