St. Thomas Community Health Community Center, Inc. and Subsidiary

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

St. Thomas Community Health Center, Inc. and Subsidiary
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December 31, 2019

Report

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of St. Thomas Community Health Center, Inc. and Subsidiary, which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 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 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 Subsidiary as of December 31, 2019, 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 3 to the financial statements, subsequent to the issuance of the consolidated financial statements for the year ended December 31, 2018, the Clinic determined that it was the sole beneficiary of a perpetual trust which was not previously reported in accordance with generally accepted accounting principles resulting in an understatement of net assets with donor restrictions for the year ended December 31, 2018. 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 consolidated 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 consolidated financial statements. The consolidating schedules are presented for purposes of additional analysis and are 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 Information

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 for the year ended December 31, 2019, 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 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 May 28, 2020, on our consideration of St. Thomas Community Health Center, Inc. and Subsidiary's 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. and Subsidiary'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 Subsidiary's internal control over financial reporting and compliance.

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

Metairie, Louisiana
May 28, 2020

Consolidated Financial Statements

St. Thomas Community Health Center, Inc. and Subsidiary
Consolidated Statement of Financial Position

December 31,		2019
Assets		
Current assets		
Cash and cash equivalents	$	3,107,765
Grants receivable		95,889
Patient accounts receivable		798,682
Inventory		72,494
Prepaid expenses		27,912
Total current assets		4,102,742
Non-current assets		
Beneficial interest in trust		7,766,079
Property and equipment, net		11,839,141
Total non-current assets		19,605,220
Total assets	$	23,707,962
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	$	528,776
Uncompensated absences		25,790
Line of credit		366,771
Current maturities of long-term debt		473,661
Total current liabilities		1,394,998
LONG-TERM DEBT, net of current maturities		4,248,125
Total liabilities		5,643,123
Net assets		
Without donor restrictions		10,298,760
With donor restriction		7,766,079
Total net assets		18,064,839
Total liabilities and net assets	$	23,707,962

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

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

For the year ended December 31,	Without Donor Restrictions	With Donor Restrictions	2019 Total
Revenue and Other Support			
Patient service revenue	$ 9,334,302	$ -	$ 9,334,302
Contributions	402,304	-	402,304
Grant revenues	2,664,278	-	2,664,278
340b drug program	2,011,593	-	2,011,593
Donated facilities and services	142,968	-	142,968
Pharmacy revenues	9,008,548		9,008,548
Other revenues	547,313	-	547,313
Change in value of interest in beneficial trust	-	1,790,898	1,790,898
Net assets released from restrictions	273,569	(273,569)	-
Total revenue and other support	24,384,875	1,517,329	25,902,204
Expenses			
Health care	18,164,193	-	18,164,193
Management and general	4,250,699	-	4,250,699
Total expenses	22,414,892	-	22,414,892
Change in Net Assets	1,969,983	1,517,329	3,487,312
Net assets at beginning of year	8,328,777	-	8,328,777
Effect of prior period adjustment	-	6,248,750	6,248,750
Net assets at beginning of year (as restated)	8,328,777	6,248,750	14,577,527
Net assets at end of year	$ 10,298,760	$ 7,766,079	$ 18,064,839

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

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

For the year ended December 31,			**2019**
	Health Care	Management and General	**Total**
Salaries, related payroll taxes and benefits	$ 8,944,907	$ 1,833,472	**$ 10,778,379**
Professional fees and contract services	1,184,353	1,161,915	**2,346,268**
Accounting, audit and legal fees	-	152,868	**152,868**
Billing fees	116,150	-	**116,150**
Depreciation	451,957	76,913	**528,870**
Insurance	138,133	66,845	**204,978**
Interest	145,269	48,423	**193,692**
Other	653,190	407,561	**1,060,751**
Postage	15,820	15,820	**31,640**
Rent	277,440	48,960	**326,400**
Repairs and maintenance	10,962	113,666	**124,628**
Pharmacy expense	4,596,327	-	**4,596,327**
340b drug program	730,798	-	**730,798**
Supplies	513,945	47,531	**561,476**
Donated services	111,654	27,914	**139,568**
Trash and waste removal	20,658	20,157	**40,815**
Travel, meetings and conferences	65,001	53,817	**118,818**
Training and continuing education	965	54,535	**55,500**
Utilities	186,664	120,302	**306,966**
Total expenses	**$ 18,164,193**	**$ 4,250,699**	**$ 22,414,892**

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

St. Thomas Community Health Center, Inc. and Subsidiary
Consolidated Statement of Cash Flows

For the years ended December 31,		2019
Cash Flows from Operating Activities		
Changes in net assets	$	3,487,312
Adjustments to reconcile excess of revenues over expenses and gains and losses to net cash provided by operating activities:		
Depreciation		528,870
Change in operating assets and liabilities		
Grants receivable		144,027
Patient accounts receivable		(88,525)
Inventory		(72,494)
Prepaid expenses		18,420
Beneficial interest in trust		(1,517,329)
Accounts payable and accrued liabilities		256,967
Uncompensated absences		(72,558)
Net cash provided by operating activities		2,684,690
Cash Flows from Financing Activities		
Net payments on line of credit		(89,964)
Payments of long-term debt		(460,491)
Net cash used in financing activities		(550,455)
Net change in cash and cash equivalents		2,134,235
Cash and cash equivalents at beginning of year		973,530
Cash and cash equivalents at end of year	$	3,107,765
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	$	193,692

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

Note 1: DESCRIPTION OF THE ORGANIZATION

St. Thomas Community Health Center, Inc. and Subsidiary (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 Subsidiary's operational activities are found within Note 2 under Principles of Consolidation.

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, 2019, 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.

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.

Note 1: DESCRIPTION OF THE ORGANIZATION (Continued)

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.

Ella West Freeman Foundation and RosaMary Foundation – The Ella West Freeman Foundation and the RosaMary Foundation, both private foundations, support the Greater New Orleans area with highest priority given to human service organizations with an emphasis on capital projects for established agencies, education, the Arts, both performing and applied, and community improvement.

The Frank B. Stewart Jr. Foundation – The Frank B. Stewart Jr. Foundation is a supporting organization held at the Greater New Orleans Foundation for the purpose of providing philanthropic support to a wide range of nonprofits, including educational institutions, healthcare organizations, museums and other arts and cultural centers, and organizations focused on improving the quality of life for the citizens of the Greater New Orleans region.

Note 2: 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:

Principles of Consolidation

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

- St. Thomas Specialty Services, LLC (STSS) is a wholly owned subsidiary of St. Thomas Community Health Center (the Clinic). STSS provides out-of-scope cardiological diagnostic tests in support of the Clinic's primary care services and patients.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC) and related Accounting Standards Updates (ASUs).

Use of Estimates

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

Risk Management

Effective August 13, 2003, The U.S. Department of Health and Human Services deemed the Clinic and its practicing providers covered under the Federal Tort Claims Act (FTCA) for damage for personal injury, including death resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Clinic's claim experience, no such accrual has been made. However, because of the risk in providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

Cash and Cash Equivalents

Cash and cash equivalents include cash and all highly liquid investments with an original maturity of 90 days or less.

Beneficial Interest in Trust

The beneficial interest in trust is carried at fair value.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Clinic categorizes its fair value measurements, if any, within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the following valuation inputs and techniques used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets. Quoted price data is generally obtained from exchange or dealer markets.
- Level 2 inputs are significant other observable inputs. Inputs are obtained from various sources, including market participants, dealers, and brokers.
- Level 3 inputs are significant unobservable inputs as they trade infrequently or not at all.

As of December 31, 2019, the Clinic's beneficial interest in trust, fair value, was considered a Level 3 Input.

Patient Accounts Receivable and Patient Service Revenue

Patient service revenue and receivables are reported at the amount that reflects the consideration the Clinic expects to be entitled for providing patient care. These amounts are due from patients, third-party payors (including managed care payors and government programs), and others, and include variable consideration for retroactive revenue adjustments due to settlement of reviews and audits. Generally, the Clinic bills the patients and third-party payors after the services are performed. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Clinic. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Clinic believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The Clinic measures the performance obligation from the beginning of treatment to the point when it is no longer required to provide services to that patient. These services are considered to be a single performance obligation. Revenue for performance obligations satisfied at a point in time is recognized when services are provided. Management believes this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations.

Because its performance obligations relate to contracts with a duration of less than one year, the Clinic has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-60-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients no longer require services, which generally occurs within days or weeks of the end of the reporting period.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Patient Accounts Receivable and Patient Service Revenue (Continued)

As provided for under the guidance, the Clinic does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less.

The Clinic is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to patient service revenue. The Clinic accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payor classes for services performed. Based on historical collection trends and other analyses, the Clinic has concluded that revenue for a given portfolio would not be materially different from accounting for revenue on a contract-by-contract basis.

The Clinic has agreements with third-party payers that provide for payments to the Clinic at amounts different from charged rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, case rates, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third party payers and others for services rendered.

The Clinic participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. The Clinic is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submissions of annual cost reports by the Clinic and audits thereof by the Medicare/Medicaid fiscal intermediaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near future.

The Clinic also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Clinic under these agreements includes prospectively determined rates per discharge, reimbursed cost, discounts from billed charges, case rates, and daily rates.

The Clinic determines the transaction price based on standard charges for services provided, reduced by explicit price concessions provided to third-party payors, discounts provided to uninsured patients in accordance with policy, and implicit price concessions provided to uninsured patients. Explicit price concessions are based on contractual agreements, discount policies, and historical experience. Implicit price concessions represent differences between amounts billed and the estimated consideration the Clinic expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Patient Accounts Receivable and Patient Service Revenue (continued)

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductible and coinsurance, which vary in amount. The Clinic estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant in 2019.

Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and final settlements are determined.

Inventory

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method. When evidence exists that the net realizable value of inventory is lower than its cost, the difference is recognized as a loss in the statement of activities in the period in which it occurs. As of December 31, 2019 the amount in inventory was $72,494.

Prepaid Expenses

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis.

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

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

The Clinic reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Clinic, the environment in which it operates, the purposes specified in it corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions are resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those that are restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature; such as those that are restricted by a donor that the resources be maintained in perpetuity.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the consolidated financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Uncompensated Absences

The Clinic 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, 2019 accrued uncompensated absences were $25,790.

Revenue Recognition

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 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (continued)

Grants and Contributions – From time to time, the Clinic receives grants from other governmental entities as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted either for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as operating revenues. Amounts restricted to capital acquisition are reported after nonoperating revenue and expenses.

Pharmacy – During the 2018 fiscal year, the Clinic opened a retail delivery pharmacy managed by a third party. Pharmacy revenue is recognized at the time pharmaceuticals or medical supplies are delivered to patients. Pharmacy revenue is reported at the net realizable amounts due from customers or third-party payors.

Donated Assets **–** Donated medical supplies are recorded at fair value as received and include medications and related medical supplies donated to 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.

Donated Services – 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.

Electronic Health Records Incentive Program

The Electronic Health Records (EHR) Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009,* provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology.

The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Clinic's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Clinic is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). The final amount for any payment year under both programs is determined based upon an audit by the Medicare Administrative Contractor.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Electronic Health Records Incentive Program (continued)

The Clinic received and recognized EHR incentive payments prior to fiscal 2019. No such incentive payments were received or recognized in 2019, and management believes it is unlikely that any additional significant meaningful use incentives will be received in the future, as the terms of the program are coming to a close. However, prior incentive payments remain subject to future audits and recoupments.

Functional Allocations of Expenses

Any costs related to program administration are functionally classified as program service expenses. Any costs related to activities that constitute direct conduct or direct supervision of program service are program expenses. The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function of the Clinic.

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among program services and management and general based on actual or percentage of use. The expenses that are allocated include depreciation, insurance, rent, donated services, and utilities which are allocated on a square footage basis. Salaries and wages, benefits and payroll taxes, contractual services, accounting and legal services, billing fees, other, postage, repairs and maintenance, pharmacy expense, 340b drug program, trash and waste removal, travel, meetings, and conferences, and training and continuing education are allocated on basis of estimates of time and effort.

Current Healthcare Environment

The Clinic monitors economic conditions closely, both with respect to potential impacts on the healthcare industry and from a more general business perspective. Management recognizes that economic conditions may continue to impact the Clinic in a number of ways, including, but not limited to, uncertainties associated with the United States and state political landscape and rising uninsured patient volumes and corresponding increases in uncompensated care.

Additionally, the general healthcare industry environment is increasingly uncertain, especially with respect to the ongoing impacts of the federal healthcare reform legislation. Potential impacts of ongoing healthcare industry transformation include, but are not limited to:

- Significant capital investment in healthcare information technology
- Continuing volatility in state and federal government reimbursement programs
- Effective management of multiple major regulatory mandates, including the previously mentioned audit activity

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current Healthcare Environment (continued)

- Significant potential business model changes throughout the healthcare system, including within the healthcare commercial payer industry

The business of healthcare in the current economic, legislative, and regulatory environment is volatile. Any of the above factors, along with others both currently in existence and which may or may not arise in the future, could have a material adverse impact on the Clinic's financial position and operating results.

Income Taxes

Under section 501(c)(3) of the Internal Revenue Code, the Clinic is exempt from taxes on income other than unrelated business income. Unrelated business income results from rent, administration of self-insurance activities, and commissions.

The Clinic utilizes the accounting requirements associated with uncertainty in income taxes using the provisions of Financial Accounting Standards Board (FASB) ASC 740, Income Taxes. Using that guidance, tax positions initially need to be recognized in the consolidated financial statements when it is more-likely-than-not the positions will be sustained upon examination by the tax authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of December 31, 2019, the Clinic has no uncertain tax provisions that qualify for recognition or disclosure in the consolidated financial statements. The Clinic believes it is no longer subject to income tax examinations for years prior to 2017.

Recently Adopted Accounting Standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This guidance specifies that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU and its amendments supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry specific guidance and requires expanded disclosures about revenue recognition to enable consolidated financial statement users to understand the nature, timing, amount, and uncertainty of revenue and cash flows arising from contracts with customers.

Effective January 1, 2019, the Clinic adopted ASC 606, using the full retrospective method. The Clinic performed an analysis of revenue streams and transactions under ASU 2014-09. In particular, for patient service revenue, the Clinic performed an analysis into the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Standards (continued)

Upon adoption, the majority of what was previously classified as provision for uncollectible accounts and presented as a reduction to patient service revenue on the statements of operations is treated as a price concession that reduces the transaction price, which is reported as patient service revenue. ASU 2014-09 also requires enhanced disclosures related to the disaggregation of revenue and signification judgments made in measurement and recognition. The impact of adopting ASU 2014-09 was not material to the Clinic's net assets, change in net assets, or total assets.

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 ASU 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 Organization serves as resource recipient for fiscal years beginning after December 15, 2018. Thus, on January 1, 2019, the Organization applied the provisions of this ASU on a modified prospective basis. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of January 1, 2019.

Recently Issued Accounting Standards

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 consolidated 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, 2020. Early adoption is permitted. The Clinic is currently evaluating the impact of the guidance on its consolidated financial statements.

Subsequent Events

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, May 28, 2020 and determined there were events that occurred that required disclosure. See Note 15 for relevant disclosures. No subsequent events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

Note 3: RESTATEMENT

Subsequent to the issuance of the consolidated financial statements for the year ended December 31, 2018, the Clinic determined that it was the sole beneficiary of a perpetual trust which was not previously reported in accordance with generally accepted accounting principles.

Note 3: RESTATEMENT (Continued)

The Clinic determined that this error caused an understatement of net assets with donor restrictions for the year ended December 31, 2018 of $6,248,750. Net assets with donor restrictions was originally reported as $0 and as restated is $6,248,750.

Note 4: FINACIAL ASSET AVAILABILITY

The Clinic has $4,002,336 of financial assets available within one year of the consolidated statement of financial position dated December 31, 2019 consisting of cash and cash equivalents of $3,107,765, grants receivable of $95,889, and patient receivables of $798,682. 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. The Clinic 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 $1,867,908. Management believes it has appropriate available financial resources.

Note 5: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2019
Land	$ 331,300
Buildings	12,639,264
Leasehold improvements	1,744,180
Furniture and fixtures	139,560
Computer equipment	133,163
Medical equipment	719,691
	15,707,158
Less: accumulated depreciation	(3,868,017)
	$ 11,839,141

Depreciation expense for the year ended December 31, 2019 is $528,870.

Note 6: LONG-TERM DEBT

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

		2019
Note payable to Louisiana Recovery Authority (LRA)	$	1,211,791
Notes payable to Whitney Bank		3,509,995
Total debt outstanding		4,721,786
Less: current maturities		(473,661)
Long-term debt	$	4,248,125

LRA Loan

A loan agreement was executed between the Clinic 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 of March 28, 2011, and an interest rate of 1.00%. Interest only was payable monthly until February 2012, when principal and interest payments of $9,198 began monthly until the maturity date. As of December 31, 2019, the unpaid principal balance of this loan was $1,211,791. 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, the Clinic granted to the OCD a continuing security interest in substantially all of its assets.

Whitney Bank Loans

A loan agreement was executed between the Clinic 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% with a monthly principal and interest payment of $3,527. The balance as of December 31, 2019 was $28,553.

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% with monthly principal and interest payments of $8,998, maturing August 3, 2026, secured by property. The balance as of December 31, 2019 was $618,644.

- Loan agreement dated August 3, 2016 for the amount of $250,000, bearing interest at a fixed 4.15% with monthly principal and interest payments of $4,628, maturing August 3, 2021, unsecured. The balance as of December 31, 2019 was $89,286.

Note 6: LONG-TERM DEBT (Continued)

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% with principal and interest payments of $6,039, maturing December 31, 2020, which is unsecured. The balance as of December 31, 2019 was $50,000.

- Loan agreement dated October 12, 2017 for the amount of $3,046,000, bearing interest at a fixed 4.49% with principal and interest payments of $23,286, maturing October 12, 2032, secured by property. The balance as of December 31, 2019 was $2,723,512.

Long-term debt outstanding at December 31, 2019 matures as follows:

Year Ending December 31,		
2020	$	473,661
2021		390,820
2022		366,732
2023		379,671
2024		393,125
Thereafter		2,717,777
	$	4,721,786

Interest expense was $193,692 for the year ended December 31, 2019.

Note 7: LINE OF CREDIT

The Clinic maintains a line of credit agreement with a financial institution. Available borrowings related to the agreement are $500,000, with an interest rate of 5.50%, unsecured. The credit line expires on August 10, 2023. The outstanding balance as of December 31, 2019 was $366,771.

Note 8: PATIENT REVENUES

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, 2019, the Clinic received $7,952,788 in reimbursements for Medicaid and Medicare claims submitted.

Note 8: PATIENT REVENUES (Continued)

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 patient service revenues:

	2019	
Medicaid and Medicare	$	7,818,302
Commercial		745,220
Private pay		770,780
Total	$	9,334,302

Note 9: OTHER REVENUES

As of December 31, 2019 other revenues consisted of the following:

	2019	
Other incentives	$	284,859
Other grants		191,143
Other revenue		71,311
Total	$	547,313

Note 10: 340B DRUG PRICING PROGRAM

The Clinic participates in the 340B Drug Pricing Program (340B Program), enabling the Clinic to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Clinic earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The Clinic operates an internal pharmacy and has partnered with a network of participating local pharmacies that dispense the pharmaceuticals to its patients under a contractual arrangement with the Clinic.

This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to amounts related to the 340B Program could occur in the near term.

Note 11: CONCENTRATION OF CREDIT RISK

The Clinic maintains cash with a financial institution in excess of the FDIC limit of $250,000 by $2,375,237 at December 31, 2019.

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

	2019
Medicaid	**70 %**
Medicare	**21 %**
Commercial and Private Pay	**9 %**
Total	**100 %**

Note 12: PENSION PLAN

Effective January 1, 2006, the Clinic 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 the Clinic 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 the Clinic or by the Plan. Matching contributions are determined annually by the Clinic. The Clinic matches 100% of employee contributions up to 6% of gross pay. For the year ended December 31, 2019, the Clinic incurred $221,643 of administrative costs and matching contributions related to the Plan.

Note 13: COMMITMENTS AND CONTINGENCIES

Operating Leases

The Clinic is obligated as a lessee under various operating leases. Total rent expense for operating leases related to facilities and equipment was $588,440 for the year ended December 31, 2019.

The following schedule details future minimum lease payments annually for five years as of December 31, 2019, for operating leases with initial or remaining lease terms in excess of one year.

Years Ending December 31,	
2020	$ 647,258
2021	624,645
2022	512,290
2023	225,921
2024	154,374
Thereafter	59,023
Total	$ 2,223,511

Note 13: COMMITMENTS AND CONTINGENCIES (Continued)

Commitments

The Clinic 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 the Clinic 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 the Clinic. 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 the Clinic if disposed of unfavorably.

Note 14: RELATED PARTY TRANSACTIONS

On April 1, 2019, the Clinic entered into a lease agreement with their subsidiary St. Thomas Specialty Services, LLC. The agreement was for a two year period to automatically renew for one year. During the year ended December 31, 2019, the Clinic had rental income of $406,845, from an entity considered to be a related party due to common ownership. The rental income is eliminated on consolidation as of December 31, 2019.

Note 15: SUBSEQUENT EVENTS

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the Clinic. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.

In April 2020 the Clinic was awarded a PPP loan in the amount of $1,808,000 that is expected to be forgiven at the end of the eight week period.

In April 2020 the Clinic was also awarded two grants that were provided through HRSA in the amount of $74,000 and $1,000,000.

Supplementary Information

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

As of December 31,	St. Thomas Community Health Center, Inc.	St. Thomas Specialty Services, LLC	Eliminations	2019 Consolidated
Assets				
Current Assets				
Cash	$ 3,083,448	$ 24,317	$ -	**$ 3,107,765**
Grants receivable	95,889	-	-	**95,889**
Patient accounts receivable	798,682	-	-	**798,682**
Lease Receivable	226,025	-	(226,025)	**-**
Inventory	72,494	-	-	**72,494**
Due from STSS	500	-	(500)	**-**
Prepaid expenses	27,912	-	-	**27,912**
Total current assets	4,304,950	24,317	(226,525)	**4,102,742**
Non-current assets				
Beneficial interest in trust	7,766,079	-	-	**7,766,079**
Property and equipment, net	11,839,141	-	-	**11,839,141**
Total non-current assets	**19,605,220**	**-**	**-**	**19,605,220**
Total assets	**$ 23,910,170**	$ 24,317	$ (226,525)	**$ 23,707,962**
Liabilities and Net Assets				
Current liabilities				
Accounts payable and accrued liabilities	$ 528,776	$ -	$ -	**$ 528,776**
Due to STCHC	-	500	(500)	**-**
Lease Payable	-	226,025	(226,025)	**-**
Uncompensated absences	25,790	-	-	**25,790**
Line of credit	366,771	-	-	**366,771**
Current maturities of long-term debt	473,661	-	-	**473,661**
Total current liabilities	1,394,998	226,525	(226,525)	**1,394,998**
LONG-TERM DEBT, net of current maturities	4,248,125	-	-	**4,248,125**
Total liabilities	5,643,123	226,525	(226,525)	**5,643,123**
Net assets				
Without donor restrictions	10,500,968	(202,208)	-	**10,298,760**
With donor restrictions	7,766,079	-	-	**7,766,079**
Total net assets	18,267,047	(202,208)	-	**18,064,839**
Total liabilities and net assets	$ 23,910,170	$ 24,317	$ (226,525)	**$ 23,707,962**

See independent auditors' report.

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

For the year ended December 31,	St. Thomas Community Health Center, Inc.	St. Thomas Specialty Services, LLC	Eliminations	2019 **Consolidated**
Operating revenues				
Patient service revenue	$ 9,129,062	$ 205,240	$ -	**$ 9,334,302**
Contributions	402,304	-	-	**402,304**
Grant revenues	2,664,278	-	-	**2,664,278**
340b drug program	2,011,593	-	-	**2,011,593**
Donated facilities and services	142,968	-	-	**142,968**
Pharmacy revenues	9,008,548	-	-	**9,008,548**
Other revenues	954,158	-	(406,845)	**547,313**
Change in value of interest in beneficial trust	1,790,898			**1,790,898**
Total operating revenues	26,103,809	205,240	(406,845)	**25,902,204**
Operating expenses				
Health care	18,164,193	325,476	(325,476)	**18,164,193**
Management and general	4,250,096	81,972	(81,369)	**4,250,699**
Total operating expenses	22,414,289	407,448	(406,845)	**22,414,892**
Excess of revenues over (under) expenses attributable to the Clinic	$ 3,689,520	$ (202,208)	$ -	**$ 3,487,312**

See independent auditors' report.

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

For the year ended December 31, 2019	**Dr. Donald T. Erwin, MD, CEO**
Salary	**$ 252,469**
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	**5,766**
Travel	-
Registration fees	-
Conference travel	-
Housing	-
Unvouchered expenses	-
Special meals	-
Other	-
	$ 258,235

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 CONSOLIDATED FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
St. Thomas Community Health Center, Inc. and Subsidiary
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 consolidated financial statements of St. Thomas Community Health Center, Inc. and subsidiary (the Clinic) which comprise the consolidated statement of financial position as of December 31, 2019, 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 consolidated financial statements, and have issued our report thereon dated May 28, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated 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 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 consolidated 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2019-001 that we consider to be a significant deficiency.

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 consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2019-001.

The Clinic's Response to Findings

The Clinic's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Clinic's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Metairie, Louisiana
May 28, 2020

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE 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 Subsidiary
New Orleans, Louisiana

Report on Compliance for the Major Federal Program

We have audited St. Thomas Community Health Center, Inc. and Subsidiary's (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, 2019. 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, 2019.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Clinic's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

Metairie, Louisiana
May 28, 2020

St. Thomas Community Health Center, Inc. and Subsidiary
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		$ 2,195,211	$ -	$ 2,195,211
Total Department of Health and Human Services			2,195,211	-	2,195,211
Total Health Center Program Cluster			2,195,211	-	2,195,211
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	93.752		84,036	-	84,036
Total Department of Health and Human Services			2,279,247	-	2,279,247
Total Expenditures of Federal Awards			$ 2,279,247	$ -	$ 2,279,247

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, Inc. and Subsidiary (the Clinic) 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). The Clinic has not elected to use the 10% de minimis indirect cost rate.

Note 2: LOAN

The Clinic did not expend federal awards related to loans or loan guarantees during the year. The balance of the loan outstanding between the Clinic and Louisiana Recovery Authority (LRA Loan) as of December 31, 2019 is $1,211,791. The LRA Loan is described in detail in Note 6 – Long-Term Debt in the notes to the consolidated financial statements. There are no continuing requirements related to this loan.

Note 3: FEDERALLY FUNDED INSURANCE

The Clinic has no federally funded insurance.

Note 4: NONCASH ASSISTANCE

The Clinic did not receive any federal noncash assistance for the fiscal year ended December 31, 2019.

SECTION I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	___ yes	__X__ no
• Significant deficiency(es) identified?	__X__ yes	____ none noted
Noncompliance material to consolidated financial statements noted?	___ yes	__X__ no

Federal Awards

Internal control over major federal programs:		
• Material weakness(es) identified?	___ yes	__X__ no
• Significant deficiency(es) identified?	___ yes	__X__ none noted
Type of auditors' report issued on compliance for major federal programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Part 200.516(a)?	___ yes	__X__ none noted

Identification of major federal programs:

Federal CFDA Number	Federal Program or Cluster
93.224	Health Center Program Cluster

Dollar threshold used to distinguish between type A and B programs was $750,000 for major federal programs.

Auditee qualified as a low-risk auditee for federal purposes? __X__ yes ___ no

PART II: CONSOLIDATED FINANCIAL STATEMENT FINDINGS

2019-001: Significant Deficiency – Financial Close and Reporting Process

Criteria: FASB Concepts Statement No. 8 notes that 'information must be both relevant and faithfully represented if it is to be useful' meaning that information provided by the Clinic should be both timely and accurate in order to be useful.

Condition: During the year ended December 31, 2019, multiple misstatements were identified and required adjustments to the consolidated financial statements.

Effect: As of December 31, 2019, assets were understated by $238,417, liabilities were understated by $267,671, revenues were understated by $137,200 and expenses were understated by $166,454 prior to proposed entries.

Cause: Management did not have refined policies and procedures in place to ensure accurate closing of all accounts at year-end.

Auditor's Recommendation: We recommend the Clinic refine internal controls necessary to ensure proper classification, recording, and review of all consolidated financial statement activity.

Management's Response: See corrective action plan on page 37.

PART III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings related to the federal awards for the year ended December 31, 2019.

PART II: CONSOLIDATED FINANCIAL STATEMENT FINDINGS

There were no findings related to the consolidated 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)

Criteria: The federal poverty level effective January 18, 2018 was not updated in the billing system until June 15, 2018.

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

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

Status: Resolved.

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MANAGEMENT'S RESPONSE TO FINDINGS

2019-001 – Significant Deficiency – Financial Close and Reporting Process

Planned Corrective Action: Management will refine internal controls necessary to ensure proper classification, recording, and review of all consolidated financial statement activity.

Anticipated Completion Date: December 31, 2020

Responsible Party: Robert Darrow, CFO

Robert Darrow, CFO

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