

# **St. John's Community Health**

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

**December 31, 2022 and 2021**



**St. John's Community Health**  
**December 31, 2022 and 2021**

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## Independent Auditor's Report

Board of Directors  
St. John's Community Health  
Los Angeles, California

### **Opinion**

We have audited the financial statements of St. John's Community Health, which comprise the balance sheets as of December 31, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of St. John's Community Health as of December 31, 2022 and 2021, and the results of its operations, 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.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of St. John's Community Health and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Emphasis of Matter**

As discussed in *Note 21* to the financial statements, in 2022, the Organization adopted ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to this matter.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about St. John's Community Health's ability to continue as a going concern within one year after the date that these financial statements are issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 St. John's Community Health's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about St. John's Community Health's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**FORVIS, LLP**

Springfield, Missouri  
August 2, 2023

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**St. John's Community Health**  
**Balance Sheets**  
**December 31, 2022 and 2021**

**Assets**

	<u>2022</u>	<u>2021</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 16,038,120	\$ 11,351,137
Patient accounts receivable	5,025,267	14,571,157
Grants and other receivables	16,271,484	5,913,962
Contributions receivable - current	1,836,272	658,584
Pharmaceutical inventory	223,306	422,063
Prepaid expenses and other	619,071	568,920
Total current assets	<u>40,013,520</u>	<u>33,485,823</u>
 <b>Assets Limited As To Use</b>		
Internally designated	15,881,090	15,752,440
Held by trustee	266,388	265,892
	<u>16,147,478</u>	<u>16,018,332</u>
 <b>Contributions Receivable</b>	<u>500,000</u>	<u>-</u>
 <b>Estimated Amounts Due From Third-Party Payors</b>	<u>-</u>	<u>237,870</u>
 <b>Property and Equipment, At Cost</b>		
Land	2,948,376	2,948,376
Buildings and leasehold improvements	26,407,605	26,407,605
Equipment	6,266,600	5,974,923
Furniture and fixtures	1,327,897	1,300,532
Construction in progress	5,091,676	1,067,685
	<u>42,042,154</u>	<u>37,699,121</u>
Less accumulated depreciation	16,090,513	14,551,144
	<u>25,951,641</u>	<u>23,147,977</u>
 <b>Other Assets</b>		
Right-of-use assets - operating leases	5,479,500	5,641,594
Right-of-use assets - finance leases	772,225	1,197,908
	<u>6,251,725</u>	<u>6,839,502</u>
 Total assets	<u>\$ 88,864,364</u>	<u>\$ 79,729,504</u>

## Liabilities and Net Assets

	<b>2022</b>	<b>2021</b>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 888,623	\$ 845,605
Current portion of operating lease liabilities	854,858	684,097
Current portion of finance lease liabilities	526,914	468,990
Accounts payable	7,264,697	5,595,186
Accrued expenses	7,675,559	6,822,410
Estimated amounts due to third-party payors	6,199,381	5,917,799
Deferred grant revenue	527,442	-
	<u>23,937,474</u>	<u>20,334,087</u>
<b>Other Liabilities</b>		
Long-term debt, net	5,728,656	6,601,416
Operating lease liabilities	4,963,310	5,237,836
Finance lease liabilities	287,192	765,948
Contingent note payable	3,237,500	3,412,500
	<u>14,216,658</u>	<u>16,017,700</u>
Total other liabilities	<u>14,216,658</u>	<u>16,017,700</u>
Total liabilities	<u>38,154,132</u>	<u>36,351,787</u>
<b>Net Assets</b>		
Without donor restrictions	46,343,853	42,345,210
With donor restrictions	4,366,379	1,032,507
	<u>50,710,232</u>	<u>43,377,717</u>
Total net assets	<u>50,710,232</u>	<u>43,377,717</u>
Total liabilities and net assets	<u>\$ 88,864,364</u>	<u>\$ 79,729,504</u>

**St. John's Community Health**  
**Statements of Operations**  
**Years Ended December 31, 2022 and 2021**

	<b>2022</b>	<b>2021 (Adjusted - Note 21)</b>
<b>Revenues, Gains, and Other Support Without Donor Restrictions</b>		
Patient service revenue	\$ 66,955,640	\$ 62,818,710
Capitation revenue	21,179,009	20,607,011
Grant revenue	40,605,061	41,172,711
Contributions of cash and other financial assets	1,536,715	3,219,972
Contributions of nonfinancial assets	2,649,674	2,783,868
Other	534,674	1,556,848
Net assets released from restrictions used for operations	758,182	1,081,560
Total revenues, gains, and other support without donor restrictions	134,218,955	133,240,680
<b>Expenses and Losses</b>		
Salaries and wages	62,745,195	57,948,375
Employee benefits	12,483,947	11,909,502
Purchased services and professional fees	17,791,200	20,545,532
Supplies and other	33,856,345	34,382,101
Rent	1,349,123	1,101,302
Depreciation and amortization	2,040,293	1,967,330
Interest	348,617	368,596
Total expenses and losses	130,614,720	128,222,738
<b>Operating Income</b>	<b>3,604,235</b>	<b>5,017,942</b>
<b>Other Income</b>		
Investment return, net	129,146	1,071
Gain on extinguishment of debt	175,000	87,500
Total other income	304,146	88,571
<b>Excess of Revenues Over Expenses</b>	<b>3,908,381</b>	<b>5,106,513</b>
Grants for acquisition of property and equipment	90,262	100,000
Net assets released from restrictions used for purchase of property and equipment	-	1,004,250
<b>Increase in Net Assets Without Donor Restrictions</b>	<b>\$ 3,998,643</b>	<b>\$ 6,210,763</b>

**St. John's Community Health**  
**Statements of Changes in Net Assets**  
**Years Ended December 31, 2022 and 2021**

	<b>2022</b>	<b>2021</b>
<b>Net Assets Without Donor Restrictions</b>		
Excess of revenues over expenses	\$ 3,908,381	\$ 5,106,513
Grants for acquisition of property and equipment	90,262	100,000
Net assets released from restrictions used for purchase of property and equipment	-	1,004,250
Increase in net assets without donor restrictions	3,998,643	6,210,763
<b>Net Assets With Donor Restrictions</b>		
Contributions received	4,092,054	976,671
Net assets released from restriction	(758,182)	(2,085,810)
Increase (decrease) in net assets with donor restrictions	3,333,872	(1,109,139)
<b>Change in Net Assets</b>	7,332,515	5,101,624
<b>Net Assets, Beginning of Year</b>	43,377,717	38,276,093
<b>Net Assets, End of Year</b>	\$ 50,710,232	\$ 43,377,717

**St. John's Community Health**  
**Statements of Cash Flows**  
**Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>Operating Activities</b>		
Change in net assets	\$ 7,332,515	\$ 5,101,624
Items not requiring (providing) cash		
Depreciation and amortization	2,040,293	1,967,330
Amortization of debt issuance costs	24,871	24,871
Noncash operating lease expense	804,754	662,575
Gain on extinguishment of debt	(175,000)	(87,500)
Grants for acquisition of property and equipment	(90,962)	(100,000)
Changes in		
Patient accounts receivable	9,545,890	(6,984,566)
Grants and other receivables	(10,357,522)	(1,033,920)
Contributions receivable	(1,677,688)	(106,084)
Estimated amounts due from and to third-party payors	519,452	2,934,129
Prepaid expenses and other	(50,151)	582,334
Pharmaceutical inventory	198,757	(102,502)
Accounts payable and accrued expenses	2,555,385	(961,955)
Deferred grant revenue	527,442	(943,560)
Operating lease liability	(746,425)	(639,602)
	<u>10,451,611</u>	<u>313,174</u>
Net cash provided by operating activities		
<b>Investing Activities</b>		
Purchase of property and equipment	<u>(4,379,671)</u>	<u>(776,836)</u>
Net cash used in investing activities	<u>(4,379,671)</u>	<u>(776,836)</u>
<b>Financing Activities</b>		
Proceeds from grants for acquisition of property and equipment	90,962	100,000
Proceeds from issuance of long-term debt	-	3,141,248
Principal payments on long-term debt	(850,700)	(602,851)
Principal payments of finance lease liabilities	<u>(496,073)</u>	<u>(561,586)</u>
Net cash provided by (used in) financing activities	<u>(1,255,811)</u>	<u>2,076,811</u>

**St. John's Community Health**  
**Statements of Cash Flows**  
**Years Ended December 31, 2022 and 2021**

	<b>2022</b>	<b>2021</b>
<b>Increase in Cash and Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents</b>	\$ 4,816,129	\$ 1,613,149
<b>Cash and Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents, Beginning of Year</b>	27,369,469	25,756,320
<b>Cash and Cash Equivalents, Restricted Cash, and and Restricted Cash Equivalents, End of Year</b>	\$ 32,185,598	\$ 27,369,469
<b>Reconciliation of Cash and Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents in current assets	\$ 16,038,120	\$ 11,351,137
Cash and cash equivalents in assets limited as to use	16,147,478	16,018,332
	\$ 32,185,598	\$ 27,369,469
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 348,617	\$ 368,596
Property and equipment in accounts payable	\$ -	\$ 36,638
ROU assets obtained in exchange for new operating lease liabilities	\$ 642,660	\$ 1,069,254
ROU assets obtained in exchange for new finance lease liabilities	\$ 75,241	\$ 151,502

**St. John's Community Health**  
**Notes to Financial Statements**  
**December 31, 2022 and 2021**

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

***Nature of Operations***

St. John's Community Health (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, expenses, gains, losses, and other changes in net assets 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. Uninvested cash and cash equivalents included in investment accounts, including assets limited as to use are considered to be cash and cash equivalents. Deposit accounts restricted by the Board and externally by regulators are considered to be cash and cash equivalents. At December 31, 2022 and 2021, cash equivalents consisted primarily of money market accounts with brokers.

At December 31, 2022, the Organization's cash accounts exceeded federally insured limits by approximately \$20,018,000. This amount includes bank balances available to pay checks issued prior to year-end, but not yet presented for payment as of December 31, 2022.

***Assets Limited As To Use***

Assets limited as to use include (1) cash and money market funds held by trustee under an indenture agreement and (2) cash and money market funds 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.

**St. John's Community Health**  
**Notes to Financial Statements**  
**December 31, 2022 and 2021**

No bad debt expense related to patient accounts receivable has been recognized for the years ended December 31, 2022 and 2021.

***Pharmaceutical Inventories***

Pharmaceutical inventories are stated at the lower of cost or net realizable value. Costs are determined using the first-in, first-out (FIFO) method.

***Property and Equipment***

Property and equipment acquisitions over \$5,000 are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset. Assets under finance lease obligations and leasehold improvements, as applicable, are amortized over the shorter of the lease term or respective estimated useful lives.

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

Building and leasehold improvements	11 - 30 years
Equipment, furniture, and fixtures	3 - 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, 2022 and 2021.

***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, which approximates the effective interest method.

# **St. John's Community Health**

## **Notes to Financial Statements**

### **December 31, 2022 and 2021**

#### ***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.

#### ***Deferred Grant Revenues***

Cash received from conditional gifts is deferred until conditions are met.

#### ***Net Assets***

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions. The governing board has designated, from net assets without donor or certain grantor restrictions, net assets for capital improvements.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

#### ***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.

**St. John's Community Health**  
**Notes to Financial Statements**  
**December 31, 2022 and 2021**

**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 arrangements represent 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.

**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:

<b>Nature of the Gift</b>	<b>Value Recognized</b>
<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

# **St. John's Community Health**

## **Notes to Financial Statements**

### **December 31, 2022 and 2021**

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.

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.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

#### ***Government Grant Revenue***

Support funded by grants is generally considered a conditional contribution and recognized as the Organization meets the conditions or conditions prescribed by the grant agreement, which is often incurrence of qualifying expenditures. Grant agreements which are reimbursement for services provided are considered exchange transactions and recognized as patient service revenue which is recognized as the service is performed. 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.

#### ***Pharmacy Revenue***

Pharmacy revenue is recognized as pharmaceuticals are dispensed to the customer. The Organization has a network of participating pharmacies that dispense pharmaceuticals to its patients under contract arrangement with the Organization. The Organization participates in the 340B "Drug Discount Program" which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The 340B Drug Discount Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The Organization receives benefits under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. Reported 340B revenue consists of the pharmacy reimbursements, net of the initial purchase price of the drugs.

The 340B gross receipts are included in patient service revenue on the statements of operations. The drug replenishment costs and administrative and filling fees are included in supplies and other expenses on the statements of operations. The net 340B revenue from this program is used in furtherance of the Organization's mission.

# St. John's Community Health

## Notes to Financial Statements

### December 31, 2022 and 2021

#### **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.

The Organization recognizes revenue ratably over the reporting period starting at the point when meaningful use objectives and any other specific grant requirements applicable for the reporting period have been met.

The Organization has recorded revenue of approximately \$0 and \$312,000 for 2022 and 2021, respectively, which is included in other revenue within operating revenues in the statement of operations.

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

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

# St. John's Community Health

## Notes to Financial Statements

### December 31, 2022 and 2021

grant period. During the years ended December 31, 2022 and 2021, the Organization recognized \$9,117,581 and \$9,209,396 in CHC grant revenue, respectively. Funding for each of the grant budget periods ending February 28, 2023 and February 29, 2024, is authorized at \$9,141,780

In August 2020, the Organization received a federal award as part of the Disaster Relief Act of 2019 for capital improvements for \$1,000,000 for a budget period of September 1, 2020, through August 31, 2023. The award has specific terms and conditions that must be followed when utilizing the funding. Grant revenue is recognized, and grant funds drawn down, as the Organization meets the conditions prescribed by the grant agreement which require incurring qualifying expenditures over the grant period. During the years ended December 31, 2022 and 2021, the Organization recognized \$0 in grant funds for capital improvements.

The CHC grants are considered conditional awards. As such, the authorized funding in which the Organization has not incurred allowable expenditures has not been recognized in the financial statements at year-end.

In addition to the aforementioned grants, the Organization receives financial support from other federal, state, and private sources. See *Note 19* for consideration of funding received for COVID-19. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis. Grant revenue recognized in 2022 and 2021 was for financial support from awards classified as conditional contributions.

### **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 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.

# St. John's Community Health

## Notes to Financial Statements

### December 31, 2022 and 2021

#### **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.

#### **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, 2018, through 2022. Such amounts are recorded on the balance sheets as estimated amounts due from or to third-party payors. Due to the timing of the interim and final settlement processes, the Organization has classified a portion of the amount as a noncurrent. The Organization has also recorded a payable for certain amounts that are expected to be repaid to the state for Medi-Cal Reconciliation Request Forms for years ended December 31, 2017, through 2019 due to a billing error identified in 2020.

*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

# **St. John's Community Health**

## **Notes to Financial Statements**

### **December 31, 2022 and 2021**

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 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. The 2021 patient service revenue increased approximately \$1,135,000 due to a change in transaction prices related to dates of service prior to January 1, 2021. The 2022 patient service revenue decreased approximately \$585,000 due to a change in transaction prices related to dates of service prior to January 1, 2022.

#### ***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, 2022, additional revenue of approximately \$150,000 was recognized due to changes in its estimates of implicit price concessions. For the year ended December 31, 2021, additional revenue of approximately \$100,000 was recognized due to changes in its estimates of implicit price concessions. 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.

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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, 2022 and 2021, 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.

The composition of patient service revenue by primary payor for the years ended December 31, 2022 and 2021, is as follows:

	<b>2022</b>	<b>2021</b>
Medi-Cal	\$ 57,956,609	\$ 39,766,275
Medicare	1,401,987	527,696
County of Los Angeles	2,520,918	3,763,970
Self-pay and other	5,076,126	18,760,769
Total	\$ 66,955,640	\$ 62,818,710

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

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The composition of patient service revenue based on lines of business and method of reimbursement for the years ended December 31, 2022 and 2021, are as follows:

	<b>2022</b>	<b>2021</b>
Timing of revenue and recognition and service lines		
Health care services transferred over time		
Medical	\$ 40,642,674	\$ 40,254,930
Dental	10,396,250	7,745,085
Behavioral health	2,377,194	2,286,264
	53,416,118	50,286,279
 Retail pharmacy sales at point in time	 13,539,522	 12,532,431
	\$ 66,955,640	\$ 62,818,710
 Fee for service	\$ 64,853,499	\$ 62,603,551
Other	2,102,141	215,159
	\$ 66,955,640	\$ 62,818,710

***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.

***Contract Balances***

The following table provides information about the Organization's receivables, contract assets, and contract liabilities from contracts with customers:

	<b>2022</b>	<b>2021</b>
Accounts receivable, beginning of year	\$ 14,571,157	\$ 7,586,591
Accounts receivable, end of year	5,025,267	14,571,157

The Organization had no significant contract assets or contract liabilities at December 31, 2022 and 2021.

**St. John's Community Health**  
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**Note 4: Contributions Receivable**

Contributions receivable consisted of the following:

	<b>2022</b>	<b>2021</b>
With Donor Restrictions		
Due within one year	\$ 1,836,272	\$ 658,584
Due in one to five years	500,000	-
	<b>\$ 2,336,272</b>	<b>\$ 658,584</b>

**Note 5: Conditional Grants and Contributions**

The Organization has received the following conditional promises to give at December 31, 2022 and 2021, that are not recognized in the financial statements:

	<b>2022</b>	<b>2021</b>
Given upon incurring allowable expenditures under the agreement	\$ 9,606,420	\$ 12,896,414

**Note 6: 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 payor agreements. The mix of receivables from patients and third-party payors at December 31, 2022 and 2021, is:

	<b>2022</b>	<b>2021</b>
Medi-Cal	90%	87%
Medicare	5%	4%
County of Los Angeles	3%	5%
Self-pay and other	2%	4%
	100%	100%

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**Note 7: Investments and Investment Return**

***Assets Limited As To Use***

Assets limited as to use, at December 31, 2022 and 2021, include:

	<b>2022</b>	<b>2021</b>
Internally designated for capital improvements		
Cash	\$ 4,148,202	\$ 4,148,202
Governmental money market funds	11,732,888	11,604,238
	15,881,090	15,752,440
Held by trustee under indenture agreement		
Cash	165,084	164,887
Money market funds	101,304	101,005
	266,388	265,892
	\$ 16,147,478	\$ 16,018,332

Total investment return at December 31, 2022 and 2021, is comprised of interest income of \$129,146 and \$1,071, respectively.

**Note 8: 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, 2022 and 2021. 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 9: Line of Credit**

The Organization has a \$2,000,000 revolving line of credit expiring on December 1, 2023. At December 31, 2022 and 2021, 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 (8.50 and 4.25 percent at December 31, 2022 and 2021, respectively). The line is collateralized by substantially all of the Organization's assets except real estate.

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**Note 10: Long-Term Debt**

	<b>2022</b>	<b>2021</b>
City National Bank (A)	\$ 270,815	\$ 338,160
Series 2017 revenue bonds (B)	4,476,250	4,636,667
NCB Capital Impact (C)	707,588	1,090,055
CPCA Ventures (D)	1,284,071	1,515,625
Ally financing (E)	598	4,419
	<u>6,739,322</u>	<u>7,584,926</u>
Less current maturities	888,623	845,605
Plus unamortized premium on bonds	170,235	179,195
Less unamortized debt issuance costs	<u>292,278</u>	<u>317,100</u>
	<u><u>\$ 5,728,656</u></u>	<u><u>\$ 6,601,416</u></u>

(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.

(B) The Revenue Bonds (Series 2017) consist of Insured Revenue Bonds in the original amount of \$5,250,000, with original premium of \$219,514, dated July 1, 2017, which bears 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 \$279,106 and \$293,796 at December 31, 2022 and 2021, respectively. The effective interest rate was .29 percent for the years ended December 31, 2022 and 2021.

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 maintaining a ratio of net income available for debt service to maximum aggregate annual debt of at least 1.25, maintaining 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 \$13,172 and \$23,304 at December 31, 2022 and 2021, respectively. The effective interest rate was .03 percent for the years ended December 31, 2022 and 2021.

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.

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- (D) Due January 2028; payable in 72 equal monthly installments beginning February 2022, including interest at 1.0 percent until January 2022, and thereafter at 3 percent; secured by certain personal property.
- (E) Due February 2023; payable \$331 monthly plus interest of 5.54 percent; secured by certain equipment.

Aggregate annual maturities and sinking fund requirements of long-term debt at December 31, 2022, are:

2023	\$ 888,623
2024	813,164
2025	513,393
2026	480,071
2027	447,604
Thereafter	<u>3,596,467</u>
	<u><u>\$ 6,739,322</u></u>

**Note 11: Contingent Note Payable**

On February 13, 2019, the Organization entered into a service payback loan agreement with the City of Los Angeles (the "City") in which the Organization could receive up to \$3,500,000 to complete construction, renovation, and rehabilitation of a property to provide housing for low-income persons. The loan is to be forgiven by the City, contingent upon continuous services provided by the Organization for the City with a service payback value equal to \$87,500 biannually for the service payback period of 20 years. The service payback period shall commence 2 months after the Project Completion Date, which occurred in the year ended December 31, 2021. The Organization recognized gain on extinguishment of debt of \$175,000 and \$87,500 in the years ended December 31, 2022 and 2021, respectively. There is no interest rate associated with the loan and the purpose of the loan is to finance the acquisition or improvement of real property to provide housing for low-income persons. The loan balance as of December 31, 2022 and 2021, is \$3,237,500 and \$3,412,500, respectively, which represents draws related to the construction project.

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**Note 12: Net Assets With Donor Restrictions**

***Net Assets With Donor Restrictions***

Net assets with donor restrictions at December 31, 2022 and 2021, are restricted for the following purposes or periods:

	<b>2022</b>	<b>2021</b>
Subject to expenditure for specified purpose		
Purchase of equipment	\$ 733,409	\$ 200,000
Indigent care	-	60,630
Health care services	3,632,970	771,877
	<u>\$ 4,366,379</u>	<u>\$ 1,032,507</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.

	<b>2022</b>	<b>2021</b>
Purpose restrictions accomplished		
Purchase of equipment	\$ -	\$ 1,004,250
Indigent care	60,629	1,066,478
Health care services	697,553	-
Passage of specified time	-	15,082
	<u>\$ 758,182</u>	<u>\$ 2,085,810</u>

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**Note 13: Liquidity and Availability**

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

	<u>2022</u>	<u>2021</u>
Financial assets at year-end		
Cash and cash equivalents	\$ 16,038,120	\$ 11,351,137
Patient accounts receivable	5,025,267	14,571,157
Grants and other receivables	16,271,484	5,913,962
Contributions receivable	2,336,272	658,584
Estimated amounts due from third-party payors	-	237,870
Assets limited as to use	<u>16,147,478</u>	<u>16,018,332</u>
 Total financial assets	 <u>55,818,621</u>	 <u>48,751,042</u>
 Less amounts not available to be used within one year		
Internally designated	15,881,090	15,752,440
Funds held by trustees	266,388	265,892
Estimated amounts due from third-party payors	-	237,870
Contributions receivable	<u>500,000</u>	<u>-</u>
 Financial assets not available to be used within one year	 <u>16,647,478</u>	 <u>16,256,202</u>
 Financial assets available to meet general expenditures within one year	 <u>\$ 39,171,143</u>	 <u>\$ 32,494,840</u>

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. To help manage unanticipated liquidity needs, the Organization has a committed line of credit of \$2,000,000, which it could draw upon (see *Note 9*).

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**Note 14: 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:

	<b>2022</b>			
	<b>Health Care Services</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and wages	\$ 56,631,560	\$ 5,856,668	\$ 256,967	\$ 62,745,195
Employee benefits	11,262,041	1,170,547	51,359	12,483,947
Purchased services and professional fees	13,575,585	3,581,182	634,433	17,791,200
Supplies and other	31,345,438	2,138,347	372,560	33,856,345
Rent	1,142,893	206,230	-	1,349,123
Depreciation	1,838,573	201,720	-	2,040,293
Interest	49,765	298,852	-	348,617
	<u>\$ 115,845,855</u>	<u>\$ 13,453,546</u>	<u>\$ 1,315,319</u>	<u>\$ 130,614,720</u>
Total expenses				
	<b>2021</b>			
	<b>Health Care Services</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total</b>
Salaries and wages	\$ 52,364,454	\$ 5,400,019	\$ 183,902	\$ 57,948,375
Employee benefits	10,766,120	1,105,572	37,810	11,909,502
Purchased services and professional fees	18,129,796	1,820,828	594,908	20,545,532
Supplies and other	32,331,314	2,037,342	13,445	34,382,101
Rent	946,407	154,895	-	1,101,302
Depreciation	1,722,136	245,194	-	1,967,330
Interest	100,151	268,445	-	368,596
	<u>\$ 116,360,378</u>	<u>\$ 11,032,295</u>	<u>\$ 830,065</u>	<u>\$ 128,222,738</u>
Total expenses				

**St. John's Community Health**  
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**Note 15: 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, 2022 and 2021, the Organization contributed a matching amount up to 4 percent of each eligible employee's gross compensation. Pension expense was approximately \$725,000 and \$544,000 for 2022 and 2021, respectively.

**Note 16: Construction in Progress**

At December 31, 2022, the Organization has multiple projects in progress including renovation of the 813 W. 58<sup>th</sup> Street Clinic, Williams Clinic, Compton Clinic, Roosevelt LAUSD, North Long Beach Clinic, and Frayser parking lot. As of December 31, 2022, the following work has been completed and is classified as construction in progress on the Organization's balance sheets. Continuation of these projects is dependent on the availability of additional federal grant and other funding.

Project	Construction in Progress at December 31, 2022	Estimated Project Cost	Estimated Completion Date
813 W. 58th St. & 817 W. 58th St. Residences Purchase for Frayser Parking	\$ 873,139	\$ 1,329,781	December 2023
Williams Renovations	183,509	1,000,000	July 2023
Compton CADD FFE (fixtures, furnishings, equipment)	46,897	925,000	May 2023
Roosevelt LAUSD - School Based	254,253	750,000	August 2023
North Long Beach Blvd., Compton, CA	3,660,235	8,690,000	June 2024
Frayser Parking Construction	73,643	850,000	November 2023
	<u>\$ 5,091,676</u>	<u>\$ 13,544,781</u>	

**Note 17: Leases**

**Accounting Policies**

The Organization determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the balance sheets. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Organization determines lease classification as operating or finance at the lease commencement date.

# St. John's Community Health

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The Organization accounts for the lease and nonlease components, such as common area and other maintenance costs, as a single lease component. The lease components consist of equipment and real estate. The nonlease components consist of services and other shared equipment, such as services, taxes, and other costs, such as maintenance.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Organization uses the implicit rate when readily determinable. As most of the leases do not provide an implicit rate, the Organization uses its incremental borrowing rate based on the information available at the commencement date to determine the present value of lease payments. Incremental borrowing rates used to determine the present value of lease payments were derived by reference to the Organization's secured debt yields corresponding to the lease commencement date.

The lease term may include options to extend or to terminate the lease that the Organization is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Organization has elected not to record leases with an initial term of 12 months or less on the balance sheets. Lease expense on such leases is recognized on a straight-line basis over the lease term.

#### ***Nature of Leases***

The Organization has entered into the following lease arrangements:

##### ***Finance Leases***

These leases mainly consist of equipment. These leases are payable in monthly installments through 2026. The leases bear interest rates between 5 percent and 7 percent and are secured by the equipment. Termination of the leases generally is prohibited unless there is a violation under the lease agreement.

##### ***Operating Leases***

The Organization leases primary care outpatient offices that expire in various years through 2037. These leases generally contain renewal options for periods ranging from 1 to 7 years and require the Organization to pay all executory costs (property taxes, maintenance, and insurance). Some lease payments have an escalating fee schedule, which range from a 2 to 3 percent increase each year. Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

##### ***Short-Term Leases***

The Organization leases certain equipment on a seasonal demand. The expected lease terms are less than 12 months. Total lease expense included in operating expenses for the years ending December 31, 2022 and 2021, was \$202,927 and \$152,760, respectively.

**St. John's Community Health**  
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*All Leases*

The Organization has no material related party leases.

The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

**Quantitative Disclosures**

The lease cost and other required information for the year ended December 31, 2022 and 2021, is as follows:

	<b>2022</b>	<b>2021</b>
Lease cost		
Finance lease cost		
Amortization of right-of-use asset	\$ 500,924	\$ 538,681
Interest on lease liabilities	54,817	79,516
Operating lease cost	1,146,196	948,542
Short-term lease cost	202,927	152,760
	<u>                    </u>	<u>                    </u>
Total lease cost	<u>\$ 1,904,864</u>	<u>\$ 1,719,499</u>
Other information		
Cash paid for amount included in the measurement of lease liabilities		
Operating cash flows from finance leases	\$ 555,741	\$ 618,197
Financing cash flows from finance leases	496,073	561,586
Operating cash flows from operating leases	1,146,196	948,542
Right-of-use assets obtained in exchange for new finance lease liabilities	75,241	151,502
Right-of-use assets obtained in exchange for new operating lease liabilities	642,660	1,069,254
Weighted average remaining lease term		
Finance leases	2.3 years	2.4 years
Operating leases	9.8 years	10.5 years
Weighted average discount rate		
Finance leases	6.6%	6.8%
Operating leases	5.5%	5.5%

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Future minimum lease payments and reconciliation to the balance sheet at December 31, 2022, are as follows:

	<b>Finance Leases</b>	<b>Operating Leases</b>
2023	\$ 556,772	\$ 1,163,197
2024	237,079	1,033,038
2025	49,758	708,697
2026	8,422	720,053
2027	-	561,525
Thereafter	-	3,597,047
	<hr/>	<hr/>
Total future undiscounted lease payments	852,031	7,783,557
Less interest	37,925	1,965,389
	<hr/>	<hr/>
Lease liabilities	<u>\$ 814,106</u>	<u>\$ 5,818,168</u>

**Note 18: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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**Recurring Measurements**

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2022 and 2021:

	<b>Fair Value Measurements Using</b>			
	<b>Total Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>December 31, 2022</b>				
Money market funds	\$ 11,834,192	\$ 11,834,192	\$ -	\$ -
<b>December 31, 2021</b>				
Money market funds	\$ 11,705,243	\$ 11,705,243	\$ -	\$ -

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2022.

**Investments**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Organization has no securities classified as Level 2 or 3.

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**Note 19: 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 8*.

***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.

As of December 31, 2022 and 2021, the Organization has recorded a liability of \$496,460 and \$280,500, respectively, related to various employment related matters. These settlements are included in the accrued expenses on the Organization's balance sheets. The Organization also recorded a related insurance receivable of \$396,460 and 180,500 at December 31, 2022 and 2021, respectively. This receivable is included in grants and other receivables on the Organization's balance sheets.

***340B Drug Pricing Program***

The Organization participates in the 340B Drug Pricing Program (340B Program) as a covered entity which enables the Organization to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA has implemented a program integrity initiative to maximize oversight and manage compliance risks for 340B Program covered entities. The initiative's guiding principles include audits of covered entities and manufacturers to enforce requirements for these stakeholders. Annual recertification is required to allow covered entities an opportunity to assess their 340B program and reattest to meeting program requirements.

# St. John's Community Health

## Notes to Financial Statements

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Laws and regulations governing the 340B Program are complex and subject to interpretation and change. The Organization monitors requests and notifications from manufacturers and assess with their legal department as needed as these notifications could result in potential reduction in savings for the Organization. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

#### **Labor Agreement**

The Organization has a collective bargaining agreement with Service Employees International Union, Local 721 expiring February 28, 2023. Approximately 61 and 65 percent of employees are covered under this agreement at December 31, 2022 and 2021, respectively.

#### **Note 20: COVID-19 Pandemic & CARES Act Funding**

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

The extent of the COVID-19 pandemic's adverse effect on the operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Organization's control and ability to forecast.

Because of these and other uncertainties, the Organization cannot estimate the length or severity of the effect of the pandemic on the Organization's business.

#### **Supplementary CARES Act Grants**

In the spring of 2020, the Organization was awarded three additional federal grant awards with various budget periods through April 2021 from the *Health Center Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding* totaling \$4,304,881. Each grant award contains specific terms and conditions that must be followed when utilizing this funding. Grant revenue is recognized, and grant funds are drawn down, as the Organization meets the conditions prescribed by the grant agreements which require incurring qualifying expenditures over the grant period. During the years ended December 31, 2022 and 2021, the Organization recognized \$0 and \$3,679,824 in CARES Act grant funds, respectively.

#### **American Rescue Plan Act Grants**

In March 2021, as part of the *American Rescue Plan Act*, the Organization was awarded a federal grant award for \$20,059,625 for a budget period of April 2021 through March 2023. The award has specific terms and conditions that must be followed when utilizing the funding. Grant revenue is recognized, and grant funds are drawn down, as the Organization meets the conditions prescribed by the grant agreements which require incurring qualifying expenditures over the grant period.

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During the years ended December 31, 2022 and 2021, the Organization recognized \$7,458,602 and \$12,601,023 in *American Rescue Plan Act* grant funds, respectively.

In July 2021, as part of the *American Rescue Plan Act*, the Organization was awarded a federal grant award for \$1,000,000 for a budget period of July 2021 through July 2022. The award has specific terms and conditions that must be followed when utilizing the funding. Grant revenue is recognized, and grant funds are drawn down, as the Organization meets the conditions prescribed by the grant agreements which require incurring qualifying expenditures over the grant period. During the years ended December 31, 2022 and 2021, the Organization recognized \$598,640 and \$401,360 in *American Rescue Plan Act* grant funds, respectively.

In September 2021, as part of the *American Rescue Plan Act*, the Organization was awarded a federal grant award for capital improvements for \$1,443,943 for a budget period of September 2021 through September 2024. The award has specific terms and conditions that must be followed when utilizing the funding. Grant revenue is recognized, and grant funds drawn down, as the Organization meets the conditions prescribed by the grant agreement which require incurring qualifying expenditures over the grant period. During the years ended December 31, 2022 and 2021, the Organization recognized \$0 in *American Rescue Plan Act* grant funds for capital improvements.

**Note 21: Change in Accounting Principles**

In 2022, the Organization adopted ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, on a retrospective basis. ASU 2020-07 requires contributed nonfinancial assets to be presented separately from contributions of cash or other financial assets in the statements of operations and disclosures within the notes to the financial statements about the valuation methodology for, use of, and donor-imposed restrictions associated with contributed nonfinancial assets.

The following table presents the related effect of the adoption of ASU 2020-07 on the statement of operations for the year ended December 31, 2021:

	<b>December 31, 2021</b>		
	<b>As Previously Reported</b>	<b>As Adjusted</b>	<b>Adoption Impact</b>
Statement of Operations			
Revenues, Gains, and Other Support			
Without Donor Restrictions			
Contributions	\$ 6,003,840	\$ -	\$ (6,003,840)
Contributions of cash and other financial assets	-	3,219,972	3,219,972
Contributions of nonfinancial assets	-	2,783,868	2,783,868

The adoption had no impact on operating income or overall change in net assets.

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**Note 22: Contributed Nonfinancial Assets**

For the years December 31, 2022 and 2021, contributed nonfinancial assets recognized within the statement of operations included:

	<b>2022</b>	<b>2021</b>
Personal protective equipment	\$ -	\$ 575,638
Testing kits	245,008	-
Vaccines	2,192,156	1,996,830
Building rent	212,510	211,400
	<b>\$ 2,649,674</b>	<b>\$ 2,783,868</b>

The nonfinancial assets listed above were recognized within revenue. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

***Personal Protective Equipment (PPE)***

PPE was received from various vendors and was utilized by the Organization during operations to help protect employees from COVID-19.

***Test Kits***

Donated testing kits for COVID-19, Antigen and Respiratory Syncytial Virus (RSV) were received from various counties and were utilized by the Organization in testing of patients. These tests were administered to patients free of charge.

***Vaccines***

The vaccines were utilized in the Vaccines for Children (VFC) program and the Vaccines for Adults (VFA) program. These vaccines do not generate any revenue and are provided to patients free of charge.

***Building Rent***

The building will be utilized for medical and clinical operations at the Trayham clinic. In valuing the contributed use of the building, which is located in Los Angeles, the Organization estimated the fair value on the basis of recent comparable rental prices in Los Angeles's real estate market.

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The following basis was used for valuing contributed items:

<b>Contributed Items</b>	<b>Valuation Basis</b>
PPE	The Organization estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States
Testing kits	The Organization estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States
Vaccines	The Organization used the most recent Cardinal Average Wholesale Prices (AWP) for similar items that approximate wholesale prices in the United States (that is, the principal market)
Building rent	The Organization estimated the fair value of the rent for the Trayham location on the basis of recent comparable rental prices in Trayham’s real estate market.

**Note 23: Subsequent Events**

Subsequent to year-end, the Organization purchased two properties in Indio and San Bernardino, California for a total purchase price of approximately \$5,355,000. These buildings were purchased with cash reserves.

Subsequent to year-end, the Organization’s Board of Directors approved a resolution to issue approximately \$15,000,000 tax exempt bonds to renovate the properties purchased subsequent to year end and to replenish reserves used to purchase the properties.

Subsequent events have been evaluated through August 2, 2023, which is the date the financial statements were issued.