

**ST. THOMAS COMMUNITY HEALTH CENTER, INC.
AND SUBSIDIARIES**

Consolidated Financial Statements

**For the Years Ended December 31, 2017 and 2016
and Independent Auditors' Report
and Supplementary Information**



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St. Thomas Community Health Center, Inc. And Subsidiaries
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December 31, 2017

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Report



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
St. Thomas Community Health Center, Inc. and subsidiaries
New Orleans, Louisiana

Report on Financial Statements

We have audited the accompanying consolidated financial statements of St. Thomas Community Health Center, Inc. and subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of St. Thomas Community Health Center, Inc. and subsidiaries as of December 31, 2017 and 2016, and its activities, changes in net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. The Schedule of Compensation, Benefits, and Other Payments Chief Executive Officer is required by Louisiana Revised Statute 24:513(A)(3) and is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2018, on our consideration of St. Thomas Community Health Center, Inc. and subsidiaries' internal control over financial reporting and on 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. Thomas Community Health 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. Thomas Community Health Center, Inc. and subsidiaries' internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

June 27, 2018



Financial Statements

St. Thomas Community Health Center, Inc and Subsidiaries
Consolidated Statements of Financial Position

<i>As of December 31,</i>	2017	2016
ASSETS		
Cash and cash equivalents	\$ 1,151,022	\$ 2,009,450
Grants receivable	153,205	155,357
Patient accounts receivable, net	585,618	384,227
Rent receivable	6,750	6,750
Interest receivable	23,062	23,062
Note receivable	5,405,715	-
Prepaid expenses	59,883	8,614
Total current assets	7,385,255	2,587,460
RESTRICTED CASH	42,748	713,165
PROPERTY AND EQUIPMENT, net	10,856,147	5,828,504
OTHER ASSETS		
Deposits	2,971	2,971
Note receivable	-	5,405,715
Total other assets	2,971	5,408,686
TOTAL ASSETS	\$ 18,287,121	\$ 14,537,815
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 498,218	\$ 466,245
Uncompensated absences	73,685	73,685
Current maturities of long-term debt	2,977,921	253,875
Total current liabilities	3,549,824	793,805
LONG-TERM DEBT, net of current maturities and deferred financing costs	11,440,813	10,764,865
Total liabilities	14,990,637	11,558,670
NET ASSETS		
Unrestricted		
Unrestricted	2,343,072	1,925,081
Noncontrolling interest in subsidiaries	953,412	957,391
Total unrestricted net assets	3,296,484	2,882,472
Temporarily restricted	-	96,673
Total net assets	3,296,484	2,979,145
TOTAL LIABILITIES AND NET ASSETS	\$ 18,287,121	\$ 14,537,815

The accompanying notes are an integral part of these financial statements.

St. Thomas Community Health Center, Inc and Subsidiaries Consolidated Statement of Activities

For the year ended December 31,

2017

	Unrestricted	Noncontrolling	Temporarily Restricted	Total
OPERATING REVENUES				
Net patient service revenue, net of contractual allowances and discounts	\$ 7,990,228	\$ -	\$ -	\$ 7,990,228
Provision for bad debts	(151,782)	-	-	(151,782)
Net patient service revenue, less provision for bad debts	7,838,446	-	-	7,838,446
Contributions	7,632	-	-	7,632
Grant revenues	4,277,649	-	-	4,277,649
340b drug program	5,729,317	-	-	5,729,317
Donated facilities and services	145,418	-	-	145,418
Other revenues	528,448	-	-	528,448
Net assets released from restrictions	96,673	-	(96,673)	-
TOTAL OPERATING REVENUES	18,623,583	-	(96,673)	18,526,910
OPERATING EXPENSES				
Health care	14,064,311	-	-	14,064,311
Management and general	4,145,260	-	-	4,145,260
TOTAL OPERATING EXPENSES	18,209,571	-	-	18,209,571
Excess of revenues over (under) expenses attributable to the Clinic	414,012	-	(96,673)	317,339
Less: change in net assets attributable to noncontrolling interest	3,979	(3,979)	-	-
EXCESS OF REVENUES OVER (UNDER) EXPENSES ATTRIBUTABLE TO THE CLINIC	417,991	(3,979)	(96,673)	317,339
NET ASSETS - Beginning of year	1,925,081	957,391	96,673	2,979,145
NET ASSETS - End of year	\$ 2,343,072	\$ 953,412	\$ -	\$ 3,296,484

The accompanying notes are an integral part of this financial statement.

St. Thomas Community Health Center, Inc and Subsidiaries Consolidated Statement of Activities

For the year ended December 31,

2016

	Unrestricted	Noncontrolling	Temporarily Restricted	Total
OPERATING REVENUES				
Net patient service revenue, net of contractual allowances and discounts	\$ 6,189,886	\$ -	\$ -	\$ 6,189,886
Provision for bad debts	(111,485)	-	-	(111,485)
Net patient service revenue, less provision for bad debts	6,078,401	-	-	6,078,401
Contributions	26,330	-	-	26,330
Grant revenues	2,733,998	-	96,673	2,830,671
340b drug program	5,964,817	-	-	5,964,817
Donated facilities and services	145,418	-	-	145,418
Other revenues	318,700	-	-	318,700
Net assets released from restrictions	392,862	-	(392,862)	-
TOTAL OPERATING REVENUES	15,660,526	-	(296,189)	15,364,337
Operating expenses				
Health care	10,986,808	-	-	10,986,808
Management and general	4,185,045	-	-	4,185,045
TOTAL OPERATING EXPENSES	15,171,853	-	-	15,171,853
Excess of revenues over (under) expenses attributable to the Clinic	488,673	-	(296,189)	192,484
Less: change in net assets attributable to noncontrolling interest	3,976	(3,976)	-	-
EXCESS OF REVENUES OVER (UNDER) EXPENSES ATTRIBUTABLE TO THE CLINIC	492,649	(3,976)	(296,189)	192,484
NET ASSETS - Beginning of year	1,432,432	961,367	392,862	2,786,661
NET ASSETS - End of year	\$ 1,925,081	\$ 957,391	\$ 96,673	\$ 2,979,145

The accompanying notes are an integral part of this financial statement.

St. Thomas Community Health Center, Inc and Subsidiaries
Consolidated Statement of Functional Expenses

<i>For the year ended December 31,</i>	2017		
	Health Care	Management and General	Total
Salaries, related payroll taxes and benefits	\$ 7,897,027	\$ 1,136,465	\$ 9,033,492
Professional fees and contract services	761,284	1,045,755	1,807,039
Accounting, audit and legal fees	-	110,253	110,253
Billing services	45,010	-	45,010
Depreciation	19,825	267,395	287,220
Insurance	12,524	181,865	194,389
Interest	-	197,468	197,468
Other	1,056,814	616,270	1,673,084
Postage	-	20,542	20,542
Rent	308,547	-	308,547
Repairs and maintenance	53,317	64,045	117,362
340b drug program	3,106,354	-	3,106,354
Supplies	657,091	63,280	720,371
Donated services	3,000	139,568	142,568
Trash and waste removal	119,219	13,069	132,288
Travel, meetings and conferences	21,038	27,211	48,249
Training and continuing education	3,261	58,110	61,371
Utilities	-	203,964	203,964
Total expenses	\$ 14,064,311	\$ 4,145,260	\$ 18,209,571

The accompanying notes are an integral part of this financial statement.

St. Thomas Community Health Center, Inc and Subsidiaries
Consolidated Statement of Functional Expenses

<i>For the year ended December 31,</i>	2016		
	Health Care	Management and General	Total
Salaries, related payroll taxes and benefits	\$ 5,828,580	\$ 1,284,567	\$ 7,113,147
Professional fees and contract services	785,406	1,200,975	1,986,381
Accounting, audit and legal fees	-	70,462	70,462
Billing services	45,193	-	45,193
Depreciation	14,114	246,744	260,858
Insurance	469	149,964	150,433
Interest	-	160,019	160,019
Other	294,489	581,485	875,974
Postage	-	26,453	26,453
Rent	264,493	-	264,493
Repairs and maintenance	47,966	32,964	80,930
340b drug program	3,147,761	-	3,147,761
Supplies	443,515	80,189	523,704
Donated services	4,500	139,568	144,068
Trash and waste removal	80,079	13,692	93,771
Travel, meetings and conferences	18,418	22,703	41,121
Training and continuing education	11,825	30,049	41,874
Utilities	-	145,211	145,211
Total expenses	\$ 10,986,808	\$ 4,185,045	\$ 15,171,853

The accompanying notes are an integral part of this financial statement.

St. Thomas Community Health Center, Inc and Subsidiaries
Consolidated Statements of Cash Flows

<i>For the years ended December 31,</i>	2017	2016
Excess of revenue over (under) expense		
attributed to the Clinic	\$ 317,339	\$ 192,484
Adjustments to reconcile excess of		
revenues over (under) expenses attributable to		
the Clinic to net cash provided by operating activities:		
Depreciation	287,220	260,858
Amortization	20,572	20,572
Change in operating assets and liabilities:		
Grants receivable	2,152	96,635
Accounts receivable, net	(201,391)	(95,925)
Interest receivable	-	59,202
Prepaid expenses and other assets	(51,269)	48,920
Accounts payable and accrued liabilities	31,973	342,741
Uncompensated absences	-	15,098
Net cash provided by operating activities	406,596	940,585
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(5,314,863)	(1,637,187)
Net cash used in investing activities	(5,314,863)	(1,637,187)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	3,738,699	1,130,000
Payments of long-term debt	(359,277)	(179,175)
Withdrawals from restricted cash	670,417	183,285
Net cash provided by financing activities	4,049,839	1,134,110
NET CHANGE IN CASH AND CASH EQUIVALENTS	(858,428)	437,508
CASH AND CASH EQUIVALENTS - Beginning of year	2,009,450	1,571,942
CASH AND CASH EQUIVALENTS - End of year	\$ 1,151,022	\$ 2,009,450
SUPPLEMENTAL DISCLOSURE FOR STATEMENTS OF CASH FLOWS		
Cash paid during the year for interest	\$ 176,896	\$ 139,447

The accompanying notes are an integral part of these financial statements.



St. Thomas Community Health Center, Inc. And Subsidiaries Notes to Consolidated Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies which have been consistently applied in the preparation of the accompanying consolidated financial statements:

Nature Of Activities – St. Thomas Community Health Center, Inc. and subsidiaries (STCHC or the Clinic), formerly St. Thomas Health Services, Inc., is a Federally Qualified Health Center (FQHC), community-based, non-profit, primary health clinic that provides ambulatory health care services, including specialty care and diagnostic testing services. Serving both insured and uninsured patients, a large percentage of the patients are the medically indigent, under-insured and uninsured of the Greater New Orleans and surrounding areas. A description of St. Thomas Community Health Center, Inc.'s operational activities follows. Descriptions of its subsidiaries operational activities are found within Note 1 under Principles of Consolidation.

The Clinic operates in locations where a majority of the residents is uninsured or underinsured and therefore, it relies primarily on federal, state and city programs as well as private sources and various grants for on-going financial support for the operation of the Clinic.

The Clinic makes use of support services offered by neighboring social service agencies, hospitals and the New Orleans medical community. The Clinic also lends its support through the provision of specialized laboratory testing, diagnostic services and hospitalization services at low or no cost.

The Clinic is governed by an eleven member Board of Directors (the Board), all of whom serve until their resignation or removal from the Board.

In order to assist in meeting its goals and mission of providing services as a primary health care clinic, the Clinic has applied for and has been awarded several grants from both governmental and private programs. During the year ended December 31, 2017, the Clinic received and administered the following:

GOVERNMENTAL GRANTS

Health Resources and Services Administration Grants – These grants, administered by the Department of Health and Human Services, are allocated to operational expenses associated with the care of the Medicare, Medicaid and uninsured populations, the purchase of medical exam room equipment, and for providing obstetric care.

LSU Contracts – These contracts, awarded by Louisiana State University (LSU), provide mammography and breast cancer detection and prevention. This program also provides for comprehensive breast and cervical cancer screening and education services, which may include mammograms, clinical breast exams, pap-tests and pelvic exams.

St. Thomas Community Health Center, Inc. And Subsidiaries
Notes to Consolidated Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PRIVATE FOUNDATION AND TRUST PROGRAMS

Stauffer Trust Estate – The Stauffer Trust Estate primarily funds services to provide eye, ear, nose and throat care to qualified indigent and uninsured patients at normal costs.

Susan Komen Breast Cancer Foundation – The Susan Komen Breast Cancer Foundation, a private foundation, provides mammography, breast cancer education and surgical oncology consultation for uninsured and underinsured women in the New Orleans region and surrounding parishes.

Baptist Community Ministries – Baptist Community Ministries is a private foundation with a grant endowment created for the purpose of improving the quality of life for the citizens of the Greater New Orleans region. The foundation’s mission is to develop and invest in a variety of strategic and tactical initiatives to improve the health of the community across a broad spectrum of issues.

Methodist Health System Foundation, Inc. – Methodist Health System Foundation, Inc. (MHSF) is a faith-based organization and community advocate which values and promotes accessibility to healthcare. MHSF is dedicated to the support, development and management of health-related programs and services for the benefit of the citizens of East New Orleans and beyond. These programs expressly target health status improvement of the referenced population by addressing the key determinants of health including life-styles, access to healthcare services, social, and environmental factors.

Basis of Reporting – The consolidated financial statements are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America. STCHC classifies resources for accounting and reporting purposes into three net asset categories which are unrestricted, temporarily restricted, and permanently restricted net assets according to externally (donor) imposed restrictions.

- Unrestricted net assets include funds not subject to donor-imposed stipulations. The revenues received and expenses incurred in conducting the mission of STCHC are included in this category. STCHC has determined that any donor-imposed restrictions for current or developing programs and activities which are generally met within the operating cycle of STCHC and are recorded as unrestricted net assets.
- Temporarily restricted net assets include realized gains and losses on investment income, and gifts and contributions for which donor-imposed restrictions have not been met.



St. Thomas Community Health Center, Inc. And Subsidiaries
Notes to Consolidated Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Permanently restricted net assets are contributions which are required by the donor-imposed restriction to be invested in perpetuity and only the investment income be made available for program operations in accordance with the donor restrictions. Such income is reflected in temporarily restricted net assets until utilized for donor-imposed restrictions. As of December 31, 2017 and 2016, STCHC had no permanently restricted net assets.

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of St. Thomas Community Health Center, Inc. and its subsidiaries identified below.

- St. Thomas Real Estate, LLC (STRE) was formed solely to acquire, renovate, own and operate the property located at 1936-1938 Magazine Street, New Orleans, LA 70130 (the Property).
- St. Thomas Investments, LLC (STI) holds a 99.00% membership interest in STRE and an unaffiliated bank subsidiary (the Master Tenant) holds the remaining 1.00%. STI is wholly-owned by STCHC.

The entities were organized for the purpose of historically rehabilitating the Property in order to expand STCHC's capacity (the Project). The Property and its renovations were funded, in part by New Markets Tax Credits as discussed in Note 4.

Use of Estimates – The preparation of consolidated 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 consolidated 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 – Cash and cash equivalents include cash on hand and in financial institutions. For purposes of the statements of cash flows, STCHC considers all investments purchased with a maturity of three months or less to be cash equivalents.

Deposits held in noninterest-bearing transaction accounts are aggregated with any interest-bearing deposits the owner may hold in the same ownership category, and the combined total insured up to at least \$250,000. As of December 31, 2017, STCHC had \$1,175,871 over the FDIC limit. As of December 31, 2016, STCHC had \$2,186,031 over the FDIC limit. The Clinic has not experienced issues in the past and management does not believe it is exposed to risk.

St. Thomas Community Health Center, Inc. And Subsidiaries
Notes to Consolidated Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient Accounts Receivable, net – Patient receivables are recorded net of contractual allowances and bad debt allowances. Management estimates contractual allowances in accordance with the reimbursement rates in the contractual arrangements. Management estimates bad debt allowances based upon management’s assessment of historical and expected net collections, business and economic conditions, and other collection indicators. The primary uncertainty lies within uninsured patient receivables and deductibles, co-payments and other amounts due from individual patients. Patient receivables are written off when deemed uncollectible and recoveries of receivables previously written off are recorded when received. The allowance for doubtful accounts was \$270,791 and \$274,497 at December 31, 2017 and 2016, respectively.

Property and Equipment – Acquisitions of property and equipment are recorded at cost. Improvements and replacements of property and equipment over \$2,500 are capitalized at cost and depreciated over the estimated useful life of the improvement or replacement. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the consolidated statements of activities. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. The classes of depreciable assets and their respective estimated useful lives are as follows:

Buildings	40 years
Leasehold improvements	5-10 years
Furniture, fixtures and equipment	3-7 years

Deferred Financing Fees, net – Deferred financing fees of \$822,885 are amortized on a straight-line basis over the term of the related debt and treated as interest expense. For the years ended December 31, 2017 and 2016, amortization expense was \$20,572 and \$20,572, respectively, and is included in interest expense on the consolidated statements of functional expense.

Uncompensated Absences – STCHC allows regular full-time employees, with a minimum of three months employment, to receive compensated absences (vacation and sick leave) based on length of service: 1-4 years, 136 hours; 5-9 years, 176 hours; and 10+ years, 216 hours. Employees are eligible to carry-over to the following year up to 40 hours of accrued time. Any hours above 40 at the end of each year will be forfeited. Upon termination, all accrued hours are paid to an employee at full value based on base hourly rates as of termination date. As of December 31, 2017 and 2016, accrued uncompensated absences are \$73,685 and \$73,685, respectively.

Revenue Recognition:

Patient Service Revenue – Net patient service revenue is reported at the estimated net realizable amounts from patients, Medicare, Medicaid, third party payors, and others for services as they are rendered (net of contractual and bad debt adjustments) (See Note 7).

St. Thomas Community Health Center, Inc. And Subsidiaries
Notes to Consolidated Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions – Contributions consisted of donations made to the Clinic to provide support to the operation of the Clinic as well as to fund specific projects as designated by the donor or the Board.

Grants – The Clinic is the recipient of various government and private grants. Included in grant revenues are funds disbursed from several funding sources to provide for the implementation of various community programs as well as to support the operations of the Clinic.

The method of payment on the grants depends on the grant agreement. Some grants are received on a lump sum basis and expenses are applied against the funds. Other grant expenses are on a cost reimbursement basis.

340b Drug Program – The 340b drug program is a federal program whereby drug manufacturers provide outpatient drugs to eligible healthcare organizations at significantly reduced cost. The Clinic tracks separately the revenues and expenses related to the outpatient drugs provided under this program.

Donated Medical Supplies, Services and Facilities – Donated medical supplies are recorded at fair value as received and include medications and related medical supplies donated to the Clinic. Donated services are recorded at fair value and recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Clinic. Donated facilities are recorded at fair market value in the consolidated statements of activities and include the Clinic's parking lot surface, which is not included in the Clinic's building lease.

Electronic Health Records (EHR) Incentive Payments – The American Recovery and Reinvestment Act of 2009 established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that adopt and meaningfully use certified EHR technology. These incentive payments are determined based on a formula, including inputs such as charity charges and total discharges. The revenue associated with EHR incentive payments is recognized by the Clinic when management can provide reasonable assurance that the Clinic will be able to demonstrate compliance with the meaningful use objectives for that reporting period and that the incentive payments will be received by the Clinic. Because these incentive payments are based on management's best estimate, the amounts recognized are subject to change. Any changes resulting from a change in estimate would be recognized within operations in the period with which they occur. In addition, these payments and the related attestation of compliance with meaningful use objectives are subject to audit by the federal government or its designee.



St. Thomas Community Health Center, Inc. And Subsidiaries
Notes to Consolidated Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the years ended December 31, 2017 and 2016, the Clinic recognized \$173,904 and \$68,558, respectively, of revenue related to EHR incentive payments which is included in other revenues in the accompanying consolidated statements of activities.

Recent Financial Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. Under this ASU, net assets will be presented in two classes: net assets with donor restrictions and net assets without donor restrictions. Underwater endowments will be included in net assets with donor restrictions and new or enhanced disclosures regarding the composition of net assets will be required. Disclosures regarding liquidity and availability of resources for general operating expenditures within one year of the date of the statement of financial position must also be presented. The ASU requires expenses to be presented by both nature and function, and investment return will be presented net of investment expenses. Absent specific donor stipulations, the Clinic will use the placed-in-service approach for reporting expirations of restrictions on long-lived assets. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the Clinic's financial statements. The Clinic has not elected to early adopt this standard.

In November 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows (Topic 230). The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update do not provide a definition of restricted cash or restricted cash equivalents. This ASU is effective for fiscal periods beginning after December 15, 2018, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the Clinic's financial statements. The Clinic has not elected to early adopt this standard.

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). Under the new provisions, all lessees will report a right-of-use asset and a liability for the obligation to make payments for all leases with the exception of those leases with a term of 12 months or less. All other leases will fall into one of two categories: 1) Financing leases, similar to capital leases, will require the recognition of an asset and liability, measured at the present value of the lease payments. Interest on the liability will be recognized separately from amortization of the asset and principal repayments will be classified as financing outflows and payments of interest as operating outflows on the statement of cash flows; 2) Operating leases will also require the recognition of an asset and liability measured at the present

St. Thomas Community Health Center, Inc. And Subsidiaries
Notes to Consolidated Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

value of the lease payments. A single lease cost, consisting of interest on the obligation and amortization of the asset, calculated such that the amortization of the asset will increase as the interest amount decreases resulting in a straight-line recognition of lease expense. All cash outflows will be classified as operating on the statement of cash flows. Lessor accounting remains substantially unchanged with the exception that no leases entered into after the effective date will be classified as leveraged leases. For sale leaseback transactions, the sale will only be recognized if the criteria in the new revenue recognition standard are met. If there is no sale, the buyer-lessor does not recognize the transaction as a purchase and consideration paid for the asset is treated as a financing transaction. The ASU is effective for fiscal periods beginning after December 15, 2019, but early adoption is permitted. The Clinic has not elected to early adopt this standard.

NOTE 2 – RESTRICTED CASH

As required by the terms set forth in multiple agreements with the Lenders (identified in Note 4), STCHC must maintain certain reserve accounts for the receipt of proceeds from and payment of debt obligations, for purposes of the Project. As of December 31, 2017 and 2016, these reserves were in accordance with lender agreements. Restricted cash at December 31, 2017 and 2016 consisted of:

	2017	2016
Rent reserve	\$ 42,726	\$ 136,672
LRA principal reserve	22	576,493
	\$ 42,748	\$ 713,165

Rent Reserve – During 2011, STCHC transferred funds of \$597,270 from bridge loan proceeds to the rent reserve account. This amount is sufficient to cover 6 years of rent expense. During the initial lease term, STCHC will make annual sub-lease rent payments to the Master Tenant as discussed in Note 4.

LRA Principal Reserve – STCHC established a LRA principle reserve account for the purpose of satisfying the loan guaranty as discussed in Note 4. The proceeds from the loan guaranty fee are used by STCHC to make principal payments on the non-forgivable portion of the LRA note payable (as defined in Note 4). During the year ended December 31, 2017, the LRA principle reserve account, with the permission of the lender, was repurposed as a funding source for the construction at Columbia Parc.

St. Thomas Community Health Center, Inc. And Subsidiaries
Notes to Consolidated Financial Statements

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2017	2016
Land	\$ 43,600	\$ 43,600
Building	4,437,696	4,437,696
Leasehold improvements	3,953,855	1,623,232
Furniture and fixtures	248,873	248,873
Computer equipment	97,361	97,361
Medical equipment	666,629	641,629
Construction in process	4,216,687	1,257,446
	13,664,701	8,349,837
Less: accumulated depreciation	(2,808,553)	(2,521,333)
	\$ 10,856,147	\$ 5,828,504

Depreciation expense for the years ended December 31, 2017 and 2016 is \$287,220 and \$260,858, respectively.

NOTE 4 – LONG-TERM DEBT

Long-term debt consisted of the following at December 31:

	2017	2016
Note payable to Louisiana Primary Care Association (LPCA)	\$ 1,904,210	\$ 1,904,210
Note payable to Louisiana Recovery Authority (LRA)	1,415,249	1,528,174
Notes payable to Whitney Bank	4,723,734	1,231,633
New Markets Tax Credits – Facility A	5,405,715	5,405,715
New Markets Tax Credits – Facility B	1,658,150	1,658,150
Total debt outstanding	15,104,058	11,727,636
Less: current maturities	(2,977,921)	(253,875)
Less: unamortized deferred financing costs	(688,324)	(708,896)
Long-term debt	\$ 11,440,813	\$ 10,764,865

On March 28, 2011 (the Closing Date), STCHC closed on a series of transactions to secure New Markets Tax Credits (NMTC) Facilities as outlined in detail below. In summary, the Bridge Loan funds borrowed by STCHC were passed through a Leveraged Loan to a bank affiliate (see Note Receivable) and were subsequently passed through and combined with the Federal NMTC/HTC Investor contributions to arrive at the Community Development Entity (CDE). The CDE executed loan agreements with STRE to enter into NMTC Facilities. Finally, notes payable to the LPCA and LRA were entered into by STCHC and proceeds were included in the Leveraged Loan.

St. Thomas Community Health Center, Inc. And Subsidiaries
Notes to Consolidated Financial Statements

NOTE 4 – LONG-TERM DEBT (CONTINUED)

LPCA Loan – A loan agreement was executed between STCHC and the LPCA in the amount of \$1,904,210, maturing 7 years from the Closing Date, and an interest rate of 1.00%. Interest only is payable monthly, with principal due at maturity.

At any time after the 7th anniversary of the Closing Date, the LPCA can put to STCHC the outstanding balance of the loan in exchange for \$1,000 plus any accrued but unpaid interest on the loan. This put option was exercised March 29, 2018.

LRA Loan – A loan agreement was executed between STCHC and the LRA, a division of the State of Louisiana's Office of Community Development (the OCD), in the amount of \$2,000,000 which matures 20 years from the Closing Date, and an interest rate of 1.00%. Interest only was payable monthly until February 2012, when principal and interest payments began monthly until the maturity date. As of December 31, 2017 and 2016, the unpaid principal balance of this loan was \$1,415,249 and \$1,528,174, respectively. The lender has the option to forgive up to 50% of the loan proceeds (up to \$1,000,000) on the date that the principal repayment is complete. To date, the Clinic has not received any formal correspondence from the lender declaring their intention to forgive any portion of the principal.

As collateral, STCHC granted to the OCD a continuing security interest in substantially all of its assets.

Whitney Bank Loans – A loan agreement was executed between STCHC and Whitney Bank converting the outstanding balance on the line of credit to a note payable. The conversion date was September 13, 2015 and is due on June 12, 2020, unsecured, with a fixed rate of 4.25%. The balance as of December 31, 2017 and 2016 was \$106,167 and \$146,382, respectively.

During the year ended December 31, 2016, the Clinic entered into two loan agreements with Whitney Bank to fund construction of a new clinic site as follows:

- Loan agreement dated August 3, 2016 for the amount of \$880,000, bearing interest at a fixed 4.15%, maturing August 3, 2026, secured by property. The balance as of December 31, 2017 and 2016 was \$776,002 and \$850,078, respectively.
- Loan agreement dated August 3, 2016 for the amount of \$250,000, bearing interest at a fixed 4.15%, maturing August 3, 2021, unsecured. The balance as of December 31, 2017 and 2016 was \$188,400 and \$234,927, respectively.

During the year ended December 31, 2017, the Clinic entered into two loan agreements and one line of credit agreement with Whitney Bank to purchase a building and fund construction of a new clinic site as follows:

- Loan agreement dated September 22, 2017 for the amount of \$2,000,000, bearing interest at a fixed 5.5%, maturing December 31, 2020, secured by property. The balance as of December 31, 2017 was \$150,000.

St. Thomas Community Health Center, Inc. And Subsidiaries
Notes to Consolidated Financial Statements

NOTE 4 – LONG-TERM DEBT (CONTINUED)

- Loan agreement dated October 12, 2017 for the amount of \$3,046,000, bearing interest at a fixed 4.49%, maturing October 12, 2032, secured by property. The balance as of December 31, 2017 was \$3,010,656.
- Line of credit agreement dated July 31, 2017 for the amount of \$492,699, bearing interest at a fixed 4.75%, maturing July 31, 2018, unsecured. The balance as of December 31, 2017 was \$492,509.

Note Receivable – A leveraged loan agreement was executed between an affiliate of the Federal NMTC/HTC Investor and STCHC in the amount of \$5,405,715, maturing 40 years from the Closing Date, and a holiday interest of 0.00% with subsequent interest of 0.72% (the Leveraged Loan). Interest only is receivable monthly, with principal due at maturity. The Federal NMTC/HTC Investor has pledged and granted a security interest to STCHC for substantially all assets of its entities involved in the financing transactions on the Closing Date. The Leveraged Loan collaterally assigns all present and future payments, distributions (cash or otherwise), proceeds, profits, income, compensation, property, assets and rights due or to become due and payable to STCHC in connection with all of the Federal NMTC/HTC Investor’s membership interest.

New Markets Tax Credits Facilities – Loan agreements were executed between STRE and the CDE. Facilities A and B were funded for \$5,405,715 and \$1,658,150, respectively, both maturing 40 years from the Closing Date, and bearing a holiday interest of 0.48% in year one with subsequent interest of 1.03%. Interest is payable monthly, with principal amortization payments due monthly over the last 33 years of the loans. Proceeds from these loans financed the Project.

The CDE funded the New Markets Tax Credits Facilities with the intention that the proceeds will qualify as a “qualified low-income community investment” (QLICI) for purposes of generating tax credits called New Markets Tax Credits (NMTCs) under section 45D of the Internal Revenue Code of 1986, as amended. The tax credits provide 39 percent of the qualified equity investment and are claimed over a seven year credit allowance period.

To qualify, STRE must comply with certain guarantees and certain reserves, including but not limited to, business operations in compliance with applicable NMTCs program rules and regulations; qualified construction and development; required insurance coverage; and maintenance of required reserves.

If, as a result of a breach of the agreements or loan documents by STRE, the CDE is required to recapture all or any part of the New Markets Tax Credits previously claimed by the Federal NMTC/HTC Investor, STRE agrees to pay to the applicable Federal NMTC/HTC Investor an amount equal to the sum of the credits recaptured. The maximum aggregate amount due under the clause in the agreements governing these recaptures is \$2,899,902 for STRE.

St. Thomas Community Health Center, Inc. And Subsidiaries
Notes to Consolidated Financial Statements

NOTE 4 – LONG-TERM DEBT (CONTINUED)

At the end of the seven year tax credit compliance period, the Federal NMTC/HTC Investor may exercise a put option during the 6-month put option period (the Put Option Period) whereby the Federal NMTC/HTC Investor will tender the NMTCs Facilities to STCHC for the put price of \$1,000.

In the event the Federal NMTC/HTC Investor does not exercise the put and STRE remains in compliance with the loan terms and the NMTCs rules and regulations, STCHC may exercise a call option during the six months following the Put Option Period to purchase the NMTCs Facilities for an amount equal to the loans' fair market value determined by mutual agreement among the parties or a qualified independent appraiser.

In March 2018, after the expiration of the seven year tax compliance period, the Federal NMTC/HTC Investor, First NBC (FNBC) (through the Federal Deposit Insurance Corporation (FDIC) as the FDIC was named receiver by the Louisiana Office of Financial Institutions upon closure of FNBC in March 2017), exercised the put option and tendered the NMTCs Facility A and Facility B to STCHC for the put price of \$1,000 (the NMTC unwind).

Additionally, in March 2018, STCHC purchased 100% of St. Thomas Master Tenant, LLC (the wholly owned subsidiary of the Federal NMTC/HTC Investor) (Master Tenant) from the FDIC for \$100. STCHC was merged with STI with STCHC being the surviving entity just prior to the NMTC unwind. In May 2018, STCHC was merged with Master Tenant and STRE with STCHC being the surviving entity. As of the report date, STCHC is the remaining surviving entity of STI, Master Tenant, and STRE.

In January 2013, STRE received \$1,223,639 of Federal Historic Tax Credits (FHTCs) under section 47 of the Internal Revenue Code for qualified rehabilitation expenditures it made to the Property. STRE's Members agreed that these credits will be allocated to the Federal NMTC/HTC Investor in exchange for an equity contribution of \$969,238.

STRE entered into a net lease agreement with an affiliated financial institution subsidiary to lease the Property for annual lease payments of base rent of \$124,670 and additional rent equal to their share of impositions, which includes all taxes and assessments, liens, charges or expenses of any nature whatsoever in connection with the leasehold ownership, maintenance, repair and operation of the Property, except as otherwise stated in the lease agreement. The lease term began in December 2014 and extended for three years with the option to renew. Rental income for the years ended December 31, 2017 and 2016 was \$124,670 and \$124,670, respectively. When the lease expired December 2017, it was not renewed or extended. Beginning January 2018, the lease is month to month between STRE and the affiliated financial institution subsidiary.

St. Thomas Community Health Center, Inc. And Subsidiaries
Notes to Consolidated Financial Statements

NOTE 4 – LONG-TERM DEBT (CONTINUED)

STCHC entered into a triple net lease agreement with an unaffiliated financial institution subsidiary to sublease the Property for annual lease payments of \$84,983 the first year, \$88,774 the second year and \$92,565 the third year, with the first three year renewal annual lease payments increased to \$132,840. The lease term began January 1, 2012 and extends for three years with the option to renew; it is currently in its first renewal period, 2015 through 2017. The funds required to make the sub-lease payments were set aside in the Rent Reserve by STCHC at closing. Rent expense for the year ended December 31, 2017 and 2016 was \$132,840 and \$132,840, respectively. Beginning January 2018, the lease is month to month between STCHC and the unaffiliated financial institution subsidiary.

Long-term debt outstanding at December 31, 2017 matures as follows:

Year Ending December 31,	
2018	\$ 2,977,921
2019	636,216
2020	580,742
2021	537,744
2022	515,138
Thereafter	9,859,297
	\$ 15,107,058

Interest expense was \$176,896 and \$114,990 for the years ended December 31, 2017 and 2016, respectively.

NOTE 5 – ECONOMIC DEPENDENCY

The state Medicaid program (GNOCHC) was originally scheduled to end on December 31, 2013 but was extended through December 2016. During the year ended December 31, 2016, the Clinic received 7% of its revenue from the GNOCHC program. The program ended December 31, 2016.

The primary source of revenue for STCHC is federal, state and local grants and contracts provided through various funding agencies. The continued success of STCHC is dependent upon the renewal of contracts from current funding sources as well as STCHC's ability to obtain new funding. During 2016, STCHC had attained additional funding sources and has expanded its utilization of the 340B Drug Discount program. This has allowed STCHC to become less reliant on contracts from the state. Also, the Clinic has been able to maintain its patient visits of approximately 250 per day. Finally, STCHC opened one new sight and continues to expand their services to different areas of the city which will increase exposure of the Clinic, bring in new patient traffic and increase its current funding contracts.

St. Thomas Community Health Center, Inc. And Subsidiaries
Notes to Consolidated Financial Statements

NOTE 6 – CONTINGENCIES AND REGULATORY COMPLIANCE

The Company's new markets tax credits, rehabilitation tax credits, and enterprise zone tax credits are contingent on the ability of the Company to maintain compliance with Sections 45D and 47 of the Internal Revenue Code, Louisiana Revised Statutes 47:6019, and Louisiana Administration Code Title 13. Failure to maintain compliance with certain guarantees and certain reserves and business operations in compliance with applicable NMTCs, rehabilitation tax credits, and enterprise zone tax credits program rules and regulations could result in recapture of previously taken credits plus interest. For the years ended December 31, 2017 and 2016, management believes it is in compliance with the aforementioned regulations and the administrative directives, rules and regulations of federal and state regulatory agencies. As of March 2018, the seven year compliance period expired.

NOTE 7 – MEDICARE, MEDICAID, AND GNOCHC REVENUES

As an FQHC, the Clinic receives a fixed rate per encounter for its Medicare, Medicaid and GNOCHC patients. The Clinic has agreements with third party payors that provide for payments to the Clinic at amounts different from its established billing rates. The Clinic provides medical assistance to eligible Medicaid and Medicare recipients and receives reimbursements from the State of Louisiana's Department of Health and Hospitals and the U.S. Department of Health and Human Services' Centers for Medicare and Medicaid Services (CMS) for claims submitted in conjunction with those services provided. For the year ended December 31, 2017 and 2016, the Clinic received \$6,707,959 and \$3,606,900, respectively, in reimbursements for Medicaid and Medicare claims submitted. The Clinic also received in the year ended December 31, 2016, \$1,085,403 of Medicaid funds from the Greater New Orleans Community Health Connection (GNOCHC) waiver program. The GNOCHC program expired December 2016 (see Note 5).

The Medicare intermediary for Medicare patients reimburses for services rendered to Medicare program beneficiaries under an all-inclusive rate for each visit that is subject to audit and retroactive adjustments. Management does not believe that the ultimate outcome of any cost report audit will have a significant impact on the Clinic's consolidated financial statements.

The table below shows the sources of net patient service revenue before provision for bad debts:

	2017	2016
Medicaid and Medicare	\$ 6,774,731	\$ 4,135,753
GNOCHC	-	1,085,403
Commercial	592,069	516,623
Private pay	623,428	452,107
Total	\$ 7,990,228	\$ 6,189,886

St. Thomas Community Health Center, Inc. And Subsidiaries
Notes to Consolidated Financial Statements

NOTE 8 – CONCENTRATION OF CREDIT RISK

The Clinic grants credit without collateral to its patients. At December 31, the mix of the Clinic's net patient accounts receivable balances were as follows:

	2017	2016
Medicaid	74 %	54 %
Medicare	11 %	12 %
GNOCHC	0 %	18 %
Commercial and Private Pay	15 %	16 %
Total	100 %	100 %

NOTE 9 – OTHER REVENUES

As of December 31, 2017 and 2016, other revenues consisted of the following:

	2017	2016
Other incentives	\$ 162,670	\$ 93,736
State funding- GNOCHC waiver programs	-	-
Federal grants – meaningful use	173,904	68,558
Lease income	124,670	124,670
Other revenue	67,204	31,736
Total	\$ 528,448	\$ 318,700

NOTE 10 – PENSION PLAN

Effective January 1, 2006, STCHC established the St. Thomas Community Healthcare Center Retirement Plan (the Plan), a 401(k) Plan. Employees over the age of 18, who have worked for STCHC for more than 90 days, and have 1,000 hours of service in a plan year, are eligible to participate in the Plan. Plan expenses may be paid by STCHC or by the Plan. Matching contributions are determined annually by STCHC. STCHC matches 100% of employee contributions up to 6% of gross pay. For the years ended December 31, 2017 and 2016, STCHC incurred \$185,334 and \$136,725, respectively, of administrative costs and matching contributions related to the Plan.

NOTE 11 – INCOME TAXES

STCHC is exempt from federal income taxes through Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements.

St. Thomas Community Health Center, Inc. And Subsidiaries
Notes to Consolidated Financial Statements

NOTE 11 – INCOME TAXES (CONTINUED)

STRE, with the consent of its members, has elected to be a limited liability company. In lieu of corporate income taxes, the members of the limited liability company are taxed on their proportionate share of each member's taxable income. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements.

STI, with the consent of its member, has elected to be taxed as a "C" corporation and accounts for income taxes under an asset and liability approach that recognizes deferred income tax assets and liabilities for the estimated future tax consequences of differences between the financial statements and tax bases of assets and liabilities. As of December 31, 2017 and 2016, no deferred taxes or income taxes have been included in the consolidated financial statements due to STI's net loss position.

Management does not believe its financial statements include any uncertain tax positions.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Operating Leases – Exclusive of the lease and sublease referenced in Note 4, STCHC is obligated as a lessee under various operating leases. Total rent expense for operating leases related to facilities and equipment, excluding the lease and sublease referenced in Note 4, was \$179,907 and \$131,653 for the years ended December 31, 2017 and 2016, respectively.

The following schedule details future minimum lease payments annually for five years as of December 31, 2017, for operating leases with initial or remaining lease terms in excess of one year, excluding the STRE lease and sublease disclosed in Note 4.

Years Ending December 31,	
2018	\$ 465,214
2019	436,589
2020	392,774
2021	371,919
2022	263,003
Thereafter	6,000

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Commitments – STCHC is a recipient of several grants and awards of federal and state funds. These grants and awards are governed by various federal and state guidelines, regulations, and contractual agreements. The administration of the programs and activities funded by these grants and awards is under the contract and administration of STCHC and is subject to audit and/or review by the applicable funding sources. Any grant or award funds found to be not properly spent in accordance with the terms, conditions, and regulations of the funding sources may be subject to recapture.



St. Thomas Community Health Center, Inc. And Subsidiaries
Notes to Consolidated Financial Statements

NOTE 12 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies – Certain claims, suits and complaints arising in the ordinary course of operations have been filed or are pending against STCHC. In the opinion of management, all such matters are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of STCHC if disposed of unfavorably.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, June 27, 2018, and determined that no events, other than those described in Note 4 and Note 6, occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these consolidated financial statements.



Supplementary Information

St. Thomas Community Health Center, Inc and Subsidiaries Consolidating Statement of Financial Position

As of December 31,

2017

	St. Thomas Community Health Center, Inc.	St. Thomas Investments, LLC	St. Thomas Real Estate, LLC	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash	\$ 1,148,859	\$ 25	\$ 2,138	\$ -	\$ 1,151,022
Grants receivable	153,205	-	-	-	153,205
Accounts receivable, net	585,618	-	-	-	585,618
Rent receivable	-	-	6,750	-	6,750
Interest receivable	23,062	-	-	-	23,062
Note receivable	5,405,715	-	-	-	5,405,715
Current portion of prepaid expenses	59,883	-	31,452	(31,452)	59,883
Total current assets	7,376,342	25	40,340	(31,452)	7,385,255
RESTRICTED CASH	42,748	-	-	-	42,748
PROPERTY AND EQUIPMENT, net	7,096,729	-	4,816,121	(1,056,703)	10,856,147
OTHER ASSETS					
Deposits	-	-	2,971	-	2,971
Total other assets	-	-	2,971	-	2,971
TOTAL ASSETS	\$ 14,515,819	\$ 25	\$ 4,859,432	\$ (1,088,155)	\$ 18,287,121
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	498,218	\$ -	\$ -	\$ -	\$ 498,218
Uncompensated absences	73,685	-	-	-	73,685
Due to related party	(42,676)	-	42,676	-	-
Current portion of deferred revenue	31,452	-	-	(31,452)	-
Current maturities of long-term debt	2,870,465	-	107,456	-	2,977,921
Total current liabilities	3,431,144	-	150,132	(31,452)	3,549,824
LONG-TERM DEBT, net of current maturities and deferred financing costs	5,172,728	-	6,268,085	-	11,440,813
Total liabilities	8,603,872	-	6,418,217	(31,452)	14,990,637
NET ASSETS					
Unrestricted					
Unrestricted	5,911,947	25	(2,512,197)	(1,056,703)	2,343,072
Noncontrolling interest	-	-	953,412	-	953,412
Total unrestricted net assets	5,911,947	25	(1,558,785)	(1,056,703)	3,296,484
Temporarily restricted	-	-	-	-	-
Total net assets	5,911,947	25	(1,558,785)	(1,056,703)	3,296,484
TOTAL LIABILITIES AND NET ASSETS	\$ 14,515,819	\$ 25	\$ 4,859,432	\$ (1,088,155)	\$ 18,287,121

See independent auditors' report.

St. Thomas Community Health Center, Inc and Subsidiaries Consolidating Statement of Financial Position

As of December 31,

2016

	St. Thomas Community Health Center, Inc.	St. Thomas Investments, LLC	St. Thomas Real Estate, LLC	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash	\$ 2,007,084	\$ 25	\$ 2,341	\$ -	\$ 2,009,450
Grants receivable	155,357	-	-	-	155,357
Accounts receivable, net	384,227	-	-	-	384,227
Rent Receivable	-	-	6,750	-	6,750
Interest receivable	23,062	-	-	-	23,062
Due from related party	-	-	183,441	(183,441)	-
Current portion of prepaid expenses	8,614	-	-	-	8,614
Total current assets	2,578,344	25	192,532	(183,441)	2,587,460
RESTRICTED CASH	713,165	-	-	-	713,165
PROPERTY AND EQUIPMENT, net	1,947,521	-	4,967,118	(1,086,135)	5,828,504
OTHER ASSETS					
Prepaid expenses, net of current portion	-	-	31,452	(31,452)	-
Deposits	-	-	2,971	-	2,971
Note receivable	5,405,715	-	-	-	5,405,715
Total other assets	5,405,715	-	34,423	(31,452)	5,408,686
TOTAL ASSETS	\$ 10,644,745	\$ 25	\$ 5,194,073	\$ (1,301,028)	\$ 14,537,815
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	\$ 466,245	\$ -	\$ -	\$ -	\$ 466,245
Uncompensated absences	73,685	-	-	-	73,685
Due to related party	183,441	-	-	(183,441)	-
Current portion of deferred revenue	31,452	-	-	(31,452)	-
Current maturities of long-term debt	253,875	-	-	-	253,875
Total current liabilities	1,008,698	-	-	(214,893)	793,805
LONG-TERM DEBT, net of current maturities and deferred financing costs	4,409,896	-	6,354,969	-	10,764,865
NET ASSETS					
Unrestricted					
Unrestricted	5,129,478	25	(2,118,287)	(1,086,135)	1,925,081
Noncontrolling interest	-	-	957,391	-	957,391
Total unrestricted net assets	5,129,478	25	(1,160,896)	(1,086,135)	2,882,472
Temporarily restricted	96,673	-	-	-	96,673
Total net assets	5,226,151	25	(1,160,896)	(1,086,135)	2,979,145
TOTAL LIABILITIES AND NET ASSETS	\$ 10,644,745	\$ 25	\$ 5,194,073	\$ (1,301,028)	\$ 14,537,815

See independent auditors' report.

St. Thomas Community Health Center, Inc and Subsidiaries Consolidating Statement Of Activities

For the year ended December 31,

2017

	St. Thomas Community Health Center, Inc.	St. Thomas Investments, LLC	St. Thomas Real Estate, LLC	Eliminations	Consolidated
Operating revenues					
Net patient service revenue, net of Provision for bad debts	\$ 7,990,228 (151,782)	\$ - -	\$ - -	\$ - -	\$ 7,990,228 (151,782)
Net patient service revenue, less provision for bad debts	7,838,446	-	-	-	7,838,446
Contributions	7,632	-	-	-	7,632
Grant revenues	4,277,649	-	-	-	4,277,649
340b drug program	5,729,317	-	-	-	5,729,317
Donated facilities and services	145,418	-	-	-	145,418
Other revenues	594,557	-	124,670	(190,779)	528,448
Total operating revenues	18,593,019	-	124,670	(190,779)	18,526,910
Operating expenses					
Health care	14,064,311	-	-	-	14,064,311
Management and general	3,842,912	-	522,559	(220,211)	4,145,260
Total operating expenses	17,907,223	-	522,559	(220,211)	18,209,571
Excess of revenues over (under) expenses	685,796	-	(397,889)	29,432	317,339
Less: excess of revenues over (under) expenses attributable to noncontrolling interest	3,979	-	(3,979)	-	-
Excess of revenues over (under) expenses attributable to the Clinic	\$ 681,817	\$ -	\$ (393,910)	\$ 29,432	\$ 317,339

See independent auditors' report.

St. Thomas Community Health Center, Inc and Subsidiaries Consolidating Statement of Activities

For the year ended December 31,

2016

	St. Thomas Community Health Center, Inc.	St. Thomas Investments, LLC	St. Thomas Real Estate, LLC	Eliminations	Consolidated
Operating revenues					
Net patient service revenue, net of Provision for bad debts	\$ 6,189,886 (111,485)	\$ - -	\$ - -	\$ - -	\$ 6,189,886 (111,485)
Net patient service revenue, less provision for bad debts	6,078,401	-	-	-	6,078,401
Contributions	26,330	-	-	-	26,330
Grant revenues	2,830,671	-	-	-	2,830,671
340b drug program	5,964,817	-	-	-	5,964,817
Donated facilities and services	145,418	-	-	-	145,418
Other revenues	387,862	-	124,670	(193,832)	318,700
Total operating revenues	15,433,499	-	124,670	(193,832)	15,364,337
Operating expenses					
Health care	10,986,808	-	-	-	10,986,808
Management and general	3,886,042	-	522,267	(223,264)	4,185,045
Total operating expenses	14,872,850	-	522,267	(223,264)	15,171,853
Nonoperating expenses					
Loss on equity investments attributable to noncontrolling interest	3,976	-	(3,976)	-	-
Excess of revenues over (under) expenses attributable to the Clinic	\$ 556,673	\$ -	\$ (393,621)	\$ 29,432	\$ 192,484

See independent auditors' report.

St. Thomas Community Health Center, Inc and Subsidiaries
Schedule of Compensation, Benefits, and Other Payments
to Chief Executive Officer

For the year ended December 31, 2017

Dr. Donald T. Erwin, MD, CEO

Salary	\$	245,130
Benefits - health insurance		-
Benefits - retirement		-
Benefits - dental and vision insurance		-
Benefits - other insurance		-
Deferred compensation		-
Car allowance		-
Vehicle provided by STCHC		-
Cell phone		-
Dues		-
Vehicle rental		-
Per diem		-
Reimbursements		5,000
Travel		-
Registration fees		-
Conference travel		-
Housing		-
Unvouchered expenses		-
Special meals		-
Other		-
		\$ 250,130

See independent auditors' report.



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INDEPENDENT AUDITORS' 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*

To the Board of Directors of
St. Thomas Community Health Center, Inc. and subsidiaries
New Orleans, Louisiana

We have audited, in accordance with the 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. Thomas Community Health Center, Inc. and subsidiaries (the Clinic) which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to consolidated financial statements, which collectively comprise the Clinic's basic financial statements, and have issued our report thereon dated June 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Clinic'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 opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Clinic's internal control. Accordingly, we do not express an opinion on the effectiveness of the Clinic'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 Clinic'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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Clinic's consolidated financial statements are free from 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 Clinic'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 Clinic's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cam, Riggs & Ingram, L.L.C.

June 27, 2018



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
St. Thomas Community Health Center, Inc. and subsidiaries
New Orleans, Louisiana

Report on Compliance for Each Major Federal Program

We have audited St. Thomas Community Health Center, Inc. and subsidiaries' (the Clinic) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Clinic's major federal programs for the year ended December 31, 2017. The Clinic's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Clinic'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 the Clinic'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 of the Clinic's compliance

Opinion on Each Major Federal Program

In our opinion, the Clinic 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, 2017.

Report on Internal Control Over Compliance

Management of the Clinic 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 Clinic'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 an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Compliance 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 the Clinic's internal control over compliance.

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 and, therefore, material weaknesses and significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies that we consider to be significant deficiencies.

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 a 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. We did not identify deficiencies that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs list as item 2017-001 to be a significant deficiency.

St. Thomas Community Health Center, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Its response was not subjected to the auditing procedures applied in our audit of compliance and, accordingly, we express no opinion on the response.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the Clinic as of and for the year ended December 31, 2017, and have issued our report thereon dated June 27, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Cam, Riggs & Ingram, L.L.C.

June 27, 2018

St. Thomas Community Health Center, Inc and Subsidiaries
Schedule of Expenditures of Federal Awards

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures (\$)	Amount Passed through to Subrecipient	Total Federal Expenditures (\$)
Health Center Program Cluster					
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)	93.224		\$ 1,736,693	\$ -	\$ 1,736,693
Grants for New and Expanded Services under the Health Center Program	93.527		948,178	-	948,178
<i>Total Department of Health and Human Services</i>			2,684,871	-	2,684,871
Total Health Center Program Cluster			2,684,871	-	2,684,871
Other Programs					
Department of Health and Human Services					
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations financed in part by Prevention and Public Health Funds	93.752		76,572	-	76,572
HIV Prevention Activities Health Department Based	93.940		23,781	-	23,781
<i>Total Department of Health and Human Services</i>			100,353	-	100,353
Department of Housing and Urban Development					
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228		500,000	-	500,000
<i>Total Department of Housing and Urban Development</i>			500,000	-	500,000
Total Other Programs			600,353	-	600,353
Total Expenditures of Federal Awards			\$ 3,285,224	\$ -	\$ 3,285,224

See independent auditors' report.



St. Thomas Community Health Center, Inc. And Subsidiaries
Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – This schedule includes the activity of St. Thomas Community Health Center (STCHC) and is presented on the accrual basis of accounting. 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). STCHC has not elected to use the 10% de minimis indirect cost rate.

NOTE 2 – LOAN

STCHC did not expend federal awards related to loans or loan guarantees during the year. The balance of loan outstanding between STCHC and Louisiana Recovery Authority (LRA Loan) as of December 31, 2017 is \$1,415,249. The LRA Loan is described in detail in Note 4 – Long-Term Debt in the notes to consolidated financial statements.

NOTE 3 – FEDERALLY FUNDED INSURANCE

STCHC has no federally funded insurance.

NOTE 4 – NONCASH ASSISTANCE

STCHC did not receive any federal noncash assistance for the fiscal year ended December 31, 2017.

St. Thomas Community Health Center, Inc. And Subsidiaries
Schedule of Findings And Questioned Costs

PART I – SUMMARY OF AUDITORS’ RESULTS

1. The independent auditors’ report on the financial statements expressed an unmodified opinion.
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.
4. One significant deficiency in internal control over the major federal award program was reported during the audit.
5. There was one audit finding required to be reported in accordance with Uniform Guidance.
6. The following is an identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>Federal Award</u>
Health Center Program Cluster	\$ 2,684,871
Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii 14.228	\$ 500,000

7. There is one major program classified as a Type A program and one major program classified as a Type B program as those terms are defined in Uniform Guidance.
8. Threshold used for determining Type A programs was \$750,000.
9. The Project did qualify as a low-risk auditee as that term is defined in Uniform Guidance.

PART II – FINANCIAL STATEMENT FINDINGS

No matters are reportable.

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2017-001: SIGNIFICANT DEFICIENCY: SLIDING SCALE FEE SCHEDULE

Title and CFDA Number of Federal Program: Health Center Program Cluster / 93.224, 93.527

Federal Award Identification Number and Year: 5 H80CS12863-08-00/ 2017-2018

Name of Federal Agency: Department of Health and Human Services

Questioned Costs: \$0



**St. Thomas Community Health Center, Inc. And Subsidiaries
Schedule of Findings And Questioned Costs**

Condition: 2 CFR 200.303 requires the non-federal entity to establish and maintain internal controls over compliance. Compliance requirement N *Special Tests and Provisions: Sliding Fee Discount* requires that “sliding fee discounts are applied to fees for health center services provided to all individuals and families with annual incomes at or below 200 percent of the Federal Poverty Guidelines (FPG).” Thus, federal poverty levels must be updated annually for the sliding scale fee schedule to be appropriately applied.

Criteria: The federal poverty level effective January 26, 2017 was not updated in the billing system until March 17, 2017.

Effect: The sliding fee discount could be inappropriately applied based on incorrect poverty levels.

Cause: Federal poverty levels were not timely updated in the billing system .

Recommendation: Federal poverty levels should be updated timely in the billing system.

Management’s Response and Corrective Action Plan: See management’s response and corrective action plan on page 40.



St. Thomas Community Health Center, Inc. And Subsidiaries
Summary Schedule of Prior Audit Findings
December 31, 2017

Part II – Financial Statement Findings

No matters were reportable.

Part III – Findings and Questionable Costs Related to Major Federal Programs

No matters were reportable.



**St. Thomas Community Health Center, Inc. And Subsidiaries
Management's Corrective Action Plan
December 31, 2017**

PART II – Financial Statement Findings

There were no findings noted pertaining to the financial statement audit during the year ended December 31, 2017.

PART III – Findings Related to Major Federal Award Program

2017-001: SIGNIFICANT DEFICIENCY: SLIDING SCALE FEE SCHEDULE

Planned Corrective Action: Federal poverty levels will be updated timely.

Anticipated Completion Date: December 31, 2018

Responsible Party: CFO and Billing Manager



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June 27, 2018

To the Board Members of
St. Thomas Community Health Center
New Orleans, Louisiana

In planning and performing our audit of the financial statements St. Thomas Community Health Center's (STCHC) as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered STCHC's internal control over financial reporting (internal control) as a basis for designing auditing 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 STCHC's internal control. Accordingly, we do not express an opinion on the effectiveness of the STCHC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify one deficiency in internal control that we consider to be a significant deficiency.

However, during our audit we became aware of deficiencies in internal control other than significant deficiencies and material weaknesses and matters that are opportunities for strengthening internal controls and operating efficiency as described below, and in further detail in the Appendix which follows. A separate letter dated June 27, 2018, included in STCHC's December 31, 2017 financial statements, contains our communication of significant deficiencies in STCHC's internal control. This letter does not affect or report dated June 27, 2018 on the financial statements of St. Thomas Community Health Center.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with the CFO, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of the Board and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Carr, Riggs & Ingram, L.L.C.

1: PAYROLL PROCESSING APPROVAL

Criteria: CEO or CFO approval of payroll applicable to the federal award should occur prior to payment to prevent unallowable costs from being paid by the federal award.

Condition: Approval by the CEO or CFO for the payment of payroll was not documented and retained.

Effect: Payroll not allowable under the federal award could be paid improperly.

Cause: STCHC's written policies and procedures allow for payroll approval for processing through verbal and electronic communications.

Recommendation: Documentation and retention of payroll approval for processing should be maintained by STCHC.

Management's Response and Corrective Action Plan: CEO or CFO approval of payment of payroll will be documented and retained with email records.

2: SUSPENSION AND DEBARMENT

Criteria: Management must verify that all vendors paid with federal award funds are not suspended or debarred and the verification must be retained.

Condition: Vendors paid with federal award funds were not verified for suspension and debarment.

Effect: Suspended or debarred vendors could be paid with federal award funds.

Cause: STCHC's written policy currently verifies all vendors through the procurement process for suspension and debarment; vendors outside the procurement process are unverified.

Recommendation: Management should expand current policies to include processes for verification of suspension and debarment and retention of that verification for all vendors, including those outside the procurement process.

Management's Response and Corrective Action Plan: Documentation of verification for suspension and debarment will be retained.

3: Schedule Expenditure Federal Awards (SEFA) Schedule

Criteria: All federal awards received directly or indirectly (as a pass through of the state or another entity) of any amount should be recorded on the SEFA.

St. Thomas Community Health Center
December 31, 2017
Appendix

Condition: Non-major federal awards were not identified for inclusion in compiling the SEFA for the annual audit.

Effect: The SEFA could be incomplete.

Cause: Non-major federal awards are not identified.

Recommendation: All federal awards received directly or indirectly (as a pass through of the state or another entity) of any amount should be recorded on the SEFA.

Management's Response and Corrective Action Plan: All sources of revenue will be identified.

St. Thomas Community Health Center

AGREED-UPON PROCEDURES REPORT

For the Year Ended December 31, 2017



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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors of
St. Thomas Community Health Center
New Orleans, Louisiana
and the Louisiana Legislative Auditor

We have performed the procedures enumerated below, which were agreed to by the Board of Directors of St. Thomas Community Health Center (St. Thomas) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal year January 1, 2017 through December 31, 2017. St. Thomas is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The required procedures and associated results are as follows:

Written Policies and Procedures

1. Obtained St. Thomas' written policies and procedures and observed that those written policies and procedures address each of the following financial/business functions:

a) *Budgeting*, including preparing, adopting, monitoring, and amending the budget

Results: No exceptions were found as a result of applying the procedure.

b) *Purchasing*, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.

Results: Written policies and procedures do not address (2) how vendors are added to the vendor list. No additional exceptions were found as a result of applying the procedure.

c) *Disbursements*, including processing, reviewing, and approving

Results: No exceptions were found as a result of applying the procedure.

d) *Receipts*, including receiving, recording, and preparing deposits

Results: No exceptions were found as a result of applying the procedure.

e) *Payroll/Personnel*, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

Results: No exceptions were found as a result of applying the procedure.

f) *Contracting*, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process

Results: No exceptions were found as a result of applying the procedure.

g) *Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)*, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers, and (5) monitoring card usage

Results: No exceptions were found as a result of applying the procedure.

h) *Travel and expense reimbursement*, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers

Results: No exceptions were found as a result of applying the procedure.

Board

2. Obtained and inspected the board minutes for the fiscal year and the Board's bylaws in effect during the fiscal year, and:

a) Observed that the managing board met (with a quorum) at least monthly in accordance with the Board's bylaws.

Results: No exceptions were found as a result of applying the procedure.

b) Observed that the minutes obtained and inspected in a) above either referenced or included monthly budget-to-actual comparisons (GAAP-basis).

Results: No exceptions were found as a result of applying the procedure.

c) Observed that the minutes referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal year.

Results: No exceptions were found as a result of applying the procedure.

Bank Reconciliations

3. Obtained a listing of client bank accounts from management and management's representation that the listing was complete.

Results: No exceptions were found as a result of applying the procedure.

4. Using the listing provided by management, selected four (4) of the St. Thomas' bank accounts. For each of the bank accounts selected, obtained bank statements and reconciliations for all months in the fiscal year and observed that:

- a) Bank reconciliations had been prepared;

Results: No exceptions were found as a result of applying the procedure.

- b) Bank reconciliations included evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has inspected each bank reconciliation; and

Results: No exceptions were found as a result of applying the procedure.

- c) Management has documentation reflecting that it has researched reconciling items that had been outstanding for more than 6 months as of the end of the fiscal year.

Results: For one (1) of the four (4) selected bank accounts, management did not provide documentation reflecting the research of reconciling items outstanding more than six (6) months as of the end of the fiscal year.

Collections

5. Obtained a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.

Results: No exceptions were found as a result of applying the procedure.

6. Using the listing provided by management in #5, selected St. Thomas' one (1) cash collection location. For the cash collection location selected:

- a) Determined who is responsible for collecting cash through inquiry with management.

Results: No exceptions were found as a result of applying the procedure.

- b) Obtained existing written documentation and observed that each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account, and (3) not required to share the same cash register or drawer with another employee.

Results: No exceptions were found as a result of applying the procedure.

- c) Obtained existing written documentation and observed that St. Thomas has a formal process to reconcile cash collections to the general ledger, by revenue source, by a person who is not responsible for cash collections in the cash collection location selected.

Results: No exceptions were found as a result of applying the procedure.

- d) Selected the highest (dollar) week of cash collections from the general ledger during the fiscal year and:

- Obtained St. Thomas' collection documentation, deposit slips, and bank statements, traced daily collections to the deposit date on the corresponding bank statement and observed that the deposits were made within one day of collection.

Results: No exceptions were found as a result of applying the procedure.

- Obtained system reports and collection documentation, observed that daily cash collections are completely supported by documentation.

Results: No exceptions were found as a result of applying the procedure.

- 7. Obtained existing written documentation from management and observed that the written documentation includes a process specifically defined (as identified by management) to determine completeness of all collections, including electronic transfers, for each revenue source by a person who was not responsible for collections.

Results: No exceptions were found as a result of applying the procedure.

Disbursements – General (excluding credit card/debit card/fuel card/P-Card purchases or payments)

- 8. Obtained a listing of St. Thomas' disbursements for the fiscal year from management. Obtained management's representation that the listing was complete.

Results: No exceptions were found as a result of applying the procedure.

- 9. Using the disbursement population from #8 above, randomly selected 25 disbursements, excluding credit card/debit card/fuel card/P-card purchases or payments. Obtained supporting documentation for each transaction and determined that the supporting documentation for each transaction demonstrated that:

- a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.

Results: No exceptions were found as a result of applying the procedure.

- b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.

Results: No exceptions were found as a result of applying the procedure.

- c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.

Results: No exceptions were found as a result of applying the procedure.

- 10. Using St. Thomas' documentation, observed that the person responsible for processing payments was prohibited from adding vendors to St. Thomas' purchasing/disbursement system.

Results: No exceptions were found as a result of applying the procedure.

- 11. Using St. Thomas' documentation, observed that the persons with signatory authority or who made the final authorization for disbursements had no responsibility for initiating or recording purchases.

Results: No exceptions were found as a result of applying the procedure.

- 12. Inquired of management and observed whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority.

Results: No exceptions were found as a result of applying the procedure.

- 13. If a signature stamp or signature machine is used, inquired of the signer whether his or her signature was maintained under his or her control or is used only with the knowledge and consent of the signer. Inquired of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. Reported any exceptions.

Results: No signature stamp or signature machine used.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

- 14. Obtained from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), including the card numbers and the names of the persons who maintained possession of the cards. Obtained management's representation that the listing was complete.

Results: No exceptions were found as a result of applying the procedure.

- 15. Using the listing prepared by management, randomly selected two (2) cards used during the fiscal year. Obtained the monthly statements for the selected cards for the fiscal period. Selected the monthly statement with the largest dollar amount of debit card purchases and:

- a) Observed that there was evidence that the monthly statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder.

Results: No exceptions were found as a result of applying the procedure.

- b) Observed that no finance charges and/or late fees were assessed on the selected statements.

Results: No exceptions were found as a result of applying the procedure.

16. Using the monthly statements selected under #15 above, obtained supporting documentation for all transactions for each of the 2 cards selected.

- a) For each transaction, observed that the transaction was supported by:
- An original itemized receipt (i.e., identifies precisely what was purchased)

Results: No exceptions were found as a result of applying the procedure.

- Documentation of the business/public purpose. For meal charges, there should also have been documentation of the individuals participating.

Results: No exceptions were found as a result of applying the procedure.

- b) For each transaction, compared the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to St. Thomas' written purchasing/disbursement policies and the Louisiana Public Bid Law and determined that the transaction complied with the requirements.

Results: No exceptions were found as a result of applying the procedure.

- c) For each transaction, compared the St. Thomas' documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and reported any exceptions.

Results: No exceptions were found as a result of applying the procedure.

Travel and Expense Reimbursement

17. Obtained from management a listing of all travel and related expense reimbursements, by person, during the fiscal year. Obtained management's representation that the listing was complete.

Results: No exceptions were found as a result of applying the procedure.

18. Using the St. Thomas' written policies related to travel and expense reimbursements, compared the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration (www.gsa.gov) and reported any amounts that exceed GSA rates.

Results: For personal car use during business travel, the mileage rate established by the US General Services Administration was \$.505 per mile; St. Thomas' policy identifies the use of the IRS standard mileage rate that was \$.535 per mile, a \$.03 per mile difference. No additional exceptions were found as a result of applying the procedure.

19. Using the listing from #17 above, selected the three persons who incurred the most travel costs during the fiscal year. Obtained the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and chose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:

- a) Compared expense documentation to written policies and observed that each expense was reimbursed or prepaid in accordance with written policy.

Results: No exceptions were found as a result of applying the procedure.

- b) Observed that each expense was supported by:

- An original itemized receipt that identifies precisely what was purchased.

Results: No exceptions were found as a result of applying the procedure.

- Documentation of the business/public purpose.

Results: No exceptions were found as a result of applying the procedure.

- If applicable, other documentation as may be required by written.

Results: No exceptions were found as a result of applying the procedure.

- c) Compared St. Thomas' documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and determined that the termination complied with the requirements.

Results: No exceptions were found as a result of applying the procedure.

- d) Observed that each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Results: No exceptions were found as a result of applying the procedure.

Contracts

20. Obtained a listing of all contracts in effect during the fiscal year. Obtained management's representation that the listing was complete.

Results: No exceptions were found as a result of applying the procedure.

21. Using the listing from #20 above, selected the five contract "vendors" that were paid the most money during the fiscal year. Obtained the related contracts and paid invoices during the fiscal year related to the five vendors selected and:

- Observed that there was a formal/written contract that supports the services arrangement and the amount paid.

Results: No exceptions were found as a result of applying the procedure.

- Compared each contract's detail to the requirements of Louisiana Public Bid Law. Determined whether each contract was subject to the Louisiana Public Bid Law and:
 - If yes, obtained/compared supporting contract documentation to legal requirements and observed that St. Thomas complied with all legal requirements.

Results: Two (2) of the five (5) vendors selected, were subject to Louisiana Public Bid Law. No exceptions were found as a result of applying the procedure.

- If no, obtained/compared supporting documentation that St. Thomas solicited quotes as a best practice.

Results: No exceptions were found as a result of applying the procedure.

- Determined whether the contract was amended. If so, determined the scope and dollar amount of the amendment and observed that the original contract terms contemplated or provided for such an amendment.

Results: No exceptions were found as a result of applying the procedure.

- Selected the largest payment from each of the five contracts, obtained the supporting invoice, compared the invoice to the contract terms, and observed that the invoice and related payment complied with the terms and conditions of the contract.

Results: No exceptions were found as a result of applying the procedure.

- Obtained board minutes related to the contract and observed that there is documentation of board approval, if required by policy.

Results: Contracts do not require formal board approval.

Payroll and Personnel

22. Obtained a listing of employees during the fiscal year with their related salaries, and obtained management's representation that the listing is complete. Randomly selected five employees, obtained their personnel files, and:

Results: No exceptions were found as a result of applying the procedure.

- Determined compensation paid to each employee during the fiscal year and observed that payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure as observed in the employees' employee personnel files.

Results: No exceptions were found as a result of applying the procedure.

- Inspected changes made to hourly pay rates/salaries during the fiscal year and observed that those changes were approved in writing and in accordance with written policy.

Results: No exceptions were found as a result of applying the procedure.

23. Obtained attendance and leave records and randomly selected one pay period in which leave had been taken by at least one employee. Within that pay period, randomly selected 25 employees and:

- a) Observed that all selected employees documented their daily attendance and leave (e.g., vacation, sick, compensatory).

Results: No exceptions were found as a result of applying the procedure.

- b) Observed that there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees.

Results: No exceptions were found as a result of applying the procedure.

- c) Observed that there was written documentation that St. Thomas maintained written leave records on those selected employees that earn leave.

Results: No exceptions were found as a result of applying the procedure.

24. Obtained from management a list of those employees that were terminated during the fiscal year and management's representation that the list was complete. If any termination payments were made during the fiscal year, selected the two largest termination payments made during the fiscal year and obtained the personnel files and employment contract for the two employees. Observed that the termination payments were made in strict accordance with the policy obtained in #1e above and/or employment contract and approved by management.

Results: No exceptions were found as a result of applying the procedure. No termination payments were made during the fiscal year.

25. Obtained supporting documentation relating to all payroll taxes and retirement contributions during the fiscal year. Observed that the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines (as identified by management).

Results: No exceptions were found as a result of applying the procedure.

Other

26. Inquired of management whether St. Thomas had any misappropriations of public funds or assets. If so, obtained/inspected supporting documentation and observed that St. Thomas reported the misappropriation to the legislative auditor and the district attorney of the parish in which St. Thomas is domiciled.

Results: Management stated there have been no misappropriations of public funds or assets.

27. Observed that St. Thomas has posted on its premises and website, the notice required by R.S. 24:523.1.

Results: Notice required by R.S. 24:523.1 is not posted on St. Thomas' website.

28. If we observed or otherwise identified any exceptions regarding management's representations in the procedures above, reported the nature of each exception.

Results: No exceptions were found as a result of applying the procedure.

We were not engaged to perform, and did not perform, an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of procedures performed on the C/C areas identified in the SAUPs, and the results of those procedures performed, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Cam, Riggs & Ingram, L.L.C.

June 27, 2018