St. Jude Neighborhood Health Centers

(A NON-PROFIT CORPORATION)

AUDITED FINANCIAL STATEMENTS

FOR THE PERIOD FROM SEPTEMBER 1, 2012 (DATE OF INCEPTION)
TO JUNE 30, 2013

with

INDEPENDENT AUDITORS' REPORT THEREON

PDM
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

Board of Directors
St. Jude Neighborhood Health Centers

We have audited the accompanying financial statements of St. Jude Neighborhood Health Centers (the "Organization", a non-profit corporation), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the period from September 1, 2012 (date of inception) to June 30, 2013, 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.

Auditors' 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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Organization'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 Organization'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.

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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, 2013, and the changes in its net assets and its cash flows for the period from September 1, 2012 (date of inception) to June 30, 2013 in accordance with accounting principles generally accepted in the United States of America.

PDM, LLP

Torrance, California
January 6, 2014

ST. JUDE NEIGHBORHOOD HEALTH CENTERS
(A NON-PROFIT CORPORATION)

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	$	847,585
Patient accounts receivable, net		28,766
Grants receivable		121,428
Prepaid expenses		3,611
		1,001,390
PROPERTY AND EQUIPMENT, net		20,484
	$	1,021,874

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	$	602,236
NET ASSETS		
Unrestricted		419,638
	$	1,021,874

The accompanying notes are an integral part of these financial statements

ST. JUDE NEIGHBORHOOD HEALTH CENTERS

(A NON-PROFIT CORPORATION)

STATEMENT OF ACTIVITIES
FOR THE PERIOD FROM SEPTEMBER 1, 2012 (DATE OF INCEPTION) TO JUNE 30, 2013

	Unrestricted
SUPPORT AND REVENUE	
Care for the Poor grant revenue	$ 2,695,985
Other grant revenue	462,415
Patient service revenue, net of contractual allowances and discounts	339,691
Capitation revenue	82,815
In-kind revenue	105,000
	3,685,906
EXPENSES	
Program services	2,854,376
Supporting services	439,470
	3,293,846
CHANGE IN NET ASSETS	392,060
NET ASSETS, beginning of period	-
NET ASSETS TRANSFERRED-IN FROM HOSPITAL, as of September 1, 2012	27,578
NET ASSETS, end of period	$ 419,638

The accompanying notes are an integral part of these financial statements

ST. JUDE NEIGHBORHOOD HEALTH CENTERS

(A NON-PROFIT CORPORATION)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE PERIOD FROM SEPTEMBER 1, 2012 (DATE OF INCEPTION) TO JUNE 30, 2013

	Program Services	Supporting Services	Total Expenses
Salaries	$ 1,031,431	$ 114,603	$ 1,146,034
Employee benefits	462,296	51,366	513,662
Payroll taxes	88,330	9,815	98,145
Total personnel expenses	1,582,057	175,784	1,757,841
Purchased services	315,671	171,297	486,968
Physician fees	332,360	-	332,360
Supplies	261,571	10,407	271,978
Rent	108,207	20,054	128,261
In-kind rent	89,250	15,750	105,000
Utilities	53,500	9,442	62,942
Repairs and maintenance	43,146	7,614	50,760
Other	30,266	20,178	50,444
Insurance	24,598	2,733	27,331
Licenses and taxes	7,720	5,147	12,867
Depreciation	6,030	1,064	7,094
	$ 2,854,376	$ 439,470	$ 3,293,846

ST. JUDE NEIGHBORHOOD HEALTH CENTERS

(A NON-PROFIT CORPORATION)

STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM SEPTEMBER 1, 2012 (DATE OF INCEPTION) TO JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 392,060
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation	7,094
Change in allowances for contractual adjustments	322,982
Changes in operating assets and liabilities:	
Patient accounts receivable	(351,748)
Grants receivable	(121,428)
Prepaid expenses	(3,611)
Accounts payable and accrued expenses	602,236
Net cash flows from operating activities	847,585
Net change in cash and cash equivalents	847,585
Cash and cash equivalents, beginning of period	-
Cash and cash equivalents, end of period	$ 847,585
Non-cash investing and financing activities	
Net assets transferred-in from Hospital (Note 5)	$ 27,578

NOTE 1 - ORGANIZATION

St. Jude Neighborhood Health Centers (the "Organization"), is a non-profit corporation established on September 1, 2012 that operates two fully licensed, community-based clinics in Fullerton and Buena Park, California. The operations of the Organization were formerly performed under the sponsorship of St. Jude Medical Center (the "Hospital"), an affiliated non-profit public benefit corporation based in Fullerton, California. On September 1, 2012, the Organization commenced operations as a separate non-profit entity.

The Organization provides affordable, quality primary medical and dental care through its medical clinic; mobile medical vans; and dental clinic. The Organization is devoted to the service of the residents in their respective communities and neighboring areas in Orange County, including the service of the underserved and vulnerable populations.

The Organization was approved as a Federally Qualified Health Center ("FQHC") by the Health Resources and Services Administration ("HRSA") as of November 1, 2013. In addition, during November 2013, the Organization was awarded a federal government grant of approximately $866,000, payable over 16 months ending in February 2015, for the purpose of expanding health care services to the medically uninsured.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. These assets are available to support the Organization's activities and operations at the discretion of the Board of Directors.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the donor, the Organization, and/or the passage of time. The Organization had no temporarily restricted net assets as of June 30, 2013.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the corpus be maintained permanently by the Organization. The donors of these assets permit the Organization to use all or part of the income or gains earned on related investments for general (unrestricted) or specific (temporarily restricted) purposes. The Organization had no permanently restricted net assets as of June 30, 2013.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

Funding - The Organization receives funding primarily from a combination of private contributions and grants, local government grants, and patient service revenue.

Contributions - Contributions are recognized at fair value when a donor makes an unconditional promise to donate to the Organization. Contributions restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior year's experience and analysis of specific promises made.

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

Fair value of financial instruments - Financial instruments primarily consist of patient accounts receivable, grants receivable, and non-interest bearing amounts due to and from the Hospital. The Organization estimates that the fair value of its financial instruments at June 30, 2013 do not differ materially from its aggregate carrying value recorded in the accompanying statement of financial position. Considerable judgment is required in interpreting market data to develop the estimates of fair value and, accordingly, the estimates are not necessarily indicative of the amounts that the Organization could realize in a current market exchange.

Concentration of credit risk - The assets that potentially subject the Organization to concentrations of credit risk consist of cash, patient accounts receivable, and grants receivable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Cash and cash equivalents - For the purpose of reporting cash flows, cash and cash equivalents include operating cash held in banks, money market funds, and investments with an original maturity of three months or less. The Organization maintains its cash balances in a financial institution, the balances of which may, at times, exceed federally insured limits.

Patient accounts receivable and allowances for contractual adjustments - Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts. Management regularly reviews data related to these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant allowance for doubtful accounts in the period of service on the basis of its past experience, which indicates that many patients are unable to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

There were no significant changes in estimates, underlying assumptions, or write-off amounts in the allowance for doubtful accounts related to patient accounts receivable.

Charity care - The Organization does not have a specific charity care policy, but does have a practice of writing down charges to patients who demonstrate an inability to pay for services due to financial difficulties. The Organization’s sliding scale fee schedule is in accordance with federal poverty guidelines and receives board approval for any changes that are made. Amounts written off by the Organization are considered to qualify as charity care, and such balances are written off against the allowance for doubtful accounts.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Patient service revenue - The Organization recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Organization recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Organization's uninsured patients will be unable to pay for the services provided.

Grants receivable and revenue - Grants receivable consists of amounts awarded and due from state and local government agencies and other non-profit organizations under contractual agreements. The Organization uses the allowance method to determine uncollectible grants receivable. Based on prior year's experience and management's analysis of the grants, the Organization believes that all grants will be fully invoiced and collected within the contracted grant period. Any unexpended funds are reverted to the grantor at the close of the grant period.

Financial awards from federal, state and local government entities in the form of grants are subject to special audits. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision can be made for any potential liabilities that may arise from such audits since no indication of noncompliance has been noted by management.

Property and equipment - Property and equipment are recorded at cost with the exception of donated equipment, which is stated at fair market value at the date of receipt. The Organization capitalizes all expenditures for property and equipment in excess of an amount preauthorized by management. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the assets, which range from five to ten years.

When property and equipment is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is credited or charged to operations. Normal repairs and maintenance are expensed as incurred. Expenditures which materially increase the value or extend the useful lives of the assets are capitalized.

Capitation revenue - The Organization agrees to provide services to patients without regard to the actual amount of services provided. As a result, capitation revenue is earned and recorded from third-party payors in the period beneficiaries are entitled to health care services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Contributed services - The Organization receives contributed services from doctors that provide health care services on a volunteer basis. Although those services have resulted in added patient care visits, the contributed services revenue and related expenses have not been recognized in the accompanying financial statements as the Organization would not have to purchase those services if not contributed by the volunteer doctors. The estimated fair value of contributed services by volunteer doctors is approximately $131,216 for the period from September 1, 2012 (date of inception) to June 30, 2013 (the “period ended June 30, 2013”). The volunteer doctors serviced approximately 1,100 patient visits during the period ended June 30, 2013, which represents approximately 7% of total patient visits.

Allocated expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among program services and supporting services based on estimated usage. Usage is calculated using an appropriate methodology such as percentage of staff time.

Income taxes - The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and the corresponding provisions of the California Revenue and Taxation Code. Accordingly, no provision for income taxes is included in the accompanying financial statements. The Organization is subject, however, to Federal and California income taxes on unrelated business income as stipulated in the Internal Revenue Code.

As of June 30, 2013, the Organization’s federal and state tax returns for the first 2012 tax year are open for examination by the tax jurisdictions. No tax returns are currently being examined by any taxing authorities.

The Organization recognizes the impact of tax positions in the financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. To date, the Organization has not recorded any uncertain tax positions. The Organization recognizes potential accrued interest and penalties related to uncertain tax positions in income tax expense. During the period ended June 30, 2013, the Organization did not recognize any amount in potential interest and penalties associated with uncertain tax positions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Risks and uncertainties - Certain of the Organization's services are governed by grants and contracts from governmental agencies and private sources. There can be no assurance that the Organization will be able to obtain future grants as deemed necessary by management, although management believes that there is no current indication that grants and contracts are in jeopardy. The loss of certain of the current grants, or the inability to obtain future grants, could have an adverse effect on the Organization's financial position and results of operations. Failure of the Organization to comply with applicable regulatory requirements can result in, among other things, loss of funding, warning letters, fines, injunctions, and civil penalties.

Subsequent events - Subsequent events have been evaluated by the Organization through January 6, 2014, which is the date these financial statements were issued, and no subsequent events have arisen, other than those described in these financial statements, that would require disclosure.

NOTE 3 - TRANSACTIONS WITH AFFILIATES

Care for the Poor grant revenue - As part of its charitable mission, *Care for the Poor*, the Hospital provides an annual grant to the Organization. On September 1, 2012, the Organization entered into an operating grant agreement (the "Agreement") with the Hospital through September 1, 2018, with automatic renewal options for successive three-year terms thereafter. The Agreement is designed to help defray the costs of uncompensated care to needy patients at the Organization and to further the Hospital's own charitable mission. Under the Agreement, the Hospital will contribute up to $2,880,000 annually to the Organization in equal installments of $240,000 per month. Furthermore, under the Agreement, the Organization received additional unrestricted contributions of $400,000 for start-up funding purposes during the period ended June 30, 2013. The Organization and the Hospital perform quarterly and annual reconciliations of the actual net costs of providing uncompensated services for uninsured and underinsured patients. During the period ended June 30, 2013, the Organization received contributions from the Hospital totaling $2,695,985.

Net assets transferred-in from Hospital - On September 1, 2012 certain assets of the Hospital were transferred to the Organization by the Hospital. The net assets transferred consisted of medical and office equipment (Note 5) and were recorded by the Organization at their historical book value, which approximated fair value at September 1, 2013. The net assets transferred from the Hospital amounted to $27,578 and are presented as net assets transferred-in from Hospital in the accompanying statement of activities for the period ended June 30, 2013.

NOTE 3 - TRANSACTIONS WITH AFFILIATES, Continued

Facility lease - The Organization operates from a facility located in Fullerton, California owned by the Hospital (Note 4).

Contracted employees - Certain salaries and related personnel expenses incurred by the Organization are for contracted employees of the Hospital and St. Joseph Heritage Healthcare ("Heritage"), a non-profit public benefit corporation based in Fullerton, California. The direct costs of these employees are transferred to the Organization.

Purchased services provided by Hospital - Under a contractual agreement, the Hospital provides consulting and administrative support services for the Organization for a monthly payment of $28,000. Total professional fees paid to Hospital during the period ended June 30, 2013 amounted to $280,718, which is included in the accompanying statement of functional expenses.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Operating leases - The Organization operates one of its facilities under an operating lease agreement with the Hospital. The lease requires monthly rents of $12,500 through July 2020. The facility is located on a parcel of land owned by the City of Fullerton. The Organization leases the parcel from the City of Fullerton for $1 per year, and an adjacent parking lot from Fullerton School District for $1 per year. Management has estimated that the fair market value of these rents would have been approximately $97,500, which has been reflected as in-kind revenue and in-kind rents in the accompanying statements of activities and functional expenses, respectively.

Facility rent expense paid to the Hospital was $125,000 during the period ended June 30, 2013. Future minimum lease payments under the operating lease for the years ending June 30 are:

2014	$ 150,000
2015	150,000
2016	150,000
2017	150,000
2018	150,000
Thereafter	300,000
	$ 1,050,000

NOTE 4 - COMMITMENTS AND CONTINGENCIES, Continued

The Organization operates from another facility located in Buena Park, California and owned by the Buena Park Boys and Girls Club free of charge on a month-to-month basis. Management has estimated that the fair market value of this rent would have been approximately $7,500, which has been reflected as in-kind revenue and in-kind rents in the accompanying statements of activities and functional expenses, respectively.

Legal - The Organization may be involved from time to time in various claims, lawsuits and disputes with third parties, actions involving allegations or discrimination or breach of contract actions incidental in the normal operations of the business. The Organization is currently not involved in any such litigation which management believes could have a material adverse effect on its financial position or results of operations.

Indemnities and guarantees - The Organization has made certain indemnities and guarantees, under which it may be required to make payments to a guaranteed or indemnified party, in relation to certain transactions. The Organization indemnifies its directors, officers, employees and agents to the maximum extent permitted under the laws of the State of California. In connection with its facility lease, the Organization has indemnified its lessor for certain claims arising from the use of the facility. The duration of the guarantees and indemnities varies, and in many cases is indefinite. These guarantees and indemnities do not provide for any limitation of the maximum potential future payments the Organization could be obligated to make. Historically, the Organization has not been obligated to make any payments for these obligations and no liabilities have been recorded for these indemnities and guarantees in the accompanying statement of financial position.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2013 consist of the following:

Equipment	$	27,578
Less: accumulated depreciation		(7,094)
	$	20,484

The property and equipment of $27,578 was transferred from the Hospital on September 1, 2012 (Note 3). Depreciation expense for the period ended June 30, 2013 is $7,094.

NOTE 6 - PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable as of June 30, 2013 consists of:

Patient accounts receivable	$	351,748
Less: allowances for contractual adjustments		(322,982)
	$	28,766

NOTE 7 - PATIENT SERVICE REVENUE

Patient service revenue, net of contractual allowances and discounts, recognized from the following major payor sources during the period ended June 30, 2013, is as follows:

Third-party payors	$	316,980
Self-Pay		22,711
	$	339,691

NOTE 8 - EMPLOYEE BENEFIT PLAN

The Organization provides a defined contribution retirement plan qualified under Section 403(b) (the “Plan”) of the Internal Revenue Code (the “Code”) that covers all eligible employees of the Organization. Eligible employees can make contributions to the Plans up to the maximum amount allowed under the Code. The Organization makes discretionary contributions to the Plan up to 50% of the eligible employee’s first 2% of employee contributions. The Organization also incurs certain sponsor contribution expenses for Hospital and Heritage employees (Note 3).

The Organization contributed $47,216 to retirement plans during the period ended June 30, 2013.