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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

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CONTENTS

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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 sheets as of June 30, 2018 and 2017, and the related statements of operations and cash flows for the years 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 audits. We conducted our audits 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Matters - Supplementary Information

Our audits were 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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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 audits 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 supplementary schedule 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 20, 2019 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 20, 2019
Los Angeles, California

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

BALANCE SHEETS

	June 30	
ASSETS	2018	2017
CURRENT ASSETS:		
Cash	$ 5,429,797	$ 4,697,597
Government Grants Receivable	246,715	260,429
Patient Accounts Receivable	1,012,778	1,140,086
Private Grants Receivable	144,186	99,139
Prepaid Expenses and Other Assets	106,365	101,264
TOTAL CURRENT ASSETS	6,939,841	6,298,515
PROPERTY AND EQUIPMENT (Net)	1,763,134	1,742,135
OTHER ASSETS:		
Intangible Assets (Net)	494,889	533,556
Estimated Amounts Due from Third-Party Payers	-	159,478
TOTAL OTHER ASSETS	494,889	693,034
TOTAL ASSETS	$ 9,197,864	$ 8,733,684
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	$ 354,433	$ 309,050
Accrued Expenses	835,432	783,250
Estimated Amounts Due to Third-Party Payers	1,075,385	736,541
Current Portion of Note Payable	-	150,000
TOTAL CURRENT LIABILITIES	2,265,250	1,978,841
OTHER LIABILITIES:		
Note Payable	-	227,556
TOTAL LIABILITIES	2,265,250	2,206,397
NET ASSETS:		
Unrestricted	6,932,614	6,464,787
Temporarily Restricted	-	62,500
TOTAL NET ASSETS	6,932,614	6,527,287
TOTAL LIABILITIES AND NET ASSETS	$ 9,197,864	$ 8,733,684

The Accompanying Notes are an Integral Part of These Financial Statements

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

STATEMENTS OF OPERATIONS

	Years Ended June 30	
	2018	2017
REVENUE AND OTHER SUPPORT:		
Net Patient Service Revenue	$ 9,075,339	$ 8,729,247
Government Grants	4,174,015	4,069,089
Contributions	363,744	326,043
Incentive Revenue	866,401	1,379,349
Other Income	368,880	309,009
Net Assets Released from Restrictions	112,500	62,500
TOTAL REVENUE AND OTHER SUPPORT	14,960,879	14,875,237
EXPENSES:		
Salaries and Wages	7,968,174	6,976,622
Payroll Taxes and Employee Benefits	1,419,035	1,390,170
Purchased Services and Professional Fees	1,766,738	1,484,289
Supplies and Other	2,150,050	1,926,585
Rent	1,004,298	896,250
Depreciation and Amortization	174,838	358,161
Interest Expense	9,919	14,749
TOTAL EXPENSES	14,493,052	13,046,826
CHANGE IN UNRESTRICTED NET ASSETS	467,827	1,828,411
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions and Other Support	50,000	125,000
Net Assets Released from Purpose Restrictions	(112,500)	(62,500)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(62,500)	62,500
CHANGE IN NET ASSETS	405,327	1,890,911
Net Assets - Beginning of Year	6,527,287	4,636,376
NET ASSETS - END OF YEAR	$ 6,932,614	$ 6,527,287

The Accompanying Notes are an Integral Part of These Financial Statements

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

STATEMENTS OF CASH FLOWS

	Years Ended June 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	$ 405,327	$ 1,890,911
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	174,838	358,161
(Increase) Decrease in:		
Government Grants Receivable	13,714	(54,354)
Patient Accounts Receivable	127,308	(159,544)
Private Grants Receivable	(45,047)	(52,764)
Prepaid Expenses and Other Assets	(5,101)	1,950
Estimated Amounts Due from Third-Party Payers	159,478	72,082
Increase (Decrease) in:		
Accounts Payable	45,383	215,491
Accrued Expenses	52,182	118,483
Estimated Amounts Due to Third-Party Payers	338,844	443,959
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,266,926	2,834,375
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(157,170)	(164,496)
Purchase of Intangible Assets on Business Acquisition	-	(180,000)
NET CASH USED IN INVESTING ACTIVITIES	(157,170)	(344,496)
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Payments on Notes Payable	(377,556)	(147,847)
NET INCREASE IN CASH	732,200	2,342,032
Cash - Beginning of Year	4,697,597	2,355,565
CASH - END OF YEAR	$ 5,429,797	$ 4,697,597
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid During the Year for Interest	$ 9,919	$ 14,749

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 over 15,400 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, six satellite sites and one mobile clinic: 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 120 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 statements of operations as net assets released from purpose or time restrictions. The Organization had temporarily restricted net assets of $0 and $62,500 at June 30, 2018 and 2017, respectively.

- **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 had no permanently restricted net assets at June 30, 2018 and 2017.

(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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) ACCOUNTS RECEIVABLE, GOVERNMENT GRANTS AND OTHER RECEIVABLES

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. Management believes all accounts, government grants, and other receivables to be collectible at June 30, 2018 and 2017 and has not established an allowance for doubtful accounts.

(e) 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	Shorter of Initial Lease Period or Useful Life of Asset
Equipment	5-10 Years
Furniture and Fixtures	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 $1,000 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.

(f) INTANGIBLE ASSETS

Intangible assets consist of certain patient lists and records acquired as part of the purchases of local pediatric practices. Intangible assets are amortized using the straight-line method over their estimated useful life of 15 years.

(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 years ended June 30, 2018 and 2017, no impairment loss was recognized.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) NET PATIENT SERVICE REVENUE AND MANAGED CARE CONTRACTS

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for service rendered. Net patient service revenue also includes estimated retroactive adjustments under reimbursement agreements with third-party payers. The Organization has agreements with third-party payers 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 payer 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.

(i) CHARITY CARE

The Organization defines “charity care” as services rendered for which the patient shall not be held liable. The Organization is committed to providing quality health care for certain members of its community, including the poor and underserved who cannot afford health insurance, copays and deductibles. During the years ended June 30, 2018 and 2017, the Clinic provided charity care of approximately $5,383,000 and $4,318,000 respectively, to its patients, which has been calculated as the difference between total health care costs less net third party reimbursements for services.

(j) 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.

(k) 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. Private grants receivable at June 30, 2018 and 2017 were due in their entirety within one year. The Organization evaluated the collectability of private grants receivable at June 30, 2018 and 2017 and determined that no allowance for doubtful accounts was needed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) 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 $0 and $65,099, which is included in contributions for the years ended June 30, 2018 and 2017, respectively.

(m) 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 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 2018 and 2017, the Organization completed the sixth-year and fifth-year requirements under the Medi-Cal program and has recorded revenue of $170,000 and $80,750, respectively, which is included in incentives revenue in the statements of operations.

(n) INCOME TAXES

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

(o) 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)

(p) NEW ACCOUNTING PRONOUNCEMENTS

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which is intended to reduce complexity in financial reporting. The ASU focuses on improving the current net asset classification requirements and information presented in financial statements that is useful in assessing a nonprofit's liquidity, financial performance, and cash flows. For the Organization, the ASU will be effective for the year ending June 30, 2019.

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which improves and converges the revenue recognition requirements of accounting principles generally accepted in the United States of America and International Financial Reporting Standards. The ASU replaces the existing accounting standards for revenue recognition with a single comprehensive five-step model, which is intended to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The guidance has subsequently been amended through a series of ASUs between August 2015 and September 2017 to improve the operability and understandability of the implementation guidance on scope exceptions, and various other narrow aspects, as identified and addressed in such updates. For the Organization, the ASU and subsequent amendments will be effective for the year ending June 30, 2020.

In February 2016, FASB issued ASU No. 2016-02, *Leases*, which is intended to improve financial reporting about leasing transactions. The new standard will require organizations that lease assets with terms of more than 12 months to recognize on the balance sheets the assets and liabilities for the rights and obligations created by those leases. The ASU also will require disclosures to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements and providing additional information about the amounts recorded in the financial statements. For the Organization, the ASU will be effective for the year ending June 30, 2021.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance. For the Organization, the ASU will be effective for the year ended June 30, 2020.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) SUBSEQUENT EVENTS

The Organization has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2018 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through March 20, 2019, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred,

NOTE 3 - 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 years ended June 30, 2018 and 2017, the Organization recognized $3,406,407 and $3,399,634 in CHC grant revenue, respectively.

The Organization's current grant award covers the grant budget period ending January 31, 2020. 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 4 - 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.

NOTE 4 - NET PATIENT SERVICE REVENUE/THIRD-PARTY PAYERS (continued)

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. 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 My Health LA Program with the County of Los Angeles. Covered primary care services, including laboratory, radiology and pharmacy ancillary services, rendered to My Health LA Program beneficiaries are paid by the County of Los Angeles to the extent of the County's contracted maximum obligation. 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 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2018 and 2017:

	2018	2017
Leasehold Improvements	$ 2,969,006	$ 2,862,979
Equipment	1,811,787	1,760,643
Furniture and Fixtures	379,633	379,633
TOTAL	5,160,426	5,003,255
Less: Accumulated Depreciation	(3,397,292)	(3,261,120)
TOTAL PROPERTY AND EQUIPMENT (NET)	$ 1,763,134	$ 1,742,135

Depreciation expense for the years ended June 30, 2018 and 2017 was $136,171 and $329,495, respectively.

NOTE 6 - INTANGIBLE ASSETS

In October 2015, the Organization entered into an asset purchase agreement with a local medical practice. Under the terms of the agreement, the Organization acquired, among other items, a patient listing and related patient records for a purchase price of $400,000. The patient listing and related records are amortized over a 15-year amortization period using straight-line method.

In March 2017, the Organization entered into another asset purchase agreement with a local pediatric practice. Under the terms of the agreement, the Organization acquired, among other items, a patient listing and related patient records for a purchase price of $180,000. The patient listing and related records are amortized over a 15-year amortization period using straight-line method.

Intangible assets consist of the following at June 30, 2018 and 2017:

	2018	2017
Patient Lists and Records	$ 580,000	$ 580,000
Less: Accumulated Amortization	(85,111)	(46,444)
TOTAL INTANGIBLE ASSET (NET)	$ 494,889	$ 533,556

Amortization expense for the years ended June 30, 2018 and 2017 was $38,667 and $28,666, respectively. Amortization expense for each of the next five years is as follows:

Years Ending June 30	
2019	$ 38,667
2020	38,667
2021	38,667
2022	38,667
2023	38,667

NOTE 7 - NOTE PAYABLE

The Organization had a note payable with another organization secured by the Organization's assets. Six monthly consecutive installments of accrued and unpaid interest only were required 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 was to 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 were subject to certain financial covenants. The note was paid in full during the year ended June 30, 2018.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

(a) OPERATING LEASES

The Organization leases facilities under operating leases with various terms expiring through July 2023. Future minimum payments, by year, and in the aggregate, under these leases are as follows:

Years Ending June 30		
2019	$	636,048
2020		599,476
2021		593,038
2022		423,029
2023		417,727
Thereafter		1,116,586
TOTAL	$	3,785,904

Rent expense under facility operating leases for the years ended June 30, 2018 and 2017 was $1,004,298 and $896,250, respectively.

(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.

NOTE 8 - COMMITMENTS AND CONTINGENCIES (continued)

(d) MEDICAL MALPRACTICE CLAIMS (continued)

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 is as follows at June 30:

	2018	2017
Medicare	7%	10%
Medicaid	10%	11%
Other Third-Party Payers	84%	79%

NOTE 10 - 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, 2018 and 2017, respectively. In addition, a 457(b) plan was established for key executives. The Organization contributed $30,000 and $36,000 to the 457(b) plan during the years ended June 30, 2018 and 2017, respectively.

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

SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2018

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, 2018

Agency - Program Grant or Cluster 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	02/01/17-01/31/18	$ 443,443	$ -	$ 443,443
	H80CS00755	93.224	02/01/18-01/31/19	805,869	-	805,869
	H80CS00755	93.527	02/01/17-01/31/18	1,359,462	-	1,359,462
	H80CS00755	93.527	02/01/18-01/31/19	537,246	-	537,246
	H80CS00755	93.527	09/01/16-08/31/17	13,138	-	13,138
	H80CS00755	93.527	08/01/17-07/30/18	71,746	-	71,746
	H80CS00755	93.527	09/12/17-01/31/18	175,503	-	175,503
Total - Health Center Cluster				3,406,407	-	3,406,407
U.S. Department of Health and Human Services						
Health Resources and Services Administration						
Pass-through Los Angeles County - Public Health						
AOM - HIV Emergency Relief Project Grants	PH-002351	93.914	03/01/17 - 02/28/18	47,882	-	47,882
	PH-002351	93.914	03/01/18- 02/28/19	50,652	-	50,652
				98,534	-	98,534
MCC - HIV Emergency Relief Project Grants	PH-002344	93.914	03/01/17 - 02/28/18	94,537	-	94,537
	PH-002344	93.914	03/01/18- 02/28/19	64,405	-	64,405
				158,942	-	158,942
Total - HIV Emergency Relief Project Grants - 93.914				257,476	-	257,476
TOTAL MAJOR AWARDS				3,663,883	-	3,663,883

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, 2018

Agency - Program Grant or Cluster Title	Contract Number	Federal CFDA Number	Grant Period	Governmental Revenue Federal	Governmental Revenue Nonfederal	Program Expenditures from Governmental Revenue
NON-MAJOR AWARDS						
U.S. Department of Health and Human Services						
Health Resources and Services Administration						
Grants to Provide Outpatient Early Intervention						
Services with Respect to HIV Disease	H76HA00734	93.918	05/01/17 - 04/30/18	$ 210,584	$ -	$ 210,584
	H76HA00734	93.918	05/01/18- 04/30/19	49,024	-	49,024
				259,608	-	259,608
Pass-through, California Family Health Council, Inc.						
Family Planning Services (Title X)	2406-5320-71209-17-18	93.217	04/01/16- 03/31/18	142,860	195,276	338,136
Pass-through, The Black AIDS Institute						
Disease Control and Prevention						
Health Department Based	U65PS004721	93.939	07/01/17- 06/30/18	24,767	-	24,767
Pass-through, County of Los Angeles Center for						
Disease Control and Prevention						
Health Department Based	PH-001577	93.940	01/01/17 - 12/31/17	26,838	-	26,838
	PH-001577	93.940	01/01/18 - 12/31/18	47,646	-	47,646
				74,484	-	74,484
California Department of Public Health						
Office of AIDS						
Aids Drug Assistance Program (ADAP)	SITE- 1943	N/A	07/01/17 - 06/30/18	-	9,310	9,310
TOTAL NON-MAJOR AWARDS				501,719	204,586	706,305
TOTAL FEDERAL AND NONFEDERAL AWARDS				$ 4,165,602	$ 204,586	$ 4,370,188

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, 2018

Notes to the Schedule of Expenditures of Federal and Nonfederal Awards for the Year Ended June 30, 2018:

1. Basis of Accounting - The accompanying Schedule of Expenditures of Federal and Nonfederal Awards (Schedule) includes the federal award activity of T.H.E. Clinic, Inc. dba T.H.E. Health and Wellness Centers (the Organization) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.
2. Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles of the Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organization, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
3. Indirect Cost Rate - The Organization has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.
4. The Organization has not provided any federal awards to subrecipients from the federal expenditures presented in this Schedule.