VENICE FAMILY CLINIC

(A NONPROFIT ORGANIZATION)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2013

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
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June 30, 2013

SingerLewak LLP

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Venice Family Clinic
Venice, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Venice Family Clinic and affiliate (the "Clinic"), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 consolidated financial statements are free from 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 of 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 Clinic as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited the Clinic's 2012 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 7, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent in all material respects with the audited consolidated financial statements from which it has been derived.

SingerLewak LLP

SingerLewak LLP

Los Angeles, California
December 7, 2013

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2013
(with Comparative Totals at June 30, 2012)

ASSETS

	2013	2012
Current assets		
Cash and cash equivalents	$ 2,199,137	$ 1,694,224
Short-term investments	2,146,962	1,193,301
Accounts receivable, net of allowance for doubtful accounts of $328,689 and $343,379, respectively	1,020,009	2,549,300
Grants and contributions receivable – short-term, net of allowance for doubtful accounts of $25,000 and $25,000, respectively	3,383,500	3,560,895
Pharmaceutical inventories	975,104	800,707
Prepaid expenses and other assets	115,551	114,959
Total current assets	9,840,263	9,913,386
Long-term investments	4,348,161	3,891,030
Contributions receivable – long-term, net of present value discount	1,759,934	2,103,541
Beneficial interest in charitable remainder trusts	486,808	473,484
Property and equipment, net	5,466,144	6,481,308
Total assets	**$ 21,901,310**	**$ 22,862,749**

LIABILITIES AND NET ASSETS

	2013	2012
Current liabilities		
Lines of credit	$ -	$ 3,000,000
Notes payable, current	561,603	203,093
Accounts payable and accrued expenses	267,348	228,231
Total current liabilities	828,951	3,431,324
Notes payable, net of current portion	1,786,383	554,733
Total liabilities	2,615,334	3,986,057
Commitments and contingencies (Note 13)		
Net assets		
Unrestricted	7,623,317	7,498,085
Temporarily restricted	6,188,602	6,104,550
Permanently restricted	5,474,057	5,274,057
Total net assets	19,285,976	18,876,692
Total liabilities and net assets	**$ 21,901,310**	**$ 22,862,749**

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

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013
(with Comparative Totals for the Year Ended June 30, 2012)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
Revenues, gains and other support					
Private and community support	$ 5,246,173	$ 2,426,040	$ 200,000	$ 7,872,213	$ 7,716,010
Government support	5,981,358	-	-	5,981,358	5,180,344
Third-party reimbursement for services, net of					
contractual allowances and discounts	9,018,212	-	-	9,018,212	9,416,713
Provision for bad debts	(868,490)	-	-	(868,490)	(113,446)
Net Third-party reimbursement for services					
net of provision for bad debts	8,149,722	-	-	8,149,722	9,303,267
Interest and dividend income	48,847	215,595	-	264,442	213,009
Realized and unrealized gains (losses)					
on Investments	(107)	338,927	-	338,820	(326,663)
Gain on sale of property	1,608,392	-	-	1,608,392	594,067
Net assets released from restriction	2,901,436	(2,901,436)	-	-	-
Total revenue, gains and other support	23,935,821	79,126	200,000	24,214,947	22,680,034
Expenses					
Program services					
Health care	15,073,384	-	-	15,073,384	15,473,491
Children First Program	2,532,792	-	-	2,532,792	2,538,283
Education and outreach	1,018,153	-	-	1,018,153	1,030,312
Total program services	18,624,329	-	-	18,624,329	19,042,086
Support services					
Management and general	3,704,732	-	-	3,704,732	3,519,252
Fundraising	1,647,811	-	-	1,647,811	1,521,548
Total supporting services	5,352,543	-	-	5,352,543	5,040,800
Total expenses	23,976,872	-	-	23,976,872	24,082,886
In-kind contributions					
Revenue	4,231,370	10,692,616	-	14,923,986	18,372,283
Net assets released from restrictions	10,521,407	(10,521,407)	-	-	-
Total revenues and other support	14,752,777	171,209	-	14,923,986	18,372,283
Expenses (in-kind)					
Program services					
In-kind laboratory and x-ray services	1,888,000	-	-	1,888,000	1,668,422
Physician and other clinical volunteers	1,843,165	-	-	1,843,165	1,998,007
Children First Program volunteers	17,739	-	-	17,739	12,579
In-kind pharmaceutical & lab supplies	10,521,407	-	-	10,521,407	14,628,738
Other in-kind supplies and services	272,473	-	-	272,473	244,005
In-kind insurance	209,993	-	-	209,993	231,935
Total expenses	14,752,777	-	-	14,752,777	18,783,686
Net in-kind contributions	-	171,209	-	171,209	(411,403)
Surplus (deficit) before net assets released for capital expenditure	(41,051)	250,335	200,000	409,284	(1,814,255)
Net assets released for capital expenditure	166,283	(166,283)	-	-	-
Change in net assets	125,232	84,052	200,000	409,284	(1,814,255)
Net assets, beginning of year	7,498,085	6,104,550	5,274,057	18,876,692	20,690,947
Net assets, end of year	**$ 7,623,317**	**$ 6,188,602**	**$ 5,474,057**	**$ 19,285,976**	**$ 18,876,692**

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

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2013
(with Comparative Totals for the Year Ended June 30, 2012)

	Program Services				Supporting Services			
	Health Care	Children First Program	Education and Outreach	Total	Management and General	Fundraising	2013 Total	2012 Total
Salaries	$ 8,751,879	$ 1,280,708	$ 650,823	$ 10,683,410	$ 1,814,980	$ 780,507	$ 13,278,897	$ 13,476,282
Employee benefits	3,671,442	542,430	268,246	4,482,118	741,938	255,971	5,480,027	5,103,372
Child care	-	135,610	-	135,610	240	-	135,850	147,644
Computer/software/office supplies	92,868	26,716	7,020	126,604	52,192	6,226	185,022	407,034
Equipment and supplies	18,296	31,998	-	50,294	-	3,083	53,377	7,073
Fundraising event expenses	-	-	-	-	-	452,263	452,263	447,089
Insurance	-	5,945	-	5,945	203,643	-	209,588	209,126
Interest	-	-	-	-	101,009	-	101,009	68,037
Laboratory, x-ray and dental services	77,001	-	-	77,001	-	-	77,001	75,258
Licenses, fees and dues	26,055	2,270	1,009	29,334	212,029	30,413	271,776	218,171
Medical supplies and medical waste removal	211,249	-	63	211,312	5	-	211,317	270,480
Miscellaneous	54,879	7,462	13,321	75,662	14,009	10,837	100,508	64,163
Participant supplies/activities/incentives	31,000	49,094	6,087	86,181	-	-	86,181	60,959
Pharmaceutical and lab supplies	183,561	-	421	183,982	-	-	183,982	201,300
Postage, printing and subscriptions	68,873	20,229	3,276	92,378	8,544	36,983	137,905	150,561
Professional and contractual fees	667,423	111,315	4,808	783,546	126,553	30,931	941,030	1,187,805
Repairs and maintenance	315,920	37,747	10,469	364,136	102,488	13,354	479,978	480,238
Telephone	26,044	18,967	-	45,011	109,583	654	155,248	160,606
Transportation of patients/clients	22,031	2,711	-	24,742	-	-	24,742	37,842
Travel, training and workshops	18,817	74,907	2,940	96,664	6,973	1,586	105,223	152,931
Utilities and rent	288,280	103,154	14,184	405,618	72,460	3,943	482,021	482,043
Total before depreciation and amortization	14,525,618	2,451,263	982,667	17,959,548	3,566,646	1,626,751	23,152,945	23,408,014
Depreciation and amortization	547,766	81,529	35,486	664,781	138,086	21,060	823,927	674,872
Total functional expenses, excluding in-kind	15,073,384	2,532,792	1,018,153	18,624,329	3,704,732	1,647,811	23,976,872	24,082,886
In-kind expenses	14,476,939	275,838	-	14,752,777	-	-	14,752,777	18,783,686
Total functional expenses	**$ 29,550,323**	**$ 2,808,630**	**$ 1,018,153**	**$ 33,377,106**	**$ 3,704,732**	**$ 1,647,811**	**$ 38,729,649**	**$ 42,866,572**

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

VENICE FAMILY CLINIC

(A NONPROFIT ORGANIZATION)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2013

(with Comparative Totals for the Year Ended June 30, 2012)

	2013	2012
Cash flows from operating activities		
Change in net assets	$ 409,284	$ (1,814,255)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	823,927	674,872
(Recovery) Provision for allowance for doubtful accounts	(14,690)	(492,366)
Net realized and unrealized (gains) losses on long-term investments	(338,820)	326,663
Contributions to endowment funds	(200,000)	(1,050,000)
Gain on disposal of property	(1,608,392)	(594,067)
Changes in operating assets and liabilities		
Accounts receivable	2,197,228	410,227
Write off of accounts receivable	(653,247)	-
Grants and contributions receivable	521,002	(311,214)
Pharmaceutical inventories	(174,397)	405,662
Prepaid expenses and other assets	(592)	(186)
Accounts payable and accrued expenses	39,117	(633,378)
Net cash provided by (used in) operating activities	1,000,420	(3,078,042)
Cash flows from investing activities		
Purchases of property and equipment	(55,490)	(310,090)
Purchases of investments	(1,700,000)	(1,400,000)
Net proceeds from sale of investments	614,720	249,044
Net proceeds from sale of properties	1,855,103	1,430,458
Net cash provided by (used in) investing activities	714,333	(30,588)
Cash flows from financing activities		
Proceeds (payments) on line of credit	(3,000,000)	2,000,000
Proceeds from note payable, net of payments	1,590,160	125,155
Contributions to endowment funds	200,000	1,050,000
Net cash provided by (used in) financing activities	(1,209,840)	3,175,155
Net increase in cash and cash equivalents	504,913	66,525
Cash and cash equivalents, beginning of year	1,694,224	1,627,699
Cash and cash equivalents, end of year	**$ 2,199,137**	**$ 1,694,224**
Supplemental disclosure of cash flow information		
Interest paid	**$ 101,009**	**$ 68,037**

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

NOTE 1 – NATURE OF OPERATIONS

Venice Family Clinic and affiliate (the "Clinic") is a private, nonprofit, community-based clinic founded in 1970 to meet the health care needs of the low-income residents of Venice, California and the surrounding community. The Clinic's mission is to "provide quality primary health care to people in need."

The consolidated financial statements include the accounts of the Venice Family Clinic ("VFC") and the Venice Family Clinic Foundation (the "Foundation"), collectively, the Clinic.

VFC serves as a medical home, providing coordinated and comprehensive medical, dental and mental health services that include pediatrics, general adult medicine, women's, senior, homeless and chronic care services, prenatal care, specialty clinics in cardiology, dermatology, ear/nose/throat, gastroenterology, gynecology, neurology, ophthalmology, optometry, orthopedics and podiatry, psychological services, diagnostic tests and medications. Health care is provided five days and four evenings per week, with 72,906 primary health care visits, 4,317 specialty care visits, 5,153 dental visits, 5,937 mental health care visits and 7,925 health education visits provided during the year ended June 30, 2013 (unaudited).

During the year ended June 30, 2013, VFC provided services to 21,068 patients (unaudited), primarily the uninsured working poor, unemployed and homeless, the vast majority of which have incomes below the poverty level and no health insurance. A high proportion of VFC's children and adult patients are minority group members. VFC's primary service area includes Venice, Santa Monica, Palms, Mar Vista, Inglewood, Culver City and Midtown, all in Los Angeles County.

VFC is affiliated with the UCLA School of Medicine. As part of this affiliation, UCLA provides payroll and personnel services, personnel training services and workers' compensation insurance to VFC at minimal charge and medical malpractice insurance at no charge. VFC contributes to the University of California Retirement Plan ("UCRP" or the "Plan") as part of its affiliation agreement between Venice Family Clinic and UCLA.

VFC trains medical residents from eleven residency programs at UCLA, Santa Monica-UCLA Medical Center and Orthopaedic Hospital, Kaiser Permanente-Sunset, Cedars-Sinai Medical Center and the Veterans Administration. Approximately 1,950 people volunteered in fiscal year 2013 (unaudited), including approximately 230 physicians (unaudited). The Clinic estimates that it received 62,600 (unaudited) total volunteer hours, including 14,200 (unaudited) general and administrative volunteer hours; such general and administrative hours are not represented in the financial statements in accordance with accounting principles generally accepted in the United States of America.

NOTE 1 – NATURE OF OPERATIONS (Continued)

VFC provides services to eligible patients under Medi-Cal, Healthy Families, Healthy Kids and Medicare programs, which represents approximately 42% of the total patients served. Under the Prospective Payment System ("PPS") program, VFC receives a fixed rate reimbursement from Medi-Cal. The rate is adjusted every October for annual Medicare Economic Indexes ("MEI") increases. Medicare services are reimbursed on a fee schedule, subject to certain limitations.

In 1995, VFC applied for and was awarded an Early Head Start grant ("The Children First Program"). The Early Head Start grant is contingent upon the availability of federal funds and satisfactory performance under the terms and conditions of the Head Start grant in the current budget period. The goals of the program are to strengthen the development of the child and promote the social and economic self-sufficiency of the family. During the fiscal year ending June 30, 2013, funding of $2,763,946 was provided for this program, which is composed of the regular fund and expansion fund. VFC renewed its funding from the Early Head Start through December 2014.

The Foundation was incorporated, received its tax-exempt status from both the Internal Revenue Service and the State Franchise Tax Board and began operations on July 30, 2010. The Foundation's specific purpose is to support, through financial and in-kind contributions, provision of services and community outreach, the mission of the Clinic, to provide quality primary health care to people in need. In addition, the Foundation holds the annual Venice Art Walk to raise funds for the Clinic.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Presentation</u>
The consolidated financial statements are presented utilizing the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such 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 Clinic's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

All significant intercompany transactions between VFC and the Foundation have been eliminated in consolidation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classes of Net Assets

The Clinic 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.

- Unrestricted net assets are either not restricted by donors, or the donor-imposed restrictions have expired.
- Temporarily restricted net assets contain donor-imposed restrictions that permit the Clinic to use or expend the assets as specified as the restrictions are satisfied either by the passage of time or by actions of the Clinic.
- Permanently restricted net assets (“endowment funds”) contain donor-imposed restrictions that stipulate the resources must be maintained in perpetuity. Income from permanently restricted investments is recorded as temporarily restricted, except where the instructions of the donor specify otherwise.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Clinic considers all temporary, short-term, highly liquid investments purchased with original maturities of three months or less to be cash and cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are recorded at fair value, based on quoted market prices, in the statement of financial position. Changes in unrealized gains and losses resulting from changes in fair value are reflected in the statement of activities.

Investments received through gifts are recorded at estimated fair value at the date of donation.

Dividend and interest income are accrued when earned. Dividend and interest income earned from investments in all net asset classifications is allocated based on the individual investment asset as a percentage of total investment assets. Income from permanently restricted investments is recorded as temporarily restricted, except where the instructions of the donor specify otherwise.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Patient Accounts Receivable

Patient accounts receivable are recorded based on an all-inclusive rate for each visit, with final settlement accounts receivable determined on the Medi-Cal Managed Care services after submission of annual reconciliation reports. Amounts collected on patient accounts receivable are included in net cash provided by operating activities in the statements of cash flows. The Clinic maintains an allowance for doubtful accounts for estimated losses inherent in its patient accounts receivable portfolio. In establishing the required allowance, management considers historical losses, current receivable aging and existing industry and national economic data. The Clinic reviews its allowance for doubtful accounts annually. Past-due balances over ninety days and over a specified amount are reviewed individually for collectability.

Allowance for doubtful accounts recognized for third party payers for the years ended June 30, 2013 and 2012 amounted to $328,689 and $343,379, respectively.

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 Clinic does not have any off-balance sheet credit exposure related to its patients.

Pharmaceutical Inventories

Purchased inventories are stated at the lower of cost FIFO ("first-in, first-out method") or market. Donated inventories are stated at acquisition prices at the date of contribution. Acquisition prices are based on the federal 340B Drug Pricing Program which provides access to reduced price prescription drugs to eligible FQHC entities such as the Clinic.

Beneficial Interests

Donors have established and funded trusts, which are administered and controlled by organizations other than the Clinic. Under the terms of these trust agreements, the Clinic has the irrevocable right to receive all or a portion of the income earned on the trusts in perpetuity. The Clinic recognizes its beneficial interests in these trusts as temporarily restricted net assets based on the fair value of the assets. Distributions of investment income from these trusts are included in interest and other investment income in the accompanying statement of activities and reflected as unrestricted net assets, unless their use is temporarily or permanently restricted by donors to a specified purpose or future period.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Building and improvements	30 years
Furniture and equipment, including software	5 years
Leasehold improvements	Shorter of initial lease period or useful life of asset

The Clinic capitalizes assets $5,000 and over that meet the capitalization criteria.

Long-Lived Assets

The Clinic accounts for its long-lived assets with definite useful lives in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("Codification" or "ASC") Topic No. 360, *Accounting for the Impairment or Disposal of Long-Lived Assets.* Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Clinic first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment loss is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. The Clinic determined that none of its long-lived assets were impaired during the year ended June 30, 2013.

Private and Community Support Revenue

Contributions are recorded in unrestricted net assets and are considered to be available for use unless specifically restricted by the donor. Donor restricted contributions received and expended in the same reporting periods are recorded as unrestricted support. Conditional contributions are recognized as revenue and recorded in unrestricted net assets when the conditions on which they depend have been substantially met.

Unconditional promises to give ("pledges") are recorded as receivables and contributions, distinguishing between contributions received for each net asset class in accordance with donor-imposed restrictions. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. An allowance for uncollectible contributions receivable is provided, if necessary, based on management's judgment, including such factors as prior collection history, type of contribution, nature of fundraising activity and when time requirements are expected to be met.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Private and Community Support Revenue (Continued)
The Clinic records contributions as temporarily restricted if donor stipulations limit their use either through purpose or time. When donor restrictions expire, that is, when a time period ends or a purpose is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Government Support Revenue
Revenue from cost reimbursable grants and contracts is recorded to the extent of expenses incurred applicable to the grant or contract. Any difference between expenses incurred and the total funds received (not to exceed the grant or contract maximum) is recorded as a receivable or an advance, whichever is applicable. Revenue from other grants is recognized on an accrual basis as earned according to the provisions of the grant.

Third-Party Reimbursement for Services
VFC provides primary care services to patients covered under the Medi-Cal managed care program. Under this program, VFC is paid at a negotiated fixed fee on a per-member-per-month basis regardless of the medical services provided to the member. However, as a Federally Qualified Health Center ("FQHC"), VFC is entitled to additional reimbursements through a reconciliation of the differences between its all-inclusive rate per visit against the capitation or fee-for-service it receives from health maintenance organizations ("HMOs") and the Code 18 rate paid by the State. VFC is not responsible for services rendered to members outside its clinics.

VFC also has agreements with third-party payers that provide for payments to VFC at amounts different from its established fee for service rates. VFC is reimbursed for patient services by Medi-Cal by means of an all-inclusive rate for each visit, with final settlement determined on the Medi-Cal Managed Care services after submission of annual reconciliation reports and audits thereof by the State Financial Audits Branch. VFC's Medi-Cal Managed Care reconciliation reports have been audited and finalized through 2011.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Third-Party Reimbursement for Services (Continued)
In 2000, the Medicare, Medicaid and State Children's Health Insurance Program Benefits Improvement and Protection Act ("BIPA") was passed. This legislation included a provision establishing a minimum Medicaid per-visit rate for each FQHC using a Prospective Payment System ("PPS") methodology. Annually, thereafter, the per-visit rate is adjusted using the Medicare Economic Index ("MEI") for primary care and any change in scope of services. BIPA also repeals the phase-out and elimination of the reasonable cost-based reimbursement methodology system under the Balanced Budget Act of 1997 as amended by the Federal Balanced Budget Refinement Act of 1999. Under BIPA, however, states may select an alternative payment methodology as long as the methodology reimburses FQHCs at least what they would receive under PPS and is agreed to by the FQHC. With the approval of California State plan amendment ("SPA") No. 01-010, effective January 1, 2001, the state has chosen to implement an optional alternative payment methodology and has established base rates (on a per-visit basis) using as-reported cost-based rates for fiscal year 2000, updated to reflect increases in the MEI.

Third-party reimbursement for services, net of contractual allowances and discounts (but before the provision for bad debts), recognized from third-party payers for the years ended June 30, 2013 and 2012 amounted to $8,149,722 and $9,303,267, respectively.

Incentive-Based Revenue
Under the provisions of the American Recovery and Reinvestment Act ("ARRA") of 2009, physicians are eligible for financial incentives by demonstrating "meaningful use" of an electronic health record system ("EHR"). Providers can qualify for incentives either through the Medicare program or through the Medi-Cal program. VFC has chosen the latter.

Medi-Cal providers who meet certain patient volume thresholds will qualify for up to a maximum of $63,750 per provider paid out over six years. Medi-Cal providers can receive $21,250 in incentives in year one for adopting, implementing or upgrading their EHR system, with five subsequent payments of $8,500 for demonstrating meaningful use of their EHR. The Clinic calculates the annual incentive amount by multiplying the scheduled payment by the number of eligible providers on staff. The incentives are similar to bonus payments (not reimbursements) and can be used at the Clinic's discretion.

During the fiscal year ended June 30, 2013 and 2012, the Clinic did not record any revenue or receivable under this program. The Clinic will record further revenue related to this incentive program once it is able to demonstrate meaningful use.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Charity Care
The Clinic defines "charity care" as services rendered for which the patient shall not be held liable. The Clinic is committed to providing quality health care for certain members of its community, including the poor and underserved who cannot afford health insurance, copays and deductibles. During the years ended June 30, 2013 and 2012, the Clinic provided charity care of $9,257,092 and $8,817,736, respectively, to its patients, which has been calculated as the difference between total health care costs less net third party reimbursements for services.

In-Kind Contributions
In-kind contributions are recorded at their estimated fair market value at the time services are pledged or rendered or goods are received. They include donations of laboratory and diagnostic services provided primarily by hospitals, time donated by physicians and other health care volunteers, drugs for clinical activities and donations of goods and services in connection with the operations of the Clinic.

Income Taxes
The Clinic 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.

Effective July 1, 2009, the Clinic adopted FASB ASC Topic No. 740, *Uncertainty in Income Taxes* ("ASC 740"). In accordance with ASC 740, the Clinic recognizes the impact of tax positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. To date, the Clinic has not recorded any uncertain tax positions. The Clinic recognizes potential accrued interest and penalties related to uncertain tax positions in income tax expense. During the year ended June 30, 2013, the Clinic did not recognize any amount in potential interest and penalties associated with uncertain tax positions.

The Foundation's income tax return remains subject to examination for the tax years ended on or after June 30, 2012 with regard to all tax positions and results reported. The following table summarizes the open tax years for VFC for each major jurisdiction:

Jurisdiction	Open Tax Years
Federal	2010 – 2012
State	2009 – 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimated Fair Value of Financial Instruments
The Clinic accounts for the fair value of its financial instruments in accordance with FASB ASC Topic No. 820, *Fair Value Measurements and Disclosures* ("ASC 820"). ASC 820 defines fair value and requires enhanced disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date (i.e., the exit price).

ASC 820 requires enhanced disclosures about financial instruments that are measured and reported at fair value. ASC 820 establishes a fair value hierarchy that prioritizes and ranks the level of market price observability used in measuring fair value. Market price observability is impacted by a number of factors, including the type of instrument, the characteristics specific to the instrument and the state of the marketplace (including the existence and transparency of transactions between market participants). Instruments with readily available, actively quoted prices or for which fair value can be measured from actively quoted prices in an orderly market will generally have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities. The type of instruments that would generally be included in Level 1 includes listed equity securities.

Level 2 – Pricing inputs are observable for the instruments, either directly or indirectly, as of the reporting date but are other than quoted prices in active markets as in Level 1. The types of instruments that would generally be included in Level 2 include publicly traded securities with restrictions on disposition.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The types of instruments that would generally be included in Level 3 include debt and equity securities issued by private entities and real estate.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given instrument is based on the lowest level of input that is significant to the fair value measurement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimated Fair Value of Financial Instruments (Continued)
The Clinic's financial instruments include cash and cash equivalents, accounts receivables, grants receivables, pledges receivables, accounts payables, accrued expenses, and notes payable. The carrying values for cash and cash equivalents, accounts receivable and grants receivable due in less than one year and accounts payable and accrued expenses approximate fair values due to the short maturity of these instruments. The carrying values for long-term pledges receivable have been discounted using an appropriate discount rate to approximate fair value. The carrying values of investments are reflected at estimated fair value as described in Note 3 to the financial statements. The carrying amount of the notes payable approximates its fair value as these financial instruments earn or are charged interest based on the prevailing rate.

Concentration of Credit Risk
Credit risk is the failure of another party to perform in accordance with the contract terms. Financial instruments which potentially subject the Clinic to concentrations of credit risk consist primarily of cash and cash equivalents, investments (including the beneficial interest held by others) and pledges and receivables.

The Clinic places its cash and cash equivalents with high-credit, quality financial institutions. These account balances usually exceed amounts insured by the Federal Deposit Insurance Corporation (the "FDIC"). Effective January 1, 2013, the FDIC will insure up to $250,000 under the FDIC's general deposit insurance rules. However, the Clinic has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

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 Clinic for its services.

The Clinic received approximately 46.8% and 45.9% in 2013 and 2012, respectively, of its third-party reimbursement revenue from providing services to Medi-Cal patients. Reimbursement for such services is currently based on PPS rates with final settlement after submission of annual reconciliation reports to the state.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk (Continued)
A portion of the Clinic's annual funding, $5,981,358 or 26.2% and $5,180,344 or 23.3%, in 2013 and 2012, respectively, of total operating revenues is derived from grant agreements with federal and nonfederal government agencies. The Clinic has no reason to believe that relationships with these agencies will be discontinued in the foreseeable future. However, any interruption of these relationships (i.e., the failure to renew grant agreements or withholding of funds) would adversely affect the Clinic's ability to finance ongoing operations.

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 statements of financial position.

The Clinic holds significant investments in the form of short-term and long-term investment pools held by the UCLA Foundation. Credit risk is the failure of another party to perform in accordance with the contract terms. The Clinic is exposed to credit risk for the amount of the investments. The Clinic has never sustained a loss on any investment due to non-performance and does not anticipate any non-performance by the users of the securities.

With respect to pledges and receivables, the Clinic routinely assesses the financial strength of its debtors and believes that the pledges and receivables credit risk exposure is low.

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 based on an evaluation by management.

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, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements
In May 2011, the FASB issued Accounting Standards Update ("ASU") 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, to converge the guidance in U.S. GAAP and International Financial Reporting Standards ("IFRS"). The amended guidance changes several aspects of the fair value measurement guidance in ASC Topic 820. In addition, the amended guidance includes several new fair value disclosure requirements, including, among other things, information about valuation techniques and unobservable inputs used in Level 3 fair value measurements and a narrative description of Level 3 measurements' sensitivity to changes in unobservable inputs. The guidance became effective for the reporting period beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a material impact on the Clinic's consolidated financial position, statements of activities or cash flows.

In September 2011, the FASB issued ASU No. 2011-09, *Amendments to Disclosure Requirements on Employer's Participation in a Multiemployer Plan* ("ASU 2011-09"), which amends ASC Topic No. 715-80, *Compensation—Retirement Benefits—Multiemployer Plans*. The update requires additional disclosures to increase awareness of the commitments and risks involved with participating in multiemployer pension plans. The update also requires employers to provide additional separate disclosures for multiemployer pension plans and multiemployer other postretirement benefit plans. ASU 2011-09 is effective for annual periods ending after December 15, 2012. Early adoption is permitted. The amendments should be applied retrospectively for all prior periods presented. Other than additional disclosures, management does not expect the adoption of this update to have a material impact on the Clinic's consolidated financial statements.

Recently Issued Accounting Pronouncements
In October 2012, the FASB issued ASU No. 2012-05, *Not-for-Profit Entities ("NFP"): Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows* ("ASU 2012-05"), which require an NFP to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated securities should be classified as cash flows from investing activities by the NFP. ASU 2012-05 is effective prospectively for fiscal years, and interim periods within those years, beginning after June 15, 2013. The Clinic does not expect the adoption of this update to have a material impact on the Clinic's consolidated financial statements.

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with ASC 820, the following table represents the Clinic's fair value hierarchy for its financial assets measured at fair value on a recurring basis as of June 30, 2013:

	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 2,199,137	$ 2,199,137	$ -	$ -
Endowed investment pool	4,348,161	-	-	4,348,161
Regents STIP	2,146,962	-	-	2,146,962
Beneficial interests	486,808	-	-	486,808

The Endowed Investment Pool has a long-term investment horizon and consists principally of equity securities, bonds, mutual funds and alternative investments, which are managed in a unitized investment pool. The alternative instruments include hedge funds, private equity and venture capital. Monthly investment income and realized and unrealized gains and losses are allocated equitably based on the units owned by each participant at the beginning of each month. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. At each month-end, a fair value unit price is established based on the value of endowed pool assets (end of month) divided by the total number of pool units at the beginning of the month. Investors who wish to purchase units or sell existing units can only do so at month-end at the aforementioned fair value price. The Endowed Investment Pool is considered as Level 3 due to unobservable markets. Management established the fair value of Level 3 investments through monitoring of fund activities for the investments held by the UCLA Foundation. There are no restrictions on the redemptions of these investments, but the redemption must be approved by the Board of Directors.

Investments in the Regent's Short-term Investment Pool ("Regent's STIP") are carried at cost, which approximates fair value.

The Clinic has a beneficial interest in two trusts and two annuities that have been presented at the net present value using an estimated discount rate and annual yield over the remaining life expectancy of the donors.

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) consist of the following:

	EIP Investments	STIP Investments	Beneficial Interest	Total
Beginning, June 30, 2012	$ 3,885,786	$ 1,326,273	$ 473,484	$ 5,685,543
Investment income/ increase in fair value	543,798	48,452	13,324	605,574
Contributions	-	1,700,000	-	1,700,000
Distributions	(231,423)	-	-	(231,423)
Transfer in (out) Level 3	150,000	(927,763)	-	(777,763)
Total, June 30, 2013	**$ 4,348,161**	**$ 2,146,962**	**$ 486,808**	**$ 6,981,931**

The following table summarizes the Clinic's financial assets that are valued using the fair value approach described in Note 2.

	Fair Value, June 30, 2013	Redemption Frequency	Redemption Notice Period
Endowed Investment Pool	$ 4,348,161	monthly	10 days
Regent's STIP	2,146,962	monthly	N/A
Total	**$ 6,495,123**		

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table represents the Clinic's level 3 financial instrument, the valuation technique used to measure the fair value of the financial instrument, and the significant unobservable inputs and the ranges of values for those inputs:

Instrument	Fair Value	Principal Valuation Technique	Unobservable Inputs	Significant Input Values
Endowed Investment Pool Funds (a)	$ 4,348,161	Withdrawal amount as calculated by UCLA Foundation	N/A	N/A
Regent's STIP (a)	$ 2,146,962	Withdrawal amount as calculated by UCLA Foundation	N/A	N/A

(a) Investments classified as Level 3 include the Clinic's investments in the UCLA Foundation's Endowed Investment Pool and its Regent's STIP (see Note 6).

NOTE 4 – ACCOUNTS RECEIVABLE

The Clinic's accounts receivable consisted of the following at June 30:

	2013	2012
Third-party reimbursable contract receivable	$ 1,250,772	$ 2,586,858
Other accounts receivable	97,926	305,821
	1,348,698	2,892,679
Less allowance for doubtful accounts	(328,689)	(343,379)
Total	**$ 1,020,009**	**$ 2,549,300**

NOTE 4 – ACCOUNTS RECEIVABLE (Continued)

The third-party reimbursement receivables from Medi-Cal include amounts requested from the state through the completion of the Medi-Cal Reconciliation Request Report. As an FQHC, the Clinic is entitled to additional reimbursements through a reconciliation of the differences between its all-inclusive rate per visit against capitation revenues received from health maintenance organizations. At June 30, 2013, the total unpaid third party reimbursement receivable was $1,250,772.

During the fiscal year ending June 30, 2013, the State audited the FQHC revenues reported for 2009 to 2011. During the audit, the State disallowed portions of the 2009 to 2011 receivables, which amounted to $749,980. The Clinic reversed a previous allowance of $230,220 and a net $519,760 was written off as bad debt expense for the year ended June 30, 2013.

At June 30, 2013, the total unpaid FQHC settlement receivable was $706,104, and the Clinic has recorded an allowance of $328,689. The settlement was for revenue generated from 2012 to 2013, the years for which the state had not yet completed the relevant audit.

NOTE 5 – GRANTS AND CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are included in the financial statements as grants and contributions receivable. Promises to give due in one year or more are recorded after discounting to the present value of the future cash flows at rates ranging from less than 1% to 2.93% at June 30, 2013.

Unconditional promises to give are expected to be realized in the following periods:

	2013	2012
Amounts due		
In less than one year	$ 3,408,500	$ 3,585,895
In one to five years	797,326	1,197,066
In more than five years	1,000,000	1,000,000
Total gross contributions receivable	5,205,826	5,782,961
Less present value discount	(37,392)	(93,525)
Less allowance for doubtful accounts	(25,000)	(25,000)
Total contributions receivable, net	5,143,434	5,664,436
Less current portion of contributions receivable, net	(3,383,500)	(3,560,895)
Contributions receivable, net of current portion	**$ 1,759,934**	**$ 2,103,541**

NOTE 6 – INVESTMENTS

The Clinic's investments consisted of the following at June 30:

	2013	2012
Cash and cash equivalents	$ 857,400	$ 211,468
Endowed investment pool	4,348,161	3,891,030
Regent's STIP	2,146,962	1,193,301
Total	**$ 7,352,523**	**$ 5,295,799**

NOTE 7 – BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS

The Clinic's beneficial interest in charitable remainder trusts consisted of the following at June 30:

	2013	2012
S & M Richards 1997 Charitable Unitrust	$ 153,384	$ 141,783
Anonymous 2003 Charitable Gift	115,444	114,409
Anonymous 2007 Charitable Gift	188,515	190,299
Anonymous Charitable Remainder Unitrust	29,465	26,993
Total	**$ 486,808**	**$ 473,484**

The Clinic's beneficial interest in charitable remainder trusts has been valued at the net present value discounted using an estimated discount rate and annual yield over the remaining life expectancy of the donors.

S & M Richards 1997 Charitable Unitrust – In 1997, the Clinic became a beneficiary of the Richards Charitable Unitrust. During the life time of the donors/recipients, the Unitrust shall pay 7% of net fair market value of the assets for the Unitrust valued as of the first day of each taxable year of the Unitrust. Upon the death of the survivor of the donors, all remaining principal and income of the Unitrust shall be distributed to the Clinic.

Anonymous 2003 Charitable Gift – Anonymous donors had trusted $400,000 in cash for the benefit of California Community Foundation ("CCF"). It was agreed that, during the lifetime of the donors, the CCF will pay an annual amount of $25,600 to the donors. Upon the death of the donors, the remainder of this annuity shall be added to a fund of the CCF for the benefit of the Clinic, of which 5% will be disbursed to CCF for its general purpose and 95% to the Clinic.

NOTE 7 – BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS (Continued)

Anonymous 2007 Charitable Gift – Anonymous donors had trusted $500,000 in cash for the benefit of CCF. It was agreed that, during the lifetime of the donors, the CCF will pay an annual amount of $33,000 to the donors. Upon the death of the donors, of the remainder of this annuity, 5% shall be distributed to the CCF for its general purpose and 95% to the Clinic.

Anonymous Charitable Remainder Unitrust – Anonymous donor had a unitrust for the benefit of the donor. It was agreed that, during the lifetime of the donor, the CCF will distribute at 6% annually of the fair market value of the trust estate to the donor. Upon the death of the donor, of the remainder of the trust, disbursements to the Clinic will be made in accordance with CCF spending policies.

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2013	2012
Land	$ 1,116,512	$ 1,363,223
Buildings and improvements	6,002,656	6,002,656
Leasehold improvements	4,858,838	4,842,898
Furniture and equipment	2,285,701	2,246,767
	14,263,707	14,455,544
Less accumulated depreciation and amortization	(8,797,563)	(7,974,236)
Property and equipment, net	**$ 5,466,144**	**$ 6,481,308**

Property and equipment acquired with federal and/or state funds is owned by the Clinic and used in the program(s) for which it was purchased or in other future authorized programs. Disposition of such property and equipment and the ownership of any proceeds there from is subject to federal and state regulations. Depreciation and amortization expense for the years ended June 30, 2013 and 2012 amounted to $823,927 and $674,872, respectively.

On September 17, 2012, the Clinic sold its 613 Rose Avenue property for net proceeds of $1,855,103. The carrying amount of this property was $246,711 at the time of the sale, which resulted in a gain of $1,608,392 upon the sale.

NOTE 9 – LINES OF CREDIT

As of June 30, 2012, the Clinic maintained a $2,000,000 line of credit with a financial institution. Advances under the line of credit bore interest at the bank's prime rate plus 0.5% and were secured by properties owned by the Clinic. On June 30, 2012, the Clinic had an outstanding balance of $2,000,000. During the fiscal year ended June 30, 2013, the Clinic repaid $150,000 of the line of credit and effective January 1, 2013, the Clinic entered into an agreement with the same financial institution to convert the remaining outstanding balance of $1,850,000 line of credit into a 3-year term loan (see Note 10).

In November of 2011, the Clinic received a $2,000,000 line of credit facility from a foundation. Advances under the line of credit bear interest at the current prime rate plus one quarter percent per annum (3.5% at June 30, 2012) and are secured by property held by the Clinic. At June 30, 2012, the Clinic had an outstanding balance of $1,000,000. During the fiscal year ended June 30, 2013, the outstanding balance of $1,000,000 was paid in full, and the accrued interest was gifted back to the Clinic.

NOTE 10 – NOTES PAYABLE

On July 1, 2010, the Clinic entered into a loan agreement with California Health Facilities Financing Authority for a principal amount of $750,000 to purchase a Practice Management and Electronic Health Record system. This note payable bears interest at a rate of 3.0% per annum and matures on August 1, 2015. Pursuant to the agreement, the Clinic is required to make 60 payments, each in the aggregate amount of $13,476 on the 1st of each calendar month, commencing September 1, 2010, until the maturity date. The loan contains certain restrictive covenants with which the Clinic was in compliance at June 30, 2013. The Clinic's equipment and gross revenue pledges serve as collateral on the note payable. During the year, the Clinic made repayments of $149,118 on the outstanding principal balance. As of June 30, 2013, the total outstanding balance is $338,835.

During the fiscal year ended June 30, 2012, the Clinic received an interest free loan in the amount of $269,872 from UCLA. The term of repayment is 5 years. The Clinic did not make any repayments on the outstanding principal balance during the fiscal year ended June 30, 2013.

NOTE 10 – NOTES PAYABLE (Continued)

During the fiscal year ending June 30, 2013, the Clinic entered into an agreement with a financial institution to convert its $2,000,000 line of credit into a 3-year term loan of $1,850,000, after paying $150,000 of the line of credit obligation. The note payable bears interest at the prime reference rate plus 1.0% (4.25% at June 30, 2013). Pursuant to the agreement, the Clinic is required to make 35 payments, each in the aggregate amount of $25,000 each calendar month, commencing January 1, 2013, with the final payment, at maturity date, being the remainder of the balance. The Clinic's assets serve as collateral on the note payable. During the year, the Clinic made repayments of $110,721 on the outstanding principal balance. Loan fees of $10,380 from the conversion were incurred and expensed during the fiscal year ended June 30, 2013. As of June 30, 2013, the total outstanding balance was $1,739,279.

Long-term debt at June 30, 2013 and 2012 was as follows:

	2013	2012
Total notes payable	$ 2,347,986	$ 757,826
Less current portion	561,603	203,093
Long-term debt, less current portion	**$ 1,786,383**	**$ 554,733**

At June 30, 2013, the future maturities of long-term debt are as follows:

Years Ending June 30,	
2014	$ 561,603
2015	512,302
2016	1,220,105
2017	53,976
Total	**$ 2,347,986**

NOTE 11 – NET ASSETS

Temporarily Restricted Net Assets
Temporarily restricted net assets included the following at June 30:

	2013	2012
Drugs and dispensary supplies	$ 935,354	$ 764,145
Capital improvement funds	1,633,717	390,000
Operating program funds	3,619,531	4,950,405
Total	**$ 6,188,602**	**$ 6,104,550**

The drug and dispensary supplies represent mainly pharmaceuticals donated to the Clinic through various drug companies' patient assistance programs. These pharmaceuticals are expected to be used by the Clinic through the normal course of its operations.

Permanently Restricted Net Assets
Permanently restricted net assets include restricted contributions to the following funds:

- The Colen Physician Endowment Fund – established to provide for a permanent family practice physician and receives contributions from various individuals. During the fiscal year of 2007, the Clinic received tribute gifts to continue Irma Colen's legacy; family members established these gifts as additions to the Colen Physician endowment fund.
- The Milken Physician Endowment Fund – established by the Milken Family Foundation for a permanent family practice physician.
- The Lee Physician Endowment Fund – established by Norman and Sadie Lee for a permanent family practice physician.
- The Skirball Physician Endowment Fund – established to fund the salary of the Clinic's medical director.
- The Weisman Psychosocial Endowment Fund – established to provide ongoing support to the mental health programs.
- The Karsten Endowment Fund – established to provide for a domestic violence program. The income from the endowment will be used exclusively to support the Clinic's program of psychosocial services.
- The Briskin Endowment Fund – established to provide for the women's health care program. The income from the endowment will be used exclusively to support the Clinic's women's health care services.
- The Resnick Endowment Fund – established to provide mental health care services. The income from the endowment will be used exclusively to support the Clinic's program of mental health services.
- The Ziegler Endowment Fund – established to be used for the general support and operations of the Clinic.

NOTE 11 – NET ASSETS (Continued)

Permanently Restricted Net Assets (Continued)
The balances of the permanently restricted net assets consisted of the following at June 30:

	2013	2012
The Colen Physician Endowment Fund	$ 862,334	$ 862,334
The Milken Physician Endowment Fund	637,329	637,329
The Lee Physician Endowment Fund	564,207	364,207
The Skirball Physician Endowment Fund	750,000	750,000
The Weisman Psychosocial Endowment Fund	745,510	745,510
The Karsten Endowment Fund	112,677	112,677
The Briskin Endowment Fund	250,000	250,000
The Resnick Endowment Fund	500,000	500,000
The Ziegler Endowment Fund	1,000,000	1,000,000
Other funds	52,000	52,000
Total	**$ 5,474,057**	**$ 5,274,057**

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, beginning of year	$ (95,320)	$ -	$ 5,274,057	$ 5,178,737
Net investment return				
Interest and dividends	95,320	120,275	-	215,595
Net realized/unrealized gain (loss) on investment	-	328,441	-	328,441
Total net investment returns	-	448,716	-	544,036
Contribution	-	-	200,000	200,000
Appropriation of endowment asset for expenditures	-	(215,595)	-	(215,595)
Balance, end of year	**$ -**	**$ 233,121**	**$ 5,474,057**	**$ 5,707,178**

NOTE 11 – NET ASSETS (Continued)

Permanently Restricted Net Assets (Continued)
From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor requires the Clinic to retain as a fund of perpetual duration. In accordance with the provisions of ASC Topic No. 958, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2013, there was no deficiency in the endowment fund.

Spending Policy and How the Investment Objectives Relate to Spending Policy
The permanently restricted net assets consist of several donor-restricted perpetual endowment funds with a total amount of $5,474,057 at June 30, 2013. In accordance with the donors' stipulations and that of the ASC Topic No. 958, the historic value of $5,474,057 must be maintained in the funds, and all interest income, dividend income and net appreciation is unrestricted to be used for the purpose of the funds.

During the year ended June 30, 2013, investment income was recorded as temporarily restricted revenue in accordance FASB ASC Topic No. 958.

Effective in fiscal year 2010, the Clinic adopted the UCLA Foundation's endowment policy. The following is a description of the UCLA Foundation's endowment policy.

UCLA Foundation's Endowment Policy
The purpose of the UCLA Foundation's Endowment is to support the educational mission of the University of California, Los Angeles by providing a reliable source of funds for current and future use. The income/payout from each individual endowment fund is used to support the purpose established by the donor in the gift instrument. However, endowment funds are commingled for investment purposes in the UCLA Foundation's Endowment Pool to maximize returns and minimize investment and administrative costs.

The Endowment seeks to maximize long-term total returns consistent with prudent levels of risk. Investment returns are expected to preserve or enhance the real value of the endowment to provide adequate funds to sufficiently support designated University activities. The Endowment Investment Pool assets have an indefinite time horizon that runs concurrent with the endurance of the University in perpetuity. As such, the investment portfolio assumes a time horizon that may extend beyond a normal market cycle and therefore may assume an appropriate level of risk as measured by the standard deviation of annual returns.

The Endowment's portfolio is expected to generate a total annualized rate of return, net of fees and spending, that is greater than the rate of inflation as measured by the National Consumer Price Index over a rolling five-year period. The UCLA Foundation accomplishes these objectives by engaging a number of professional managers who are assigned specific investment mandates for equities, fixed income and alternative investments.

NOTE 11 – NET ASSETS (Continued)

UCLA Foundation's Endowment Policy (Continued)
The UCLA Foundation follows the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") adopted by the State of California in January 2009. UPMIFA does not set specific expenditure limits; instead, a charity can spend the amount the charity deems prudent after considering the donor's intent that the endowment continue permanently, the purpose of the fund and relevant economic factors. The UCLA Foundation's spending policy governs the rate at which funds are released to fund holders for current spending. The UCLA Foundation's spending policy is based on a target rate set as a percentage of a 36-month rolling average market value. The current rate is 5.0% for fiscal years 2012 to 2013.

The Board of Directors of the UCLA Foundation reviews and approves this rate annually. Investment returns earned in excess of the approved spending rate are retained in the endowment principal to protect from the effects of inflation and to allow for growth.

Endowments are managed in a unitized investment pool. Transactions within each individual endowment in the pool are based on the unit market value at the end of the month during which the transaction takes place for withdrawals and additions. It is the goal of the UCLA Foundation that the total return from endowment investments should be adequate to meet the following objectives:

- Preserve investment capital and its purchasing power
- Generate sufficient resources to meet spending needs (payout)
- Attain reasonable capital appreciation through prudent acceptance of risk to enhance the future purchasing power of the investment capital

NOTE 12 – PRIVATE AND COMMUNITY SUPPORT

Private and community support consisted of the following at June 30:

	2013	2012
Community, university and private foundation grants	$ 3,975,319	$ 3,601,722
Artwalk and other events	767,741	780,989
Gifts from individuals and corporations	1,387,872	1,809,197
Silver Circle	1,214,599	1,012,558
Patient donations	365,554	394,205
Other	161,128	117,339
Total private and community support	**$ 7,872,213**	**$ 7,716,010**

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Insurance
The Clinic maintains malpractice insurance through UCLA on a claims-made basis covering losses of $5,000,000 per occurrence.

Facility Lease
The Clinic has an agreement with the County of Los Angeles for the use of a building located at 2509 Pico Boulevard in Santa Monica for forty years, effective April 2000, rent-free. In exchange for free rent, the Clinic agreed to maintain, repair and obtain appropriate insurance coverage for the building and grant County of Los Angeles employees open access to the building. The Clinic is also required to achieve a minimum number of patient services for each year covered under the agreement. The Clinic did not recognize this in-kind donation due to the service requirement and the amount of leasehold improvements required to make the building habitable. At June 30, 2013, total leasehold improvements incurred for this building amounted to $4,165,332.

The Clinic has a noncancelable operating lease agreement for the use of the Irma Colen Health Center facility and office space located at 4700 Inglewood Blvd, Los Angeles, CA that is payable in monthly installments of $8,330 per month plus approximately $725 per month in estimated impounds, and which will expire in August 2018.

The Clinic has a noncancelable operating lease agreement for the use of the Children First Early Head Start expansion site located at 111 N. La Brea Avenue, Inglewood, CA that is payable in monthly installments of $3,790 per month plus approximately $715 per month in parking fees, and which will expire in October 2014, as per an amendment to the original lease executed during the fiscal year ended June 30, 2012.

The future minimum lease payments required for the above leases at June 30, 2013 are as follows:

Fiscal Year	Irma Colen Health Center	Early Head Start
2014	$ 119,398	$ 52,764
2015	124,403	13,191
2016	129,634	-
2017	135,101	-
2018	140,813	-
Thereafter	23,629	-
Total	**$ 672,978**	**$ 65,955**

NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)

Facility Lease (Continued)
The Clinic entered into various office equipment leases, with monthly lease payments ranging from approximately $150 to $400. Total operating equipment lease expense relating to these leases for the years ended June 30, 2013 and 2012 amounted to $49,910 and $52,799, respectively.

The future minimum lease payments required under the facilities and equipment leases at June 30, 2013 are as follows:

Fiscal Year	Facilities	Equipment
2014	$ 172,162	$ 30,616
2015	137,594	5,240
2016	129,634	646
2017	135,101	-
2018	140,813	-
Thereafter	23,629	-
Total	**$ 738,933**	**$ 36,502**

NOTE 14 – UNIVERSITY OF CALIFORNIA RETIREMENT PLAN

The Clinic's employees are legally employees of UCLA and work for the Clinic under an affiliation agreement. Accordingly such employees are eligible to receive benefits under the University of California Retirement Plan ("UCRP" or the "Plan"). The Plan is a defined benefit plan under which benefits are determined by formulas (factors include the member's salary, age and years of UCRP service). The Clinic contributes 10% of total payroll in accordance with the provisions of the Plan and the affiliation agreement. For the year ended June 30, 2013, the Clinic contributed $1,249,912 to the Plan.

The Clinic has no plans to withdraw from the Plan as of June 30, 2013. Were the Clinic ever to withdraw from the Plan in the future, under the affiliation agreement the Clinic would not be liable for its proportional share of any underfunded liability that might exist. Accordingly the disclosure provisions related to the Plan do not apply. However, overall the Plan is 76% funded at June 30, 2013. It is therefore possible that Plan premiums could increase in the future so as to reduce this underfunded situation.

NOTE 15 – RELATED PARTY TRANSACTIONS

For the fiscal year ended June 30, 2013, the Clinic received gifts and pledges from its Board of Directors in the amount of $317,165. As of June 30, 2013, $790,839 of gifts and pledges remained unpaid.

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 7, 2013, which is the date the financial statements were available to be issued. The following events have occurred during this period that require disclosure in the consolidated financial statements:

On October 15, 2013, the Clinic's Board of Directors agreed to operate specific programs of the nonprofit agency, Common Ground. Common Ground provides HIV services in West Los Angeles and has partnered with the Clinic by providing HIV Case Management services for over a decade. The Clinic intends to enter into certain agreements relating to the transfer of Common Ground's assets and obligations to Venice Family Clinic, including the assignment of public and private grants and contracts. After the assignment of these and other obligations, which will occur by Spring 2014, Common Ground will cease to exist as a nonprofit agency.

SUPPLEMENTAL INFORMATION – CONSOLIDATING SCHEDULES

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
CONSOLIDATING STATEMENT OF FINANCIAL POSITION BY ENTITY
June 30, 2013

	Venice Family Clinic	Venice Family Clinic Foundation	Eliminating	Total
Current assets				
Cash and cash equivalents	$ 1,852,492	$ 346,645	$ -	$ 2,199,137
Short-term investments	2,146,962	-	-	2,146,962
Accounts receivable, net	977,393	42,616	-	1,020,009
Grants and contributions receivable – short-term, net	3,383,500	-	-	3,383,500
Pharmaceutical inventories	975,104	-	-	975,104
Prepaid expenses and other assets	115,551	-	-	115,551
Total current assets	9,451,002	389,261	-	9,840,263
Long-term investments	4,348,161	-	-	4,348,161
Long-term contributions receivable, net of discount	1,759,934	-	-	1,759,934
Beneficial interest in charitable remainder trusts	486,808	-	-	486,808
Property and equipment, net	5,466,144	-	-	5,466,144
Total assets	**$ 21,512,049**	**$ 389,261**	**$ -**	**$ 21,901,310**
Current liabilities				
Lines of credit	$ -	$ -	$ -	$ -
Notes payable, current	561,603	-	-	561,603
Accounts payable and accrued expenses	223,641	43,707	-	267,348
Total current liabilities	785,244	43,707	-	828,951
Notes payable, net of current portion	1,786,383	-	-	1,786,383
Total liabilities	2,571,627	43,707	-	2,615,334
Net assets				
Unrestricted	7,277,763	345,554	-	7,623,317
Temporarily restricted	6,188,602	-	-	6,188,602
Permanently restricted	5,474,057	-	-	5,474,057
Total net assets	18,940,422	345,554	-	19,285,976
Total liabilities and net assets	**$ 21,512,049**	**$ 389,261**	**$ -**	**$ 21,901,310**

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

VENICE FAMILY CLINIC
(A NONPROFIT ORGANIZATION)
CONSOLIDATED STATEMENT OF ACTIVITIES BY ENTITY
For the Year Ended June 30, 2013

	Venice Family Clinic	Venice Family Clinic Foundation	Eliminating	Total
Revenues, gains and other support				
Private and community support	$ 7,571,009	$ 551,204	$ (250,000)	$ 7,872,213
Government support	5,981,358	-	-	5,981,358
Third-party reimbursement for services, less the provision for bad debts	8,149,722	-	-	8,149,722
Interest and dividend income	264,442	-	-	264,442
Realized and unrealized gains (losses) on long-term investments	338,820	-	-	338,820
Gain on sale of donated property	1,608,392	-	-	1,608,392
Net assets released from restriction	-	-	-	-
Total revenue, gains and other support	23,913,743	551,204	(250,000)	24,214,947
Expenses				
Program services				
Health care	15,073,384	250,000	(250,000)	15,073,384
Children First Program	2,532,792	-	-	2,532,792
Education and outreach	1,018,153	-	-	1,018,153
Total program services	18,624,329	250,000	(250,000)	18,624,329
Support services				
Management and general	3,704,732	-	-	3,704,732
Fundraising	1,433,455	214,356	-	1,647,811
Total supporting services	5,138,187	214,356	-	5,352,543
Total expenses	23,762,516	464,356	(250,000)	23,976,872
In-kind contributions				
Revenue	14,923,986	-	-	14,923,986
Net assets released from restrictions	-	-	-	-
Total revenues and other support	14,923,986	-	-	14,923,986
Expenses (in-kind)				
In-kind laboratory and X-ray services	1,888,000	-	-	1,888,000
Physician and other clinical volunteers	1,843,165	-	-	1,843,165
Children First Program volunteers	17,739	-	-	17,739
In-kind pharmaceutical and lab supplies	10,521,407	-	-	10,521,407
Other in-kind supplies and services	272,473	-	-	272,473
In-kind insurance	209,993	-	-	209,993
Total expenses	14,752,777	-	-	14,752,777
Net in-kind contributions	171,209	-	-	171,209
Change in net assets	322,436	86,848	-	409,284
Net assets, beginning of year	18,617,986	258,706	-	18,876,692
Net assets, end of year	**$ 18,940,422**	**$ 345,554**	**$ -**	**$ 19,285,976**

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