T.H.E. Clinic, Inc.

Accountants’ Report and Financial Statements

June 30, 2010

BKD LLP
CPAs & Advisors

910 E. St. Louis Street, Suite 200
P.O. Box 1190
Springfield, MO 65801-1190
417.865.8701 Fax 417.865.0682 www.bkd.com

Independent Accountants' Report

Board of Directors
T.H.E. Clinic, Inc.
Los Angeles, California

We have audited the accompanying balance sheet of T.H.E. Clinic, Inc. (the "Organization") as of June 30, 2010, and the related statements of operations, changes in net assets 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 T.H.E. Clinic, Inc. as of June 30, 2010, and the results of its operations, 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.

As discussed in *Note 1*, the Organization changed its method of financial statement presentation in 2010.

BKD, LLP

August 8, 2011

T.H.E. Clinic, Inc.
Balance Sheet
June 30, 2010

Assets

Current Assets		
Cash and cash equivalents	$	49,020
Short-term investments		332,686
Patient accounts receivable, net of allowance of $36,180		316,642
Grants and other receivables		227,379
Contributions receivable - current		50,000
Estimated amounts due from third-party payers - current		212,700
Prepaid expenses and other		11,620
Total current assets		1,200,047
Contributions Receivable		100,000
Estimated Amounts Due From Third-Party Payers		455,700
Less current portion		212,700
		243,000
Property and Equipment, At Cost		
Leasehold improvements		40,474
Equipment		940,732
Furniture and fixtures		305,502
		1,286,708
Less accumulated depreciation		774,955
		511,753
Total assets	$	2,054,800

Liabilities and Net Assets

Current Liabilities		
Accounts payable	$	337,158
Accrued expenses		312,727
Deferred revenue		6,394
Total current liabilities		656,279
Payable to the County of Los Angeles		487,011
Long-Term Debt		108,024
Total liabilities		1,251,314
Net Assets		
Unrestricted		649,319
Temporarily restricted		154,167
Total net assets		803,486
Total liabilities and net assets	$	2,054,800

T.H.E. Clinic, Inc.
Statement of Operations
Year Ended June 30, 2010

Unrestricted Revenues, Gains and Other Support	
Net patient service revenue	$ 3,621,670
Grant revenue	1,998,682
Contributions	278,512
Other	35,347
Net assets released from restrictions used for operations	27,874
Total unrestricted revenues, gains and other support	5,962,085
Expenses and Losses	
Salaries and wages	3,282,081
Employee benefits	595,872
Purchased services and professional fees	912,902
Supplies and other	1,153,419
Rent	283,844
Depreciation and amortization	86,625
Interest expense	630
Provision for uncollectible accounts	107,528
Total expenses and losses	6,422,901
Operating Loss	(460,816)
Other Income	
Investment return	6,302
Deficiency of Revenues Over Expenses	(454,514)
Grants for acquisition of property and equipment	281,278
Decrease in Unrestricted Net Assets	$ (173,236)

T.H.E. Clinic, Inc.
Statement of Changes in Net Assets
Year Ended June 30, 2010

Unrestricted Net Assets	
Deficiency of revenues over expenses	$ (454,514)
Grants for acquisition of property and equipment	281,278
Decrease in unrestricted net assets	(173,236)
Temporarily Restricted Net Assets	
Contributions received	154,167
Net assets released from restriction	(27,874)
Increase in temporarily restricted net assets	126,293
Change in Net Assets	(46,943)
Net Assets, Beginning of Year	850,429
Net Assets, End of Year	$ 803,486

T.H.E. Clinic, Inc.
Statement of Cash Flows
Year Ended June 30, 2010

Operating Activities		
Change in net assets	$	(46,943)
Items not requiring (providing) cash		
Depreciation and amortization		86,625
Grants for acquisition of property and equipment		(281,278)
Changes in		
Patient accounts receivable, net		(42,366)
Grants and other receivables		(31,350)
Contributions receivable		(44,085)
Estimated amounts due from and to third-party payers		(55,431)
Accounts payable and accrued expenses		219,611
Deferred revenue		1,466
Other current assets and liabilities		(9,535)
Net cash used in operating activities		(203,286)
Investing Activities		
Purchase of investments		(5,975)
Purchase of property and equipment		(245,859)
Net cash used in investing activities		(251,834)
Financing Activities		
Proceeds from grant for acquisition of property and equipment		281,278
Proceeds from issuance of long-term debt		108,024
Net cash provided by financing activities		389,302
Decrease in Cash and Cash Equivalents		(65,818)
Cash and Cash Equivalents, Beginning of Year		114,838
Cash and Cash Equivalents, End of Year	$	49,020
Supplemental Cash Flows Information		
Interest paid	$	630
Property and equipment acquisitions in accounts payable	$	63,525

T.H.E. Clinic, Inc.
Notes to Financial Statements
June 30, 2010

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

T.H.E. Clinic, Inc. (the "Organization") is a federally qualified health center which provides health care and education services to patients. The Organization primarily earns revenues by providing physician and related health care services through clinics in Los Angeles, California.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2010, cash equivalents consisted primarily of money market deposit accounts.

The financial institution holding the Organization's cash accounts is participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

Investments and Investment Return

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

Patient Accounts Receivable

The Organization reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Organization provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Organization bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Property and Equipment

Property and equipment are recorded at cost and depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Certain property and equipment have been purchased with grant funds received from the U.S. Department of Health and Human Services. Such items or a portion thereof may be reclaimed by the federal government if not used to further the grant's objectives.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the year ended June 30, 2010.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose.

Net Patient Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established billing rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

T.H.E. Clinic, Inc.
Notes to Financial Statements
June 30, 2010

Contributions

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Donated Services and Supplies

The Organization recognizes donated rent and pharmaceutical supplies at fair value. Donated rent and pharmaceutical supplies totaling $269,017 are recorded as contribution revenue and other expense for the year ended June 30, 2010.

The Organization participates in the Patient Assistance Program. During the year ended June 30, 2010, the Organization, as agent for various pharmaceutical companies, distributed pharmaceutical supplies totaling $497,430 to patients. This activity is not recognized as revenue and expense in the financial statements.

Income Taxes

The Organization has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

Deficiency of Revenues Over Expenses

The statement of operations includes deficiency of revenues over expenses. Changes in unrestricted net assets which are excluded from deficiency of revenues over expenses, consistent with industry practice, include contributions and grants of long-lived assets (including assets acquired using contributions or grants which by donor or granting agency restriction were to be used for the purpose of acquiring such assets).

Change in Accounting Principle

The Organization changed its method of financial statement presentation in 2010 from reporting as a voluntary health and welfare organization to reporting as a health care organization. The Organization has determined that reporting as a health care organization better reflects the nature of its operations and activities. As a result of the change, the financial statements consist of a balance sheet, statement of operations, statement of changes in net assets and statement of cash flows instead of the statements of financial position, activities, functional expenses and cash flows presented in prior years. This change had no effect on the previously reported net assets at June 30, 2009, and the change in net assets for the year then ended and also had no effect on the change in net assets for the year ended June 30, 2010.

Subsequent Events

Subsequent events have been evaluated through August 8, 2011, which is the date the financial statements were available to be issued.

Note 2: Grant Revenue

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. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the year ended June 30, 2010, the Organization recognized $392,552 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, 2012. Future funding will be determined by the granting agency based on an application to be submitted by the Organization prior to expiration of the present grant period.

In response to the current economic conditions the federal government passed legislation appropriating grant dollars to community health centers under the American Recovery and Reinvestment Act (ARRA). The Organization has been awarded $237,272 under the Increased Demand for Services (IDS) grant for the March 27, 2009, to March 26, 2011, period to assist in meeting the needs of their community. During the year ended June 30, 2010, the Organization recognized $153,729 in IDS grant funds. The Organization has also been awarded $528,215 under the Capital Improvement Program (CIP) grant for the June 29, 2009, to June 28, 2011, period to assist in the purchase of capital equipment for the facility. During the year ended June 30, 2010, the Organization recognized $461,342 in CIP grant funds.

In addition to the above grants, the Organization receives additional financial support from other federal, state and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis.

Note 3: Net Patient Service Revenue

The Organization is approved as a Federally Qualified Organization (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, 2006 through 2010. 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. Due to the timing of the interim and final settlement processes, the Organization has allocated a portion of the estimated receivable as a noncurrent asset.

Approximately 63% of patient fees are from participation in the Medicare and state-sponsored Medi-Cal programs for the year ended June 30, 2010. 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 Public-Private Partnership Program with the County of Los Angeles. Covered primary care services, including laboratory, radiology and pharmacy ancillary services, rendered to Public-Private Partnership Program beneficiaries are paid by the County of Los Angeles to the extent of the County's contracted maximum obligation. The Organization's current Public-Private Partnership Program agreement with the County covers the annual period ending June 30, 2012. Future funding will be determined by the County of Los Angeles. Approximately 14% of patient fees are from participation in the Public-Private Partnership Program for the year ended June 30, 2010.

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 4: Concentration of Credit Risk

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 payers at June 30, 2010, is:

Medicare	50%
Medicaid	31%
Other third-party payers	19%
	100%

Note 5: Contributions Receivable

Contributions receivable at June 30, 2010, consisted of the following:

Temporarily restricted	
Due within one year	$ 50,000
Due in one to five years	100,000
	$ 150,000

T.H.E. Clinic, Inc.
Notes to Financial Statements
June 30, 2010

Note 6: 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. FTCA coverage is comparable to an occurrence policy without a monetary cap.

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 7: Long-Term Debt

The Organization has a $250,000 revolving line of credit expiring September 30, 2011. At June 30, 2010, there was $108,024 borrowed against this line of credit. Payments of accrued interest at the bank's prime rate (5% at June 30, 2010) are due monthly with a final payment of unpaid principal and interest at September 30, 2011. This line of credit is collateralized by the Organization's certificates of deposit.

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.

Future minimum lease payments at June 30, 2010, were:

2011	$ 30,000
2012	60,000
2013	60,000
2014	60,000
2015	60,000
Thereafter	330,000
Future minimum lease payments	$ 600,000

The new agreement also allows for the forgiveness of the $487,011 payable to the County provided the Organization completes tenant improvements at the facility totaling $1,559,000. Subsequent to year end, the Organization was awarded $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. Construction of the tenant improvements is expected to begin in the summer of 2011 and be completed by June 2012.

Note 9: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purpose or periods:

Health care services	$ 4,167
For periods after June 30	150,000
	$ 154,167

During 2010, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of health care services in the amount of $27,874.

Note 10: Functional Expenses

The Organization provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

Health care services	$ 4,722,484
General and administrative	1,700,417
	$ 6,422,901

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 contributions to the plan. No contributions were made during the year ended June 30, 2010.

Note 12: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *3*.

Grant Revenues

A concentration of revenues related to grant awards and other support is described in *Note 2*.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 6*.

Current Economic Conditions

The current protracted economic decline continues to present community health centers with circumstances and challenges, which in some cases have resulted in declines in the fair value of investments and declines in contributions. The financial statements have been prepared using values and information currently available to the Organization.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Organization's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medi-Cal program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change, resulting in future adjustments to the allowances for accounts and contributions receivable that could negatively impact the Organization.