

St. John's Well Child and Family Center, Inc.

Accountants' Reports and Financial Statements

December 31, 2011 and 2010

St. John's Well Child and Family Center, Inc.
December 31, 2011 and 2010

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
St. John's Well Child and Family Center, Inc.
Los Angeles, California

We have audited the accompanying balance sheets of St. John's Well Child and Family Center, Inc. (the "Organization") as of December 31, 2011 and 2010, and the related statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. John's Well Child and Family Center, Inc. as of December 31, 2011 and 2010, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2012, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

BKD, LLP

June 19, 2012

St. John's Well Child and Family Center, Inc.

Balance Sheets

December 31, 2011 and 2010

Assets

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash	\$ 2,473,245	\$ 2,087,266
Patient accounts receivable, net of allowance; 2011 - \$389,000; 2010 - \$435,000	1,849,799	823,727
Grants and other receivables	1,681,562	743,977
Contributions receivable - current	916,656	652,844
Estimated amounts due from third-party payers - current	246,000	550,000
Supplies	332,735	416,401
Prepaid expenses and other	138,601	149,519
	<u>7,638,598</u>	<u>5,423,734</u>
Assets Limited As To Use		
Held by trustee	368,956	-
	<u>182,389</u>	<u>318,453</u>
Contributions Receivable		
	810,000	950,000
Estimated Amounts Due From Third-Party Payers		
Less current portion	246,000	550,000
	<u>564,000</u>	<u>400,000</u>
Property and Equipment, At Cost		
Land and land improvements	2,647,884	2,216,712
Buildings and leasehold improvements	7,730,656	6,748,321
Equipment	2,153,808	1,036,096
Furniture and fixtures	242,760	242,760
Construction in progress	1,006,717	801,318
	13,781,825	11,045,207
Less accumulated depreciation	2,308,320	1,930,355
	<u>11,473,505</u>	<u>9,114,852</u>
Other Assets		
Deferred financing costs	571,836	-
	<u>\$ 20,799,284</u>	<u>\$ 15,257,039</u>

Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Current maturities of long-term debt	\$ 309,213	\$ 128,440
Accounts payable	2,287,095	1,256,798
Accrued expenses	<u>1,107,299</u>	<u>935,877</u>
Total current liabilities	3,703,607	2,321,115
Long-Term Debt	6,334,601	4,323,125
Accrued Rent Payable	18,040	14,867
Interest Rate Swap Agreement	<u>-</u>	<u>379,765</u>
Total liabilities	<u>10,056,248</u>	<u>7,038,872</u>
Net Assets		
Unrestricted	7,652,568	6,009,766
Temporarily restricted	<u>3,090,468</u>	<u>2,208,401</u>
Total net assets	<u>10,743,036</u>	<u>8,218,167</u>
Total liabilities and net assets	<u>\$ 20,799,284</u>	<u>\$ 15,257,039</u>

St. John's Well Child and Family Center, Inc.
Statements of Operations
Years Ended December 31, 2011 and 2010

	2011	2010
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 11,354,390	\$ 9,657,927
Grant revenue	7,452,913	7,213,552
Contributions	1,469,678	2,230,251
Other	853,577	86,034
Net assets released from restrictions used for operations	2,354,116	2,109,257
Total unrestricted revenues, gains and other support	23,484,674	21,297,021
Expenses and Losses		
Salaries and wages	10,865,965	9,443,841
Employee benefits	2,101,110	1,682,772
Purchased services and professional fees	2,894,626	2,336,736
Supplies and other	5,068,662	4,800,396
Rent	400,229	292,748
Depreciation and amortization	521,170	477,176
Interest	385,975	298,744
Provision for uncollectible accounts	-	435,000
Total expenses and losses	22,237,737	19,767,413
Operating Income	1,246,937	1,529,608
Other Income (Loss)		
Change in fair value and loss on settlement of interest rate swap agreement	(175,235)	(139,833)
Loss on impairment of property	(1,043,779)	-
Excess of Revenues Over Expenses	27,923	1,389,775
Grants for acquisition of property and equipment	1,293,055	565,312
Net assets released from restrictions used for purchases of property and equipment	321,824	23,920
Increase in Unrestricted Net Assets	\$ 1,642,802	\$ 1,979,007

St. John's Well Child and Family Center, Inc.
Statements of Changes in Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
Unrestricted Net Assets		
Excess of revenues over expenses	\$ 27,923	\$ 1,389,775
Grants for acquisition of property and equipment	1,293,055	565,312
Net assets released from restrictions used for purchases of property and equipment	321,824	23,920
Increase in unrestricted net assets	1,642,802	1,979,007
Temporarily Restricted Net Assets		
Contributions	3,558,007	2,187,374
Net assets released from restriction	(2,675,940)	(2,133,177)
Increase in temporarily restricted net assets	882,067	54,197
Change in Net Assets	2,524,869	2,033,204
Net Assets, Beginning of Year	8,218,167	6,184,963
Net Assets, End of Year	\$ 10,743,036	\$ 8,218,167

St. John's Well Child and Family Center, Inc.
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Activities		
Change in net assets	\$ 2,524,869	\$ 2,033,204
Items not requiring (providing) cash		
Loss on impairment of property	1,043,779	-
Depreciation and amortization	521,170	477,176
Grants for acquisition of property and equipment	(1,293,055)	(565,312)
Change in fair value and loss on settlement of interest rate swap agreement	175,235	139,833
Change in contributed supplies	27,397	(42,151)
Accrued rent payable	3,173	14,867
Changes in		
Patient accounts receivable, net	(1,026,072)	(95,898)
Grants receivable	(937,585)	116,906
Contributions receivable	(127,748)	60,728
Estimated amounts due from third-party payers	140,000	55,441
Prepaid assets	10,918	(18,903)
Inventory and supplies	56,269	(67,912)
Accounts payable and accrued expenses	481,745	(336,251)
Deferred revenue	-	(130,156)
Net cash provided by operating activities	<u>1,600,095</u>	<u>1,641,572</u>
Investing Activities		
Purchase of assets limited as to use	(368,956)	-
Purchase of property and equipment	<u>(2,926,351)</u>	<u>(2,278,908)</u>
Net cash used in investing activities	<u>(3,295,307)</u>	<u>(2,278,908)</u>
Financing Activities		
Proceeds from grants for acquisition of property and equipment	1,293,055	565,312
Payment of deferred financing costs	(573,988)	-
Proceeds from issuance of long-term debt	6,515,000	1,095,000
Principal payments on long-term debt	(5,152,876)	(111,549)
Proceeds from issuance of notes payable to bank	500,000	1,382,944
Principal payments on notes payable to bank	<u>(500,000)</u>	<u>(1,382,944)</u>
Net cash provided by financing activities	<u>2,081,191</u>	<u>1,548,763</u>
Increase in Cash	385,979	911,427
Cash, Beginning of Year	<u>2,087,266</u>	<u>1,175,839</u>
Cash, End of Year	<u>\$ 2,473,245</u>	<u>\$ 2,087,266</u>
Supplemental Cash Flows Information		
Interest paid	\$ 385,975	\$ 298,744
Property and equipment acquisitions in accounts payable	\$ 1,069,977	\$ 350,003
Capital lease obligation incurred for property and equipment	\$ 275,125	\$ 292,952

St. John's Well Child and Family Center, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

St. John's Well Child and Family Center, Inc. (the "Organization") is a community health center that primarily earns revenues by providing physician and related health care services through clinics located in Los Angeles, California.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions. At December 31, 2011, the Organization's cash accounts did not exceed federally insured limits.

Assets Limited As To Use

Assets limited as to use include a cash account held by trustee under indenture agreement.

Patient Accounts Receivable

The Organization reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Organization provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Organization bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

St. John's Well Child and Family Center, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

Supplies

The Organization states supply inventories at the lower of cost, determined using the first-in, first-out method, or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. 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.

Certain property and equipment have been purchased with grant funds received from the U.S. Department of Health and Human Services. Such items may be reclaimed by the federal government if not used to further the grant's objectives.

Long-Lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Impairment losses of \$1,043,779 and \$0 were recognized for the years ended December 31, 2011 and 2010, respectively. On May 17, 2011, the Organization purchased certain real estate consisting of land and a building for a purchase price of \$1,300,000. The purchase price of the real estate was determined by an appraisal which included leasehold improvements made by the Organization prior to the acquisition. These leasehold improvements had a carrying value of \$1,043,779 at May 17, 2011. As the sum of the carrying value of such leasehold improvements plus the real estate acquisition price exceeded the fair value of the real estate, an impairment loss was recognized. The loss is included in the accompanying statement of operations.

St. John's Well Child and Family Center, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose.

Net Patient Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Contributions

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted net assets. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Government Grant Revenue

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

St. John's Well Child and Family Center, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

In-Kind Contributions

In addition to receiving cash contributions, the Organization receives in-kind contributions of rent and pharmaceutical supplies. For the years ended December 31, 2011 and 2010, \$1,200,967 and \$2,109,968 was received in in-kind contributions, respectively.

Income Taxes

The Organization has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible federally qualified health centers that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to six years based upon a statutory formula, as determined by the State, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Organization continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the State, fiscal intermediary or Medicare Administrative Contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Organization recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2011, the Organization completed the first-year requirements under the Medicaid program and has recorded revenue of approximately \$676,250, which is included in other revenue in the statements of operations.

Excess of Revenues Over Expenses

The statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions or grants of long-lived assets (including assets acquired using contributions or grants which by donor or granting agency restriction are to be used for the purpose of acquiring such assets).

St. John's Well Child and Family Center, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

Note 2: Grant Revenue

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care service delivery for residents of Los Angeles, California, and surrounding areas. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended December 31, 2011 and 2010, the Organization recognized \$3,570,170 and \$3,106,211 in CHC grant revenue, respectively.

In response to the current economic conditions, the federal government passed legislation appropriating grant dollars to community health centers under the American Recovery and Reinvestment Act (ARRA). The Organization has been awarded \$735,176 under the Increased Demand for Services (IDS) grant for the period of March 27, 2009, to March 26, 2011, to assist in meeting the needs of their community and \$1,428,345 under the Capital Improvement Program (CIP) grant for the period of June 29, 2009, to June 30, 2012, for facility construction and renovation. During the years ended December 31, 2011 and 2010, the Organization recognized \$62,174 and \$367,092 in IDS grant revenue and \$249,122 and \$540,276 in CIP grant revenue, respectively.

The federal government passed legislation appropriating grant dollars to community health centers for construction and renovation projects under the Affordable Care Act (ACA). The Organization was awarded \$9,482,804 under the ACA-Capital Development Grants program for the period of October 1, 2010, to September 30, 2012, for facility construction and renovation and \$500,000 under the ACA-School-Based Health Centers Capital Program for the period of July 1, 2011, to June 30, 2013, for school-based facility construction and renovate. During the years ended December 31, 2011 and 2010, the Organization recognized \$642,062 and \$0 in ACA grant revenue, respectively.

In addition to the aforementioned grants, the Organization receives financial support from other federal, state and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis.

Note 3: Net Patient Service Revenue

The Organization is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medicaid reimbursement purposes. The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

St. John's Well Child and Family Center, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of an annual cost report by the Organization and audit thereof by the Medicare fiscal intermediary. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medi-Cal. Covered FQHC services rendered to Medi-Cal program beneficiaries are paid based on a prospective reimbursement methodology. The Organization is reimbursed a set encounter rate for all services provided. Services not covered under the FQHC benefit are paid based on established fee schedules.

The Organization is required to submit an annual Medi-Cal Reconciliation Request Form to the California Department of Health Care Services (the "Department") for purposes of determining whether it was paid appropriately for certain Medi-Cal visits. These annual reconciliations result in the determination of any underpayment or overpayment by the Medi-Cal program for the affected visits. The Organization has recorded a receivable for estimated settlements expected to be received for Medi-Cal Reconciliation Request Forms for the years ended December 31, 2006 through 2011. Such amounts are recorded on the balance sheets as estimated amounts due from third-party payers. Following submission of the Medi-Cal Reconciliation Request Form, the Organization will generally receive a tentative settlement from the Medi-Cal program with a final settlement made within three years of the date of submission. Due to the timing of the interim and final settlement processes, the Organization has allocated a portion of the estimated receivable as a noncurrent asset.

Approximately 61% and 64% of net patient service revenues are from participation in the Medicare and state-sponsored Medi-Cal programs for the years ended December 31, 2011 and 2010, respectively. 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 Organization is a partner in the Healthy Way LA (HWLA) Program with the County of Los Angeles, which replaced the Public/Private Partnership (PPP) Program. Covered primary care services rendered to HWLA beneficiaries are paid by the County of Los Angeles to the extent of the County's contracted maximum obligation. The Organization's current agreement with the County covers the annual period ending June 30, 2012.

Approximately 25% and 23% of net patient service revenues for the years ended December 31, 2011 and 2010, respectively, are from participation in the HWLA and PPP programs.

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

St. John's Well Child and Family Center, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

Note 4: Concentration of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at December 31, 2011 and 2010, was:

	2011	2010
Medicare	1%	2%
Medi-Cal	39%	59%
Public/Private Partnership Program	59%	38%
Other third-party payers	1%	1%
	100%	100%

Note 5: Contributions Receivable

Contributions receivable at December 31, 2011 and 2010, consisted of the following:

	2011	2010
Temporarily restricted		
Due within one year	\$ 916,656	\$ 652,844
Due in one to five years	193,316	332,663
	1,109,972	985,507
Less		
Unamortized discount	10,927	14,210
	\$ 1,099,045	\$ 971,297

The discount rate for both 2011 and 2010 was 3%.

Note 6: Medical Malpractice Claims

The U.S. Department of Health and Human Services deemed the Organization and its practicing physicians covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

In 2011, the Organization adopted the provisions of Accounting Standards Update (ASU) 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, which eliminates the practice of netting claim liabilities with expected insurance recoveries for balance sheet presentation. Claim liabilities are to be determined without

St. John's Well Child and Family Center, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

consideration of insurance recoveries. Expected recoveries are presented separately. Prior to the adoption of ASU 2010-24, accounting principles generally accepted in the United States of America required a health care provider to accrue only an estimate of the malpractice claims costs for both reported claims and claims incurred but not reported where the risk of loss had not been transferred to a financially viable insurer. There was no impact of the ASU adoption to the Organization's financial statements.

Based upon the Organization's claim experience, no accrual has been made for medical malpractice costs for the years ended December 31, 2011 and 2010. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

Note 7: Notes Payable

The Organization had a \$750,000 revolving bank line of credit which expired on December 8, 2011, and was not renewed. The line was collateralized by substantially all of the Organization's assets except real estate. Interest varied with the bank's prime rate and was payable monthly. At December 31, 2011 and 2010, the Organization had no outstanding borrowings against this line of credit.

In 2010, the Organization experienced a delay in receiving Medi-Cal payments from the State of California. In response to this delay, the Organization obtained a promissory note providing for borrowings up to \$1,063,715. Accrued interest was to be paid monthly at 3.23% with a final payment of all outstanding principal and unpaid interest on the earlier of (i) two days after the date the Organization received the delayed Medi-Cal payments and (ii) the later of November 1, 2010, or thirty days from the day following the day the 2010-2011 fiscal year budget for the State of California was signed into law. The note was secured by the delayed Medi-Cal payments to be received by the Organization; the note was paid in full in October 2010 and was not renewed.

Note 8: Long-Term Debt

	<u>2011</u>	<u>2010</u>
Bank of America obligation #281 (A)	\$ -	\$ 2,102,784
Bank of America obligation #299 (B)	-	951,581
Ford Motor Credit (C)	3,171	9,418
Ford Motor Credit (D)	5,331	10,165
City National Bank (E)	-	1,084,665
City National Bank (F)	827,558	-
Series 2011 revenue bonds (G)	5,370,000	-
GoWest capital lease obligation (H)	518,329	292,952
	<u>6,724,389</u>	<u>4,451,565</u>
Less current maturities	309,213	128,440
Less unamortized discount on bonds	80,575	-
	<u>\$ 6,334,601</u>	<u>\$ 4,323,125</u>

St. John's Well Child and Family Center, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

- (A) Due May 2018; payable \$2,813 monthly plus interest at LIBOR plus 2.0%; secured by certain real estate. Note was paid in full during the year ended December 31, 2011, with proceeds from revenue bonds at (G).
- (B) Due May 2018, payable \$1,273 monthly plus interest at LIBOR plus 2.3%; secured by certain real estate. Note was paid in full during the year ended December 31, 2011, with proceeds from revenue bonds at (G).
- (C) Due June 2012; payable \$531 monthly, including interest at 1.9%; secured by a motor vehicle.
- (D) Due December 2012; payable \$478 monthly, including interest at 11.09%; secured by a motor vehicle.
- (E) Due April 2020, payable \$7,990 monthly, including interest at 7.25%; secured by certain real estate. Note was paid in full during the year ended December 31, 2011, with proceeds from revenue bonds at (G).
- (F) Due June 2026; payable \$7,171 monthly, including interest at 6.0%; secured by certain real estate.
- (G) The Revenue Bonds (Series 2011) consist of Insured Revenue Bonds in the original amount of \$5,370,000 dated November 30, 2011, which bear interest at 4% to 5.625%. The Bonds are payable in annual sinking fund installments and three principal payments. Annual sinking fund installments are payable from November 30, 2012, to November 30, 2041, and fluctuate between \$85,000 and \$330,000, respectively. The three principal payments are \$120,000, \$200,000 and \$345,000 due on November 30, 2021, November 30, 2031 and November 30, 2041, respectively. Bonds maturing on or after December 1, 2020, are subject to redemption prior to their stated maturity at the option of the Organization, in whole or in part by lot on any date, upon at least 45 days prior written notice to the Trustee, on or after December 1, 2019. Bonds redeemed December 1, 2019, through November 30, 2020, are subject to a redemption premium of 2%; bonds redeemed December 1, 2020, through November 30, 2021, are subject to a redemption premium of 1%; bonds redeemed December 1, 2021, and thereafter are not subject to a redemption premium.

The regulatory agreement requires that certain funds be established with the trustee. Accordingly, these funds are included as assets limited as to use held by trustee in the financial statements. The indenture agreement also requires the Organization to comply with certain restrictive covenants.

- (H) At imputed interest of 8%, due through May 2014; collateralized by equipment. Property and equipment included the following equipment under capital lease:

	2011	2010
Equipment	\$ 477,901	\$ 265,407
Less accumulated depreciation	39,133	-
	\$ 438,768	\$ 265,407

St. John's Well Child and Family Center, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2011, are:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2012	\$ 130,090	\$ 212,748
2013	129,020	212,748
2014	131,461	150,570
2015	139,055	-
2016	146,696	-
Thereafter	5,529,738	-
	<u>\$ 6,206,060</u>	576,066
Less amount representing interest		<u>57,737</u>
Present value of future minimum lease payments		518,329
Less current maturities		<u>179,123</u>
Noncurrent portion		<u>\$ 339,206</u>

Note 9: Derivative Financial Instrument

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Organization entered into an interest rate swap agreement for a portion of its floating rate debt. The agreement provided for the Organization to receive interest from the counterparty of LIBOR plus 2.3% and to pay interest to the counterparty at a fixed rate of 6.9% on notional amounts of \$0 and \$3,046,790 at December 31, 2011 and 2010, respectively. Under the agreement, the Organization paid or received the net interest amount monthly, with the monthly settlements included in interest expense. This agreement has been accounted for as a nonhedging transaction. Gains and losses on the derivative are recognized in excess of revenues over expenses. The carrying amount of the swap agreement is a liability of \$0 and \$379,765 at December 31, 2011 and 2010, respectively. The swap agreement was terminated on November 23, 2011, as part of the revenue bond issuance.

St. John's Well Child and Family Center, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

Note 10: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purpose or periods:

	2011	2010
Health care services		
Purchase of equipment	\$ 55,090	\$ 325,080
Indigent care	2,231,644	909,690
Health education	138,125	4,725
Pharmaceutical program	270,581	297,978
Time restricted	395,028	670,928
	<u>\$ 3,090,468</u>	<u>\$ 2,208,401</u>

During 2011, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of purchase of equipment, indigent care, health care education and pharmaceutical program in the amount of \$2,675,940. During 2010, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of purchase of equipment, indigent care and health care education in the amount of \$2,133,177.

Note 11: Functional Expenses

The Organization provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	2011	2010
Health care services	\$ 18,655,116	\$ 17,101,958
General and administrative	2,923,658	2,199,702
Fundraising	658,963	465,753
	<u>\$ 22,237,737</u>	<u>\$ 19,767,413</u>

St. John's Well Child and Family Center, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

Note 12: Operating Leases

The Organization has noncancellable operating leases for primary care outpatient offices and equipment which expire in various years through 2020.

Future minimum lease payments at December 31, 2011, were:

2012	\$ 264,838
2013	230,227
2014	156,722
2015	122,827
2016	51,544
Thereafter	<u>65,381</u>
Future minimum lease payments	<u>\$ 891,539</u>

Note 13: Pension Plan

The Organization has a 403(b) defined contribution plan covering substantially all employees. Any employer contributions are discretionary in nature and are subject to reduction or termination. Contributions were suspended after October 31, 2009. The Organization did not record retirement plan expense for the years ended December 31, 2011 and 2010.

Note 14: Disclosures About Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurements*, defines fair value 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. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, 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.

St. John's Well Child and Family Center, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

Following is a description of the valuation methodologies and inputs used for liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such liabilities pursuant to the valuation hierarchy.

Interest Rate Swap Agreement

The fair value is estimated using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

The following table presents the fair value measurements of liabilities recognized in the Organization's balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2011 and 2010:

	December 31, 2011			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Interest rate swap agreement	\$ -	\$ -	\$ -	\$ -

	December 31, 2010			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Interest rate swap agreement	\$ 379,765	\$ -	\$ 379,765	\$ -

The following methods were used to estimate the fair value of all other financial instruments recognized in the Organization's balance sheets at amounts other than fair value.

Cash

The carrying amount approximates fair value.

Contributions Receivable

Fair value is estimated at the present value of the future payments expected to be received.

St. John's Well Child and Family Center, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

Estimated Third-Party Payer Settlements

The carrying amounts are reasonable estimates of fair value.

Long-Term Debt

The fair value is estimated based on the borrowing rates currently available to the Organization for debt with similar terms and conditions.

The following table presents estimated fair values of the Organization's financial instruments not previously disclosed at December 31, 2011 and 2010:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash	\$ 2,473,245	\$ 2,473,245	\$ 2,087,266	\$ 2,087,266
Contributions receivable	1,099,045	1,099,045	971,297	971,297
Estimated third-party payer settlements	810,000	810,000	950,000	950,000
Financial liabilities				
Long-term debt	6,643,814	6,643,814	4,451,565	4,451,565

Note 15: Construction in Progress

The Organization opened a new school-based clinic at Dominquez High School in Compton in May 2012. The project was completed in March 2012 at a total cost of \$657,000. As of December 31, 2011, \$381,662 of this work had been completed and is classified as construction in progress in the Organization's balance sheet. This project is primarily funded with government grants.

The Organization commenced work on the \$12,000,000 Williams/Hoover Campus renovation project, primarily funded under an Affordable Care Act grant from Health Resource Services Administration (HRSA) for \$9,400,000. As of December 31, 2011, \$603,234 of this work had been completed and is classified as construction in progress in the Organization's balance sheet.

The Organization plans to open two school-based clinics in January 2013 at Manual Arts High School and Washington High School. As of December 31, 2011, \$12,821 and \$9,000 of this work had been completed at each clinic, respectively, and is classified as construction in progress in the Organization's balance sheet. Both projects are fully funded with Los Angeles Unified School District and Los Angeles County grants.

St. John's Well Child and Family Center, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

Note 16: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Grant Revenues

Concentration of revenues related to grant awards and other support is described in *Note 2*.

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *3*.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 6*.

Litigation

In the normal course of business, the Organization is, from time to time, subject to allegations that may result in litigation. The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of the ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of loss to differ materially in the near term.

Labor Agreement

The Organization entered into an agreement with Service Employees International Union, Local 721 for the period March 1, 2011, through February 28, 2014. Approximately 57% of employees are covered under this agreement.

Current Economic Conditions

The current protracted economic decline continues to present community health centers with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Organization.

St. John's Well Child and Family Center, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

Current economic conditions, including the rising unemployment rate, have made it difficult for our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Organization's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medi-Cal program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change in the future, resulting in future adjustments in allowances for accounts and contributions receivable.

Note 17: Subsequent Events

On January 10, 2012, the Organization obtained a revolving line of credit in the amount of \$700,000 expiring on January 10, 2013. Interest is payable monthly at a rate of the greater of 3.50% or prime rate plus 1%, commencing February 10, 2012. The line is collateralized by substantially all of the Organization's assets except real estate.

On March 23, 2012, the Organization obtained an installment note in the amount of \$800,000. Available principal balance was drawn in full on March 29, 2012. The note requires repayment of the outstanding principal balance in sixty consecutive monthly payments of \$13,333 beginning on November 1, 2012. Interest accrued on the note shall be payable monthly at a rate of the greater of 3.50% or prime rate plus 1%, commencing May 1, 2012. The note is secured by certain real estate.

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

Supplementary Information

St. John's Well Child and Family Center, Inc.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2011

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
ARRA - Increase Services to Health Centers	U.S. Department of Health and Human Services	93.703	6 H8BCS 11797-01-02	\$ 62,174
ARRA - Capital Improvement Program	U.S. Department of Health and Human Services	93.703	4 C81CS 13795-01-04	<u>249,122</u>
				<u>311,296</u>
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	6 H80CS 00873-09-07	<u>3,570,170</u>
Affordable Care Act Grants for Capital Development in Health Centers	U.S. Department of Health and Human Services	93.526	6 C8ACS 21352-01-02	<u>582,474</u>
Affordable Care Act Grants for School-Based Health Center Capital Expenditures	U.S. Department of Health and Human Services	93.501	1 C12CS 22052-01-00	<u>59,588</u>
Community Development Block Grants/ Entitlement Grants	U.S. Department of Housing and Urban Development/ City of Los Angeles	14.218	C-117495	70,649
Community Development Block Grants/ Entitlement Grants	U.S. Department of Housing and Urban Development/ City of Los Angeles/1736 Family Crisis Center	14.218	117500-1	<u>48,152</u>
				<u>118,801</u>
Family Planning Services	U.S. Department of Health and Human Services/California Family Health Council	93.217	2515-5320- 71209-11	<u>120,011</u>
Infertility Prevention Project	U.S. Department of Health and Human Services/California Family Health Council	93.977	2515-5320- 72401-10-11	<u>28,464</u>
				<u>\$ 4,790,804</u>

St. John's Well Child and Family Center, Inc.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2011

Notes to Schedule

1. This schedule includes the federal awards activity of St. John's Well Child and Family Center, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. St. John's Well Child and Family Center, Inc. did not provide federal awards to subrecipients during the year ended December 31, 2011.

**Independent Accountants' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the Financial
Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors
St. John's Well Child and Family Center, Inc.
Los Angeles, California

We have audited the financial statements of St. John's Well Child and Family Center, Inc. (the "Organization") as of and for the year ended December 31, 2011, and have issued our report thereon dated June 19, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Board of Directors
St. John's Well Child and Family Center, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the governing body, management and others within the Organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

June 19, 2012

Independent Accountants' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Directors
St. John's Well Child and Family Center, Inc.
Los Angeles, California

Compliance

We have audited the compliance of St. John's Well Child and Family Center, Inc. (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the compliance of St. John's Well Child and Family Center, Inc. based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, St. John's Well Child and Family Center, Inc. complied, in all material respects, with compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

The management of St. John's Well Child and Family Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

Board of Directors
St. John's Well Child and Family Center, Inc.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing body, management and others within the Organization and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

BKD, LLP

June 19, 2012

St. John's Well Child and Family Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2011

7. The Organization's major programs were:

Cluster/Program	CFDA Number
Consolidated Health Centers Cluster	93.224
ARRA - Grants to Health Center Programs	93.703
Affordable Care Act Grants for Capital Development in Health Centers	93.526

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The Organization qualified as a low-risk auditee as that term is defined in OMB Circular A-133. Yes No

St. John's Well Child and Family Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2011

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

St. John's Well Child and Family Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2011

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

St. John's Well Child and Family Center, Inc.
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2011

Reference Number	Finding	Status
	No matters are reportable.	