St. Jude Neighborhood
Health Centers

(A NON-PROFIT CORPORATION)

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)
with

INDEPENDENT AUDITORS' REPORT THEREON

PDM
CERTIFIED PUBLIC ACCOUNTANTS

INDEX

PDM
CERTIFIED PUBLIC ACCOUNTANTS

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, 2017, and the related statements of activities, functional expenses, and cash flows for the year 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.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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.

3460 Torrance Boulevard, Suite 200
Torrance, CA 90503 | P (310) 540-4118
F (310) 543-2051 | www.pdmcpas.com | 302 W. Fifth Street, Suite 206
San Pedro, CA 90731

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 the changes in its net assets and its cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's June 30, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 30, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2017 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.

PDM, LLP

Torrance, California
December 4, 2017

ST. JUDE NEIGHBORHOOD HEALTH CENTERS

(A NON-PROFIT CORPORATION)

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR JUNE 30, 2016)

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,687,062	$ 534,361
Patient accounts receivable, net	718,232	736,668
Grants and other receivables	168,540	184,680
Prepaid expenses	14,874	3,240
	2,588,708	1,458,949
PROPERTY AND EQUIPMENT, net	364,843	1,437
DEPOSITS	340,033	-
	$ 3,293,584	$ 1,460,386
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 191,295	$ 102,770
Accrued vacation	46,055	22,507
	237,350	125,277
NET ASSETS		
Unrestricted	2,926,753	1,097,609
Temporarily restricted	129,481	237,500
	3,056,234	1,335,109
	$ 3,293,584	$ 1,460,386

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR JUNE 30, 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Summarized Total
SUPPORT AND REVENUE				
Patient service revenue, net of contractual allowances and discounts	$ 5,535,082	$ -	$ 5,535,082	$ 3,645,630
Non-federal grant revenue	3,002,791	-	3,002,791	1,977,336
Federal grant revenue	1,522,506	-	1,522,506	1,269,364
Care for the Poor grant revenue	398,996	-	398,996	1,686,835
Capitation revenue	226,166	-	226,166	168,729
Other revenue	35,371	-	35,371	64,471
In-kind revenue	317,211	-	317,211	367,056
Net assets released from restrictions	108,019	(108,019)	-	-
	11,146,142	(108,019)	11,038,123	9,179,421
EXPENSES				
Program services	8,252,399	-	8,252,399	7,172,110
Supporting services	1,064,599	-	1,064,599	1,076,871
	9,316,998	-	9,316,998	8,248,981
CHANGE IN NET ASSETS	1,829,144	(108,019)	1,721,125	930,440
NET ASSETS, beginning of year	1,097,609	237,500	1,335,109	404,669
NET ASSETS, end of year	$ 2,926,753	$ 129,481	$ 3,056,234	$ 1,335,109

ST. JUDE NEIGHBORHOOD HEALTH CENTERS

(A NON-PROFIT CORPORATION)

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR JUNE 30, 2016)

	2017			2016
	Program Services	Supporting Services	Total Expenses	Summarized Total
Salaries and wages	$ 3,416,735	$ 379,637	$ 3,796,372	$ 3,320,838
Employee benefits	1,427,176	158,575	1,585,751	1,514,660
Payroll taxes	293,517	32,613	326,130	271,854
Total personnel expenses	5,137,428	570,825	5,708,253	5,107,352
Physician fees	904,150	-	904,150	867,142
Purchased services	854,884	213,490	1,068,374	880,680
Supplies	537,483	86,546	624,029	456,555
In-kind supplies	121,975	-	121,975	157,009
Facility and equipment rent	198,870	58,159	257,029	289,707
In-kind facility rent	160,650	28,350	189,000	189,000
Utilities	47,345	8,355	55,700	53,766
Insurance	58,306	6,478	64,784	85,813
Other	97,435	64,956	162,391	109,743
Repairs and maintenance	106,820	18,850	125,670	35,190
Licenses and taxes	7,783	5,189	12,972	10,700
Depreciation	19,270	3,401	22,671	6,324
	$ 8,252,399	$ 1,064,599	$ 9,316,998	$ 8,248,981

ST. JUDE NEIGHBORHOOD HEALTH CENTERS

(A NON-PROFIT CORPORATION)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR JUNE 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,721,125	$ 930,440
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	22,671	6,324
Changes in operating assets and liabilities:		
Patient accounts receivable, net	18,436	(318,817)
Grants and other receivables	16,140	(22,661)
Prepaid expenses	(11,634)	(3,240)
Accounts payable and accrued expenses	112,073	(655,795)
Net cash flows from operating activities	1,878,811	(63,749)
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits paid for equipment	(340,033)	-
Purchases of property and equipment	(386,077)	-
Net cash flows from investing activities	(726,110)	-
Net change in cash and cash equivalents	1,152,701	(63,749)
Cash and cash equivalents, beginning of year	534,361	598,110
Cash and cash equivalents, end of year	$ 1,687,062	$ 534,361

NOTE 1 - ORGANIZATION

St. Jude Neighborhood Health Centers (the "Organization", a non-profit corporation), is a Federally Qualified Health Center ("FQHC") established on September 1, 2012 that operates five fully licensed, community-based clinics throughout Orange County, California. The Fullerton and Buena Park operations of the Organization were formerly performed under the sponsorship of St. Jude Medical Center, 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, dental, vision, and behavioral care through its medical, dental, and mobile van clinics. 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 operates La Amistad Health Center ("La Amistad") located in Orange, California and the Puente a la Salud Mobile Clinics. These two clinics were not separate non-profit organizations but the operations of these clinics were formerly performed under the sponsorship of St. Joseph Hospital of Orange ("St. Joseph Hospital"). The Organization operates a clinic on the campus of the Topaz Elementary School ("Topaz") with the collaboration of the Placentia-Yorba Linda Unified School District, and a dental clinic at Valley High School in the Santa Ana Unified School District.

The Organization was awarded a Health Infrastructure Investment Program grant for up to $1 million from the Health Resources and Services Administration. The grant is restricted to construction costs and equipment. The Organization intends to begin utilizing the grant for expanding the Fullerton facility during fiscal 2018.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation - The accompanying consolidated 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:

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 and net assets from non-governmental capital campaign contributions which are reflected as temporarily restricted over the estimated useful lives of the assets acquired.

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 purposes (temporarily restricted).

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. Gains and losses on investments and other assets are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law.

Expirations of temporary restrictions on net assets are reported as reclassifications between the applicable classes of net assets.

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 years' 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 St. Jude Medical Center and St. Joseph Hospital. The Organization estimates that the fair value of its financial instruments at June 30, 2017 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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 has a board-adopted self-pay sliding fee schedule policy which provides for the subsidy of visits for low income persons, and through its affiliation agreements with St. Jude Medical Center and St. Joseph Hospital, provides an additional subsidy for very low income persons who live in their respective community benefit service areas. 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.

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, local, and federal government agencies, and other non-profit organizations under contractual agreements. The Organization uses the allowance method to determine uncollectible grants receivable. Based on prior years' 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.

Two non-federal grants accounted for 82% of non-federal grant revenues for the year ended June 30, 2017.

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.

Deposits - The Organization made mobile van deposits for their La Amistad and Fullerton site.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 that materially adapt, improve, or alter the nature of the underlying 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.

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 $92,100 for the year ended June 30, 2017. The volunteer doctors serviced approximately 774 patient visits during the year ended June 30, 2017, which represents approximately 2% of total patient visits.

Functional allocation of expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Expenses that can be identified with a specific project or supporting service are charged directly to the related program or supporting service. Certain costs have been allocated among program, supporting and fundraising expenses benefited based on management's estimates of time spent on various programs and services.

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, 2017, all of the Organization's federal tax returns since the 2013 tax year and state tax returns since the 2012 tax year are still subject to adjustment upon audit. None of the Organization's tax returns are currently being examined by taxing authorities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 year ended June 30, 2017, the Organization did not recognize any amount in potential interest and penalties associated with uncertain tax positions.

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 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.

Reclassifications and comparative totals - Certain amounts presented in previous financial statements have been reclassified to conform to current presentation. The financial statements include certain prior year summarized comparative information in total, but not by net asset class. In addition, the notes to the financial statements do not contain the financial information on a comparative basis. Such summarized information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Subsequent events - Subsequent events have been evaluated by the Organization through December 4, 2017, 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 their charitable mission, *Care for the Poor*, St. Jude Medical Center and St. Joseph Hospital provide an annual grants to the Organization through operating grant agreements (the "Agreement"). The Agreements are designed to help defray the costs of uncompensated care to needy patients at the Organization and to further St. Jude Medical Center's and St. Joseph Hospital's charitable missions.

The Organization maintains an Agreement with St. Jude Medical Center through September 1, 2018, with automatic renewal options for successive three-year terms thereafter. Under the Agreement, St. Jude Medical Center will contribute up to $2,880,000 annually to the Organization for unreimbursed expenses. The Organization and St. Jude Medical Center perform quarterly and annual reconciliations of the actual net costs of providing uncompensated services for uninsured and underinsured patients. During the year ended June 30, 2017, the Organization recognized contribution revenue from St. Jude Medical Center totaling $250,000.

The Organization maintains an Agreement with St. Joseph Hospital through May 4, 2020, with automatic renewal options for successive three-year terms thereafter. Under the Agreement, St. Joseph Hospital will contribute up to $2,200,000 annually to the Organization. The Organization and St. Joseph Hospital perform quarterly and annual reconciliations of the actual net costs of providing uncompensated services for uninsured and underinsured patients at La Amistad. During the year ended June 30, 2017, the Organization recognized contribution revenue from St. Joseph Hospital totaling $148,996.

Facility lease - The Organization operates from facilities located in Fullerton and Orange, California owned by St. Jude Medical Center and St. Joseph Hospital, respectively.

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

Purchased services provided by St. Jude Medical Center - Under a contractual agreement, St. Jude Medical Center provides consulting and administrative support services for the Organization based on 3% of the Organization's total operating expenses for certain clinic sites. Total professional fees paid to Hospital during the year ended June 30, 2017 amounted to approximately $158,500, which is included in purchased services expense.

NOTE 4 - COMMITMENTS AND CONTINGENCIES

Facility operating leases - The Organization leases facilities and space, including in-kind rent, from four locations:

Fullerton - The Organization operates its Fullerton facility under an operating lease agreement with St. Jude Medical Center. The lease requires monthly rents of $12,500 through June 2025. The facility is located on a parcel of land leased from the City of Fullerton. The Organization sub-leases the parcel of land from St. Jude Medical Center 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 $117,000, which has been reflected as in-kind revenue and in-kind rent expense.

Buena Park - The Organization operates its Buena Park facility under an operating lease agreement with Buena Park Boys and Girls Club. The lease requires monthly rents of $2,016 through June 2018, with automatic renewal options thereafter.

Topaz - The Organization operates a clinic inside Topaz Elementary School under an operating lease agreement with Placentia-Yorba Linda Unified School District. The lease requires monthly rents of $360 through February 2018.

La Amistad - The Organization operates the La Amistad clinic from a facility owned by St. Joseph Hospital. The Organization leases the facility from St. Joseph Hospital for $1 per year through June 2017, with automatic renewal options thereafter. The Organization has renewed the lease through June 2018. Management has estimated that the fair market value of this rent would have been approximately $72,000, which has been reflected as in-kind revenue and in-kind rent expense.

The Organization is negotiating a sublease agreement with St. Joseph Hospital for a clinic. After the execution of the sublease agreement and the completion of the construction, the Organization expects to move the operations of the La Amistad by the end of fiscal 2019.

Future minimum lease payments under all operating leases, excluding in-kind rents, for the years ending June 30 are:

2018	$	177,072
2019		150,000
2020		150,000
2021		150,000
2022		150,000
Thereafter		450,000
	$	1,227,072

NOTE 4 - COMMITMENTS AND CONTINGENCIES, continued

Total facility rent paid for all locations was $178,610 during the year ended June 30, 2017.

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.

NOTE 5 - PROPERTY AND EQUIPMENT

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

Equipment	$ 361,459
Construction in progress	24,618
	386,077
Less: accumulated depreciation	(21,234)
	$ 364,843

Depreciation expense for the year ended June 30, 2017 was $22,671.

NOTE 6 - PATIENT SERVICE REVENUE

Patient service revenue, net of contractual allowances and discounts, recognized from the following major payor sources during the year ended June 30, 2017, is as follows:

Third-party payors	$	5,156,356
Self-Pay		378,726
	$	5,535,082

NOTE 7 - EMPLOYEE RETIREMENT PLAN

The Organization provides defined contribution retirement plans qualified under Section 401(a) and 401(k) (the "Plans") 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 401(k) Plan determined on an annual basis, plus matches up to 50% of the eligible employee's first 2% of employee contributions. Employer contributions to the 401(a) Plan are based on percentages of employee salaries ranging from 3% to 8%. The Organization also incurs certain sponsor contribution expenses for St. Jude Medical Center, St. Joseph Hospital, and Heritage employees, each of which offer similar plans to their employees.

The Organization incurred $213,949 in retirement contribution expense during the year ended June 30, 2017.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2017 are:

Purpose	Available June 30, 2016	New Revenues	Expenditures	Available June 30, 2017
Dental services	$ 237,500	$ -	$ (108,019)	$ 129,481