

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

Independent Auditor's Reports and Financial Statements

December 31, 2014 and 2013

St. John's Well Child and Family Center, Inc.
December 31, 2014 and 2013

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Independent Auditor's Report

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

Report on the Financial Statements

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, 2014 and 2013, 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 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 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.

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, 2014 and 2013, 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.

Supplementary Information

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 OMB 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 audit 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2015, 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* in considering St. John's Well Child and Family Center, Inc.'s internal control over financial reporting and compliance.

BKD, LLP

Springfield, Missouri
July 30, 2015

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

Balance Sheets

December 31, 2014 and 2013

Assets

	2014	2013
Current Assets		
Cash	\$ 2,265,872	\$ 792,206
Assets limited as to use - current	-	3,385,268
Patient accounts receivable, net	3,825,108	3,526,990
Grants and other receivables	1,258,023	1,249,405
Contributions receivable - current	394,657	1,215,915
Estimated amounts due from third-party payers - current	380,000	7,679
Supplies	128,541	218,468
Prepaid expenses and other	155,388	170,988
	8,407,589	10,566,919
Assets Limited As To Use		
Held internally under debt agreement	-	3,385,268
Held by trustee	368,956	368,956
	368,956	3,754,224
Less amount required to meet current obligations	-	3,385,268
	368,956	368,956
Contributions Receivable	44,125	27,608
Estimated Amounts Due From Third-Party Payers	843,191	225,892
Less current portion	380,000	7,679
	463,191	218,213
Property and Equipment, At Cost		
Land and land improvements	2,647,884	2,647,884
Buildings and leasehold improvements	19,892,699	13,866,088
Equipment	3,789,954	2,602,300
Furniture and fixtures	1,026,888	970,681
Construction in progress	142,325	5,383,041
	27,499,750	25,469,994
Less accumulated depreciation	5,286,110	3,840,395
	22,213,640	21,629,599
Other Assets		
Deferred financing costs	613,275	634,923
Total assets	\$ 32,110,776	\$ 33,446,218

Liabilities and Net Assets

	<u>2014</u>	<u>2013</u>
Current Liabilities		
Note payable to bank	\$ 700,000	\$ -
Current maturities of long-term debt	451,696	4,332,390
Accounts payable	1,768,674	3,739,748
Accrued expenses	<u>1,041,784</u>	<u>856,827</u>
Total current liabilities	3,962,154	8,928,965
Long-Term Debt	8,717,320	5,786,965
Accrued Rent Payable	<u>14,472</u>	<u>17,341</u>
Total liabilities	<u>12,693,946</u>	<u>14,733,271</u>
Net Assets		
Unrestricted	17,512,141	15,721,607
Temporarily restricted	<u>1,904,689</u>	<u>2,991,340</u>
Total net assets	<u>19,416,830</u>	<u>18,712,947</u>
Total liabilities and net assets	<u>\$ 32,110,776</u>	<u>\$ 33,446,218</u>

St. John's Well Child and Family Center, Inc.
Statements of Operations
Years Ended December 31, 2014 and 2013

	2014	2013
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue less provision for uncollectible accounts	\$ 20,539,895	\$ 17,296,587
Premium revenue	3,301,831	1,661,541
Grant revenue	7,228,290	7,724,870
Contributions	1,546,289	1,333,856
Other	394,882	378,116
Net assets released from restrictions used for operations	2,374,915	2,216,681
Total unrestricted revenues, gains and other support	35,386,102	30,611,651
Expenses and Losses		
Salaries and wages	16,331,063	15,035,305
Employee benefits	3,509,040	3,018,970
Purchased services and professional fees	5,784,088	6,216,797
Supplies and other	6,471,266	5,495,681
Rent	361,265	266,941
Depreciation and amortization	1,390,637	1,445,890
Interest	558,994	402,852
Loss on disposal of property and equipment	-	10,833
Total expenses and losses	34,406,353	31,893,269
Excess (Deficiency) of Revenues Over Expenses	979,749	(1,281,618)
Contributions of or for acquisition of property and equipment	43,585	30,000
Grants for acquisition of property and equipment	188,651	3,703,764
Net assets released from restrictions used for purchase of property and equipment	578,549	335,780
Increase in Unrestricted Net Assets	\$ 1,790,534	\$ 2,787,926

St. John's Well Child and Family Center, Inc.
Statements of Changes in Net Assets
Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Unrestricted Net Assets		
Excess (deficiency) of revenues over expenses	\$ 979,749	\$ (1,281,618)
Contributions of or for acquisition of property and equipment	43,585	30,000
Grants for acquisition of property and equipment	188,651	3,703,764
Net assets released from restrictions used for purchase of property and equipment	<u>578,549</u>	<u>335,780</u>
Increase in unrestricted net assets	<u>1,790,534</u>	<u>2,787,926</u>
Temporarily Restricted Net Assets		
Contributions	1,866,813	2,112,718
Net assets released from restriction	<u>(2,953,464)</u>	<u>(2,552,461)</u>
Decrease in temporarily restricted net assets	<u>(1,086,651)</u>	<u>(439,743)</u>
Change in Net Assets	703,883	2,348,183
Net Assets, Beginning of Year	<u>18,712,947</u>	<u>16,364,764</u>
Net Assets, End of Year	<u>\$ 19,416,830</u>	<u>\$ 18,712,947</u>

St. John's Well Child and Family Center, Inc.
Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Activities		
Change in net assets	\$ 703,883	\$ 2,348,183
Items not requiring (providing) cash		
Loss on disposal of property and equipment	-	10,833
Depreciation and amortization	1,390,637	1,445,890
Contributions of or for acquisition of property and equipment	(43,585)	(30,000)
Grants for acquisition of property and equipment	(188,651)	(3,703,764)
Change in contributed supplies	43,385	30,074
Accrued rent payable	(2,869)	(1,540)
Changes in		
Patient accounts receivable, net	(298,118)	(1,165,973)
Grants and other receivables	(8,618)	597,056
Contributions receivable	804,741	256,186
Estimated amounts due from third-party payers	(617,299)	397,950
Prepaid expenses and other	15,600	4,900
Supplies	46,542	(34,329)
Accounts payable and accrued expenses	169,968	(307,509)
Deferred grant revenue	-	(2,000)
	<u>2,015,616</u>	<u>(154,043)</u>
Net cash provided by (used in) operating activities		
Investing Activities		
Purchase of assets limited as to use	-	(3,385,268)
Proceeds from assets limited as to use	3,385,268	-
Purchase of property and equipment	(3,862,844)	(4,893,916)
	<u>(477,576)</u>	<u>(8,279,184)</u>
Net cash used in investing activities		
Financing Activities		
Proceeds from grants for acquisition of property and equipment	188,651	3,703,764
Payment of deferred financing costs	-	(101,315)
Proceeds from issuance of long-term debt	-	3,450,000
Principal payments on long-term debt	(953,025)	(502,233)
Proceeds from issuance of notes payable to bank	1,400,000	550,000
Principal payments on notes payable to bank	(700,000)	(550,000)
	<u>(64,374)</u>	<u>6,550,216</u>
Net cash provided by (used in) financing activities		

St. John's Well Child and Family Center, Inc.
Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Increase (Decrease) in Cash	\$ 1,473,666	\$ (1,883,011)
Cash, Beginning of Year	792,206	2,675,217
Cash, End of Year	\$ 2,265,872	\$ 792,206
Supplemental Cash Flows Information		
Interest paid (net of amount capitalized)	\$ 558,994	\$ 402,852
Property and equipment acquisitions in accounts payable	\$ 38,647	\$ 1,989,512
Equipment acquired through noncash contribution	\$ 43,585	\$ 30,000

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

Notes to Financial Statements

December 31, 2014 and 2013

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, 2014, the Organization's cash accounts exceeded federally insured limits by approximately \$2,054,000. This amount includes bank balances available to pay checks issued prior to year end but not yet presented for payment prior as of December 31, 2014.

Assets Limited As To Use

Assets limited as to use include a money market account held by trustee under an indenture agreement and a lender and a restricted cash account which contained funds obtained under a financing agreement with NCB Capital Impact (*Note 8*). Funds from the restricted cash account were released in 2014.

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).

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

Notes to Financial Statements

December 31, 2014 and 2013

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.

No significant provision for uncollectible accounts was recorded for the years ended December 31, 2014 and 2013. No allowance for uncollectible accounts was needed at December 31, 2014 and 2013.

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.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building and leasehold improvements	5-30 years
Equipment, furniture and fixtures	2-10 years

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.

The Organization capitalizes interest costs as a component of construction in progress, based on the weighted average rates paid for long-term borrowing. Total interest incurred was:

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

Notes to Financial Statements

December 31, 2014 and 2013

	2014	2013
Interest costs capitalized	\$ -	\$ 93,263
Interest costs charged to expense	558,994	402,852
Total interest incurred	<u>\$ 558,994</u>	<u>\$ 496,115</u>

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 years ended December 31, 2014 and 2013.

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.

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.

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

Notes to Financial Statements

December 31, 2014 and 2013

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, 2014 and 2013, \$937,977 and \$821,828 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.

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

Notes to Financial Statements

December 31, 2014 and 2013

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, 2014 and 2013, \$236,500 and \$289,000, 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).

Subsequent Events

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.

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, 2014 and 2013, the Organization recognized \$5,656,961 and \$4,553,288 in CHC grant revenue, respectively. Funding for the grant budget periods ending February 28, 2015 and February 28, 2016, is approved at \$5,651,447 and \$5,906,577, respectively. Future funding will be determined by the granting agency based on an application to be submitted by the Organization prior to the expiration of the present grant award.

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 December 1, 2012, to November 30, 2014, for school-based facility construction and renovation. During the years ended December 31, 2014 and 2013, the Organization recognized \$67,238 and \$3,203,241 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.

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

Notes to Financial Statements

December 31, 2014 and 2013

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.

Effective January 1, 2015, covered FQHC services rendered to Medicare program beneficiaries will be paid based on a prospective payment system (PPS). Medicare payment under the FQHC PPS will be 80% of the lesser of the health center's actual charge or the applicable PPS rate (patient coinsurance will be 20% of the lesser of the health center's actual charge or the applicable PPS rate). Accordingly, to the extent the health center's charge is below the applicable PPS rate, Medicare FQHC reimbursement will be limited.

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, 2012 through 2014. Such amounts are recorded on the balance sheets as 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 classified a portion of the amount as a noncurrent asset.

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

Notes to Financial Statements

December 31, 2014 and 2013

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 My Health LA (MWLA) Program with the County of Los Angeles, which replaced the Healthy Way La (HWLA) Program. Covered primary care services rendered to MWLA beneficiaries are paid by the County of Los Angeles to the extent of the County's contracted maximum obligation.

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.

There was no significant provision for uncollected accounts recorded for the years ended December 31, 2014 and 2013. Patient service revenue, net of contractual allowances and discounts, recognized in the years ended December 31, 2014 and 2013, respectively, was:

	2014	2013
Medi-Cal	\$ 14,990,602	\$ 7,626,082
Medicare	287,063	206,974
County of Los Angeles	4,707,957	9,318,503
Self-pay and other	554,273	145,028
Total	\$ 20,539,895	\$ 17,296,587

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, 2014 and 2013, was:

	2014	2013
Medi-Cal	59%	27%
Medicare	1%	1%
County of Los Angeles	39%	71%
Other third-party payers	1%	1%
	100%	100%

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

Notes to Financial Statements

December 31, 2014 and 2013

Note 5: Contributions Receivable

Contributions receivable at December 31, 2014 and 2013, consisted of the following:

	2014	2013
Temporarily restricted		
Due within one year	\$ 394,657	\$ 1,215,915
Due in one to five years	45,000	28,483
	<u>439,657</u>	<u>1,244,398</u>
Less		
Unamortized discount	<u>875</u>	<u>875</u>
	<u>\$ 438,782</u>	<u>\$ 1,243,523</u>

The discount rate for both 2014 and 2013 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.

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, 2014 and 2013. 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: Line of Credit

The Organization has a revolving line of credit in the amount of \$700,000 which matures on December 1, 2015. At December 31, 2014 and December 31, 2013, there was \$700,000 and \$0 borrowed against this line, respectively. Interest is payable monthly at a rate of the greater of 2.5% or the bank's prime rate plus 1% (4.25% at December 31, 2014). The line is collateralized by substantially all of the Organization's assets except real estate.

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

Notes to Financial Statements

December 31, 2014 and 2013

Note 8: Long-Term Debt

	2014	2013
City National Bank (A)	\$ 710,554	\$ 752,008
City National Bank (B)	-	613,333
Series 2011 revenue bonds (C)	5,097,084	5,187,500
NCB Capital Impact (D)	3,379,364	3,450,000
GoWest capital lease obligation (E)	-	115,667
Avaya financial capital lease obligation (F)	54,308	75,827
	9,241,310	10,194,335
Less current maturities	451,696	4,332,390
Less unamortized discount on bonds	72,294	74,980
	\$ 8,717,320	\$ 5,786,965

- (A) Due June 2026; payable \$7,171 monthly, including interest at 6.0%; secured by certain real estate, subordinated to the NCB Capital Impact note.
- (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, 2014); secured by certain real estate. This note was paid in full during 2014 as a conditional requirement of financing related to the NCB Capital Impact note (D). Accordingly, the outstanding balance due under this note was \$0 at December 31, 2014.
- (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.

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

Notes to Financial Statements

December 31, 2014 and 2013

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.

One of the three covenants, the days of expenses in cash covenant, was not met for the year ended December 31, 2014. Management has reported the noncompliance to the bond insurer and bank and both parties have decided to take no action against the Organization based solely on the default status of these covenants for the year ended December 31, 2014.

- (D) Construction loan payable in the original amount of \$3,450,000 with a fixed interest rate at 3.94% is due September 2024. Interest-only payments began April 2013 and were due monthly for 18 months. Monthly principal and interest payments begin October 2014, in the amount of \$34,831. The construction loan is secured by subordinated deeds of trust on real property.

The loan agreement also requires the Organization to comply with certain restrictive covenants including maintaining a debt service coverage ratio of at least 1.15, maintaining a leverage ratio of less than 1.5 and maintaining a current ratio of at least 1.5. These covenants were met for the year ended December 31, 2014.

- (E) At imputed interest of 8%, due through May 2014; collateralized by equipment.
(F) At imputed interest of 6.27%, due through March 2017; collateralized by equipment.

Property and equipment included the following equipment under capital lease:

	2014	2013
Equipment	\$ 587,801	\$ 587,801
Less accumulated depreciation	<u>386,318</u>	<u>268,758</u>
	<u>\$ 201,483</u>	<u>\$ 319,043</u>

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

Notes to Financial Statements

December 31, 2014 and 2013

Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2014, are:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2015	\$ 428,789	\$ 25,661
2016	447,858	25,661
2017	468,474	7,095
2018	488,916	-
2019	505,905	-
Thereafter	6,847,060	-
	\$ 9,187,002	58,417
Less amount representing interest		4,109
Present value of future minimum lease payments		54,308
Less current maturities		22,907
Noncurrent portion		\$ 31,401

Note 9: Temporarily Restricted Net Assets

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

	2014	2013
Health care services		
Purchase of equipment	\$ 5,000	\$ 453,887
Indigent care	1,726,252	1,965,119
Health education	80,624	403,587
Pharmaceutical program	92,813	136,198
Time restricted	-	32,549
	\$ 1,904,689	\$ 2,991,340

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

Notes to Financial Statements

December 31, 2014 and 2013

During 2014, 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 \$2,953,464. During 2013, 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 \$2,552,461.

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>2014</u>	<u>2013</u>
Health care services	\$ 29,888,522	\$ 24,386,537
General and administrative	3,702,203	6,690,933
Fundraising	<u>815,628</u>	<u>815,799</u>
	<u>\$ 34,406,353</u>	<u>\$ 31,893,269</u>

Note 11: Operating Leases

The Organization has noncancellable operating leases for primary care outpatient offices and equipment which expire in various years through 2024.

Future minimum lease payments at December 31, 2014, were:

2015	\$ 387,305
2016	198,583
2017	183,861
2018	163,139
2019	128,371
Thereafter	<u>618,495</u>
Future minimum lease payments	<u>\$ 1,679,754</u>

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

Notes to Financial Statements

December 31, 2014 and 2013

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 incur any retirement plan expense for the years ended December 31, 2014 and 2013.

Note 13: Construction in Progress

At December 31, 2014, the Organization has construction in progress related to the renovation of the Hyde Park Clinic. As of December 31, 2014, \$93,684 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. The remaining \$48,641 in CIP pertains to a minor project being completed at the Frayser Clinic.

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, 2014 and 2013

Labor Agreement

The Organization entered into an agreement with Service Employees International Union, Local 721 for the period March 1, 2014, through February 28, 2017. Approximately 62% 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 continuing 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.

Supplementary Information

St. John's Well Child and Family Center, Inc.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2014

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Consolidated Health Centers	U.S. Department of Health and Human Services	93.224	6 H80CS 00873-12-14	\$ 1,742,400
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	U.S. Department of Health and Human Services	93.527	6 H80CS 00873-12-14	<u>3,914,561</u>
Total Health Centers Cluster				<u>5,656,961</u>
HIV Demonstration, Research, Public and Professional Education Projects	U.S. Department of Health and Human Services/University of Southern California	93.941	S U22PS 003371-05	<u>137,247</u>
Medical Assistance Program	U.S. Department of Health and Human Services/Los Angeles County	93.778	670	<u>326</u>
Affordable Care Act Grants for School-Based Health Center Capital Expenditures	U.S. Department of Health and Human Services	93.501	1 C12CS 25605-01-00	<u>67,238</u>
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	U.S. Department of Health and Human Services/Los Angeles County	93.243	PH-002363-3	<u>453,963</u>
Family Planning Services	U.S. Department of Health and Human Services/California Family Health Council	93.217	2515-5320- 71209-14	<u>121,208</u>
Healthy Tomorrows Partnership for Children Program	U.S. Department of Health and Human Services	93.110	6 H17MC 25695-02-01	<u>67,513</u>
Community Development Block Grants/ Entitlement Grants	U.S. Department of Housing and Urban Development/ City of Los Angeles	14.218	C-119069	<u>24,620</u>
HIV Emergency Relief Project Grants	U.S. Department of Health and Human Services/Los Angeles County	93.914	PH-002339	<u>21,806</u>
				<u><u>\$ 6,550,882</u></u>

St. John's Well Child and Family Center, Inc.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2014

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, 2014.

Independent Auditor's 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, 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, the financial statements of St. John's Well Child and Family Center, Inc. (the "Organization"), which comprise the balance sheet as of December 31, 2014, and the related statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 30, 2015.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Organization's internal control to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, there can be no assurance that all material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses (schedule of findings and questioned costs), we identified a certain deficiency in internal control that we consider to be a material weakness.

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 significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-001 to be a material weakness.

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*.

St. John's Well Child and Family Center's Response to Finding

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. St. John's Well Child and Family Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
July 30, 2015

Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance

Independent Auditor's Report

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

Report on Compliance for Major Federal Program

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 *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2014. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for St. John's Well Child and Family Center, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above.

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 on compliance for the major federal program. However, our audit does not provide a legal determination on the Organization's compliance.

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

Opinion on the Major Federal Program

In our opinion, St. John's Well Child and Family Center, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of St. John's Well Child and Family Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program 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.

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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
July 30, 2015

St. John's Well Child and Family Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2014

Summary of Auditor's Results

1. The opinion expressed in the independent auditor's report was:
 Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:
Significant deficiency(ies)? Yes None reported
Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:
Significant deficiency(ies)? Yes None reported
Material weakness(es)? Yes No

5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:
 Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by 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, 2014

7. The Organization's major program was:

Cluster/Program	CFDA Number
Consolidated Health Centers Cluster	93.224 and 93.527

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, 2014

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
2014-001	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The Organization’s financial records required an adjusting journal entry to correct the year-end patient accounts receivable balance.</p> <p>Context – The Organization completed a reconciliation at year end between the patient accounts receivable subsidiary ledger and the general ledger; however, this reconciliation did not identify all needed adjustments.</p> <p>Effect – An adjusting journal entry was proposed during the financial statement audit.</p> <p>Cause – The Organization did not identify certain necessary adjustments.</p> <p>Recommendation – Management should continue to monitor monthly and year-end closing procedures.</p> <p>Views of Responsible Officials and Planned Corrective Actions – The Organization recently acquired a new reporting tool in July 2015 which enables more timely identification of needed adjustments to patient accounts receivable. Vendor product limitations did not previously enable the same transparency.</p>	None

St. John's Well Child and Family Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2014

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, 2014

Reference Number	Finding	Status
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No matters are reportable.