PROVIDENCE SPEECH AND HEARING CENTER AND SUBSIDIARY

(A NONPROFIT ORGANIZATION)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2015

PROVIDENCE SPEECH AND HEARING CENTER AND SUBSIDIARY
(A NONPROFIT ORGANIZATION)
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December 31, 2015

SingerLewak
Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Providence Speech and Hearing Center and Subsidiary
Orange, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Providence Speech and Hearing Center and Subsidiary (collectively, the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2015 and the related consolidated statements of activities and cash flows, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks on material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2015, and the change in its consolidated net assets and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information on page 26 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

SingerLewak LLP

SingerLewak LLP

May 26, 2016

PROVIDENCE SPEECH AND HEARING CENTER AND SUBSIDIARY
(A NONPROFIT ORGANIZATION)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2015

ASSETS

Current assets	
Cash and cash equivalents	$ 197,440
Accounts receivable, net of allowances for contractual adjustments and doubtful accounts of $691,187	1,299,948
Grants and other receivables	80,268
Inventory	74,877
Prepaid expenses	64,892
Total current assets	1,717,425
Property and equipment, net	1,133,228
Investments	223,123
Deposits	25,049
Other assets	4,999
Goodwill	1,507,570
Total assets	**$ 4,611,394**

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	$ 1,605,215
Accrued expenses	768,566
Line of credit	974,217
Advances on future discounts	1,199,885
Current portion of long-term debt	230,709
Current portion of capital lease	37,366
Total current liabilities	4,815,958
Long-term debt, net of current portion	839,713
Total liabilities	5,655,671
Commitments and contingencies (Note 16)	
Net assets	
Unrestricted - undesignated	(1,474,857)
Designated by the board for endowment purposes	12,123
Temporarily restricted	207,457
Permanently restricted	211,000
Total net assets	(1,044,277)
Total liabilities and net assets	**$ 4,611,394**

The accompanying notes are an integral part of these financial statements.

PROVIDENCE SPEECH AND HEARING CENTER AND SUBSIDIARY

(A NONPROFIT ORGANIZATION)
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Patient and preschool revenues, net of allowances for contractual adjustments and doubtful accounts of $5,309,423	$ 11,138,761	$ -	$ -	$ 11,138,761
Grants and contributions	163,307	546,000	-	709,307
Special events revenue, net of costs of direct benefit to donors of $287,907	721,912	-	-	721,912
Other income	273,487	-	-	273,487
Net assets released from restrictions				
Satisfaction of program restrictions	629,409	(629,409)	-	-
Total revenues and support	12,926,876	(83,409)	-	12,843,467
Functional expenses				
Program services	12,153,579	-	-	12,153,579
General and administrative	889,348	-	-	889,348
Fundraising	784,092	-	-	784,092
Total functional expenses	13,827,019	-	-	13,827,019
Change in net assets	(900,143)	(83,409)	-	(983,552)
Net assets at beginning of year	(562,591)	290,866	211,000	(60,725)
Net assets at end of year	**$ (1,462,734)**	**$ 207,457**	**$ 211,000**	**$ (1,044,277)**

The accompanying notes are an integral part of these financial statements.

PROVIDENCE SPEECH AND HEARING CENTER AND SUBSIDIARY

(A NONPROFIT ORGANIZATION)
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2015

Cash flows from operating activities	
Change in net assets	$ (983,552)
Adjustments to reconcile change in net assets to net change in cash from operating activities:	
Depreciation expense	247,500
Change in provision for contractual adjustments and doubtful accounts	65,622
Changes in operating assets and liabilities	
Accounts receivable	(80,516)
Grants and other receivables	(34,488)
Inventory	(7,801)
Prepaid expenses and other current assets	6,737
Accounts payable and accrued expenses	618,182
Advances on future discounts	(188,422)
Net change in cash from operating activities	(356,738)
Cash flows from investing activities	
Interest and dividends	12,892
Purchase of property and equipment	(54,158)
Net change in cash from investing activities	(41,266)
Cash flows from financing activities	
Payments on line of credit	(25,783)
Principal payments on long-term debt	(183,774)
Net change in cash from financing activities	(209,557)
Net change in cash and cash equivalents	(607,561)
Cash and cash equivalents, beginning of year	805,001
Cash and cash equivalents, end of year	**$ 197,440**
Supplemental disclosures of cash flow information	
Interest paid	**$ 79,657**

The accompanying notes are an integral part of these financial statements.

NOTE 1 - NATURE OF OPERATIONS

Providence Speech and Hearing Center ("Providence") is a not-for-profit organization founded in 1965. The mission of Providence is to enrich life through the gifts of speech and hearing. Providence provides audiology and hearing care and speech-language pathology to all those in need, regardless of their ability to pay.

What began in a single room at a local hospital has grown to become one of the largest clinics of its kind in the country. Providence has expanded to eight locations over the past four years. Providence strives to achieve its mission by continually providing the highest quality services in the identification, diagnosis, treatment and prevention of speech, language and hearing disorders for persons of all ages, races and socio-economic backgrounds. Providence is a leading service provider to the speech and hearing impaired of Orange County, providing more than 108,000 patient visits each year. More than half of our work is dedicated to low-income patients, all of whom are uninsured or underinsured. Providence also operates a preschool.

Newport Language Speech and Audiology Center, Inc. ("NLSC") is a California corporation acquired by Providence in August 2011 that provides therapeutic services to people with communication dysfunctions.

The accompanying consolidated statement of financial position and consolidated statements of activities and cash flows, and consolidated schedule of functional expenses include the accounts of Providence and Subsidiary listed below (collectively, the "Organization"). The Organization consists of the following entities:

Entity	Type of Entity	Fiscal Year End	Tax Year End
Parent			
Providence Speech and Hearing Center	Nonprofit Organization	December 31	December 31
Subsidiary			
Newport Language Speech and Audiology Center, Inc.	California Corporation	December 31	December 31

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Providence and its wholly-owned subsidiary, NLSC. All significant intercompany accounts and balances have been eliminated in consolidation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements are presented utilizing the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as follows:

- Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions and that may be expendable for any purpose in performing the primary objectives of the Organization.

- Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions.

- Permanently restricted net assets - Net assets subject to donor-imposed restrictions requiring that the amounts contributed be invested in perpetuity. The Organization had $211,000 in permanently restricted net assets as of December 31, 2015.

Patient and Preschool Revenue

Net patient service revenues are recorded net of any billing adjustments given to patients because of economic status or billing limitations imposed by Medi-Cal, Medicare reimbursements, and other public/private health insurance programs. The Organization also has agreements with third party payers that provide for payments to the Organization at amounts different from its established rates. The Organization is reimbursed for outpatient services by Medi-Cal and Medicare by means of an all-inclusive rate for each visit, with final settlement determined after submission of annual reconciliation reports and cost reports, respectively, and audits thereof by the fiscal intermediary.

Preschool revenue is recorded when all of the following have occurred: an agreement of services exists; pricing is fixed or determinable; services are performed; and the obligation to fulfill the service is complete and collection of revenue is reasonably assured. Related expenses are recognized when incurred.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Patient and Preschool Revenue (Continued)
Patient and preschool revenue, net of contractual allowances and discounts (but before the provision for bad debts) recognized in the period from these major payer sources were as follows:

Third-party payers	$ 9,356,080
Self-pay	1,965,713
Total all payers	11,321,793
Less provision for doubtful accounts	(183,032)
Net patient and preschool revenues	**$11,138,761**

Accounts Receivable
Accounts receivable are recorded at the invoiced amount for contracted and non-contracted payers and do not bear interest. Amounts collected on accounts receivable are included in net cash provided by operating activities in the statement of cash flows. The Organization maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses, current receivable aging, and existing industry and national economic data.

All other balances are reviewed on a pooled basis by payer category. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Organization does not have any off-balance-sheet credit exposure related to its patients.

Grants and Contributions
Pledges and unconditional promises to give are recorded as grants and other receivables in the year made. Grants and contributions for support of current operations are recorded as revenues in the year made. Grants 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Materials and Services
The value of significant donated materials is reflected as contributions in the accompanying consolidated financial statements at the fair value of such materials at the date of contribution. During the year ended December 31, 2015, the Organization did not receive any donated materials.

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.

Use of Estimates
The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Management's estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Measurements
Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Assets and liabilities recorded at fair value in the statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value of Measurements (Continued)
The fair value hierarchy described by U.S. GAAP is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value and include the following:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Organization classified all of its cash and cash equivalents, and investments in the Level 1 fair value hierarchy. U.S. GAAP regarding fair value disclosures of financial instruments requires disclosure of fair value information about certain financial instruments for which it is practical to estimate that value. The carrying amounts reported in the Organization's consolidated statement of financial position for cash and cash equivalents, accounts receivable, grants and other receivable, investments, accounts payable and accrued expenses approximate fair value due to the short maturity of these financial instruments. The carrying amounts reported for debt obligations approximate fair value due to the effective interest rate of these obligations reflecting the Organization's current borrowing rate. In addition, the Organization has no financial instruments not measured at fair value. Considerable judgment is required to develop such estimates of fair value. Accordingly, such estimates would not necessarily be indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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.

As of December 31, 2015, $207,457 of cash and cash equivalents were temporarily restricted by donors, subject to donor-imposed restrictions that may or will be met either by actions of the Organization and/or the passage of time.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are reflected on the statement of financial position at fair value. Realized and unrealized gains and losses have been reflected in the statement of activities as increases or decreases in unrestricted net assets. The Organization's investments consist of funds functioning as endowment and funds which have been restricted by the donor as endowment. The Organization's investments are managed as a single diversified portfolio governed by the Organization's Investment Policy. The Organization's Investment Policy is administered by the Organization's Board of Directors. The Board of Directors establishes the fair market value of Level 1 investments based on quoted market prices. The Board of Directors establishes Level 2 investments, if any, through observation of trading activity reported at net asset value. The Board of Directors establishes Level 3 investments, if any, through a documented valuation process including review of audited reports for the investment funds, verification of the fair value of marketable securities in the funds, regular review of fund manager valuation approaches, and monitoring of the fund activities. Investments received through gifts are recorded at estimated fair value at the date of donation.

Dividend and interest income is accrued when earned. Dividend and interest income earned in all net asset classifications, except permanently restricted net assets, is recorded in the net asset class owning the assets. Income from permanently restricted investments is recorded as temporarily restricted, except where the instructions of the donor specify otherwise and when such amounts have been appropriated for expenditure.

Property and Equipment

Property and equipment are stated at cost or, for those assets acquired by gift or bequest, the estimated fair market value at the date of contribution. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Building improvements	10 to 20 years
Furniture and equipment	2 to 7 years
Building	27 years

Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. At the time of retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the results of operations.

Repair and maintenance costs are charged to operations as incurred.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill consists of the costs in excess of fair value of identifiable net assets acquired in connection with the NLSC acquisition in 2011. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 350, *Intangible—Goodwill and Other*, the Organization does not amortize goodwill, rather it is reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. During the year ended December 31, 2011, the Organization adopted guidance that allows an entity to make an initial qualitative evaluation, based on the entity's events and circumstances, to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The results of this qualitative assessment determine whether it is necessary to perform the currently required two-step impairment test.

As of December 31, 2015, the Organization has determined that it is more likely than not that the fair value of the goodwill is not less than its carrying value; therefore management has determined that no impairment existed as of December 31, 2015.

Advances on Future Discounts

Advances on future discounts are recorded as a liability and recognized as purchases are made over the term of the agreement.

Accounting for the Impairment of Long-Lived Assets

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification No. 360, *Property, Plant and Equipment*, impairment losses are recorded on long-lived assets used in operations when indicators of impairment are present and undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. Management has determined that there is no impairment of long-lived assets as of December 31, 2015.

Functional Allocation of Expenses

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 more than one program or supporting service are allocated using various allocation methods deemed appropriate by management.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Providence has been designated as tax-exempt under Internal Revenue Code Section 501(c)(3) and is also exempt from state franchise taxes under Section 23701(d) of the California Revenue and Taxation Code and is not generally subject to federal or state income taxes. However, the Organization is subject to income taxes on any net income that is derived from NLSC. During the year ended December 31, 2015, NLSC incurred net operating losses; therefore no income tax provision has been recorded.

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of all of the deferred tax assets will not be realized.

The Organization will recognize 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 December 31, 2015, the Organization did not recognize any amount in potential interest and penalties associated with uncertain tax positions.

The following table summarizes the open tax years for each major jurisdiction:

Jurisdiction	Open Tax Year
Federal	2011 - 2015
State	2010 - 2015

Advertising

The Organization expenses advertising costs as incurred. For the year ended December 31, 2015 the advertising costs amounted to $107,032 and are included in other expenses on the consolidated schedule of functional expenses.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements

In October 2012, the FASB issued Accounting Standards Update ("ASU") No. 2012-05, *Statement of Cash Flows (Topic 230)*. This amendment provides guidance on how Not-for-Profit entities should consistently classify cash receipts on the Statement of Cash Flows as they relate to the sale of certain donated financial assets. The changes are effective prospectively for the fiscal years, and interim periods within those years, beginning after June 15, 2013. Retrospective application to all prior periods presented upon the date of adoption is permitted. Early adoption for the beginning of the fiscal year of adoption is permitted. The adoption of these rules did not have a material financial impact on the Organization's consolidated financial statements.

Recently Issued Accounting Pronouncements

In April 2013, the FASB issued ASU No. 2013-06, *Not-for-Profit Entities (Topic 958): Services Received from Personnel of an Affiliate (a consensus of the FASB Emerging Issues Task Force)*. Amendments within this update specify how not-for-profit entities should recognize and measure services received from personnel of an affiliate that directly benefit the recipient of a not-for-profit. ASU No. 2013-06 is effective prospectively for fiscal years beginning after June 15, 2014. The adoption of this guidance will not have a material impact on the Organization's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new guidance establishes the principles to report useful information to users of the financial statements about the nature, timing, and uncertainty of revenue from contracts with customers. The new guidance affects any reporting organization that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). For nonpublic companies and organizations (including not-for-profits), the new guidance will be required for annual reporting periods beginning after December 15, 2017, and interim and annual reporting periods after those reporting periods. Nonpublic companies and organizations may elect early application, but no earlier than the effective date for public entities. The management is evaluating a potential impact of this guidance on the Organization's consolidated financial statements.

NOTE 3 - NET PATIENT SERVICE REVENUE

Approximately 1% and 32% of net patient service revenue is from participation in the Medicare and state-sponsored Medi-Cal programs, respectively, for the year ended December 31, 2015. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The mix of revenues from patients and third party payers at December 31, 2015 was:

Medicare	1%
Medi-Cal	32%
Cash	9%
Insurance	58%
	100%

Adjustments for contractual allowances and allowance for doubtful accounts recognized in the period from major payer sources were as follows:

Third-party payers	$ 5,126,391
Self-pay	183,032
Total all payers	**$ 5,309,423**

NOTE 4 - CONCENTRATIONS OF RISK

Reimbursement

Both governmental and private pay sources have instituted cost-containment measures designed to limit payments made to providers of health services, and there can be no assurance that future measures designed to limit payments made to providers will not adversely affect reimbursement to the Organization. Furthermore, government reimbursement programs are subject to statutory and regulatory changes, retroactive rate adjustments, administrative rulings, and government funding restrictions, all of which could materially decrease the services covered or the rates paid to the Organization for its services.

The Organization grants credit to its patients and students, the majority of whom are area residents and are insured under third party payer agreements. The mix of receivables from patients, students and third party payers at December 31, 2015 is:

Preschool	1%
Medicare	3%
Private pay	10%
Medi-Cal	42%
Insurance	44%
	100%

Cash

The Organization maintains its cash and cash equivalent balances in financial institutions, which from time to time, exceed amounts insured by the Federal Deposit Insurance Corporation (“FDIC”). Deposits held in non-interest-bearing transaction accounts are aggregated with any interest-bearing deposits the owner may hold in the same ownership category, and the combined total insured up to $250,000. As of December 31, 2015, the Organization had $294,052 of deposits in excess of federally insured amounts. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Investments

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the consolidated statement of financial position.

Suppliers

For the year ended December 31, 2015, three suppliers represented approximately 73% of total purchases. As of December 31, 2015, two suppliers represented approximately 66% of accounts payable.

NOTE 5 - INVESTMENTS

Investments at December 31, 2015 are stated at fair value and consisted of the following:

Domestic equities	$ 68,053
Fixed income	49,087
International equities	41,501
Index funds	34,584
Cash equivalents	29,898
Total investments	**$ 223,123**

NOTE 6 - PROPERTY AND EQUIPMENT

As of December 31, 2015, property and equipment consisted of the following:

Building improvements	$ 2,360,783
Furniture and equipment	2,416,986
Building	651,469
	5,429,238
Less accumulated depreciation	(4,296,010)
Property and equipment, net	**$ 1,133,228**

Depreciation expense for the year ended December 31, 2015 amounted to $247,500.

NOTE 7 - ACCRUED EXPENSES

As of December 31, 2015, accrued expenses consisted of the following:

Accrued payroll and payroll tax	$ 128,681
Accrued vacation	302,913
Accrued bonus	179,510
Other accrued expenses	157,462
Total	**$ 768,566**

NOTE 8 - LINE OF CREDIT

The Organization maintained a line of credit with a financial institution that allowed the Organization to borrow a maximum of $1,000,000. Interest was payable monthly at the bank's LIBOR rate plus 2.4% (2.76% as of December 31, 2015), and was secured by substantially all the Organization's assets. The line of credit matured in January 2016. In February 2016, the Organization entered into a new line of credit with a new financial institution (see Note 18).

NOTE 9 - ADVANCES ON FUTURE DISCOUNTS

On July 1, 2011, the Organization entered into a Purchase and Security Agreement (the "Agreement") with a hearing instrument supplier. In accordance with the 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 Agreement. The Agreement was amended on March 15, 2013, and they were advanced an additional $828,000 for a total $1,245,000. The amended purchase agreement has a ten year term. The Organization is required to purchase at least 70% of all hearing instrument purchases from this vendor over the term of the agreement. The vendor may exercise specific remedies as stipulated in the agreement if the Organization does not comply with these provisions.

During the year ended December 31, 2014, the agreement was amended twice. On March 11, 2014 the supplier has advanced an additional $175,000 towards future purchase discounts. On October 10, 2014, the supplier has advanced an additional $300,000, but retained the amount to cover outstanding debt for product purchases. All other terms remained the same.

As of December 31, 2015, the total remaining purchase commitment was approximately $5,756,216.

The Organization has deferred the advances and will recognize them as purchases are made over the term of the Agreement. As of December 31, 2015, the current portion of deferred purchase discounts was $1,199,885. The amount advanced is secured by the Organization's assets.

NOTE 10 - LONG-TERM DEBT

Long-term debt as of December 31, 2015 consisted of the following:

Note payable – secured by substantially all assets of the Organization. Payable in monthly principal installments of $8,707, plus interest at a rate of Prime (3.50% as of December 31, 2015) plus 1%. Debt matures in November 2021.	$ 551,788
Note payable – secured by substantially all assets of the Organization. Payable in monthly principal installments of $11,346, plus interest at a rate of Prime (3.50% as of December 31, 2015) plus 1%. Debt matures in December 2018.	382,839
Note payable – secured by substantially all assets of the Organization. Payable in monthly principal installments of $2,611, plus interest at a rate 4.58%. Debt matures in October 2020.	135,795
	1,070,422
Less current portion	230,709
Long-term debt	**$ 839,713**

Scheduled annual principal maturities of long-term debt at December 31, 2015 were as follows:

Year Ending	Amount
2016	$ 230,709
2017	240,795
2018	251,756
2019	123,638
2020	124,037
Thereafter	99,487
Total	**$ 1,070,422**

NOTE 11 - CAPITAL LEASE OBLIGATIONS

As of December 31, 2015, capital lease obligations consisted of the following:

2.65% capital lease secured by equipment. Payable in monthly installments of $1,881, maturing in June 2016.	$ 11,199
2.65% capital lease secured by equipment. Payable in monthly installments of $1,637, maturing in November 2016.	17,771
2.65% capital lease secured by equipment. Payable in monthly installments of $1,410, maturing in June 2016.	8,396
	37,366
Less current portion	37,366
Long-term portion	**$ -**

The following is a schedule by years of future minimum lease payments under capital leases and the present values of net minimum lease payments:

Year Ending December 31,	
2016	$ 37,752
Less amount representing interest	386
Present value of future minimum lease payments	**$ 37,366**

NOTE 11 - CAPITAL LEASE OBLIGATIONS (Continued)

The following is an analysis of the leased equipment under capital leases as of December 31, 2015, which is included in machinery and equipment:

Machinery and equipment	$ 208,852
Less accumulated amortization	166,238
Total	**$ 42,614**

For the year ended December 31, 2015, amortization expense relating to equipment under capitalized leases amounted to $52,213 and was included in cost of revenues in the statement of income.

NOTE 12 - NET ASSETS

Temporarily Restricted Net Assets
Temporarily restricted net assets of $207,457 at December 31, 2015 represent grants and contributions in-kind received by the Organization for the following purposes:

Supplemental financial assistance or clinical programs	$ 174,320
Community service	7,477
Equipment purchase	25,660
Total	**$ 207,457**

Permanently Restricted Net Assets
As of December 31, 2015, $211,000 of the Organization's total cash and investments are permanently restricted under the Pete and Mary Muth Endowment Fund.

NOTE 13 - ENDOWMENT

Effective January 1, 2009, the State of California adopted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), which replaces the Uniform Management of Institutional Funds Act (“UMIFA”). In August of 2008, the FASB issued ASC Topic 958, “Not-for-Profit Entities” (“ASC 958”). The disclosure provisions of ACS 958-205 were applied by the Organization during the year ended December 31, 2015, as shown below.

At December 31, 2015, the composition of the Organization’s endowment by net asset class was comprised entirely of donor-restricted endowment funds with no board-designated endowment funds. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity.

NOTE 13 - ENDOWMENT (Continued)

The Organization's endowment summarized by purpose consisted of the following at December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment fund	$ 12,123	$ -	$ -	$ 12,123
Donor restricted endowment fund	-	-	211,000	211,000
Balance, end of year	**$ 12,123**	**$ -**	**$ 211,000**	**$ 223,123**

The Organization's endowment net assets changed as follows for the year ended December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, beginning of year	$ 21,918	$ -	$ 211,000	$ 232,918
Release from restriction	(4,738)	-	-	(4,738)
Loss on investment	(131)	(2,309)	-	(2,440)
Expense	(2,617)	-	-	(2,617)
Appropriation	(2,309)	2,309	-	-
Balance, end of year	**$ 12,123**	**$ -**	**$ 211,000**	**$ 223,123**

Funds with Deficiencies
From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2015.

NOTE 13 - ENDOWMENT (Continued)

Investment Policy

The Organization has adopted investment and spending policies for endowment assets that attempt to provide funding for activities supported by its endowment while maintaining the purchasing power of the endowment assets. Under the investment policy, as approved by the board of directors, the endowment assets are invested in a manner to earn, over the long-term, an annualized return (net of investment management fees) that i) is above inflation and ii) meets or outperforms the return of appropriate benchmark indices. Actual returns in any given year may vary from these amounts.

NOTE 14 - INCOME TAXES

As of December 31, 2015, significant components of the Organization's deferred tax assets and liabilities for federal and state income taxes consisted of the following:

Non-current deferred tax assets (liabilities)	
Net operating loss carryforward related to NLSC	$ 2,294,184
State income tax	(800)
Net deferred tax assets before valuation allowance	2,293,384
Valuation allowance	(2,293,384)
Net deferred tax assets	**$ -**

For financial reporting purposes, the Organization has incurred substantial losses in NLSC in its recent history. Based on the available objective evidence, including the entity's history of cumulative losses, management believes it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, the Organization provided for a full valuation allowance against its net deferred tax assets at December 31, 2015.

The Organization has approximately $2,293,384 of federal and state net operating losses related to NLSC. The net operating loss carry-forwards, if not utilized, will begin to expire in 2033 for federal and California purposes. Under the provisions of the Internal Revenue Code Section 382, the Organization's ability to use their net operating loss carry-forwards may be limited due to a cumulative ownership change of over 50% within a three-year period.

NOTE 15 - RETIREMENT PLAN

Providence has a 403(b) retirement plan which covers substantially all employees after completion of one year of service. Effective July 1, 2012, Providence may make a discretionary matching contribution to the plan, up to a maximum of 6% of participants' compensation per payroll period. Prior to July 1, 2012, Providence contributed a fixed match equal to 50% of elective deferrals, up to a maximum of 4% of participants' compensation per payroll period. Eligible employees have 100% vested interest at all times in all accounts. Total contributions by Providence relating to the plan for the year ended December 31, 2015 were $42,322.

NLSC has a 401(k) retirement plan which covers substantially all employees after completion of one year of service. NLSC at its sole discretion may make discretionary contributions to the Plan. Employee contributions to the Plan vest immediately. NLSC contributions become fully vested over a four year period. Total contributions by NLSC relating to the plan for the year ended December 31, 2015 were $0.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Litigation
In the normal course of business, the Organization may become a party to litigation. Management believes there are no asserted or unassisted claims or contingencies that would have a significant impact on the consolidated financial statements of the Organization as of December 31, 2015.

Leases
The Organization leases its facilities from unrelated third parties under long-term non-cancellable operating leases that require minimum aggregate monthly payments of $36,776. These leases expire through April 2021. During the year ended December 31, 2015, rent expense related to these leases was $385,004, which is included in occupancy expense in the accompanying consolidated statement of functional expenses.

The Organization also leases computer equipment under operating leases that require minimum aggregate monthly payments of $4,492. The leases expire through May 2019. For the year ended December 31, 2015, total rental expense under these computer equipment leases was $53,904, which is included in equipment rental and maintenance expense in the accompanying consolidated statement of functional expenses.

NOTE 16 - COMMITMENTS AND CONTINGENCIES (Continued)

Future minimum lease payments required and anticipated under the operating leases as of December 31, 2015 are as follows:

Year Ending	Amount
2016	$ 418,408
2017	324,186
2018	219,435
2019	175,084
2020	172,646
Thereafter	438,125
Total	**$ 1,747,884**

NOTE 17 - RELATED PARTY TRANSACTIONS

During the year ended December 31, 2015, the Organization paid $121,574 to companies owned by various Board members for services rendered. As of December 31, 2015, there is $36,177 included in accounts payable due to related parties.

NOTE 18 - SUBSEQUENT EVENTS

On January 12, 2016, the Organization entered into a Purchase and Security Agreement (the "Agreement") with a hearing instrument supplier. In accordance with the Agreement, the supplier agreed to extend credit in the form of advances on future purchase discounts in the amount of $1,800,000 in exchange for a future purchase commitment over ten years as stipulated in the Agreement. The Organization is required to pay an up-charge fee for every hearing aid. The vendor may exercise specific remedies as stipulated in the agreement if the Organization does not comply with these provisions.

In February 2016, the Organization entered into a new line of credit with a new financial institution that allows the Organization to borrow a maximum of $2,000,000. Interest is payable monthly at the rate of 3.25%, and was secured by all "Collateral" under the supply agreement. The line of credit matures in January 2026.

Management has evaluated all other activity through May 26, 2016 (the issue date of the consolidated financial statements) and concluded that no additional subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

SUPPLEMENTARY INFORMATION

PROVIDENCE SPEECH AND HEARING CENTER AND SUBSIDIARY

(A NONPROFIT ORGANIZATION)

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2015

	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	$ 6,867,534	$ 574,772	$ 561,461	$ 8,003,767
Hearing aid	1,568,800	-	-	1,568,800
Grant fund	799,511	-	-	799,511
Occupancy	744,128	41,945	-	786,073
Payroll taxes	490,820	37,887	40,412	569,119
Other employee benefits	489,920	57,767	20,452	568,139
Equipment rental and maintenance	363,589	22,102	756	386,447
Depreciation and amortization	238,792	3,536	5,436	247,764
Supplies	128,302	4,610	4,294	137,206
Other	176,922	25,405	149,714	352,041
Telephone	102,577	7,010	870	110,457
Travel	38,404	1,824	-	40,228
Accounting and other professional fees	63,169	7,572	59	70,800
Postage and shipping	38,544	2,233	-	40,777
Interest	34,213	102,637	-	136,850
Conferences, conventions and meetings	8,354	48	638	9,040
Total expenses	**$ 12,153,579**	**$ 889,348**	**$ 784,092**	**$ 13,827,019**