

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

Independent Auditor's Reports and Financial Statements

December 31, 2018 and 2017

St. John’s Well Child and Family Center, Inc.
December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, and the results of its operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2018, the Organization adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to this matter.

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 also have issued our report dated May 24, 2019, on our consideration of the St. John's Well Child and Family Center, Inc.'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 solely 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 effectiveness of St. John's Well Child and Family Center, Inc.'s 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
May 24, 2019

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

Balance Sheets

December 31, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash	\$ 9,394,475	\$ 6,702,057
Assets limited as to use - current	500,000	1,500,000
Patient accounts receivable	4,101,180	3,904,626
Grants and other receivables	2,910,891	3,254,253
Contributions receivable - current	1,081,750	1,119,750
Estimated amounts due from third-party payers - current	1,611,983	1,330,423
Pharmaceutical inventory	161,610	260,183
Prepaid expenses and other	841,129	476,557
	20,603,018	18,547,849
Assets Limited As To Use		
Internally designated	8,400,000	5,350,000
Held by trustee	265,523	265,234
	8,665,523	5,615,234
Less amount required to meet current obligations	500,000	1,500,000
	8,165,523	4,115,234
Contributions Receivable	350,000	-
Estimated Amounts Due From Third-Party Payers	2,126,109	1,521,559
Less current portion	1,611,983	1,330,423
	514,126	191,136
Property and Equipment, At Cost		
Land	2,948,376	2,647,884
Buildings and leasehold improvements	22,989,888	20,840,147
Equipment	5,860,266	5,688,410
Furniture and fixtures	1,166,277	1,129,524
Construction in progress	11,004	1,208,993
	32,975,811	31,514,958
Less accumulated depreciation	11,859,086	10,168,156
	21,116,725	21,346,802
Total assets	\$ 50,749,392	\$ 44,201,021

Liabilities and Net Assets

	2018	2017
Current Liabilities		
Current maturities of long-term debt	\$ 825,446	\$ 995,790
Accounts payable	2,469,175	2,537,279
Accrued expenses	7,029,445	4,717,650
Estimated amounts due to third-party payers	2,799,933	2,143,185
	<hr/>	<hr/>
Total current liabilities	13,123,999	10,393,904
Long-Term Accrued Expenses	1,000,000	-
Long-Term Debt	7,222,294	8,027,644
Accrued Rent Payable	<hr/> 71,581	<hr/> 44,257
	<hr/>	<hr/>
Total liabilities	21,417,874	18,465,805
	<hr/>	<hr/>
Net Assets		
Without donor restrictions	26,793,170	23,130,949
With donor restrictions	2,538,348	2,604,267
	<hr/>	<hr/>
Total net assets	29,331,518	25,735,216
	<hr/>	<hr/>
Total liabilities and net assets	\$ 50,749,392	\$ 44,201,021
	<hr/> <hr/>	<hr/> <hr/>

St. John's Well Child and Family Center, Inc.
Statements of Operations
Years Ended December 31, 2018 and 2017

	2018	2017 (As Adjusted - Note 1)
Revenues, Gains and Other Support Without Donor Restrictions		
Patient service revenue	\$ 41,006,288	\$ 33,284,160
Capitation revenue	14,962,913	14,391,468
Grant revenue	11,780,331	10,365,601
Contributions	924,951	1,054,955
Other	943,185	1,519,240
Net assets released from restrictions used for operations	2,100,754	2,938,402
Total revenues, gains and other support without donor restrictions	71,718,422	63,553,826
Expenses and Losses		
Salaries and wages	36,182,803	32,357,391
Employee benefits	8,019,932	7,249,184
Purchased services and professional fees	6,645,701	6,495,677
Supplies and other	15,608,076	13,856,606
Rent	622,205	428,919
Depreciation	1,690,931	1,839,487
Interest	363,864	411,808
Loss on disposal of property and equipment	-	12,323
Total expenses and losses	69,133,512	62,651,395
Operating Income	2,584,910	902,431
Other Income (Expense)		
Investment return, net	103,683	27,266
Loss on extinguishment of debt	-	(1,079,694)
Excess (Deficiency) of Revenues Over Expenses	2,688,593	(149,997)
Grants for acquisition of property and equipment	175,639	1,149,418
Net assets released from restrictions used for purchase of property and equipment	797,989	77,011
Increase in Net Assets Without Donor Restrictions	\$ 3,662,221	\$ 1,076,432

St. John's Well Child and Family Center, Inc.
Statements of Changes in Net Assets
Years Ended December 31, 2018 and 2017

	2018	2017
Net Assets Without Donor Restrictions		
Excess (deficiency) of revenues over expenses	\$ 2,688,593	\$ (149,997)
Grants for acquisition of property and equipment	175,639	1,149,418
Net assets released from restrictions used for purchase of property and equipment	797,989	77,011
Increase in net assets without donor restrictions	3,662,221	1,076,432
Net Assets With Donor Restrictions		
Contributions received	2,832,824	2,416,051
Net assets released from restriction	(2,898,743)	(3,015,413)
Decrease in net assets with donor restrictions	(65,919)	(599,362)
Change in Net Assets	3,596,302	477,070
Net Assets, Beginning of Year	25,735,216	25,258,146
Net Assets, End of Year	\$ 29,331,518	\$ 25,735,216

St. John's Well Child and Family Center, Inc.
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017 (As Adjusted - Note 1)
Operating Activities		
Change in net assets	\$ 3,596,302	\$ 477,070
Items not requiring (providing) operating cash flow		
Depreciation	1,690,931	1,839,487
Amortization of debt issuance costs	15,881	25,442
Loss on disposal of property and equipment	-	12,323
Contributions of or for acquisition of property and equipment	-	(400,000)
Loss on extinguishment of debt	-	1,079,694
Grants for acquisition of property and equipment	(175,639)	(1,149,418)
Change in contributed supplies	907	535,595
Accrued rent payable	27,324	6,357
Changes in		
Patient accounts receivable	(196,554)	(453,478)
Grants and other receivables	(395,896)	41,023
Contributions receivable	(312,000)	669,735
Estimated amounts due from third-party payers	52,198	(32,730)
Prepaid expenses and other	(364,572)	158,371
Pharmaceutical inventory	97,666	(142,884)
Accounts payable and accrued expenses	3,562,817	2,309,697
Net cash provided by operating activities	7,599,365	4,976,284
Investing Activities		
Purchase of property and equipment	(1,780,464)	(1,327,337)
Proceeds from sale of property and equipment	-	145,000
Net cash used in investing activities	(1,780,464)	(1,182,337)
Financing Activities		
Proceeds from contributions for acquisition of property and equipment	-	850,000
Proceeds from grants for acquisition of property and equipment	914,897	487,319
Payment of debt issuance costs	-	(359,900)
Proceeds from issuance of long-term debt	-	5,643,609
Principal payments on long-term debt	(991,091)	(6,511,663)
Equity contribution paid on bond refunding	-	(80,649)
Principal payments on notes payable to bank	-	(700,000)
Net cash used in financing activities	(76,194)	(671,284)

St. John's Well Child and Family Center, Inc.
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017 (As Adjusted - Note 1)
	<u>2018</u>	<u>2017</u>
Increase in Cash, Restricted Cash and Restricted Cash Equivalents	\$ 5,742,707	\$ 3,122,663
Cash, Restricted Cash and Restricted Cash Equivalents, Beginning of Year	<u>12,317,291</u>	<u>9,194,628</u>
Cash, Restricted Cash and Restricted Cash Equivalents, End of Year	<u>\$ 18,059,998</u>	<u>\$ 12,317,291</u>
Reconciliation of Cash, Restricted Cash and Restricted Cash Equivalents to the Balance Sheets		
Cash in current assets	\$ 9,394,475	\$ 6,702,057
Cash and cash equivalents in assets limited as to use	<u>8,665,523</u>	<u>5,615,234</u>
	<u>\$ 18,059,998</u>	<u>\$ 12,317,291</u>
Supplemental Cash Flows Information		
Interest paid	\$ 363,864	\$ 411,808
Property and equipment acquisitions in accounts payable	\$ 10,583	\$ 330,193
Capital lease obligation incurred for property and equipment	\$ -	\$ 20,184

St. John's Well Child and Family Center, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

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

Nature of Operations

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

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

At December 31, 2018, the Organization's cash accounts exceeded federally insured limits by approximately \$9,700,000. This amount includes bank balances available to pay checks issued prior to year end, but not yet presented for payment as of December 31, 2018.

Assets Limited As To Use

Assets limited as to use include (1) money market accounts held by trustee under an indenture agreement and (2) certificates of deposit 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

Patient accounts receivable reflects the outstanding amount of consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others. As a service to the patient, the Organization bills third-party payors directly and bills the patient when the patient's responsibility for copays, coinsurance and deductibles are determined. Patient accounts receivable are due in full when billed.

No bad debt expense has been recognized for the years ended December 31, 2018 and 2017.

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

Notes to Financial Statements

December 31, 2018 and 2017

Pharmaceutical Inventories

The Organization states pharmaceutical inventories at the lower of cost, determined using the first-in, first-out method, or net realizable value.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method 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 net assets without donor restrictions 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 net assets without donor restrictions 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, 2018 and 2017.

Debt Issuance Costs

Debt issuance 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.

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

Notes to Financial Statements

December 31, 2018 and 2017

Refund Liabilities

The consideration the Organization has received from patients for which it does not expect to be entitled to is recorded as a refund liability.

Net Assets with Donor Restrictions

Net assets with donor restrictions are those whose use by the Organization has been limited by donors to a specific time period or purpose.

Patient Service Revenue

Patient service revenue is recognized as the Organization satisfies performance obligations under its contracts with patients. Patient service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization's policies and implicit price concessions provided to uninsured patients.

The Organization determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies and historical experience by payor groups. The Organization determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations by third-party payors.

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. Revenue recorded under these arrangement represents the fixed agreed-upon amounts as a result of the Organization's stand-ready performance obligation to provide health care services to qualified beneficiaries.

The MCOs also make fee-for-service payments to the Organization for providing certain covered services based upon discounted fee schedules. The provision of covered services is in addition to the Organization's stand-ready performance obligation. Revenue is recorded at the amount the Organization expects to collect for providing these services, including any copay or deductible amounts the Organization expects to collect from the beneficiaries based on their respective health plans.

St. John's Well Child and Family Center, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

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.

Contributions

Contributions are provided to the Organization either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Organization overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of operations as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

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

Notes to Financial Statements

December 31, 2018 and 2017

Gifts and investment income that are originally restricted by the donor for which the restriction is met in the same time period are recorded as revenue with donor restrictions and then released from restrictions.

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, 2018 and 2017, \$291,482 and \$294,782 was received in in-kind contributions, respectively.

Income Taxes

The Organization is 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. The Organization files tax returns in the U.S. federal jurisdiction.

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.

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 four 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 fiscal intermediary. 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, 2018 and 2017

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.

The Organization has recorded revenue of approximately \$518,996 and \$1,476,000 for 2018 and 2017, respectively, which is included in other revenue within operating revenues in the statement of operations.

Excess (Deficiency) of Revenues Over Expenses

The statements of operations include excess (deficiency) of revenues over expenses. Changes in net assets without donor restrictions 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 which by donor restriction were to be used for the purpose of acquiring such assets).

Subsequent Events

Subsequent events have been evaluated through May 24, 2019, which is the date the financial statements were issued.

Changes in Accounting Principles and Revisions to Statement of Operations and Functional Expenses

Revenue Recognition

On January 1, 2018, the Organization adopted the Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, (ASU 2014-09) using a full-retrospective method of adoption to all contracts with customers (patients) at January 1, 2017. The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to customers or patients in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. The amount to which the Organization expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing patient care services to its patients. Adoption of ASU 2014-09 resulted in changes in presentation of the financial statements and related disclosures in the notes to the financial statements. Prior to the adoption of ASU 2014-09, the majority of the provision for uncollectible accounts related to patients without insurance, as well as patient responsibility balances for copays, coinsurance and deductibles for patients with insurance. Under ASU 2014-09, the estimated amounts due from patients for which the Organization does not expect to be entitled or collect from the patients are considered implicit price concessions and excluded from the Organization's estimation of the transaction price or revenue recorded. The 2017 financial statements have been revised for immaterial classification errors of certain revenues. The following financial statement line items were affected by the adoption of ASU 2014-09 and the immaterial classification errors:

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

Notes to Financial Statements

December 31, 2018 and 2017

	December 31, 2017			
	As Previously Reported	As Adjusted	Adoption Impact	Revision Impact
Statements of Operations				
Revenues, Gains and Other Support				
Without Donor Restrictions				
Patient services revenue (net of contractual discounts and allowances)	\$ 32,434,486	\$ -	\$(32,434,486)	\$ -
Provision for uncollectible accounts	<u>(51,691)</u>	-	<u>51,691</u>	-
Net patient service revenue	32,382,795	33,284,160	-	901,365
Capitation revenue	15,181,116	14,391,468	-	(789,648)
Other revenue	1,630,957	1,519,240	-	(111,717)

The adoption and revision for immaterial classification errors had no impact on operating income, overall change in net assets or net cash provided by operating activities.

Not-for-Profit Financial Reporting Update

In 2018, the Organization adopted ASU 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities. A summary of the changes is as follows:

Balance Sheet

- The balance sheet distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Statement of Operations

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the balance sheet.
- Expenses are reported by both nature and function in one location.

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

Notes to Financial Statements

December 31, 2018 and 2017

The 2017 functional expenses (see *Note 11*) have been revised for immaterial classification errors of certain expenses. In 2017, in-kind expenses of \$831,291 were classified as fundraising expenses. These in-kind expenses were revised to be included in health care services expense. This change and functional expense revisions had no impact on previously reported total change in net assets.

Restricted Cash

During the year ended December 31, 2018, the Organization adopted the Financial Accounting Standards Board Accounting Standards Update 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, on a retrospective basis. This ASU is intended to remove diversity in practice of reporting restricted cash within the statements of cash flows. The Organization, which presents cash and cash equivalents with restrictions in multiple line items on the balance sheets, will now report these items as cash and cash equivalents for the statements of cash flows and will disclose the location of its cash and cash equivalents to reconcile the two statements for each period presented. Adoption of ASU 2016-14 resulted in the following changes on the statement of cash flows to the Organization's financial statements.

	December 31, 2017		
	As Previously Reported	As Adjusted	Adoption Impact
Statements of Cash Flows			
Change in assets limited as to use	\$ (1,145,935)	\$ -	\$ (1,145,935)
Increase in cash	1,976,728	3,122,663	1,145,935
Cash, beginning of year	4,725,329	9,194,628	4,469,299
Cash, end of year	6,702,057	12,317,291	5,615,234

This change had no impact on previously reported total change in net assets.

Note 2: Grant Revenue

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care service delivery for residents of Los Angeles, California, and surrounding areas. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended December 31, 2018 and 2017, the Organization recognized \$9,131,111 and \$8,223,957 in CHC grant revenue, respectively. Funding for the grant budget periods ending February 28, 2019 and 2020, is authorized at \$9,033,451 and \$8,492,741, 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 \$1,000,000 under the ACA-Health Infrastructure Investment Program for the period

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

Notes to Financial Statements

December 31, 2018 and 2017

of September 30, 2015, to September 29, 2018, and for facility construction and renovation and \$500,000 under ACA-Grants School-Based Health Centers Capital Program for the period of December 1, 2012, to November 30, 2017. During the years ended December 31, 2018 and 2017, the Organization recognized \$113,325 and \$1,172,020 in ACA grant revenue, respectively.

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

Note 3: Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Organization bills the patients and third-party payors several days after the services are performed and patient accounts receivable are due in full when billed. Revenue is recognized as performance obligations are satisfied.

Performance Obligations

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving services in our clinics. The Organization measures the performance obligation from commencement of a service to the point when it is no longer required to provide services to that patient, which is generally at the time of completion of the services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to its patients and customers in a retail setting (for example, pharmaceuticals) and the Organization does not believe it is required to provide additional goods related to the patient.

Transaction Price

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions which consist of contractual adjustments provided to third-party payors and discounts provided to uninsured patients in accordance with the Organization's sliding fee discount program policy, and implicit price concessions provided to uninsured patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its sliding fee discount program policy and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with these classes of patients.

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

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Third-Party Payors

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are paid in accordance with provisions of Medicare's Prospective Payment System (PPS) for FQHCs. Medicare payments, including patient coinsurance, are paid 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 annual Medi-Cal Reconciliation Request Forms 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 estimated settlements expected to be received or paid for Medi-Cal Reconciliation Request Forms for each of the years ended December 31, 2014 through 2018. Such amounts are recorded on the balance sheets as estimated amounts due from or to third-party payors, respectively.

Other. Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates and discounts from established charges.

Laws and regulations concerning government programs, including Medicare and Medi-Cal, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Organization. In addition, the contracts the Organization has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to cost report or other audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not

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

Notes to Financial Statements

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occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or are no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price were not significant in 2018 and 2017.

Patient and Uninsured Payors

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. As required by Section 330 of the Public Health Service Act (42 U.S.C. §254b), the Organization also has established a sliding fee discount program and offers low-income patients a sliding fee discount from standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, sliding fee discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the year ended December 31, 2018, additional revenue of approximately \$543,000 was recognized due to changes in its estimates of implicit price concessions. For the year ended December 31, 2017, no significant revenue was recognized due to changes in its estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Organization's mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances, such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Organization expects to collect based on its collection history with those patients.

Refund Liabilities

From time to time the Organization will receive overpayments of patient balances from third-party payors or patients resulting in amounts owed back to either the patients or third-party payors. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of December 31, 2018 and 2017, the Organization had no refund liabilities.

Revenue Composition

The Organization has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payors, service lines and method of reimbursement. Tables providing details of these factors are presented below.

St. John's Well Child and Family Center, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

The composition of patient service revenue by primary payor for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Medi-Cal	\$ 36,623,774	\$ 29,945,436
Medicare	438,395	513,355
County of Los Angeles	3,074,322	2,236,555
Self-pay and other	869,797	588,814
	<u> </u>	<u> </u>
Total	<u><u>\$ 41,006,288</u></u>	<u><u>\$ 33,284,160</u></u>

Revenue from patients' deductibles and coinsurance are included in the categories presented above based on the primary payor.

The composition of patient service revenue based on lines of business, method of reimbursement and timing of revenue recognition for the years ended December 31, 2018 and 2017, are as follows:

	2018	2017
Timing of revenue and recognition and service lines		
Health care services transferred over time		
Medical	\$ 23,800,990	\$ 21,975,400
Dental	6,792,908	5,803,372
Behavioral health	1,838,953	1,515,016
Other	183,432	40,067
	<u> </u>	<u> </u>
	32,616,283	29,333,855
Retail pharmacy sales at point in time	<u>8,390,005</u>	<u>3,950,305</u>
	<u><u>\$ 41,006,288</u></u>	<u><u>\$ 33,284,160</u></u>
Method of reimbursement		
Fee for service	\$ 38,360,654	\$ 30,744,750
Other	2,645,634	2,539,410
	<u> </u>	<u> </u>
	<u><u>\$ 41,006,288</u></u>	<u><u>\$ 33,284,160</u></u>

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

Notes to Financial Statements

December 31, 2018 and 2017

Financing Component

The Organization has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Organization's expectation that the period between the time the service is provided to a patient and the time the patient or a third-party payor pays for that service will be one year or less.

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, 2018 and 2017, is:

	2018	2017
Medi-Cal	80%	88%
Medicare	13%	2%
County of Los Angeles	5%	8%
Self-pay and other	2%	2%
	<u>100%</u>	<u>100%</u>

Note 5: Contributions Receivable

Contributions receivable at December 31, 2018 and 2017, consisted of the following:

	2018	2017
With Donor Restrictions		
Due within one year	\$ 1,081,750	\$ 1,119,750
Due in one to five years	350,000	-
	<u>\$ 1,431,750</u>	<u>\$ 1,119,750</u>

No discount was recorded for 2018 or 2017.

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

Notes to Financial Statements

December 31, 2018 and 2017

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, 2018 and 2017. 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 \$2,000,000 revolving line of credit expiring on December 1, 2019. At December 31, 2018 and 2017, there were no borrowings against this line. Interest is payable monthly at a rate of the greater of 2.50 percent or the bank's prime rate plus 1 percent (6.50 percent and 5.50 percent at December 31, 2018 and 2017, respectively). The line is collateralized by substantially all of the Organization's assets except real estate.

Note 8: Long-Term Debt

	2018	2017
City National Bank (A)	\$ 517,255	\$ 570,091
Series 2017 revenue bonds (B)	5,092,500	5,237,917
NCB Capital Impact (C)	2,149,875	2,475,955
Vital Healthcare (D)	-	10,000
Insight financial capital lease obligation (E)	218,651	619,458
Leaf financial capital lease obligation (F)	244,798	298,149
Ally financial capital lease obligation (G)	14,694	17,757
	8,237,773	9,229,327
Less current maturities	825,446	995,790
Plus unamortized premium on bonds	206,089	215,049
Less unamortized debt issuance costs	396,122	420,942
	\$ 7,222,294	\$ 8,027,644

(A) Due June 2026; payable \$7,171 monthly, including interest at 6.0 percent; secured by certain real estate, subordinated to the NCB Capital Impact note.

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

Notes to Financial Statements

December 31, 2018 and 2017

- (B) The Revenue Bonds (Series 2017) consist of Insured Revenue Bonds in the original amount of \$5,250,000, with premium of \$219,514, dated July 1, 2017, which bear interest at 2 percent to 4 percent. The Bonds are payable in annual sinking fund installments. Annual installments are payable from December 1, 2017 to December 1, 2041, and fluctuate between \$145,000 and \$315,000. Bonds maturing on or before December 1, 2028, may be redeemed at the Organization's option in whole or in part on any date, upon 45 days' prior written notice to the Trustee. Unamortized debt issuance costs were \$337,866 and \$352,555 at December 31, 2018 and 2017, respectively. The effective interest rate was .29 percent for the years ended December 31, 2018 and 2017.

The Series 2017 Revenue Bonds were issued to advance refund the Series 2011 Revenue Bonds. The Organization completed the refunding to reduce its total debt service payments over the next 24 years by approximately \$937,000 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of approximately \$542,000. The outstanding balances of the 2011 Revenue Bonds totaled \$4,848,872 at July 1, 2017. Securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments. Therefore, the 2011 Revenue Bonds are considered defeased, and the liability has been removed from long-term debt.

The regulatory agreement requires that certain funds be established with the Trustee. Accordingly, these funds are included in assets limited as to use held by the Trustee in the financial statements. The indenture agreement also requires the Organization to comply with certain restrictive covenants including maintain a ratio of net income available for debt service to maximum aggregate annual debt of at least 1.25, maintain a current ratio of at least 1.5 and maintaining at least 30 days of expense in cash.

- (C) Construction loan payable in the original amount of \$3,450,000 with a fixed interest rate at 3.94 percent 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 \$58,256 and \$68,387 at December 31, 2018 and 2017, respectively. The effective interest rate was .03 percent for the years ended December 31, 2018 and 2017.

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) Note payable with interest-only monthly payments at 5.50 percent; principal balance due July 31, 2018; this note payable was paid in full during 2018.
- (E) At imputed interest of 4.37 percent, due through October 2019; collateralized by equipment.
- (F) At imputed interest of 8.50 percent, due through December 2021; collateralized by equipment.
- (G) At imputed interest of 5.54 percent, due through February 2023; collateralized by equipment.

St. John's Well Child and Family Center, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

Property and equipment included the following equipment under capital lease:

	2018	2017
Equipment	\$ 1,479,049	\$ 1,479,049
Less accumulated depreciation	<u>685,914</u>	<u>413,627</u>
	<u>\$ 793,135</u>	<u>\$ 1,065,422</u>

Aggregate annual maturities of long-term debt and payments on capital lease obligations at December 31, 2018, are:

	Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2019	\$ 545,488	\$ 302,229
2020	562,531	80,636
2021	585,895	80,636
2022	609,813	59,302
2023	634,587	602
Thereafter	<u>4,821,316</u>	<u>-</u>
	<u>\$ 7,759,630</u>	523,405
Less amount representing interest		45,262
Present value of future minimum lease payments		<u>478,143</u>
Less current maturities		<u>279,958</u>
Noncurrent portion		<u>\$ 198,185</u>

St. John's Well Child and Family Center, Inc.
Notes to Financial Statements
December 31, 2018 and 2017

Note 9: Net Assets With Donor Restrictions

Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2018 and 2017, are restricted for the following purposes or periods:

	2018	2017
Health care services		
Purchase of equipment	\$ -	\$ 400,000
Indigent care	2,485,750	1,537,763
Pharmaceutical program	7	914
Time restricted	52,591	665,590
	<u>\$ 2,538,348</u>	<u>\$ 2,604,267</u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors.

	2018	2017
Purpose restrictions accomplished		
Purchase of equipment	\$ 797,989	\$ 77,011
Indigent care	2,036,841	1,843,983
Pharmaceutical program	914	536,509
Passage of specified time	62,999	557,910
	<u>\$ 2,898,743</u>	<u>\$ 3,015,413</u>

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

Notes to Financial Statements

December 31, 2018 and 2017

Note 10: Liquidity and Availability

The Organization's financial assets available within one year of the balance sheet date for general expenditure are:

	2018	2017
Financial assets at year end		
Cash	\$ 9,394,475	\$ 6,702,057
Patient accounts receivable, net	4,101,180	3,904,626
Grants and other receivable	2,910,891	3,254,253
Contributions receivable	1,431,750	1,119,750
Estimated amounts due from third-party payers	2,126,109	1,521,559
Assets limited as to use	8,665,523	5,615,234
Total financial assets	28,629,928	22,117,479
Less amounts not available to be used within one year		
Internally designated	7,900,000	3,850,000
Funds held by trustees	265,523	265,234
Estimated amounts due from third-party payers	514,126	191,136
Contributions receivable	350,000	-
Financial assets not available to be used within one year	9,029,649	4,306,370
Financial assets available to meet general expenditures within one year	\$ 19,600,279	\$ 17,811,109

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in short-term investments.

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

Notes to Financial Statements

December 31, 2018 and 2017

Note 11: Functional Expenses

The Organization provides health care services primarily to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services, general and administrative and fundraising functional expense classifications based on direct assignment, expenses and other methods. The following schedule presents the natural classification of expenses by function as follows:

	2018			
	Health Care Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 32,121,829	\$ 3,815,267	\$ 245,707	\$ 36,182,803
Employee benefits	7,119,815	845,656	54,461	8,019,932
Purchased services and professional fees	5,005,233	1,372,109	268,359	6,645,701
Supplies and other	13,940,898	1,632,672	34,506	15,608,076
Rent	539,216	82,989	-	622,205
Depreciation	1,488,706	202,225	-	1,690,931
Interest	29,238	334,626	-	363,864
	<u>\$ 60,244,935</u>	<u>\$ 8,285,544</u>	<u>\$ 603,033</u>	<u>\$ 69,133,512</u>
Total expenses				

For 2017, the Organization had \$53,749,999 of health care services expenses, \$7,638,659 in general and administrative expenses and \$1,263,237 in fundraising expenses.

Note 12: Operating Leases

Noncancellable operating leases for primary care outpatient offices and equipment expire in various years through 2024.

Future minimum lease payments at December 31, 2018, were:

2019	\$ 698,307
2020	578,712
2021	579,189
2022	367,161
2023	282,426
Thereafter	<u>926,789</u>
Future minimum lease payments	<u>\$ 3,432,584</u>

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

Notes to Financial Statements

December 31, 2018 and 2017

Note 13: Pension Plan

The Organization has a 403(b) defined contribution plan covering substantially all employees. Any employer contributions are discretionary in nature and are subject to reduction or termination. The Board of Directors annually determines the amount, if any, of the Organization's contributions to the plan. For the years ended December 31, 2018 and 2017, the Organization contributed a matching amount up to 4 percent of each eligible employee's gross compensation. Pension expense was approximately \$300,000 and \$217,000 for 2018 and 2017, respectively.

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*.

Variable Consideration

Estimates of variable consideration in determining the transaction price for 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 cost, if any, for each of these matters. Events could occur that would cause these estimates to differ materially in the near term.

During the year ending December 31, 2017, the Organization recorded a liability of \$1,500,000 for an employment related matter. This settlement is included in accrued expenses on the Organization's balance sheet and is to be paid in three annual payments of \$500,000 commencing April 2019.

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

Notes to Financial Statements

December 31, 2018 and 2017

Billing Compliance

The Organization identified that it was overpaid for certain patient claims. The Organization has estimated the payable related to this matter and recorded the estimated liability. Events could occur during the resolution of this matter that would cause this estimate 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. In 2017, the Organization entered into an agreement to extend the period three years from March 1, 2017, through February 28, 2020. Approximately 57 percent of employees are covered under this agreement at December 31, 2018 and 2017.

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.

Note 15: Future Change in Accounting Principles

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2018, for not for profits that are conduit debt obligors, and any interim periods within annual reporting periods that begin after December 15, 2019, for not for profits that are conduit debt obligors. The Organization is evaluating the impact the standard will have on the consolidated financial statements; however, the standard is expected to have a material impact on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.

Supplementary Information

St. John's Well Child and Family Center, Inc.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Amount Expended
U.S. Department of Health and Human Services/Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)/ Health Center Program Cluster	93.224	N/A	\$ -	\$ 2,157,094
U.S. Department of Health and Human Services/Grants for New and Expanded Services under the Health Center Program/ Health Center Program Cluster	93.527	N/A	-	<u>6,974,017</u>
Total Health Center Program Cluster			-	<u>9,131,111</u>
U.S. Department of Health and Human Services/Los Angeles County/HIV Emergency Relief Project Grants	93.914	PH-002343	-	32,323
U.S. Department of Health and Human Services/Los Angeles County/HIV Emergency Relief Project Grants	93.914	PH-002339	-	<u>24,658</u>
Total HIV Emergency Relief Project Grants			-	<u>56,981</u>
U.S. Department of Health and Human Services/Charles Drew University of Medicine/Minority Health and Health Disparities Research/Research and Development Cluster	93.307	G0987A00-J00	-	<u>3,071</u>
U.S. Department of Health and Human Services/Los Angeles County/HIV Prevention Activities - Health Department Based	93.940	PH-003087	-	123,516
U.S. Department of Health and Human Services/Los Angeles County/HIV Prevention Activities - Health Department Based	93.940	15-11049	-	<u>27,537</u>
Total HIV Prevention Activities - Health Department Based			-	<u>151,053</u>
Total forward			-	9,342,216

St. John's Well Child and Family Center, Inc.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Amount Expended
Total forward			\$ -	\$ 9,342,216
U.S. Department of Health and Human Services/Grants for Capital Development in Health Centers	93.526	N/A	-	113,325
U.S. Department of Health and Human Services/Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	-	32,154
U.S. Department of Health and Human Services/California Family Health Council/ Family Planning Services	93.217	2515-5320-71209-17-18	-	118,798
U.S. Department of Health and Human Services/Maternal and Child Health Federal Consolidated Programs	93.110	N/A	-	7,855
U.S. Department of Health and Human Services/Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	N/A	-	661,756
U.S. Department of Health and Human Services/Matrix Institute on Addiction/ Opioid STR	93.788	None	-	91,841
Total U.S. Department of Health and Human Services			-	10,367,945
U.S. Department of Justice/California Governor's Office of Emergency Services/ Crime Victim Assistance	16.575	UV15011635	-	165,011
U.S. Department of Justice/California Governor's Office of Emergency Services/ Crime Victim Assistance	16.575	XV15011635	-	140,523
U.S. Department of Justice/California Governor's Office of Emergency Services/ Crime Victim Assistance	16.575	KD17011635	-	160,754
Total U.S. Department of Justice			-	466,288
			\$ -	\$ 10,834,233

St. John's Well Child and Family Center, Inc.
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of St. John's Well Child and Family Center, Inc. under programs of the federal government for the year ended December 31, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of St. John's Well Child and Family Center, Inc., it is not intended to and does not present the financial position, results of operations, changes in net assets or cash flows of St. John's Well Child and Family Center, Inc.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. St. John's Well Child and Family Center, Inc. has elected not to use the 10 percent de minimis indirect rate allowed under the Uniform Guidance.
3. St. John's Well Child and Family Center, Inc. did not have any federal loan programs during the year ended December 31, 2018.

**Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Independent Auditor's Report

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., Inc. (the "Organization"), which comprise the balance sheet as of December 31, 2018, 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 May 24, 2019, which contained an "Emphasis of Matter" paragraph regarding changes in accounting principles.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered St. John's Well Child and Family Center, Inc.'s internal control over financial reporting (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 St. John's Well Child and Family Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the St. John's Well Child and Family Center, Inc.'s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether St. John's Well Child and Family Center, Inc.'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2018-001.

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

St. John's Well Child and Family Center, Inc.'s response to the finding in our audit is described in the accompanying schedule of findings and questioned costs. St. John's Well Child and Family Center, Inc.'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
May 24, 2019

Report on Compliance for the Major Federal Program and Report 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 the Major Federal Program

We have audited St. John's Well Child and Family Center, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on St. John's Well Child and Family Center, Inc.'s major federal program for the year ended December 31, 2018. 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 federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 St. John's Well Child and Family Center, Inc.'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 St. John's Well Child and Family Center, Inc.'s compliance.

Board of Directors
St. John's Well Child and Family Center, Inc., 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, 2018.

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 St. John's Well Child and Family Center, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on the 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 the Uniform Guidance, 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 St. John's Well Child and Family Center, Inc.'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 or significant deficiencies. 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
May 24, 2019

St. John's Well Child and Family Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2018

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) 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

Federal Awards

4. The independent auditor's report on internal control over compliance for the major federal award program 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 the major federal award was:

Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?

Yes No

St. John's Well Child and Family Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2018

7. The Organization's major program was:

Cluster/Program	CFDA Number
Health Center Program Cluster	93.224 and 93.527

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Organization qualified as a low-risk auditee? Yes No

St. John's Well Child and Family Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2018

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
2018-001	<p>Criteria or specific requirement – The Organization is required to follow proper billing guidelines for fulfilled pharmaceutical prescriptions.</p> <p>Condition – The Organization dispensed pharmaceutical prescriptions purchased at discounted prices. During 2017 and 2018, the Organization received reimbursement for fee-for-service pharmaceutical prescriptions from certain providers at a higher retail rate.</p> <p>Effect – The Organization was over reimbursed for fee-for-service pharmaceuticals dispensed.</p> <p>Cause – The Organization's specialty pharmacy software was incorrectly set up with the reimbursement rate as the higher retail rate instead of the required lower rate. The Organization's internal controls identified the issue and the Organization self-reported the noncompliance.</p> <p>Recommendation – Management should continue to monitor its pharmacy software program to verify that setup has been completed correctly for billing compliance and that reimbursement amounts received are correct.</p> <p>Views of Responsible Officials and Planned Corrective Actions – The Organization identified the issue internally, self-reported and disclosed to the appropriate parties. Effective December 1, 2018, the Organization initiated the correct plan code identifier and fixed the pharmacy software problem.</p>

St. John's Well Child and Family Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2018

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
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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, 2018

Reference Number	Finding	Status
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No matters are reportable.