ST. THOMAS COMMUNITY HEALTH CENTER, INC.

Financial Statements

For the Year Ended December 31, 2018

Report

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INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of St. Thomas Community Health Center, Inc., which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Thomas Community Health Center, Inc. as of December 31, 2018, and its activities, changes in net assets, functional expenses, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, management has adopted Financial Accounting Standards Board ASU 2016-14, Not-for-Profit Entities (Topic 958); this new standard requires changes to be made in how net assets are classified based on donor restrictions and has added multiple new disclosures. Our opinion is not modified with respect to that matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Compensation, Benefits, and Other Payments Chief Executive Officer is required by Louisiana Revised Statue 24:513(A)(3) and is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2018, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2019, on our consideration of St. Thomas Community Health Center, Inc. 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. internal control over financial reporting and compliance.

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

June 12, 2019

Financial Statements

As of December 31,		**2018**
ASSETS		
Cash and cash equivalents	$	**973,530**
Grants receivable		**239,916**
Patient accounts receivable, net		**710,157**
Prepaid expenses		**46,333**
Total current assets		**1,969,936**
PROPERTY AND EQUIPMENT, net		**12,368,010**
TOTAL ASSETS	$	**14,337,946**
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$	**271,809**
Uncompensated absences		**98,348**
Current maturities of long-term debt		**491,807**
Total current liabilities		**861,964**
LONG-TERM DEBT, net of current maturities		**5,147,205**
Total liabilities		**6,009,169**
NET ASSETS		
Without donor restrictions		**8,328,777**
Total net assets		**8,328,777**
TOTAL LIABILITIES AND NET ASSETS	$	**14,337,946**

Statement of Activities

For the year ended December 31,		2018
		Without donor restriction
		Undesignated
OPERATING REVENUES		
Net patient service revenue, net of contractual allowances and discounts	$	**10,207,291**
Provision for bad debts		**(195,653)**
Net patient service revenue, less provision for bad debts		**10,011,638**
Contributions		**796,477**
Grant revenues		**2,646,748**
340b drug program		**5,552,621**
Donated facilities and services		**144,268**
Other revenues		**617,712**
TOTAL OPERATING REVENUES		**19,769,464**
OPERATING EXPENSES		
Health care		**14,259,507**
Management and general		**4,974,567**
TOTAL OPERATING EXPENSES		**19,234,074**
EXCESS OF REVENUES OVER (UNDER) EXPENSES ATTRIBUTABLE TO THE CLINIC		**535,390**
LOSS FROM INVESTMENT IN SUBSIDIARY		**(120,160)**
GAIN ON ACQUISITON OF SUBSIDIARIES		**1,056,703**
GAIN ON BARGAIN PURCHASE		**1,657,150**
GAIN ON FORGIVEN NOTES PAYABLE		**1,903,210**
EXCESS OF REVENUES OVER EXPENSES AND GAINS AND LOSSES		**5,032,293**
NET ASSETS - Beginning of year		**3,296,484**
NET ASSETS - End of year	$	**8,328,777**

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

Statement of Functional Expenses

For the year ended December 31,						**2018**
		Health Care		Management and General		**Total**
Salaries, related payroll taxes and benefits	$	8,639,381	$	1,684,317	**$**	**10,323,698**
Professional fees and contract services		879,089		990,558		**1,869,647**
Accounting, audit and legal fees		-		200,306		**200,306**
Billing fees		83,226		-		**83,226**
Depreciation		94,768		278,378		**373,146**
Insurance		35,984		138,353		**174,337**
Interest		172,158		737,996		**910,154**
Other		634,039		458,658		**1,092,697**
Postage		19,553		19,553		**39,106**
Rent		283,714		70,928		**354,642**
Repairs and maintenance		77,997		91,031		**169,028**
340b drug program		2,015,392		-		**2,015,392**
Supplies		908,574		65,975		**974,549**
Donated services		111,654		27,914		**139,568**
Trash and waste removal		66,607		18,478		**85,085**
Travel, meetings and conferences		34,638		33,289		**67,927**
Training and continuing education		11,350		48,033		**59,383**
Utilities		191,383		110,800		**302,183**
Total expenses	**$**	**14,259,507**	**$**	**4,974,567**	**$**	**19,234,074**

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

For the year ended December 31,		2018
Excess of revenue over expenses and gains and losses	$	5,032,293
Adjustments to reconcile excess of revenues over expenses and gains and losses to net cash provided by operating activities:		
Depreciation		373,146
Amortization		669,465
Gain on forgiveness of notes payable		(1,903,210)
Gain on bargain purchase		(1,657,150)
Gain on subsidiaries		(1,056,703)
Bad debt		195,653
Change in operating assets and liabilities:		
Grants receivable		(86,711)
Patient accounts receivable, net		(320,192)
Interest receivable		23,062
Prepaid expenses		13,550
Rent receivable		6,750
Deposits		2,971
Accounts payable and accrued liabilities		(226,409)
Uncompensated absences		24,663
Net cash provided by operating activities		1,091,178
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment		(828,306)
Net cash used in investing activities		(828,306)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of long-term debt		(482,112)
Purchase of put option on debt		(1,000)
Withdrawals from restricted cash		42,748
Net cash used in financing activities		(440,364)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(177,492)
CASH AND CASH EQUIVALENTS - Beginning of year		1,151,022
CASH AND CASH EQUIVALENTS - End of year	$	973,530
SUPPLEMENTAL DISCLOSURE FOR STATEMENTS OF CASH FLOWS		
Cash paid during the year for interest	$	229,545

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

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 financial statements:

Nature Of Activities **–** St. Thomas Community Health Center, Inc. (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.

During the year ended December 31, 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 St. Thomas Investments, Inc. (STI) with STCHC being the surviving entity just prior to the NMTC unwind. In May 2018, STCHC was merged with Master Tenant and St. Thomas Real Estate, LLC (STRE) with STCHC being the surviving entity. As of December 31, 2018, STCHC is the remaining surviving entity of STI, Master Tenant, and STRE.

The Clinic operates in locations where a majority of the residents are 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, 2018, 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***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.

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.

Classification of Net Assets – The Clinic classifies resources for accounting and reporting purposes into two net asset categories as follows:

- Net Assets Without Donor Restrictions – These net assets generally result from revenues generated by investment income and royalties that have no donor restrictions less expenses incurred for investment management and administrative functions.

- Net Assets With Donor Restrictions – These net assets result from gifts of cash and other assets that are received with donor stipulations that limit the use of the donated assets, either temporarily or permanently, until the donor restriction expires, that is until the stipulated time restriction ends or the purpose of the restriction is accomplished, the net assets are restricted.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

There were no net assets with donor restrictions at December 31, 2018.

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

Cash and Cash Equivalents – 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, 2018, STCHC had $345,596 over the FDIC limit. The Clinic has not experienced issues in the past and management does not believe it is exposed to risk.

Patient Accounts Receivable, net – Patient receivables are recorded at the amounts expected to be collected net of an allowance for bad debt. 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 $355,394 at December 31, 2018.

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 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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 year ended December 31, 2018, the put option was exercised on the related debt (Note 3). As such, for the year ended December 31, 2018, amortization expense was $8,572 and the write off of the remaining balance outstanding was $672,037, both of which are recorded as interest expense in the statement of functional expenses.

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, 2018 accrued uncompensated absences was $98,348.

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 6).

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statement 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.

For the year ended December 31, 2018 and 2017, the Clinic recognized $994 of revenue related to EHR incentive payments which is included in other revenues in the accompanying statement of activities.

Functional allocations of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the health care and management and general based on actual or percentage of use.

Recently Adopted Accounting Standards

Effective January 1, 2018, the Clinic adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Clinic has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standard changes the following aspects of The Clinic's financial statements:

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The unrestricted net asset class has been renamed net assets without donor restrictions.

- The presentation of functional classification of expenses in the statement of functional expenses, is supplemented with enhanced disclosures about the methods used to allocate cost among functions and the basis for which to allocate cost between program and supporting expenses.

- The financial statements include a new footnote disclosure about liquidity and availability of resources (See Note 11).

Future Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09, "*Revenue from Contracts with Customers (Topic 606)*". ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. In August 2015, the FASB issued ASU 2015-14, "*Revenue from Contracts with Customers: Deferral of the Effective Date*", as a revision to ASU 2014-09, which revised the effective date to fiscal years, and interim periods within those years, beginning after December 15, 2017. In March 2016, the FASB issued ASU 2016-08, "*Revenue from Contracts with Customers: Principal versus Agent Considerations*", which clarifies certain aspects of the principal-versus-agent guidance, including how an entity should identify the unit of accounting for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements, such as service transactions. The amendments also reframe the indicators to focus on evidence that an entity is acting as a principal rather than as an agent that are immaterial in the context of a contract. ASU 2014-09, ASU 2015-14, and ASU 2016-08 are effective for STCHC on January 1, 2019. STCHC is still evaluating the potential impact on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* The guidance in this ASU and its amendments supersedes the leasing guidance in Topic 840, entitled *Leases.* Under the guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. For nonpublic entities, the standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Clinic is currently evaluating the impact of the adoption of this ASU on its financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This new guidance is effective for transactions in which the Clinic serves as a resource recipient for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Clinic believes the impact of the adoption of this ASU on its financial statements will have no material effect.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2018
Land	$ 331,300
Buildings	12,639,264
Leasehold improvements	1,744,180
Furniture and fixtures	139,560
Computer equipment	133,163
Medical equipment	740,141
	15,727,608
Less: accumulated depreciation	(3,359,598)
	$ 12,368,010

Depreciation expense for the year ended December 31, 2018 is $373,146.

NOTE 3 – LONG-TERM DEBT

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

	2018
Note payable to Louisiana Recovery Authority (LRA)	$ 1,314,127
Notes payable to Whitney Bank	4,324,885
Total debt outstanding	5,639,012
Less: current maturities	(491,807)
Long-term debt	$ 5,147,205

NOTE 3 – LONG-TERM DEBT (CONTINUED)

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 Louisiana Primary Care Association (LPCA) and LRA were entered into by STCHC and proceeds were included in the Leveraged Loan.

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. The put option was exercised March 29, 2018 for $1,000 between LPCA and STCHC. STCHC in turn wrote off the debt resulting in a $1,903,210 gain on debt forgiveness recorded in the statement of activities.

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, 2018, the unpaid principal balance of this loan was $1,314,127. 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, 2018 was $65,402.

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, 2018 was $698,790.

NOTE 3 – LONG-TERM DEBT (CONTINUED)

- 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, 2018 was $139,890.

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 $200,000, bearing interest at a fixed 5.5%, maturing December 31, 2020, which is unsecured. The balance as of December 31, 2018 was $100,000.
- 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, 2018 was $2,864,068**.**
- Line of credit agreement dated July 31, 2017 for the amount of $500,000 bearing interest at a fixed 4.75%, maturing July 31, 2018, unsecured. During the year ended December 31, 2018, the agreement was extended through August 10, 2023, bearing interest at 5.50%, unsecured. The balance as of December 31, 2018 was $456,735.

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. The note receivable was forgiven by STCHC after the STRE merger, the result of which is a net zero gain/loss in the statement of activities as the forgiveness amounts offset.

***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.

NOTE 3 – LONG-TERM DEBT (CONTINUED)

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.

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).

After the tendering of the put option, and mergers of STI, Master Tenant, and STRE into STCHC, with STCHC being surviving entity, STCHC owned the NMTCs Facility A (balance of $5,405,715) and Facility B (balance of $1,658,150) as well as the note receivable of $5,404,715 previously owed by the Federal NMTC/HTC Investor. Facility B was forgiven by STCHC before the STRE merger, the result of which is included in acquisition of subsidiaries in the statement of activities. Facility A and the note receivable were forgiven by STCHC after the STRE merger, the result of which is a net zero gain/loss in the statement of activities as the forgiveness amounts offset.

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, STCH 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.

NOTE 3 – 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, 2018 was $33,210. Beginning January 2018, the lease is month to month between STCHC and the unaffiliated financial institution subsidiary. As of March 2018 this lease agreement ended.

Long-term debt outstanding at December 31, 2018 matures as follows:

Year Ending December 31,	
2019	$ 491,807
2020	449,694
2021	390,481
2022	366,448
2023	379,385
Thereafter	3,561,197
	$ 5,639,012

Interest expense was $229,545 for the year ended December 31, 2018.

NOTE 4 – ECONOMIC DEPENDENCY

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 320 per day. Finally, STCHC opened three new sites 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.

NOTE 5 – 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 year ended December 31, 2018, management believes it was in compliance with the aforementioned regulations and the administrative directives, rules and regulations of federal and state regulatory agencies. As of March 2018, the compliance periods expired.

NOTE 6 – MEDICARE AND MEDICAID

As an FQHC, the Clinic receives a fixed rate per encounter for its Medicare and Medicaid 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, 2018, the Clinic received $8,597,917 in reimbursements for Medicaid and Medicare claims submitted.

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 financial statements.

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

	2018	
Medicaid and Medicare	$	**8,597,917**
Commercial		**760,790**
Private pay		**848,584**
Total	$	**10,207,291**

NOTE 7 – 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:

	2018
Medicaid	72 %
Medicare	12 %
Commercial and Private Pay	16 %
Total	100 %

NOTE 8 – OTHER REVENUES

As of December 31, 2018 other revenues consisted of the following:

	2018
Other incentives	$ 328,275
Other grants	188,369
Lease income	24,418
Other revenue	76,650
Total	$ 617,712

NOTE 9 – 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 year ended December 31, 2018, STCHC incurred $173,930 of administrative costs and matching contributions related to the Plan.

NOTE 10 – 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 financial statements.

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

NOTE 11 – LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

STCHC has $1,923,603 of financial assets available within one year of the statement of financial position dated December 31, 2018 consisting of cash and cash equivalents of $973,530, grants receivable of $239,916, and patient and receivables of $710,157. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for the general expenditure within one year of the statement of financial position date. STCHC has a goal to maintain financial assets, which consist of cash and cash equivalents, on hand to meet 30 days of normal operating expenses, which are, on average, approximately $1,602,840. Management believes it has appropriate available financial resources.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Operating Leases – 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 3, was $448,115 for the year ended December 31, 2018.

The following schedule details future minimum lease payments annually for five years as of December 31, 2018, for operating leases with initial or remaining lease terms in excess of one year.

Years Ending December 31,		
2019	$	480,289
2020		439,524
2021		418,719
2022		309,803
2023		53,950
Thereafter		2,000

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.

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 financial statements were available to be issued, June 12, 2019, and determined that no events occurred that require disclosure except those identified below. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

In January 2019, STCHC renewed its lease agreement for the continued use of the 2010 Magazine Street property through January 2024.

Supplementary Information

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

For the year ended December 31, 2018	**Dr. Donald T. Erwin, MD, CEO**
Salary	$ 246,465
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	1,500
Travel	-
Registration fees	-
Conference travel	-
Housing	-
Unvouchered expenses	-
Special meals	-
Other	-
	$ 247,965

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.
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. (the Clinic) which comprise the statement of financial position as of December 31, 2018, and the related statement of activities, functional expenses and cash flows for the year then ended, and the related notes to financial statements, which collectively comprise the Clinic's basic financial statements, and have issued our report thereon dated June 12, 2019.

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 opinion on the 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 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.

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

June 12, 2019

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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.
New Orleans, Louisiana

Report on Compliance for the Major Federal Program

We have audited St. Thomas Community Health Center, Inc. (the Clinic) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Clinic's major federal program for the year ended December 31, 2018. The Clinic's major federal program is 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 the Clinic's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 the major federal program. However, our audit does not provide a legal determination of the Clinic's compliance

Opinion on the 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 its major federal program for the year ended December 31, 2018.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 a certain deficiency that we consider to be a significant deficiency.

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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs list as item 2018-001 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 financial statements of the Clinic as of and for the year ended December 31, 2018, and have issued our report thereon dated June 12, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

June 12, 2019

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		$ 1,886,474	$ -	$ 1,886,474
Total Department of Health and Human Services			1,886,474	-	1,886,474
Total Health Center Program Cluster			1,886,474	-	1,886,474
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		92,682	-	92,682
Total Department of Health and Human Services			1,979,156	-	1,979,156
Total Expenditures of Federal Awards			$ 1,979,156	$ -	$ 1,979,156

See independent auditors' report.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – This schedule includes the activity of St. Thomas Community Health Center (STCHC) an 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, 2018 is $1,314,127. The LRA Loan is described in detail in Note 3 – Long-Term Debt in the notes to the 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, 2018.

PART I – SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of St. Thomas Community Health Center, Inc. ("STCHC").

2. No instances of noncompliance material to the financial statements of STCHC were identified during the audit.

3. No material weaknesses were noted relating to the audit in the *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*.

4. The *Independent Auditors' Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance* expresses an unmodified opinion on the major federal program.

5. There is one finding that is required to be reported in accordance with 2 CFR Section 200.516(a)

6. The program tested as a major program for the year ended December 31, 2018 was:

Name of Federal Program or Cluster	Federal Award
Health Center Program Cluster	$ 1,886,474

7. Threshold used for determining Type A programs was $750,000.

8. STCHC did qualify as a low-risk auditee under Section 530 of Uniform Guidance.

PART II – FINANCIAL STATEMENT FINDINGS

There were no findings related to the financial statements for the year ended December 31, 2018.

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2018-001: SIGNIFICANT DEFICIENCY: SLIDING SCALE FEE SCHEDULE (Originated in 2017)

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

Federal Award Identification Number and Year: 5 H80CS12863-08-00/ 2018-2019

Name of Federal Agency: Department of Health and Human Services

Questioned Costs: $0

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 18, 2018 was not updated in the billing system until June 15, 2018.

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

Cause: Federal poverty levels where 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 34.

PART II – FINANCIAL STATEMENT FINDINGS

There were no findings related to the financial statements for the year ended December 31, 2017.

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2017-001: SIGNIFICANT DEFICIENCY: SLIDING SCALE FEE SCHEDULE

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

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

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

Status: Unresolved. See finding 2018-001.

ST THOMAS
COMMUNITY
HEALTH CENTER

MANAGEMENT'S RESPONSE TO FINDINGS

FINDING 2018-001: SIGNIFICANT DEFICIENCY: SLIDING SCALE FEE SCHEDULE

Status: In progress.

Planned Corrective Action: Ensure that the Federal poverty levels are updated timely.

Person(s) Responsible: Robert Darrow, CFO and Amanda Champagne, Billing Manager

Estimated Completion Date: February 28, 2019

Robert Darrow, CFO

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St. Thomas Community Health Center

AGREED-UPON PROCEDURES REPORT

For the Year Ended December 31, 2018

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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 (the Center) 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, 2018 through December 31, 2018. 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. Obtain and inspect the Center's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):

   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: No 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.

Bank Reconciliations

2. Obtain a listing of the Center's 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.

3. Using the listing provided by management, select the Center's main operating account and randomly select four (4) additional accounts. Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for selected each account, and observe that:

   a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date;

   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 who does not handle cash, post ledgers, or issue checks has reviewed 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 12 months from the statement closing date, if applicable.

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

Travel and Expense Reimbursement

4. Obtain from management a listing of all travel and travel-related expense reimbursements during the fiscal period and management's representation that the listing or general ledger is complete. Randomly select 5 reimbursements, obtain the related expense reimbursement forms/prepaid expense documentation of each selected reimbursement, as well as the supporting documentation. For each of the 5 reimbursements selected:

a) If reimbursed using per diem, agree the reimbursement rate to those rates established either by the State of Louisiana or the U.S. General Administration (www.gsa.gov).

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

b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased

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

c) Observe that each reimbursement is supported by documentation of the business/public purpose (for meal charges, observe that the documentation includes the names of those individuals participating) and other documentation required by written policy (procedure #1h).

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

d) Observe 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.

Other

5. Obtain a listing of misappropriations of public funds and assets during the fiscal period and management's representations that the listing is complete. Select all misappropriations on the listing, obtain supporting documentation, and observe that the entity reported the misappropriation(s) to the legislative and the district attorney of the parish in which the entity is domiciled.

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

6. Observed that the Center has posted on its premises and website, the notice required by R.S. 24:523.1 concerning the reporting of misappropriation, fraud waste, or abuse of public funds.

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.

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

June 12, 2019