

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

**Independent Auditor's Report and Financial Statements**

**December 31, 2016 and 2015**

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**St. John's Well Child and Family Center, Inc.**  
**December 31, 2016 and 2015**

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## 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, 2016 and 2015, 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.  
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***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, 2016 and 2015, 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.

*BKD, LLP*

Springfield, Missouri  
April 28, 2017

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

## Balance Sheets

December 31, 2016 and 2015

### Assets

	<u>2016</u>	<u>2015</u>
<b>Current Assets</b>		
Cash	\$ 4,725,329	\$ 4,807,101
Patient accounts receivable, net	3,451,148	3,098,621
Grants and other receivables	2,633,177	766,275
Contributions receivable - current	1,689,485	1,188,958
Estimated amounts due from third-party payers - current	846,208	1,823,418
Pharmaceutical inventory	652,894	287,938
Prepaid expenses and other	634,928	543,663
	<u>14,633,169</u>	<u>12,515,974</u>
<b>Assets Limited As To Use</b>		
Internally designated	4,000,000	-
Held by trustee	469,299	469,149
	<u>4,469,299</u>	<u>469,149</u>
<b>Contributions Receivable</b>	<u>550,000</u>	<u>99,125</u>
<b>Estimated Amounts Due From Third-Party Payers</b>	1,217,848	2,677,949
Less current portion	<u>846,208</u>	<u>1,823,418</u>
	<u>371,640</u>	<u>854,531</u>
<b>Property and Equipment, At Cost</b>		
Land	2,647,884	2,647,884
Buildings and leasehold improvements	20,473,617	19,923,951
Equipment	5,566,388	3,986,097
Furniture and fixtures	1,073,492	1,035,885
Construction in progress	344,143	607,546
	<u>30,105,524</u>	<u>28,201,363</u>
Less accumulated depreciation	<u>8,400,983</u>	<u>6,787,340</u>
	<u>21,704,541</u>	<u>21,414,023</u>
<b>Total assets</b>	<u>\$ 41,728,649</u>	<u>\$ 35,352,802</u>

## Liabilities and Net Assets

	<u>2016</u>	<u>2015</u>
<b>Current Liabilities</b>		
Note payable to bank	\$ 700,000	\$ 700,000
Current maturities of long-term debt	976,684	515,653
Accounts payable	1,740,879	2,054,160
Accrued expenses	2,909,458	1,470,756
Estimated amounts due to third-party payers	<u>1,872,204</u>	<u>1,018,293</u>
Total current liabilities	8,199,225	5,758,862
<b>Long-Term Debt</b>	8,233,378	7,759,671
<b>Accrued Rent Payable</b>	<u>37,900</u>	<u>27,139</u>
Total liabilities	<u>16,470,503</u>	<u>13,545,672</u>
<b>Net Assets</b>		
Unrestricted	22,054,517	18,673,415
Temporarily restricted	<u>3,203,629</u>	<u>3,133,715</u>
Total net assets	<u>25,258,146</u>	<u>21,807,130</u>
Total liabilities and net assets	<u>\$ 41,728,649</u>	<u>\$ 35,352,802</u>

**St. John's Well Child and Family Center, Inc.**  
**Statements of Operations**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Net patient service revenue (net of contractual discounts and allowances)	\$ 26,703,264	\$ 22,334,387
Provision for uncollectible accounts	-	176,962
Net patient service revenue less provision for uncollectible accounts	26,703,264	22,157,425
Capitation revenue	14,033,585	9,987,908
Grant revenue	9,112,978	6,770,508
Contributions	2,072,339	1,266,632
Other	721,519	334,662
Net assets released from restrictions used for operations	2,570,117	2,429,143
Total unrestricted revenues, gains and other support	55,213,802	42,946,278
<b>Expenses and Losses</b>		
Salaries and wages	27,836,632	21,815,471
Employee benefits	5,742,324	4,370,398
Purchased services and professional fees	7,343,674	6,686,726
Supplies and other	8,696,353	6,656,751
Rent	518,675	517,666
Depreciation	1,613,643	1,501,230
Interest	577,396	502,653
Total expenses and losses	52,328,697	42,050,895
<b>Excess of Revenues Over Expenses</b>	2,885,105	895,383
Grants for acquisition of property and equipment	336,177	179,375
Net assets released from restrictions used for purchase of property and equipment	159,820	86,516
<b>Increase in Unrestricted Net Assets</b>	\$ 3,381,102	\$ 1,161,274

**St. John's Well Child and Family Center, Inc.**  
**Statements of Changes in Net Assets**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Unrestricted Net Assets</b>		
Excess of revenues over expenses	\$ 2,885,105	\$ 895,383
Grants for acquisition of property and equipment	336,177	179,375
Net assets released from restrictions used for purchase of property and equipment	159,820	86,516
Increase in unrestricted net assets	3,381,102	1,161,274
<b>Temporarily Restricted Net Assets</b>		
Contributions	2,799,851	3,744,685
Net assets released from restriction	(2,729,937)	(2,515,659)
Increase in temporarily restricted net assets	69,914	1,229,026
<b>Change in Net Assets</b>	3,451,016	2,390,300
<b>Net Assets, Beginning of Year</b>	21,807,130	19,416,830
<b>Net Assets, End of Year</b>	\$ 25,258,146	\$ 21,807,130

**St. John's Well Child and Family Center, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating Activities</b>		
Change in net assets	\$ 3,451,016	\$ 2,390,300
Items not requiring (providing) cash		
Depreciation and amortization	1,642,888	1,530,476
Grants for acquisition of property and equipment	(336,177)	(179,375)
Change in contributed supplies	(391,424)	(52,272)
Accrued rent payable	10,761	12,667
Changes in		
Patient accounts receivable, net	(352,527)	726,487
Grants and other receivables	(1,866,902)	491,748
Contributions receivable	(951,402)	(849,301)
Estimated amounts due from third-party payers	2,314,012	(816,465)
Prepaid expenses and other	(91,265)	(388,275)
Pharmaceutical inventory	26,468	(107,125)
Accounts payable and accrued expenses	<u>1,337,315</u>	<u>507,940</u>
Net cash provided by operating activities	<u>4,792,763</u>	<u>3,266,805</u>
<b>Investing Activities</b>		
Change in assets limited as to use	(4,000,150)	(100)
Purchase of property and equipment	<u>(583,210)</u>	<u>(346,425)</u>
Net cash used in investing activities	<u>(4,583,360)</u>	<u>(346,525)</u>
<b>Financing Activities</b>		
Proceeds from grants for acquisition of property and equipment	336,177	179,375
Principal payments on long-term debt	(627,352)	(458,333)
Proceeds from issuance of notes payable to bank	700,000	1,400,000
Principal payments on notes payable to bank	<u>(700,000)</u>	<u>(1,400,000)</u>
Net cash used in financing activities	<u>(291,175)</u>	<u>(278,958)</u>

**St. John's Well Child and Family Center, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Increase (Decrease) in Cash</b>	\$ (81,772)	\$ 2,641,322
<b>Cash, Beginning of Year</b>	4,807,101	2,165,779
<b>Cash, End of Year</b>	\$ 4,725,329	\$ 4,807,101
<b>Supplemental Cash Flows Information</b>		
Interest paid (net of amount capitalized)	\$ 577,396	\$ 502,653
Property and equipment acquisitions in accounts payable	\$ 38,643	\$ 247,851
Capital lease obligation incurred for property and equipment	\$ 1,530,159	\$ 145,984

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

## **Notes to Financial Statements**

**December 31, 2016 and 2015**

### **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, 2016, the Organization's cash accounts exceeded federally insured limits by approximately \$9,000,000. 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, 2016.

#### ***Assets Limited As To Use***

Assets limited as to use include (1) money market accounts held by trustee under an indenture agreement and (2) assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes.

#### ***Patient Accounts Receivable***

Accounts receivable are reduced by an allowance for uncollectible 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 uncollectible 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 uncollectible 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, 2016 and 2015

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 uncollectible 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 uncollectible accounts.

No allowance for uncollectible accounts was deemed necessary at December 31, 2016 and 2015.

### ***Pharmaceutical Inventories***

The Organization states pharmaceutical 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.

### ***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 estimated 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, 2016 and 2015.

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

## **Notes to Financial Statements**

**December 31, 2016 and 2015**

### ***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.

### ***Capitation Revenue***

The Organization is a partner in the My Health LA (MHLA) program with the county of Los Angeles and also has agreements with certain 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 plan's participants, regardless of the services actually performed by the Organization. In addition, the plans 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.

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

## Notes to Financial Statements

December 31, 2016 and 2015

### **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, 2016 and 2015, \$795,188 and \$656,576 was received in in-kind contributions, respectively.

### **Income Taxes**

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

### **Electronic Health Records Incentive Program**

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

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

For the years ended December 31, 2016 and 2015, \$609,750 and \$168,250, respectively, was recorded as revenue, which is included in other revenue in the statements of operations.

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

## Notes to Financial Statements

December 31, 2016 and 2015

### ***Excess of Revenues Over Expenses***

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

### ***Reclassifications***

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. These reclassifications had no effect on the change in net 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 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, 2016 and 2015, the Organization recognized \$7,621,654 and \$5,807,584 in CHC grant revenue, respectively. Funding for the grant budget periods ending February 28, 2017 and February 28, 2018, is authorized at \$8,632,363 and \$7,640,874, 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 \$250,000 under the ACA-Facility Improvements Grant Program for the period of September 1, 2014 to August 31, 2016, for facility construction and renovation and \$1,000,000 under the ACA-Health Infrastructure Investment Program for the period of September 30, 2015 to September 29, 2018, for facility construction and renovation. During the years ended December 31, 2016 and 2015, the Organization recognized \$218,042 and \$179,375 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, 2016 and 2015

### 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 under a prospective payment system (PPS). Medicare payment, including patient coinsurance, are paid based on the lesser of the Organization's actual charge or the applicable PPS rate. Services not covered under the FQHC benefit are paid based on established fee schedules.

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

The Organization is required to submit an annual Medi-Cal Reconciliation Request Form to the California Department of Health Care Services (the "Department") for purposes of determining whether it was paid appropriately for certain Medi-Cal visits. These annual reconciliations result in the determination of any underpayment or overpayment by the Medi-Cal program for the affected visits. The Organization has recorded either a receivable or payable for estimated settlements expected to be received or paid for Medi-Cal Reconciliation Request Forms for the years ended December 31, 2013 through 2016. Such amounts are recorded on the balance sheets as amounts due from or to 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.

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.

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

## Notes to Financial Statements

December 31, 2016 and 2015

The Organization is a partner in the My Health LA (MHLA) Program with the County of Los Angeles. Certain services rendered to MHLA beneficiaries are paid by the County of Los Angeles based on established fee schedules.

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, 2016 and 2015, respectively, was approximately:

	<b>2016</b>	<b>2015</b>
Medi-Cal	\$ 24,772,618	\$ 19,440,001
Medicare	483,260	458,421
County of Los Angeles	1,052,632	1,764,835
Self-pay and other	394,754	671,130
Total	\$ 26,703,264	\$ 22,334,387

### 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, 2016 and 2015, was:

	<b>2016</b>	<b>2015</b>
Medi-Cal	88%	91%
Medicare	1%	1%
County of Los Angeles	10%	7%
Other third-party payers	1%	1%
	100%	100%

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

## Notes to Financial Statements

December 31, 2016 and 2015

### Note 5: Contributions Receivable

Contributions receivable at December 31, 2016 and 2015, consisted of the following:

	<b>2016</b>	<b>2015</b>
Temporarily restricted		
Due within one year	\$ 1,689,485	\$ 1,188,958
Due in one to five years	550,000	100,000
	<u>2,239,485</u>	<u>1,288,958</u>
Less		
Unamortized discount	<u>-</u>	<u>875</u>
	<u>\$ 2,239,485</u>	<u>\$ 1,288,083</u>

The discount rate for 2015 was 3%. No discount was recorded for 2016.

### 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, 2016 and 2015. 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 \$2,000,000 which matures on December 1, 2017. At December 31, 2016 and 2015, there was \$700,000 borrowed against this line. Interest is payable monthly at a rate of the greater of 2.50% or the bank's prime rate plus 1% (4.75% at December 31, 2016). 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, 2016 and 2015

### Note 8: Long-Term Debt

	2016	2015
City National Bank (A)	\$ 619,816	\$ 666,505
Series 2011 revenue bonds (B)	4,901,250	5,001,667
NCB Capital Impact (C)	2,789,287	3,090,039
Avaya financial capital lease obligation (D)	7,018	31,403
Insight financial capital lease obligation (E)	1,016,628	139,347
Cisco financial capital lease obligation (F)	154,534	-
Leaf financial capital lease obligation (G)	343,235	-
	9,831,768	8,928,961
Less current maturities	976,684	515,653
Less unamortized discount on bonds	66,922	69,608
Less unamortized debt issuance costs	554,784	584,029
	\$ 8,233,378	\$ 7,759,671

- (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) 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. Unamortized debt issuance costs were \$476,265 and \$495,379 at December 31, 2016 and 2015, respectively. The effective interest rate was .38% and .37% for the years ended December 31, 2016 and 2015, respectively.

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

## Notes to Financial Statements

December 31, 2016 and 2015

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.

- (C) Construction loan payable in the original amount of \$3,450,000 with a fixed interest rate at 3.94% is due September 2024. Monthly principal and interest payments began October 2014, in the amount of \$34,831. The construction loan is secured by subordinated deeds of trust on real property. Unamortized debt issuance costs were \$78,519 and \$88,650 at December 31, 2016 and 2015, respectively. The effective interest rate was .03% and .02% for the years ended December 31, 2016 and 2015, respectively.

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.

- (D) At imputed interest of 6.27%, due through March 2017; collateralized by equipment.  
(E) At imputed interest of 4.37%, due through October 2019; collateralized by equipment.  
(F) Zero percent interest, due through October 2019; collateralized by equipment.  
(G) At imputed interest of 8.50%, due through December 2021; collateralized by equipment.

Property and equipment included the following equipment under capital lease:

	<b>2016</b>	<b>2015</b>
Equipment	\$ 1,676,143	\$ 255,884
Less accumulated depreciation	251,115	85,026
	<u>\$ 1,425,028</u>	<u>\$ 170,858</u>

**St. John's Well Child and Family Center, Inc.**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2016, are:

	<b>Long-Term Debt (Excluding Capital Lease Obligations)</b>	<b>Capital Lease Obligations</b>
2017	\$ 468,474	\$ 552,036
2018	488,916	540,862
2019	505,905	342,529
2020	527,948	76,666
2021	551,312	76,666
Thereafter	5,767,464	48,719
	\$ 8,310,019	1,637,478
Less amount representing interest		115,729
Present value of future minimum lease payments		1,521,749
Less current maturities		508,210
Noncurrent portion		\$ 1,013,539

**Note 9: Temporarily Restricted Net Assets**

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

	<b>2016</b>	<b>2015</b>
Health care services		
Purchase of equipment	\$ 1,550,000	\$ 200,672
Indigent care	1,117,120	2,642,958
Pharmaceutical program	536,509	145,085
Time restricted	-	145,000
	\$ 3,203,629	\$ 3,133,715

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

## Notes to Financial Statements

December 31, 2016 and 2015

During 2016, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes of purchase of equipment, indigent care, and pharmaceutical program in the amount of \$2,729,937. During 2015, 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 \$2,515,659.

### 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:

	<b>2016</b>	<b>2015</b>
Health care services	\$ 43,985,365	\$ 36,520,729
General and administrative	6,196,956	4,649,431
Fundraising	2,146,376	880,735
	<u>\$ 52,328,697</u>	<u>\$ 42,050,895</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, 2016, were:

2017	\$ 334,241
2018	256,466
2019	260,216
2020	257,947
2021	258,516
Thereafter	<u>377,708</u>
Future minimum lease payments	<u>\$ 1,745,094</u>

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

## Notes to Financial Statements

December 31, 2016 and 2015

### 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, 2016 and 2015.

### Note 13: Construction in Progress

At December 31, 2016, the Organization has multiple construction projects in progress including renovation of the Hyde Park Clinic, the Compton Pediatric Clinic and the Center for Autism and Development Delays, Compton. As of December 31, 2016, the following work has been completed and is classified as construction in progress on the Organization's balance sheet. Continuation of these projects is dependent on the availability of additional federal grant and other funding.

<b>Project</b>	<b>Construction in Progress at December 31, 2016</b>	<b>Estimated Project Cost</b>	<b>Estimated Completion Date</b>
Compton Clinic	\$ 203,865	\$ 2,000,000	December 2018
Hyde Park Clinic	91,414	500,000	December 2017
Center for Autism and Development Delays, Compton	<u>48,864</u>	<u>5,000,000</u>	December 2019
	<u>\$ 344,143</u>	<u>\$ 7,500,000</u>	

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

## Notes to Financial Statements

December 31, 2016 and 2015

### 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.

#### **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% and 67% of employees are covered under this agreement at December 31, 2016 and 2015, respectively.

#### **Current Economic Conditions**

The current economic environment presents community health centers with difficult circumstances and challenges. Any changes to the *Affordable Care Act*, including the health insurance exchanges and 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.