

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

Independent Auditor's Report and Financial Statements

December 31, 2012 and 2011

St. John's Well Child and Family Center, Inc.
December 31, 2012 and 2011

Contents

Independent Auditor's Report..... 1

Financial Statements

Balance Sheets..... 3
Statements of Operations..... 4
Statements of Changes in Net Assets 5
Statements of Cash Flows 6
Notes to Financial Statements 8

Independent Auditor's Report

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

We have audited the accompanying financial statements of St. John's Well Child and Family Center, Inc. (the "Organization"), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, changes in net assets and cash flows for the years 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

Board of Directors
St. John's Well Child and Family Center, Inc.
Page 2

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, 2012 and 2011, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2012 the Organization changed its method of presentation and disclosure of patient service revenue, provision for uncollectible accounts and the allowance for doubtful accounts in accordance with Accounting Standards Update 2011-07. Our opinion is not modified with respect to this matter.

BKD, LLP

Springfield, Missouri
September 26, 2013

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

Balance Sheets

December 31, 2012 and 2011

Assets

	<u>2012</u>	<u>2011</u>
Current Assets		
Cash	\$ 2,675,217	\$ 2,473,245
Patient accounts receivable, net	2,361,017	1,849,799
Grants and other receivables	1,846,461	1,681,562
Contributions receivable - current	1,257,228	916,656
Estimated amounts due from third-party payers - current	294,542	246,000
Supplies	214,213	332,735
Prepaid expenses and other	175,888	138,601
	<u>8,824,566</u>	<u>7,638,598</u>
Total current assets		
	<u>8,824,566</u>	<u>7,638,598</u>
Assets Limited As To Use		
Held by trustee	368,956	368,956
	<u>368,956</u>	<u>368,956</u>
Contributions Receivable	242,481	182,389
	<u>242,481</u>	<u>182,389</u>
Estimated Amounts Due From Third-Party Payers	623,842	810,000
Less current portion	294,542	246,000
	<u>329,300</u>	<u>564,000</u>
	<u>329,300</u>	<u>564,000</u>
Property and Equipment, At Cost		
Land and land improvements	2,647,884	2,647,884
Buildings and leasehold improvements	12,320,048	7,730,656
Equipment	2,517,620	2,153,808
Furniture and fixtures	868,469	242,760
Construction in progress	2,649,429	1,006,717
	<u>21,003,450</u>	<u>13,781,825</u>
Less accumulated depreciation	3,617,176	2,308,320
	<u>17,386,274</u>	<u>11,473,505</u>
	<u>17,386,274</u>	<u>11,473,505</u>
Other Assets		
Deferred financing costs	552,722	571,836
	<u>552,722</u>	<u>571,836</u>
Total assets	<u>\$ 27,704,299</u>	<u>\$ 20,799,284</u>

Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>
Current Liabilities		
Current maturities of long-term debt	\$ 1,118,343	\$ 309,213
Accounts payable	2,840,213	2,287,095
Accrued expenses	1,306,853	1,107,299
Deferred grant revenue	2,000	-
	<u>5,267,409</u>	<u>3,703,607</u>
Long-Term Debt	6,053,245	6,334,601
Accrued Rent Payable	<u>18,881</u>	<u>18,040</u>
Total liabilities	<u>11,339,535</u>	<u>10,056,248</u>
Net Assets		
Unrestricted	12,933,681	7,652,568
Temporarily restricted	<u>3,431,083</u>	<u>3,090,468</u>
	<u>16,364,764</u>	<u>10,743,036</u>
Total liabilities and net assets	<u>\$ 27,704,299</u>	<u>\$ 20,799,284</u>

St. John's Well Child and Family Center, Inc.
Statements of Operations
Years Ended December 31, 2012 and 2011

	2012	2011
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue less provision for uncollectible accounts	\$ 14,211,690	\$ 9,715,470
Premium revenue	1,753,714	1,638,920
Grant revenue	6,196,968	7,452,913
Contributions	1,653,829	1,469,678
Other	218,635	853,577
Net assets released from restrictions used for operations	1,897,329	2,354,116
Total unrestricted revenues, gains and other support	25,932,165	23,484,674
Expenses and Losses		
Salaries and wages	12,750,061	10,865,965
Employee benefits	2,438,258	2,101,110
Purchased services and professional fees	4,253,150	2,894,626
Supplies and other	5,590,961	5,068,662
Rent	263,412	400,229
Depreciation and amortization	1,332,955	521,170
Interest	403,593	385,975
Loss on disposal of property and equipment	1,649	-
Total expenses and losses	27,034,039	22,237,737
Operating Income (Loss)	(1,101,874)	1,246,937
Other Income (Loss)		
Change in fair value and loss on settlement of interest rate swap agreement	-	(175,235)
Loss on impairment of property	-	(1,043,779)
Excess (Deficiency) of Revenues Over Expenses	(1,101,874)	27,923
Contributions of or for acquisition of property and equipment	205,294	-
Grants for acquisition of property and equipment	5,955,565	1,293,055
Net assets released from restrictions used for purchase of property and equipment	222,128	321,824
Increase in Unrestricted Net Assets	\$ 5,281,113	\$ 1,642,802

St. John's Well Child and Family Center, Inc.
Statements of Changes in Net Assets
Years Ended December 31, 2012 and 2011

	2012	2011
Unrestricted Net Assets		
Excess (deficiency) of revenues over expenses	\$ (1,101,874)	\$ 27,923
Contributions of or for acquisition of property and equipment	205,294	-
Grants for acquisition of property and equipment	5,955,565	1,293,055
Net assets released from restrictions used for purchase of property and equipment	222,128	321,824
Increase in unrestricted net assets	5,281,113	1,642,802
Temporarily Restricted Net Assets		
Contributions	2,460,072	3,558,007
Net assets released from restriction	(2,119,457)	(2,675,940)
Increase in temporarily restricted net assets	340,615	882,067
Change in Net Assets	5,621,728	2,524,869
Net Assets, Beginning of Year	10,743,036	8,218,167
Net Assets, End of Year	\$ 16,364,764	\$ 10,743,036

St. John's Well Child and Family Center, Inc.
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Activities		
Change in net assets	\$ 5,621,728	\$ 2,524,869
Items not requiring (providing) cash		
Loss on disposal and impairment of property	1,649	1,043,779
Depreciation and amortization	1,332,955	521,170
Contributions of or for acquisition of property and equipment	(205,294)	-
Grants for acquisition of property and equipment	(5,955,565)	(1,293,055)
Change in fair value and loss on settlement of interest rate swap agreement	-	175,235
Change in contributed supplies	104,309	27,397
Accrued rent payable	841	3,173
Changes in		
Patient accounts receivable, net	(511,218)	(1,026,072)
Grants and other receivables	(164,899)	(937,585)
Contributions receivable	(400,664)	(127,748)
Estimated amounts due from third-party payers	186,158	140,000
Prepaid expenses and other	(37,287)	10,918
Supplies	14,213	56,269
Accounts payable and accrued expenses	590,155	481,745
Deferred grant revenue	2,000	-
	<u>579,081</u>	<u>1,600,095</u>
Net cash provided by operating activities		
Investing Activities		
Purchase of assets limited as to use	-	(368,956)
Purchase of property and equipment	(6,950,548)	(2,926,351)
	<u>(6,950,548)</u>	<u>(3,295,307)</u>
Net cash used in investing activities		
Financing Activities		
Proceeds from contributions for acquisition of property and equipment	200,000	-
Proceeds from grants for acquisition of property and equipment	5,955,565	1,293,055
Payment of deferred financing costs	-	(573,988)
Proceeds from issuance of long-term debt	800,000	6,515,000
Principal payments on long-term debt	(382,126)	(5,152,876)
Proceeds from issuance of notes payable to bank	700,000	500,000
Principal payments on notes payable to bank	(700,000)	(500,000)
	<u>6,573,439</u>	<u>2,081,191</u>
Net cash provided by financing activities		

St. John's Well Child and Family Center, Inc.
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Increase in Cash	\$ 201,972	\$ 385,979
Cash, Beginning of Year	<u>2,473,245</u>	<u>2,087,266</u>
Cash, End of Year	<u>\$ 2,675,217</u>	<u>\$ 2,473,245</u>
Supplemental Cash Flows Information		
Interest paid	\$ 403,593	\$ 385,975
Property and equipment acquisitions in accounts payable	\$ 1,232,494	\$ 1,069,977
Capital lease obligation incurred for property and equipment	\$ 109,900	\$ 275,125
Equipment acquired through noncash contribution	\$ 5,294	\$ -

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

Notes to Financial Statements

December 31, 2012 and 2011

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

At December 31, 2012, the Organization's cash accounts did not exceed federally insured limits.

Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution.

Assets Limited As To Use

Assets limited as to use include a money market account held by trustee under an indenture agreement.

Change in Accounting Principle

In 2012, the Organization changed its method of presentation and disclosure of patient service revenue, provision for uncollectible accounts and the allowance for doubtful accounts in accordance with Accounting Standards Update (ASU) 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The major changes associated with ASU 2011-07 are to reclassify the provision for uncollectible accounts related to patient service revenue to a deduction from patient service revenue and to provide enhanced disclosures around the Organization's policies related to uncollectible accounts. The change had no effect on the prior year excess of revenues over expenses or on change in net assets.

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

Notes to Financial Statements

December 31, 2012 and 2011

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a provision for doubtful accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

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.

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

Notes to Financial Statements

December 31, 2012 and 2011

Effective January 1, 2012, the estimated useful service lives of the Organization's Hoover building and related leasehold improvements were decreased due to the Williams/Hoover Campus renovation project and the demolition of the Hoover building in March 2013. The effect of this change was to increase depreciation expense for 2012 by \$501,657.

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.

No impairment loss was recognized for the year ended December 31, 2012. An impairment loss of \$1,043,779 was recognized for the year ended December 31, 2011. 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 statements of operations.

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.

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

Notes to Financial Statements

December 31, 2012 and 2011

Premium Revenue

The Organization has agreements with various Medi-Cal Managed Care Organizations (MCOs) to provide medical services to subscribing participants. Under these agreements, the Organization receives monthly capitation payments based on the number of each MCO's participants, regardless of the services actually performed by the Organization. In addition, the MCOs make fee-for-service payments to the Organization for certain covered services based upon discounted fee schedules.

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.

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, 2012 and 2011, \$1,312,550 and \$1,200,967 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.

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

Notes to Financial Statements

December 31, 2012 and 2011

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.

For the years ended December 31, 2012 and 2011, \$159,750 and \$676,250, respectively, was recorded as revenue, which is included in other revenue in the statements of operations.

Excess (Deficiency) of Revenues Over Expenses

The statements of operations include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) 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).

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the change in net assets.

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, 2012 and 2011, the Organization recognized \$3,748,705 and \$3,570,170 in CHC grant revenue, respectively. The Organization's present CHC grant awards covers the grant period ended February 28, 2013, and is authorized at \$3,904,884. Funding for the grant year ending February 28, 2014, is also authorized at \$3,904,884.

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

Notes to Financial Statements

December 31, 2012 and 2011

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, 2013, 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 renovation. During the years ended December 31, 2012 and 2011, the Organization recognized \$5,911,820 and \$642,062 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 recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for the sliding fee program, the Organization recognizes revenue on the basis of its standard rates for service provided. On the basis of historical experience, a significant portion of the Organization's uninsured patients who do not qualify for the sliding fee program will be unable or unwilling to pay for the services provided. Thus the Organization records a provision for uncollectible accounts related to uninsured patients who do not qualify for the sliding fee program in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of net patient service revenue.

The Organization is approved as a Federally Qualified Health Center (FQHC) for both Medicare and Medi-Cal 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:

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.

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

Notes to Financial Statements

December 31, 2012 and 2011

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 2012. 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.

Laws and regulations governing the Medicare and Medicaid 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, 2013.

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 and discounts from established charges.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended December 31, 2012 and 2011, respectively, was:

	2012	2011
Medi-Cal	\$ 6,804,325	\$ 5,885,704
Medicare	123,774	77,473
County of Los Angeles	7,015,002	3,606,395
Self-pay and other	268,589	145,898
Total	<u>\$ 14,211,690</u>	<u>\$ 9,715,470</u>

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

Notes to Financial Statements

December 31, 2012 and 2011

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, 2012 and 2011, was:

	2012	2011
Medi-Cal	38%	39%
Medicare	1%	1%
County of Los Angeles	58%	59%
Other third-party payers	3%	1%
	100%	100%
	100%	100%

Note 5: Contributions Receivable

Contributions receivable at December 31, 2012 and 2011, consisted of the following:

	2012	2011
Temporarily restricted		
Due within one year	\$ 1,257,228	\$ 916,656
Due in one to five years	250,000	193,316
	1,507,228	1,109,972
Less		
Unamortized discount	7,519	10,927
	\$ 1,499,709	\$ 1,099,045
	\$ 1,499,709	\$ 1,099,045

The discount rate for both 2012 and 2011 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.

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

Notes to Financial Statements

December 31, 2012 and 2011

Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon the Organization's claim experience, no accrual has been made for medical malpractice costs for the years ended December 31, 2012 and 2011. 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, the Organization had no outstanding borrowings against this line of credit.

The Organization currently has a revolving line of credit in the amount of \$1,000,000 maturing on January 1, 2014. Interest is payable monthly at a rate of the greater of 3.50% or the bank's prime rate plus 1% (4.25% at December 31, 2012). The line is collateralized by substantially all or the Organization's assets except real estate. At December 31, 2012, the Organization had no outstanding borrowings against this line of credit.

Note 8: Long-Term Debt

	<u>2012</u>	<u>2011</u>
City National Bank (A)	\$ 790,937	\$ 827,558
City National Bank (B)	773,333	-
Series 2011 revenue bonds (C)	5,277,500	5,370,000
Ford Motor Credit (D)	-	3,171
Ford Motor Credit (E)	-	5,331
GoWest capital lease obligation (F)	311,444	518,329
Avaya financial capital lease obligation (G)	96,039	-
	<u>7,249,253</u>	<u>6,724,389</u>
Less current maturities	1,118,343	309,213
Less unamortized discount on bonds	<u>77,665</u>	<u>80,575</u>
	<u>\$ 6,053,245</u>	<u>\$ 6,334,601</u>

(A) Due June 2026; payable \$7,171 monthly, including interest at 6.0%; secured by certain real estate.

(B) Due October 2017; principal payable monthly at \$13,333; interest accrued on the note is payable monthly at a rate of the greater of 3.50% or the bank's prime rate plus 1% (5.25% at December 31, 2012); secured by certain real estate.

St. John's Well Child and Family Center, Inc.
Notes to Financial Statements
December 31, 2012 and 2011

In connection with this note, the Organization is required to maintain a cash flow from operations to debt service ratio of at least 1.5. This covenant was not met for the year ended December 31, 2012. Accordingly, the outstanding balance due under this note has been classified as a current liability at December 31, 2012.

- (C) 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 including maintaining a ratio of net income available for debt service to maximum aggregate annual debt service of at least 1.25, maintaining a current ratio of at least 1.5 and maintaining at least 30 days of expenses in cash.

The net income available for debt service to maximum aggregate annual debt service ratio was not met for the year ended December 31, 2012. Management has reported the noncompliance to the bank and the bank has decided to take no action against the Organization based solely on the default status of these covenants for the year ended December 31, 2012.

- (D) Due June 2012; payable \$531 monthly, including interest at 1.9%; secured by a motor vehicle. The note was paid in full in 2012.
- (E) Due December 2012; payable \$478 monthly, including interest at 11.09%; secured by a motor vehicle. The note was paid in full in 2012.
- (F) At imputed interest of 8%, due through May 2014; collateralized by equipment.
- (G) At imputed interest of 6.27%, due through March 2017; collateralized by equipment.

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

Notes to Financial Statements

December 31, 2012 and 2011

Property and equipment included the following equipment under capital lease:

	2012	2011
Equipment	\$ 587,801	\$ 477,901
Less accumulated depreciation	151,198	39,133
	\$ 436,603	\$ 438,768

Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2012, are:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2013	\$ 902,353	\$ 238,409
2014	131,878	145,142
2015	139,471	25,661
2016	147,112	25,661
2017	155,148	7,095
Thereafter	5,365,807	-
	\$ 6,841,769	441,968
Less amount representing interest		34,484
Present value of future minimum lease payments		407,484
Less current maturities		215,990
Noncurrent portion		\$ 191,494

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

Notes to Financial Statements

December 31, 2012 and 2011

Note 9: Temporarily Restricted Net Assets

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

	<u>2012</u>	<u>2011</u>
Health care services		
Purchase of equipment	\$ 27,000	\$ 55,090
Indigent care	2,127,357	2,231,644
Health education	57,645	138,125
Pharmaceutical program	166,271	270,581
Time restricted	<u>1,052,810</u>	<u>395,028</u>
	<u>\$ 3,431,083</u>	<u>\$ 3,090,468</u>

During 2012, 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 \$2,119,457. 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.

Note 10: Functional Expenses

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

	<u>2012</u>	<u>2011</u>
Health care services	\$ 21,604,036	\$ 18,655,116
General and administrative	4,606,554	2,923,658
Fundraising	<u>823,449</u>	<u>658,963</u>
	<u>\$ 27,034,039</u>	<u>\$ 22,237,737</u>

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

Notes to Financial Statements

December 31, 2012 and 2011

Note 11: 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, 2012, were:

2013	\$ 219,654
2014	156,722
2015	122,827
2016	51,544
2017	15,745
Thereafter	<u>39,643</u>
Future minimum lease payments	<u>\$ 606,135</u>

Note 12: 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 and have not yet been reinstated. The Organization did not record retirement plan expense for the years ended December 31, 2012 and 2011.

Note 13: Construction in Progress

At December 31, 2012, the Organization has construction in progress related to the \$13,180,000 Williams/Hoover Campus renovation project. As of December 31, 2012, \$2,433,458 of this work had been completed and is classified as construction in progress on the Organization's balance sheet. This project is primarily funded under an Affordable Care Act grant from the Health Resource Services Administration (HRSA) for \$9,400,000, as well as a \$3,450,000 loan with NCB Capital Impact which was secured subsequent to December 31, 2012 (see *Note 15*).

At December 31, 2012, the Organization has construction in progress related to the construction of two school-based clinics at Manual Arts High School and Washington High School. As of December 31, 2012, \$68,374 and \$58,925 of this work had been completed at each clinic, respectively, and is classified as construction in progress on 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, 2012 and 2011

The Organization is planning on renovating the Hyde Park Clinic. As of December 31, 2012, \$1,268 of this work has been completed and is classified as construction in progress on the Organization's balance sheet. Continuation of this project is dependent on the availability of additional federal grant and other funding.

During 2012, the Organization began implementing a dental digital x-ray system. As of December 31, 2012, \$87,404 of costs have been incurred for hardware and software purchases related to this project and are classified as construction in progress on the Organization's balance sheet. Purchases related to this system in 2012 were funded by awards from local foundations. The Organization plans to complete the installation of digital x-ray and Electronic Dental Record (EDR) software, funded by a Henry Schein grant, in 2013.

Note 14: 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.

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

Notes to Financial Statements

December 31, 2012 and 2011

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 54% of employees are covered under this agreement.

Current Economic Conditions

The current economic environment presents community health centers with difficult circumstances and challenges. As employers make adjustments to health insurance plans or more patients become unemployed, certain patients may find it difficult to pay for services rendered. The upcoming implementation of the Affordable Care Act, including the health insurance exchanges and the decision by the state regarding Medicaid expansion, will directly impact community health centers' net revenues. Further, the effect of economic conditions on federal and state budgets could adversely impact the grant revenues available to community health centers and the programs they administer. Each of these factors could have an adverse impact on the Organization's future operating results.

Note 15: Subsequent Events

On March 27, 2013, the Organization obtained a Loan Commitment Letter in the amount of \$3,450,000 to fund additional costs for the Hoover Clinic construction (see *Note 13*). The loan is subject to three post-closing conditions which have not yet been met. The note has an interest rate of 3.94% and requires repayment over one hundred and thirty eight months with interest-only payments payable for the first eighteen months and principal and interest payments the following one hundred twenty months. The loan is collateralized by substantially all of the Organization's assets.

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