PROVIDENCE SPEECH AND HEARING CENTER AND SUBSIDIARY

Consolidated Financial Statements

December 31, 2011 and 2010

with

Independent Auditors' Report

ALMICH & ASSOCIATES
AN ACCOUNTANCY CORPORATION
• Certified Public Accounting and Business Services •

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Providence Speech and Hearing Center:

We have audited the accompanying consolidated statements of financial position of Providence Speech and Hearing Center (the Center, a California nonprofit corporation) and Subsidiary as of December 31, 2011 and 2010, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended. These consolidated financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Providence Speech and Hearing Center and Subsidiary as of December 31, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Almich + Associates

Lake Forest, California
April 30, 2012

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PROVIDENCE SPEECH AND HEARING CENTER AND SUBSIDIARY
Consolidated Statements of Financial Position
December 31, 2011 and 2010

Assets

	2011	2010
Current assets:		
Unrestricted cash and cash equivalents	$ 1,236,359	$ 425,839
Temporarily restricted cash and cash equivalents	5,301	169,669
Accounts receivable, less allowances for doubtful accounts and contractual discounts of $346,378 in 2011 and $299,038 in 2010	1,026,729	716,764
Grants and other receivables	26,203	35,749
Inventory	7,128	22,286
Prepaid expenses	50,426	29,607
Total current assets	2,352,146	1,399,914
Property and equipment, net	1,385,585	1,519,036
Deposits	22,730	-
Other assets	23,792	19,910
Goodwill	1,507,570	-
Total assets	$ 5,291,823	$ 2,938,860

Liabilities and Net Assets

	2011	2010
Current liabilities:		
Accounts payable	$ 543,824	$ 351,151
Accrued expenses	508,068	247,718
Current portion of advances on future discounts	7,347	-
Current portion of note payable	69,709	-
Note payable to Sellers	745,753	-
Total current liabilities	1,874,701	598,869
Advances on future discounts, net of current portion	490,640	-
Note payable and lines of credit, net of current portion	781,836	352,936
Total liabilities	3,147,177	951,805
Net assets:		
Unrestricted	2,139,345	1,817,386
Temporarily restricted	5,301	169,669
Total net assets	2,144,646	1,987,055
Total liabilities and net assets	$ 5,291,823	$ 2,938,860

See notes to consolidated financial statements

PROVIDENCE SPEECH AND HEARING CENTER AND SUBSIDIARY
Consolidated Statements of Activities
For the Years Ended December 31, 2011 and 2010

	2011	2010
Changes in unrestricted net assets:		
Unrestricted revenues:		
Patient and preschool revenues, net of provision for doubtful accounts and contractual discounts of $4,043,889 in 2011 and $2,537,711 in 2010	$ 6,908,271	$ 4,834,322
Net contributions, excluding United Way	1,003,206	225,643
United Way contributions	100,288	101,281
Other	51,292	138,770
Total unrestricted revenues	8,063,057	5,300,016
Net assets released from temporary restrictions:		
Satisfaction of program and purpose restrictions	602,143	743,734
Total unrestricted revenues and net assets released from temporary restrictions	8,665,200	6,043,750
Functional expenses:		
Program	6,998,621	5,503,253
Management and general	772,453	242,988
Fundraising	572,167	522,961
Total functional expenses	8,343,241	6,269,202
Increase (decrease) in unrestricted net assets	321,959	(225,452)
Changes in temporarily restricted net assets:		
Contributions and grants	437,775	639,157
Net assets released from restrictions	(602,143)	(743,734)
Decrease in temporarily restricted net assets	(164,368)	(104,577)
Increase (decrease) in net assets	157,591	(330,029)
Net assets, beginning of year	1,987,055	2,317,084
Net assets, end of year	$ 2,144,646	$ 1,987,055

See notes to consolidated financial statements

PROVIDENCE SPEECH AND HEARING CENTER AND SUBSIDIARY
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 157,591	$ (330,029)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	328,542	293,274
Non-cash contribution in connection with NLSC acquisition	(800,000)	-
Changes in operating assets and liabilities:		
Accounts receivable, net	133,813	(14,659)
Grants and other receivables	9,546	111,398
Prepaid expenses	5,624	(4,266)
Inventory	15,158	(21,496)
Pledges receivable	-	4,999
Accounts payable	192,673	36,026
Accrued expenses	2,237	65,107
Net cash provided by operating activities	45,184	140,354
Cash flows from investing activities:		
Purchases of property and equipment	(193,355)	(101,641)
Cash paid for acquisition of NLSC	(500,000)	-
Net cash used by investing activities	(693,355)	(101,641)
Cash flows from financing activities:		
Increase in other assets	(3,882)	(19,910)
Advances on future discounts	497,987	-
Principal payments on capital lease obligation	-	(709)
Repayments on note payable to Sellers	(36,269)	-
Borrowings on note payable and lines of credit	3,507,500	2,641,936
Repayments on note payable and lines of credit	(3,008,891)	(2,854,000)
Net cash provided (used) by financing activities	956,445	(232,683)
Net increase (decrease) in cash and cash equivalents	308,274	(193,970)
Cash and cash equivalents, beginning of year	595,508	789,478
Cash acquired in NLSC acquisition	337,878	-
Cash and cash equivalents, end of year	$ 1,241,660	$ 595,508
Supplemental cash flows information:		
Interest paid	$ 35,109	$ 21,780
Non-cash financing and investing activities:		
Note payable issued to Sellers in connection with NLSC acquisition	$ 782,022	$ -

See notes to consolidated financial statements

PROVIDENCE SPEECH AND HEARING CENTER AND SUBSIDIARY
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2011

	Program	Management and general	Fundraising	Total
Salaries and wages	$ 3,928,547	$ 549,131	$ 306,508	$ 4,784,186
Other employee benefits	297,014	29,747	29,743	356,504
Payroll taxes	282,893	39,606	22,307	344,806
Accounting and legal fees	25,237	3,052	41	28,330
Supplies	102,455	8,783	1,270	112,508
Telephone	13,738	2,188	-	15,926
Postage and shipping	10,715	2,443	646	13,804
Occupancy	252,645	65,021	15,254	332,920
Equipment rental and maintenance	142,000	23,483	7,354	172,837
Travel	9,871	3,312	-	13,183
Conferences, conventions, and meetings	9,503	1,771	1,490	12,764
Interest	36,594	12,197	-	48,791
Depreciation and amortization	313,217	5,891	9,434	328,542
Grant fund expenditures	400,883	-	-	400,883
Other expenses	1,173,309	25,828	178,120	1,377,257
	$ 6,998,621	$ 772,453	$ 572,167	$ 8,343,241

See notes to consolidated financial statements

PROVIDENCE SPEECH AND HEARING CENTER AND SUBSIDIARY
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2010

	Program	Management and general	Fundraising	Total
Salaries and wages	$ 2,814,629	$ 143,950	$ 313,001	$ 3,271,580
Other employee benefits	251,007	16,096	27,642	294,745
Payroll taxes	196,206	9,167	22,515	227,888
Accounting and legal fees	32,627	4,133	42	36,802
Supplies	81,249	4,351	681	86,281
Telephone	15,380	2,423	-	17,803
Postage and shipping	5,385	1,085	1,504	7,974
Occupancy	146,395	25,012	12,378	183,785
Equipment rental and maintenance	88,176	12,175	10,252	110,603
Travel	856	135	-	991
Conferences, conventions, and meetings	5,267	404	1,793	7,464
Interest	23,369	7,790	-	31,159
Depreciation and amortization	279,614	5,253	8,407	293,274
Grant fund expenditures	621,585	-	-	621,585
Other expenses	941,508	11,014	124,746	1,077,268
	$ 5,503,253	$ 242,988	$ 522,961	$ 6,269,202

See notes to consolidated financial statements

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Organization

Providence Speech and Hearing Center (the Center) is a not-for-profit organization located in Orange, California, which provides educational and therapeutic services to people with communication dysfunctions. The Center also operates a preschool.

On August 15, 2011, the Center entered into a stock purchase agreement to acquire 62 percent of the outstanding shares of Newport Language Speech and Audiology Center, Inc. (NLSC), a California for-profit corporation, which provides therapeutic services to people with communication dysfunctions. NLSC has four locations: Mission Viejo, Yorba Linda, Cerritos and Fountain Valley, California. The effective closing date of the acquisition was August 16, 2011. Reference is made to Note 2 with respect to the business acquisition.

The Center and NLSC are hereafter referred to collectively as the Organization.

Basis of Presentation

The accompanying consolidated financial statements have been prepared as of December 31, 2011 and for the year then ended. All intercompany accounts and transactions have been eliminated in consolidation. The 2010 financial statements include only the financial position and changes in net assets of the Center.

The Organization reports amounts in the accompanying consolidated financial statements for each of the three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. A description of the net asset categories is as follows:

> **Unrestricted net assets** – Unrestricted net assets consist of net assets that are not subject to donor-imposed restrictions. Unrestricted net assets generally result from unrestricted contributions and interest and dividends less expenses incurred in providing program services, fundraising, and other management and general expenses.
>
> **Temporarily restricted net assets** – Temporarily restricted net assets consist of contributions whose use is limited by donor-imposed restrictions that may or will be met by the occurrence of an event and/or by the passage of time. Certain investments and cash and cash equivalents have been segregated by the Organization to account for temporarily restricted funds.
>
> **Permanently restricted net assets** – Net assets subject to donor-imposed restrictions that require the net assets to be maintained permanently while permitting the Organization to use or expend part or all of the income derived from the donated assets.

The Organization records gifts of cash and other assets as temporarily restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, a stipulated time restriction ends, or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets are available for program activities and equipment. The Organization had no permanently restricted net assets at December 31, 2011 and 2010.

Property and Equipment

Property and equipment are stated at cost at date of purchase or estimated fair market value at the date of donation. Depreciation is provided on a straight-line basis over the estimated useful lives of the property and equipment, which range from 3 to 27 years. Maintenance, repairs, and minor renewals and betterments are expensed as incurred.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When such factors indicate that assets should be evaluated for possible impairment, management would prepare an analysis comparing the carrying value of the assets to future undiscounted cash flows of the underlying assets. The net book value of the underlying assets is adjusted to fair value if the sum of the expected undiscounted future cash flows is less than book value. To date, management has not identified any such factors pertaining to the Organization's long-lived assets.

Cash and Cash Equivalents

The Organization considers all highly liquid instruments with original maturities of three months or less when purchased to be cash equivalents.

Inventory

Inventory is comprised primarily of hearing aids and is stated at the lower level of cost or market using the first-in first-out method.

Pledges and Contributions

Pledges and unconditional promises to give are recorded as accounts receivable in the year made. Pledges and contributions for support of current operations are recorded as revenues in the year made. Pledges and contributions for support of specified future operations or restricted by the donor for specific purposes are recorded as temporarily restricted revenues that increase those net asset classes when made and are recognized as net assets released from restrictions in the period the specified restriction is fulfilled. Nonmonetary contributions are recorded at estimated fair value. Members of the Board of Directors contribute financial support to the Organization's operations and activities. Certain members of the Board of Directors also engage in business activities with the Organization.

Accounts Receivable

Receivables from government agencies represent the only concentrated group of credit risk for the Organization. Management does not believe that there are any credit risks associated with these governmental agencies. Contracted and other receivables consist of receivables from various payors, including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the Organization. The Organization's accounts receivable are not collateralized. The allowance for doubtful accounts and contractual discounts represents management's best estimate based upon historical experience. Furthermore, management continually monitors and adjusts its reserves and allowances associated with the Organization's receivables. When uncertainty exists as to the collection of receivables, the Organization records an allowance for doubtful accounts and a corresponding charge to bad debt expense.

Contractual Discounts

The Organization provides services to certain patients covered by various third-party payment programs. Normal billing rates for services rendered to patients covered by such programs are included in patient revenues, with differences between such billing rates and the estimated amounts to be received from such programs recorded as contractual discounts.

Donated Services

Members of the Board of Directors, a substantial number of volunteers, and corporations have donated their time and services to the Organization. Contributed services are recognized if the services received either create or enhance long-lived assets, or require specialized skills and would typically need to be purchased if not provided by donation. No amounts have been reflected in the consolidated financial statements for donated services as these criteria have not been met.

Goodwill

Goodwill consists of the cost in excess of fair value of identifiable net assets acquired in connection with the NLSC acquisition. Goodwill is not amortized, but evaluated for impairment annually, in the fourth quarter of each fiscal year, or whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. The implied fair value of goodwill is determined by deducting the estimated fair value of all tangible and identifiable intangible net assets of the reporting unit from the estimated fair value of the reporting unit. If the recorded value of goodwill exceeds its implied value, an impairment charge is recorded for the excess. The Organization tests for goodwill impairment at the reporting unit level. The Organization's annual impairment testing did not result in an impairment of goodwill. There have been no goodwill impairment losses recorded by the Organization to date.

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include, among others, future economic and market conditions and determination of appropriate market comparables. Such estimates are unpredictable and inherently uncertain; actual future results may differ from the estimates. The Organization may also assess qualitative factors to determine if it is more likely than not that the fair value of the reporting unit is less than its carrying amount.

Expense Allocation

Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with the program and supporting service are allocated based on evaluation by the Organization's management.

Income Taxes

The Center is a not-for-profit entity that is exempt from federal income tax pursuant to Internal Revenue Code Section 501(c)(3) and the corresponding section of the California Revenue and Taxation Code. The Center has no material unrelated business income. Accordingly, no provision for income taxes has been recorded in the accompanying consolidated financial statements. NLSC filed an application to become a not-for-profit entity in 2012.

Management does not believe that the Organization has any uncertain tax positions. The Organization evaluates its tax positions and would recognize a loss contingency associated with an uncertain tax position when it is probable that a liability has been incurred as of the consolidated balance sheet date and the amount of the loss can be reasonably estimated. The amount recognized would be subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. The years open for tax authority examination are 2008 through 2011 for federal purposes and 2007 through 2011 for state purposes.

Fair Value Measurements

The carrying value of the Organization's financial instruments, including cash, accounts receivable, accounts payable and accrued expenses, approximates fair value due to the relative short-term nature of these instruments.

The Organization uses a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either observable directly or indirectly through market corroboration, for substantially the full term of the financial instruments; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The Organization has no Level 2 or Level 3 financial instruments.

Reclassifications

Certain amounts in the accompanying 2010 financial statements have been reclassified to conform with the current year presentation.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

Subsequent Events

The Organization has evaluated subsequent events through the date of the auditors' report, April 30, 2012, which is the date the accompanying consolidated financial statements were available to be issued.

NOTE 2 – BUSINESS ACQUISITION

On August 15, 2011, the Center entered into a Stock Purchase Agreement (the NLSC Agreement) to acquire 62 percent of the outstanding shares of NLSC, a California for-profit corporation. The remaining 38 percent of the outstanding shares of NLSC, with an estimated fair value of $800,000 based upon an independent appraisal, was donated by the shareholders of NLSC (the Sellers) to the Center. The effective closing date of the acquisition was August 16, 2011. The NLSC Agreement provides for the purchase price to be adjusted subsequent to the acquisition date based on certain criteria, as defined in the NLSC Agreement.

In accordance with the NLSC Agreement, the Center made an initial cash payment to the Sellers in the amount of $250,000 on August 16, 2011. On December 13, 2011, the Center made an additional cash payment to the Seller in the amount of $250,000. The remainder of the purchase price was satisfied by a note payable to the Sellers in the amount of $800,000 which is subject to certain purchase price adjustments. The note payable to Sellers bears interest at 7% per annum, with interest only payable monthly with principal due on December 15, 2012.

The acquisition was funded by entering into a purchase and security agreement with a hearing instrument supplier for future discount advance of $500,000 and note payable of $850,000.

Acquisition Accounting

The acquisition has been accounted for by the acquisition method of accounting under *Accounting Standards Codification 805 – Business Combinations* and accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on preliminary estimated fair market values at the date of acquisition. The excess of the purchase price over the fair market value of the assets acquired was initially allocated to goodwill. Management is in the process of evaluating the existence of other intangible assets, thus the allocation of the purchase price is subject to refinement.

The NLSC Agreement provides for the purchase price to be adjusted subsequent to the acquisition date based on certain criteria, as defined. The preliminary purchase price of NLSC was as follows:

Initial purchase price	$ 1,300,000
Purchase price adjustment	(23,199)
	$ 1,276,801

The following is a summary of purchase transaction and related preliminary allocation of the assigned values.

Assets acquired:	
Cash	$ 337,878
Accounts receivable, net	443,778
Prepaid expenses	26,443
Furniture and equipment	1,735
Deposits	22,730
Total assets acquired	832,564
Liabilities assumed:	
Accrued expenses	263,333
Total liabilities assumed	263,333
Net assets acquired	569,231
Preliminary adjusted purchase price	1,276,801
Contribution from Sellers	800,000
Goodwill	$ 1,507,570

Pursuant to the NLSC Agreement, the Center also entered into employment agreements with certain of the Sellers. These agreements are at-will.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2011 and 2010, consisted of the following:

	2011	2010
Condominium interest in a building	$ 651,469	$ 651,469
Furniture and equipment	2,039,535	1,887,508
Building improvements	1,883,981	1,842,417
	4,574,985	4,381,394
Less: accumulated depreciation and amortization	(3,190,900)	(2,862,358)
	1,384,085	1,519,036
Construction in progress	1,500	-
	$ 1,385,585	$ 1,519,036

Depreciation and amortization expense related to property and equipment was $328,542 and $293,274 for the years ended December 31, 2011 and 2010, respectively.

NOTE 4 – ADVANCES ON FUTURE DISCOUNTS

On July 1, 2011, the Center entered into a Purchase and Security Agreement (the PS Agreement) with a hearing instrument supplier. In accordance with the PS Agreement, the supplier agreed to extend credit in the form of advances on future purchase discounts in the amount of $500,000 in exchange for a future purchase commitment over ten years as stipulated in the PS Agreement. The Organization has deferred the advance and will recognize it as purchases are made over the term of the PS Agreement. As of December 31, 2011, the deferred purchase discount was $497,987. The amount advanced is also secured by the Organization's assets.

NOTE 5 – NOTES PAYABLE AND LINES OF CREDT

The Organization's notes payable and lines of credit consisted of the following as of December 31, 2011:

Lines of Credit

As of December 31, 2011, the Center had a $1,000,000 line of credit and a $200,000 line of credit with a bank, both bearing interest at the bank's LIBOR rate (2.69 % at December 31, 2011). Interest is payable monthly and principal is payable at maturity. The $1,000,000 and $200,000 lines of credit mature on November 3, 2014 and October 3, 2020, respectively, and are both secured by deeds of trust on the Center's operating facility, as well as an assignment of rents. As of December 31, 2011, the total amount outstanding on the $1,000,000 line of credit was $1,545. There was no outstanding balance on the $200,000 line of credit. The lines of credit may be considered to be in default by the bank if a material adverse change occurs in the Center's financial condition and the bank believes the prospect of payment or performance of the lines of credit is impaired.

The line of credit agreements contain a financial covenant as to debt service, as defined. As of December 31, 2011, the Center was in compliance with the covenant.

Note Payable to Sellers

The Center entered into a note payable with the Sellers on August 16, 2011 in the amount of $800,000 in connection with NLSC acquisition. The NLSC Agreement provides certain adjustments to this note payable, as defined. At December 31, 2011, the note payable to Sellers, after taking into consideration such adjustments, amounted to $745,753.

Note Payable

On December 9, 2011, the Center entered into an amendment to the PS Agreement with a vendor for a note payable of $850,000. The note bears an interest rate of 5%, with monthly interest and principal payment of $8,707 for 120 months commencing on January 1, 2012 and maturing on December 1, 2021. This note payable is also secured by the Organization's assets.

Future maturities of the lines of credit and note payable as of December 31, 2011, were as follows:

Year Ending December 31,	
2012	$ 815,462
2013	73,098
2014	77,427
2015	79,170
2016	79,511
Thereafter	472,630
	$ 1,597,298

NOTE 6 – COMMITMENTS

The Center entered into a non-cancellable facility agreement during the year ended December 31, 2011 which will commence August 2012 and expire July 2017. The lease requires the Center to pay certain operating expenses associated with the facility and contains rent increases.

NLSC leases one of its facilities under a non-cancelable facility lease agreement which expires in March 2013. NLSC also leases other facilities under month-to-month leases. Rent expense under the above described agreements for the period ended December 31, 2011, totaled approximately $115,000.

NLSC also leases equipment under a non-cancelable operating agreement which expires in November 2014. Equipment rent expense for the period ended December 31, 2011, totaled approximately $4,000.

At December 31, 2011, future minimum lease payments under non-cancellable operating leases were as follows:

Year Ending December 31,	Facility Leases	Equipment Lease	Total
2012	$ 199,676	$ 11,520	$ 211,196
2013	117,796	11,520	129,316
2014	77,931	10,560	88,491
2015	80,269	-	80,269
2016	82,677	-	82,677
Thereafter	49,062	-	49,062
	$ 607,411	$ 33,600	$ 641,011

Subsequent to December 31, 2011, the Center entered into a non-cancellable facility lease agreement which expires in December 2016. The lease requires the Center to pay certain operating expenses associated with the facility and contains rent increases. Future minimum lease payments under the terms of this non-cancelable facility lease agreement are as follows:

Year Ending December 31,		
2012	$	54,228
2013		55,848
2014		57,528
2015		59,256
2016		61,032
	$	287,892

NOTE 7 – RETIREMENT PLAN

The Center has a group deferred tax-sheltered annuity which covers substantially all employees after completion of one year of service. Center contributions are currently equal to 50% of eligible participants' contributions up to a maximum of 4% of participants' compensation annually and vest immediately. Total contributions by the Center relating to the annuity for the years ended December 31, 2011 and 2010, were approximately $30,000 and $29,000, respectively.

NSLC has a 403(b) retirement plan (the Plan) which covers substantially all employees after completion of one year of service. NSLC at its sole discretion may make discretionary contributions to the Plan. Employee contributions to the Plan vest immediately. NSLC contributions become fully vested over a five year period. NSLC made no contributions to the Plan during the period ended December 31, 2011.

NOTE 8 – CONCENTRATION OF CREDIT RISK

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of revenues from patients and third-party payors for the years ended December 31, 2011 and 2010, was as follows:

	2011	2010
Medicare, Medi-Cal and other governmental agencies	55%	52%
Patients	13%	21%
Contracted third party payors	30%	24%
Non-contracted third party payors	2%	3%
	100%	100%

For the period from December 31, 2010 through December 31, 2012, all non-interest bearing transaction accounts are fully insured by the Federal Deposit Insurance Corporation. This temporary unlimited coverage does not include money market deposit accounts and negotiable order of withdrawal accounts. At December 31, 2011 and 2010, the Organization had *cash* and cash equivalents with banks which were in excess of the federally insured amount.

NOTE 9 – CHILDREN & FAMILIES COMMISSION OF ORANGE COUNTY

The Organization had an agreement with the Children & Families Commission of Orange County that was completed during the year ended December 31, 2011. The agreement was for $50,000, covered the period from July 1, 2010, through June 30, 2011, and required the Organization to provide certain defined services. The Organization's management has maintained records documenting the services rendered under the agreement.

NOTE 10 – SUBSEQUENT EVENT

Subsequent to December 31, 2011, the Organization gave notice of cancellation on one of its provider contracts. Payments received from this provider contract during the year ended December 31, 2011, were approximately $437,000.