

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

Independent Auditor's Reports and Financial Statements

December 31, 2019 and 2018

St. John’s Well Child and Family Center, Inc.
December 31, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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 2019, the Organization adopted ASU 2016-02, *Leases (Topic 842)* and ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. 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 June 11, 2020, 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

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

Balance Sheets

December 31, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash	\$ 7,666,421	\$ 9,394,475
Assets limited as to use - current	500,000	500,000
Patient accounts receivable	4,886,224	4,101,180
Grants and other receivables	3,241,288	2,910,891
Contributions receivable - current	978,001	1,081,750
Estimated amounts due from third-party payers - current	3,161,415	1,611,983
Pharmaceutical inventory	339,151	161,610
Prepaid expenses and other	1,164,958	841,129
Total current assets	21,937,458	20,603,018
Assets Limited As To Use		
Internally designated	9,988,354	8,400,000
Held by trustee	266,004	265,523
	10,254,358	8,665,523
Less amount required to meet current obligations	500,000	500,000
	9,754,358	8,165,523
Contributions Receivable	-	350,000
Estimated Amounts Due From Third-Party Payers	4,228,081	2,126,109
Less current portion	3,161,415	1,611,983
	1,066,666	514,126
Property and Equipment, At Cost		
Land	2,948,376	2,948,376
Buildings and leasehold improvements	22,758,264	22,989,888
Equipment	4,475,800	5,860,266
Furniture and fixtures	1,173,494	1,166,277
Construction in progress	253,593	11,004
	31,609,527	32,975,811
Less accumulated depreciation	11,940,334	11,859,086
	19,669,193	21,116,725
Other Assets		
Right-of-use assets - operating leases	5,852,863	-
Right-of-use assets - finance leases	1,412,498	-
	7,265,361	-
Total assets	\$ 59,693,036	\$ 50,749,392

See Notes to Financial Statements

Liabilities and Net Assets

	2019	2018
Current Liabilities		
Current maturities of long-term debt	\$ 566,369	\$ 825,446
Current portion of operating lease liabilities	568,403	-
Current portion of finance lease liabilities	325,377	-
Accounts payable	2,617,890	2,469,175
Accrued expenses	7,423,192	7,029,445
Estimated amounts due to third-party payers	2,406,089	2,799,933
Deferred grant revenue	625,965	-
	<u>14,533,285</u>	<u>13,123,999</u>
Other Liabilities		
Long-term accrued expenses	500,000	1,000,000
Long-term debt	6,485,029	7,222,294
Operating lease liabilities	5,492,281	-
Finance lease liabilities	1,160,977	-
Accrued rent payable	-	71,581
	<u>13,638,287</u>	<u>8,293,875</u>
Total liabilities	<u>28,171,572</u>	<u>21,417,874</u>
Net Assets		
Without donor restrictions	29,501,829	26,793,170
With donor restrictions	2,019,635	2,538,348
	<u>31,521,464</u>	<u>29,331,518</u>
Total liabilities and net assets	<u>\$ 59,693,036</u>	<u>\$ 50,749,392</u>

St. John's Well Child and Family Center, Inc.
Statements of Operations
Years Ended December 31, 2019 and 2018

	2019	2018
Revenues, Gains and Other Support Without Donor Restrictions		
Patient service revenue	\$ 44,688,356	\$ 41,006,288
Capitation revenue	15,233,569	14,962,913
Grant revenue	13,920,970	11,780,331
Contributions	4,954,379	924,951
Other	1,428,394	943,185
Net assets released from restrictions used for operations	2,546,327	2,100,754
Total revenues, gains and other support without donor restrictions	82,771,995	71,718,422
Expenses and Losses		
Salaries and wages	38,806,518	36,182,803
Employee benefits	8,571,760	8,019,932
Purchased services and professional fees	8,156,671	6,645,701
Supplies and other	21,067,763	15,608,076
Rent	1,161,451	622,205
Depreciation and amortization	1,770,545	1,690,931
Interest	398,765	363,864
Provision for uncollectible accounts	175,000	-
Loss on disposal of property and equipment	22,688	-
Total expenses and losses	80,131,161	69,133,512
Operating Income	2,640,834	2,584,910
Other Income (Expense)		
Investment return, net	190,955	103,683
Excess of Revenues Over Expenses	2,831,789	2,688,593
Grants for acquisition of property and equipment	136,685	175,639
Net assets released from restrictions used for purchase of property and equipment	182,018	797,989
Increase in Net Assets Without Donor Restrictions	\$ 3,150,492	\$ 3,662,221

St. John's Well Child and Family Center, Inc.
Statements of Changes in Net Assets
Years Ended December 31, 2019 and 2018

	2019	2018
Net Assets Without Donor Restrictions		
Excess of revenues over expenses	\$ 2,831,789	\$ 2,688,593
Grants for acquisition of property and equipment	136,685	175,639
Net assets released from restrictions used for purchase of property and equipment	182,018	797,989
Increase in net assets without donor restrictions	3,150,492	3,662,221
Net Assets With Donor Restrictions		
Contributions received	2,209,632	2,832,824
Net assets released from restriction	(2,728,345)	(2,898,743)
Decrease in net assets with donor restrictions	(518,713)	(65,919)
Change in Net Assets	2,631,779	3,596,302
Net Assets, Beginning of Year, As Previously Reported	29,331,518	25,735,216
Cumulative Effect Due to Change in Accounting Principle	(441,833)	-
Net Assets, Beginning of Year, As Adjusted	28,889,685	25,735,216
Net Assets, End of Year	\$ 31,521,464	\$ 29,331,518

St. John's Well Child and Family Center, Inc.
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	\$ 2,631,779	\$ 3,596,302
Items not requiring (providing) operating cash flow		
Depreciation and amortization	1,770,545	1,690,931
Amortization of debt issuance costs	24,871	15,881
Noncash operating lease expense	551,250	-
Loss on disposal of property and equipment	22,688	-
Grants for acquisition of property and equipment	(136,685)	(175,639)
Change in contributed supplies	-	907
Accrued rent payable	-	27,324
Changes in		
Patient accounts receivable	(785,044)	(196,554)
Grants and other receivables	(199,447)	(395,896)
Contributions receivable	453,749	(312,000)
Estimated amounts due from third-party payers	(2,495,816)	52,198
Prepaid expenses and other	(323,829)	(364,572)
Pharmaceutical inventory	(177,541)	97,666
Accounts payable and accrued expenses	43,265	3,562,817
Deferred grant revenue	625,965	-
Operating lease liability	(500,083)	-
	<u>1,505,667</u>	<u>7,599,365</u>
Investing Activities		
Purchase of property and equipment	(673,621)	(1,780,464)
	<u>(673,621)</u>	<u>(1,780,464)</u>
Financing Activities		
Proceeds from grants for acquisition of property and equipment	5,735	914,897
Principal payments on long-term debt	(557,680)	(991,091)
Principal payments of finance lease liabilities	(419,320)	-
	<u>(971,265)</u>	<u>(76,194)</u>

St. John's Well Child and Family Center, Inc.
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Increase (Decrease) in Cash, Restricted Cash and Restricted Cash Equivalents	\$ (139,219)	\$ 5,742,707
Cash, Restricted Cash and Restricted Cash Equivalents, Beginning of Year	18,059,998	12,317,291
Cash, Restricted Cash and Restricted Cash Equivalents, End of Year	\$ 17,920,779	\$ 18,059,998
Reconciliation of Cash, Restricted Cash and Restricted Cash Equivalents to the Balance Sheets		
Cash in current assets	\$ 7,666,421	\$ 9,394,475
Cash and cash equivalents in assets limited as to use	10,254,358	8,665,523
	\$ 17,920,779	\$ 18,059,998
Supplemental Cash Flows Information		
Interest paid	\$ 398,765	\$ 363,864
Property and equipment acquisitions in accounts payable	\$ 8,896	\$ 10,583
ROU assets obtained in exchange for new operating lease liabilities	\$ 1,883,136	\$ -
ROU assets obtained in exchange for new finance lease liabilities	\$ 1,486,819	\$ -

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

Notes to Financial Statements

December 31, 2019 and 2018

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

Nature of Operations

St. John's Well Child and Family Center, Inc. (the "Organization") is a community health center that primarily earns revenues by providing physician and related health care services through clinics located in Los Angeles, California.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

At December 31, 2019, the Organization's cash accounts exceeded federally insured limits by approximately \$10,353,000. This amount includes bank balances available to pay checks issued prior to year end, but not yet presented for payment as of December 31, 2019.

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, 2019 and 2018.

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

Notes to Financial Statements

December 31, 2019 and 2018

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, 2019 and 2018.

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, 2019 and 2018

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 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.

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

Notes to Financial Statements

December 31, 2019 and 2018

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.

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

Notes to Financial Statements

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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.

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, 2019 and 2018, \$4,472,831 and \$291,482 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.

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

Notes to Financial Statements

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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.

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 \$170,000 and \$518,996 for 2019 and 2018, 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).

Changes in Accounting Principles

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

The Organization adopted Topic 842 on January 1, 2019 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Organization elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. The Organization has lease agreements with nonlease components that relate to the lease components. The Organization elected the practical expedient to account for nonlease components and the lease components to which they relate as a single lease component. The Organization elected to keep short-term leases with an initial term of 12 months or less off the balance sheet. The Organization also elected the hindsight practical expedient in determining the lease term for existing leases as of January 1, 2019.

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

Notes to Financial Statements

December 31, 2019 and 2018

The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of \$5,852,863 and \$6,060,684, respectively, while the accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. As part of adopting the standard, previously recognized liabilities for deferred rent and lease incentives were reclassified as a component of the ROU assets. The standard did not significantly affect the statements of operations or cash flows.

The cumulative effect of the changes made to our balance sheets for the adoption of this standard was as follows:

	December 31, 2018 As Reported	Adjustment on January 1, 2019	January 1, 2019 As Adjusted
Assets			
Net property and equipment ^(A)	\$ 21,116,725	\$ (773,940)	\$ 20,342,785
Right-of-use assets - operating leases ^(B)	-	4,520,976	4,520,976
Right-of-use assets - financing leases ^(A)	-	373,386	373,386
Liabilities			
Current portion of operating lease liabilities ^(C)	-	446,370	446,370
Current portion of financing lease liabilities ^(D)	-	228,860	228,860
Current portion of long-term debt ^(A)	825,446	(276,721)	548,725
Long-term operating lease liabilities ^(C)	-	4,231,260	4,231,260
Long-term financing lease liabilities ^(D)	-	189,995	189,995
Long-term debt ^(A)	7,222,294	(186,729)	7,035,565
Accrued rent payable ^(E)	71,581	(70,781)	800
Equity			
Net assets without donor restrictions ^(G)	26,793,170	(441,833)	26,351,337

- (A) The adjustment represents the derecognition of financing obligations and reclassification to right-of-use assets - finance leases.
- (B) The adjustment represents the capitalization of right-of-use assets - operating leases, offset by the reclassification of straight-line rent accruals.
- (C) The adjustment represents the recognition of operating lease liabilities.
- (D) The adjustment represents the recognition of financing lease liabilities.
- (E) The adjustment represents the reclassification of straight-line rent accruals to right-of-use assets - operating leases.
- (F) The adjustment represents the net assets without donor restrictions impact of the derecognition of financing obligations.

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

Notes to Financial Statements

December 31, 2019 and 2018

Clarifying Contributions Received and Contributions Made

In 2019, the Organization adopted ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* using a modified prospective basis, to all agreements not completed as of January 1, 2019, or entered into after January 1, 2019. ASU 2018-08 clarifies existing guidance on determining whether a transfer of assets (or the reduction, settlement or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how the Organization determines whether a resource provider (including a foundation, a government agency or other) is receiving commensurate value in return for the resources transferred, and whether contributions are conditional or unconditional.

Adoption of ASU 2018-08 had no impact to the 2019 financial statements or on the previously reported 2018 financial statements.

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, 2019 and 2018, the Organization recognized \$8,958,640 and \$9,131,111 in CHC grant revenue, respectively. Funding for the grant budget periods ending February 28, 2020 and 2021, is authorized at \$9,108,463 and \$8,853,280, 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.

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. Grant revenue recognized in 2018 was for financial support for awards classified as exchange transactions. With the adoption of ASU 2018-08 (see *Note 1*), grant revenue recognized in 2019 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.

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

Notes to Financial Statements

December 31, 2019 and 2018

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.

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.

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

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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, 2015 through 2019. 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 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 2019 patient service revenue increased approximately \$875,000 due to a change in transaction prices related to dates of service prior to January 1, 2019. Adjustments arising from a change in the transaction price were not significant in 2018.

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

Notes to Financial Statements

December 31, 2019 and 2018

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, 2019, additional revenue of approximately \$61,000 was recognized due to changes in its estimates of implicit price concessions. 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. 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, 2019 and 2018, 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, 2019 and 2018

The composition of patient service revenue by primary payor for the years ended December 31, 2019 and 2018, is as follows:

	2019	2018
Medi-Cal	\$ 39,525,333	\$ 36,623,774
Medicare	496,201	438,395
County of Los Angeles	3,319,094	3,074,322
Self-pay and other	1,347,728	869,797
Total	\$ 44,688,356	\$ 41,006,288

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 and method of reimbursement for the years ended December 31, 2019 and 2018, are as follows:

	2019	2018
Timing of revenue and recognition and service lines		
Health care services transferred over time		
Medical	\$ 23,248,654	\$ 23,800,990
Dental	8,007,067	6,792,908
Behavioral health	2,221,614	1,838,953
Other	259,443	183,432
	33,736,778	32,616,283
Retail pharmacy sales at point in time	10,951,578	8,390,005
	\$ 44,688,356	\$ 41,006,288
Method of reimbursement		
Fee for service	\$ 44,222,726	\$ 38,360,654
Other	465,630	2,645,634
	\$ 44,688,356	\$ 41,006,288

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

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December 31, 2019 and 2018

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:

	2019	2018
Accounts receivable, beginning of year	\$ 3,904,626	\$ 3,451,148
Accounts receivable, end of year	4,101,180	3,904,626
Contract assets, beginning of year	-	-
Contract assets, end of year	-	-
Contract liabilities, beginning of year	-	-
Contract liabilities, end of year	-	-

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, 2019 and 2018, is:

	2019	2018
Medi-Cal	73%	80%
Medicare	19%	13%
County of Los Angeles	3%	5%
Self-pay and other	5%	2%
	<u>100%</u>	<u>100%</u>

St. John's Well Child and Family Center, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

Note 5: Contributions Receivable

Contributions receivable at December 31, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
With Donor Restrictions		
Due within one year	\$ 978,001	\$ 1,081,750
Due in one to five years	-	350,000
	<u>\$ 978,001</u>	<u>\$ 1,431,750</u>

No discount was recorded for 2019 or 2018.

Note 6: Conditional Grants and Contributions

The Organization has received the following conditional promises to give at December 31, 2019 and 2018, that are not recognized in the financial statements:

	<u>2019</u>	<u>2018</u>
Given upon incurring allowable expenditures under the agreement	\$ 12,495,940	\$ 16,757,457
Given upon collection of student fees	330,000	660,000
	<u>\$ 12,825,940</u>	<u>\$ 17,417,457</u>

Note 7: 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, 2019 and 2018. 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.

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

Notes to Financial Statements

December 31, 2019 and 2018

Note 8: Line of Credit

The Organization has a \$2,000,000 revolving line of credit expiring on December 1, 2020. At December 31, 2019 and 2018, 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 (4.25 percent and 6.50 percent at December 31, 2019 and 2018, respectively). The line is collateralized by substantially all of the Organization's assets except real estate.

Note 9: Long-Term Debt

	2019	2018
City National Bank (A)	\$ 461,114	\$ 517,255
Series 2017 revenue bonds (B)	4,942,500	5,092,500
NCB Capital Impact (C)	1,810,528	2,149,875
Insight financial capital lease obligation (D)	-	218,651
Leaf financial capital lease obligation (E)	-	244,798
Ally financing (F)	11,426	14,694
	7,225,568	8,237,773
Less current maturities	566,369	825,446
Plus unamortized premium on bonds	197,130	206,089
Less unamortized debt issuance costs	371,300	396,122
	\$ 6,485,029	\$ 7,222,294

(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 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 \$327,734 and \$337,866 at December 31, 2019 and 2018, respectively. The effective interest rate was .29 percent for the years ended December 31, 2019 and 2018.

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.

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

Notes to Financial Statements

December 31, 2019 and 2018

- (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 \$43,566 and \$58,256 at December 31, 2019 and 2018, respectively. The effective interest rate was .03 percent for the years ended December 31, 2019 and 2018.

The loan agreement also requires the Organization to comply with certain restrictive covenants including maintaining a debt service coverage ratio of at least 1.15, maintaining a leverage ratio of less than 1.5 and maintaining a current ratio of at least 1.5.

- (D) At imputed interest of 4.37 percent, due through October 2019; collateralized by equipment. This capital lease obligation as of January 1, 2019, was reclassified to finance lease liability (*Note 16*).
- (E) At imputed interest of 8.50 percent, due through December 2021; collateralized by equipment. This capital lease obligation as of January 1, 2019, was reclassified to finance lease liability (*Note 16*).
- (F) Due February 2023; payable \$331 monthly plus interest of 5.54 percent; secured by certain equipment.

Aggregate annual maturities of long-term debt at December 31, 2019, are:

2020	\$ 566,369
2021	589,511
2022	613,634
2023	634,739
2024	560,559
Thereafter	<u>4,260,756</u>
	<u>\$ 7,225,568</u>

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

Notes to Financial Statements

December 31, 2019 and 2018

Note 10: Net Assets With Donor Restrictions

Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2019 and 2018, are restricted for the following purposes or periods:

	2019	2018
Health care services		
Indigent care	\$ 2,019,635	\$ 2,485,750
Pharmaceutical program	-	7
Time restricted	-	52,591
	<u>\$ 2,019,635</u>	<u>\$ 2,538,348</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.

	2019	2018
Purpose restrictions accomplished		
Purchase of equipment	\$ 182,018	\$ 797,989
Indigent care	2,493,736	2,036,841
Pharmaceutical program	-	914
Passage of specified time	<u>52,591</u>	<u>62,999</u>
Total restrictions released	<u>\$ 2,728,345</u>	<u>\$ 2,898,743</u>

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

Notes to Financial Statements

December 31, 2019 and 2018

Note 11: Liquidity and Availability

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

	2019	2018
Financial assets at year end		
Cash	\$ 7,666,421	\$ 9,394,475
Patient accounts receivable	4,886,224	4,101,180
Grants and other receivable	3,241,288	2,910,891
Contributions receivable	978,001	1,431,750
Estimated amounts due from third-party payers	4,228,081	2,126,109
Assets limited as to use	10,254,358	8,665,523
Total financial assets	31,254,373	28,629,928
Less amounts not available to be used within one year		
Internally designated	9,488,354	7,900,000
Funds held by trustees	266,004	265,523
Estimated amounts due from third-party payers	1,066,666	514,126
Contributions receivable	-	350,000
Financial assets not available to be used within one year	10,821,024	9,029,649
Financial assets available to meet general expenditures within one year	\$ 20,433,349	\$ 19,600,279

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, 2019 and 2018

Note 12: 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:

	2019			
	Health Care Services	General and Administrative	Fundraising	Total
Salaries and wages	\$ 35,127,012	\$ 3,505,963	\$ 173,540	\$ 38,806,515
Employee benefits	7,759,012	774,416	38,332	8,571,760
Purchased services and professional fees	6,037,252	1,699,743	419,676	8,156,671
Supplies and other	19,706,089	1,221,332	140,342	21,067,763
Rent	998,978	162,473	-	1,161,451
Depreciation	1,609,411	161,134	-	1,770,545
Interest	27,164	371,604	-	398,768
Provision for uncollectible accounts	175,000	-	-	175,000
Loss on disposal of property and equipment	22,688	-	-	22,688
Total expenses	\$ 71,462,606	\$ 7,896,665	\$ 771,890	\$ 80,131,161

	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
Total expenses	\$ 60,244,935	\$ 8,285,544	\$ 603,033	\$ 69,133,512

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

Notes to Financial Statements

December 31, 2019 and 2018

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, 2019 and 2018, the Organization contributed a matching amount up to 4 percent of each eligible employee's gross compensation. Pension expense was approximately \$360,000 and \$300,000 for 2019 and 2018, respectively.

Note 14: Construction in Progress

At December 31, 2019, the Organization has multiple project in progress including renovation of the 813 W. 58th Street Clinic, 817 W. 58th Street Clinic, Dominguez High School, Compton CADD Clinic and Avalon Clinic. As of December 31, 2019, the following work has been completed and is classified as construction in progress on the Organization's balance sheet. Continuation of these projects is dependent on the availability of additional federal grant and other funding.

Project	Construction in Progress at December 31, 2019	Estimated Project Cost	Estimated Completion Date
813 W. 58th Street & 817 W. 58th Street	\$ 30,000	\$ 350,000	March 2021
The Dominguez Clinic	3,750	100,000	Early 2021
Compton CADD	40,057	925,000	April 2021
Avalon	179,786	1,350,000	October 2020
	<u>\$ 253,593</u>	<u>\$ 2,725,000</u>	

Note 15: Operating Leases

At December 31, 2018, the Organization had noncancelable operating leases for primary care outpatient offices and equipment expiring in various years through 2024. In 2019, these leases were reclassified and accounted for as operating lease liabilities.

Note 16: 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 Well Child and Family Center, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

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 2024. The leases bear interest rates between 5 percent and 7 percent and are secured by the equipment. Termination of the leases generally are 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 2035. 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 year ending December 31, 2019 and 2018, was \$326,751 and \$622,205, respectively.

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

Notes to Financial Statements

December 31, 2019 and 2018

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, 2019, is as follows:

Lease cost		
Finance lease cost		
Amortization of right-of-use asset	\$	447,707
Interest on lease liabilities		87,892
Operating lease cost		834,700
Short-term lease cost		326,751
Total lease cost	\$	<u>1,697,050</u>
Other information		
Cash paid for amount included in the measurement of lease liabilities		
Operating cash flows from finance leases	\$	535,599
Financing cash flows from finance leases		419,320
Operating cash flows from operating leases		834,700
Right-of-use assets obtained in exchange for new finance lease liabilities		1,486,819
Right-of-use assets obtained in exchange for new operating lease liabilities		1,883,136
Weighted average remaining lease term		
Finance leases		3.8 years
Operating leases		9.1 years
Weighted average discount rate		
Finance leases		7.0%
Operating leases		5.4%

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

Notes to Financial Statements

December 31, 2019 and 2018

Future minimum lease payments and reconciliation to the consolidated balance sheet at December 31, 2019, are as follows:

	Finance Leases	Operating Leases
2020	\$ 419,114	\$ 883,545
2021	467,833	907,062
2022	339,800	731,998
2023	339,800	724,280
2024	153,586	685,787
Thereafter	-	4,745,034
	1,720,133	8,677,706
Total future undiscounted lease payments		
Less interest	233,779	2,617,022
	\$ 1,486,354	\$ 6,060,684
Lease liabilities		

Note 17: 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 7*.

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

Notes to Financial Statements

December 31, 2019 and 2018

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.

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, 2019 and 2018. Due to the COVID-19 pandemic, the Organization is pending negotiations with Service Employee International Union for a new agreement.

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.

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

Notes to Financial Statements

December 31, 2019 and 2018

Note 18: Subsequent Events

In late 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. Subsequent to year end, the spread of COVID-19 began to cause some business disruption through reduced patient revenue, specifically an increased no-show rate as well as reduction in services at certain locations. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. The Organization expects this matter to negatively impact its financial condition and operating results. The Organization has received additional funding of \$2,744,300 through the Health Center Coronavirus Aid, Relief, and Economic Security (CARES) Act and \$175,057 through the FY 2020 Coronavirus Supplemental Funding for Health Centers Program which will partially offset the negative financial statement impact. The grant awards for this additional funding contains specific terms and conditions that must be followed when utilizing this funding.

Subsequent events have been evaluated through June 11, 2020, which is the date the financial statements were issued.

Supplementary Information

St. John's Well Child and Family Center, Inc.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

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	\$ -	\$ 2,153,330
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	-	6,805,310
Total Health Center Program Cluster			-	8,958,640
U.S. Department of Health and Human Services/Los Angeles County/HIV Emergency Relief Project Grants	93.914	PH-003764	-	130,918
U.S. Department of Health and Human Services/Los Angeles County/HIV Emergency Relief Project Grants	93.914	PH-003763	-	42,992
U.S. Department of Health and Human Services/Los Angeles County/HIV Emergency Relief Project Grants	93.914	PH-003807	-	61,382
U.S. Department of Health and Human Services/Los Angeles County/HIV Emergency Relief Project Grants	93.914	PH-003364	-	3,588
Total HIV Emergency Relief Project Grants			-	238,880
U.S. Department of Health and Human Services/Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	-	117,846
Total forward			-	9,315,366

St. John's Well Child and Family Center, Inc.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

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			\$ -	\$ 9,315,366
U.S. Department of Health and Human Services/Los Angeles County/HIV Prevention Activities Health Department Based	93.940	PH-003087	-	45,196
U.S. Department of Health and Human Services/Bienstar Human Services, Inc./HIV Prevention Activities Health Department Based	93.940	2015-003	-	142,636
Total HIV Prevention Activities - Health Department Based			-	187,832
U.S. Department of Health and Human Services/California Family Health Council/ Family Planning Services	93.217	2515-5320-71209-18-19	-	82,785
U.S. Department of Health and Human Services/California Family Health Council/ Family Planning Services	93.217	2515-5320-71209-19-20	-	116,824
Total Family Planning Services			-	199,609
U.S. Department of Health and Human Services/Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	N/A	170,593	1,138,995
U.S. Department of Health and Human Services/Matrix Institute on Addiction/ Opioid STR	93.788	19-96145	-	99,860
Total U.S. Department of Health and Human Services			170,593	10,941,662
U.S. Department of Justice/California Governor's Office of Emergency Services/ Crime Victim Assistance	16.575	UV15011635	-	140,966
U.S. Department of Justice/California Governor's Office of Emergency Services/ Crime Victim Assistance	16.575	XV15011635	-	185,824
U.S. Department of Justice/California Governor's Office of Emergency Services/ Crime Victim Assistance	16.575	KD17011635	-	174,387
Total Crime Victim Assistance			-	501,177
			\$ 170,593	\$ 11,442,839

St. John's Well Child and Family Center, Inc.
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

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, 2019. 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 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, 2019.

**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. (the "Organization"), which comprise the balance sheet as of December 31, 2019, 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 June 11, 2020, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
June 11, 2020

Report on Compliance for Each 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 Each 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 each of St. John's Well Child and Family Center, Inc.'s major federal programs for the year ended December 31, 2019. The Organization's major federal programs are 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 for each of St. John's Well Child and Family Center, Inc.'s major federal programs 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 each 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 Each Major Federal Program

In our opinion, St. John's Well Child and Family Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each 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
June 11, 2020

St. John's Well Child and Family Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

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, 2019

7. The Organization's major programs were:

Cluster/Program	CFDA Number
Health Center Program Cluster	93.224 and 93.527
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243

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, 2019

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
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No matters are reportable.

St. John's Well Child and Family Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

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, 2019

Reference Number	Finding	Status
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>	Resolved