

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

**Financial Statements as of December 31, 2012 and 2011
and For The Years Then Ended
and Independent Auditors' Report
and Supplementary Information**

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS AS OF DECEMBER 31, 2012 AND 2011 AND FOR THE YEARS THEN ENDED:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities and Changes in Net Assets	4
Consolidated Statements of Functional Expenses	6
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9
OTHER REPORTS AND SUPPLEMENTARY SCHEDULES	
Consolidating Statements of Financial Position	22
Consolidating Statements of Activities	24
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 <i>Government Auditing Standards</i>	26
Report on Compliance with Requirements Applicable to the Major Program and on Internal Control over Compliance in Accordance with Office of Management and Budget (OMB) Circular A-133	28
Schedule of Expenditures of Federal Awards	31
Schedule of Current Year Findings and Questioned Costs	33
Summary Schedule of Prior Year Findings	34



Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of St. Thomas Community Health Center, Inc. and subsidiaries (see Note A for description of subsidiaries), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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.

4330 Dumaine Street
New Orleans, LA 70119
(504) 833-2436 (O) • (504) 484-0807 (F)

200-B Greenleaves Blvd.
Mandeville, LA 70448
(985) 626-8299 (O) • (985) 626-9767 (F)

900 Village Lane
P O Box 50, Pass Christian, MS 39571
(985) 626-8299 (O) • (985) 626-9767 (F)

Limited Liability Company
www.silva-cpa.com

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of St. Thomas Community Health Center, Inc. and subsidiaries as of December 31, 2012 and 2011, and the change in net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 April 16, 2013 on our consideration of St. Thomas Community Health Center, Inc. and subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering St. Thomas Community Health Center, Inc. and Subsidiaries' internal control over financial reporting and compliance.

Silva Gurtner & Abney, LLC

April 16, 2013

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash	\$ 180,818	\$ 1,820,636
Grants receivable	74,967	127,187
Accounts receivable	332,572	409,248
Interest receivable	26,432	-
Prepaid expenses and other assets	56,327	56,212
Total current assets	671,116	2,413,283
RESTRICTED CASH	542,519	722,372
PROPERTY AND EQUIPMENT, net	4,890,160	5,198,508
OTHER ASSETS		
Deferred financing fees, net	800,599	821,171
Note receivable	5,405,715	5,405,715
Total other assets	6,206,314	6,226,886
TOTAL ASSETS	\$ 12,310,109	\$ 14,561,049
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 296,870	\$ 520,853
Due to plan trustee	-	4,681
Accrued rent payable	32,563	-
Uncompensated absences	47,067	-
Line of credit	170,000	-
Current maturities of long-term debt	1,012,236	1,177,093
Total current liabilities	1,558,736	1,702,627
LONG-TERM DEBT, net of current maturities	10,781,868	10,711,516
NET ASSETS		
Unrestricted		
Unrestricted	(487,463)	1,929,667
Noncontrolling interest	3,380	8,010
Total unrestricted net assets	(484,083)	1,937,677
Temporarily restricted	453,588	209,229
Total net assets	(30,495)	2,146,906
TOTAL LIABILITIES AND NET ASSETS	\$ 12,310,109	\$ 14,561,049

See accompanying independent auditors' report and notes to consolidated financial statements.

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Noncontrolling	Temporarily Restricted	Total
Operating revenues				
Contributions	\$ 18,821	\$ -	\$ -	\$ 18,821
Grant revenues	749,721	-	618,506	1,368,227
Patient revenues	160,284	-	-	160,284
Medicare and Medicaid	3,246,226	-	-	3,246,226
Program reimbursements	329,779	-	-	329,779
Private insurance	198,339	-	-	198,339
Donated medical supplies	61,914	-	-	61,914
Donated facilities	18,000	-	-	18,000
Donated services	74,800	-	-	74,800
Other revenues	103,477	-	-	103,477
Released from restriction	374,147	-	(374,147)	-
Total operating revenues	5,335,508	-	244,359	5,579,867
Operating expenses				
Health care	3,662,542	-	-	3,662,542
Management and general	4,094,726	-	-	4,094,726
Total operating expenses	7,757,268	-	-	7,757,268
Excess of expenses (over) under revenues	(2,421,760)	-	244,359	(2,177,401)
Less: excess of expenses (over) under revenues attributable to noncontrolling interest	4,630	(4,630)	-	-
Excess of expenses (over) under revenues attributable to the Clinic	(2,417,130)	(4,630)	244,359	(2,177,401)
NET ASSETS - Beginning of year	1,929,667	8,010	209,229	2,146,906
NET ASSETS - End of year	\$ (487,463)	\$ 3,380	\$ 453,588	\$ (30,495)

See accompanying independent auditors' report and notes to consolidated financial statements.

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Unrestricted	Noncontrolling	Temporarily Restricted	Total
Operating revenues				
Contributions	\$ 42,514	\$ -	\$ -	\$ 42,514
Grant revenues	1,715,194	-	-	1,715,194
Patient revenues	149,356	-	-	149,356
Medicare and Medicaid	2,691,081	-	-	2,691,081
Program reimbursements	358,228	-	-	358,228
Private insurance	98,272	-	-	98,272
Donated medical supplies	195,201	-	-	195,201
Donated facilities	18,000	-	-	18,000
Donated services	135,039	-	-	135,039
Other revenues	6,898	-	-	6,898
Released from restriction	119,000	-	(119,000)	-
Total operating revenues	5,528,783	-	(119,000)	5,409,783
Operating expenses				
Health care	3,334,839	-	-	3,334,839
Management and general	2,948,880	-	-	2,948,880
Total operating expenses	6,283,719	-	-	6,283,719
Excess of expenses over revenues	(754,936)	-	(119,000)	(873,936)
Less: excess of expenses over revenues attributable to noncontrolling interest	1,565	(1,565)	-	-
Excess of expenses over revenues attributable to the Clinic	(753,371)	(1,565)	(119,000)	(873,936)
NET ASSETS - Beginning of year	2,683,038	-	328,229	3,011,267
CONTRIBUTIONS	-	9,575	-	9,575
NET ASSETS - End of year	\$ 1,929,667	\$ 8,010	\$ 209,229	\$ 2,146,906

See accompanying independent auditors' report and notes to consolidated financial statements.

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Health Care	Management and General	Total
Salaries, related payroll taxes and benefits	\$ 2,508,210	\$ 1,940,390	\$ 4,448,600
Professional fees and contract services	408,562	564,122	972,684
Accounting, audit and legal fees	-	230,742	230,742
Billing services	-	178,629	178,629
Depreciation and amortization	91,913	273,875	365,788
Insurance	-	140,222	140,222
Interest	-	154,732	154,732
Other	12,922	427,907	440,829
Postage	-	12,716	12,716
Rent	149,841	-	149,841
Repairs and maintenance	46,594	49,703	96,297
Supplies	216,650	37,922	254,572
Donated medical supplies	61,914	-	61,914
Donated facilities	18,000	-	18,000
Donated services	74,500	50	74,550
Trash and waste removal	35,811	7,500	43,311
Travel, meetings, conferences, continuing education	4,787	27,224	32,011
Utilities	32,838	48,992	81,830
	<u>\$ 3,662,542</u>	<u>\$ 4,094,726</u>	<u>\$ 7,757,268</u>
Total expenses	<u>\$ 3,662,542</u>	<u>\$ 4,094,726</u>	<u>\$ 7,757,268</u>

See accompanying independent auditors' report and notes to consolidated financial statements.

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Health Care	Management and General	Total
Salaries, related payroll taxes and benefits	\$ 2,039,252	\$ 1,308,537	\$ 3,347,789
Professional fees and contract services	459,514	532,151	991,665
Accounting, audit and legal fees	-	205,520	205,520
Billing services	-	95,740	95,740
Depreciation and amortization	77,608	135,537	213,145
Insurance	-	117,452	117,452
Interest	-	118,845	118,845
Other	35,801	219,270	255,071
Postage	-	8,359	8,359
Rent	126,469	-	126,469
Repairs and maintenance	20,518	50,406	70,924
Supplies	196,380	40,112	236,492
Donated medical supplies	195,201	-	195,201
Donated facilities	18,000	-	18,000
Donated services	108,500	26,539	135,039
Trash and waste removal	18,466	4,126	22,592
Travel, meetings, conferences, continuing education	15,746	42,394	58,140
Utilities	23,384	43,892	67,276
	<u>\$ 3,334,839</u>	<u>\$ 2,948,880</u>	<u>\$ 6,283,719</u>
Total expenses	<u>\$ 3,334,839</u>	<u>\$ 2,948,880</u>	<u>\$ 6,283,719</u>

See accompanying independent auditors' report and notes to consolidated financial statements.

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of expenses over revenues attributable to the Clinic	\$ (2,177,401)	\$ (873,936)
Adjustments to reconcile excess of expenses attributable over revenues attributable to the Clinic to net cash used in operating activities:		
Depreciation	345,216	211,431
Amortization	20,572	1,714
Change in operating assets and liabilities:		
Grants receivable	52,220	(127,187)
Accounts receivable	76,676	237,307
Interest receivable	(26,432)	-
Prepaid expenses and other assets	(115)	(27,577)
Deferred financing fees	-	(822,885)
Accounts payable and accrued liabilities	(223,983)	386,025
Due to plan trustee	(4,681)	986
Accrued rent payable	32,563	-
Uncompensated absences	47,067	-
Net cash used in operating activities	(1,858,298)	(1,014,122)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(36,868)	(3,876,962)
Note receivable	-	(5,405,715)
Net cash used in investing activities	(36,868)	(9,282,677)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	220,000	-
Payments of line of credit	(50,000)	-
Proceeds from long-term debt	-	14,989,137
Payments of long-term debt	(94,505)	(3,100,528)
Deposits to restricted cash		(722,372)
Withdrawals from restricted cash	179,853	
Contributions from noncontrolling interest	-	9,575
Net cash provided by financing activities	255,348	11,175,812
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,639,818)	879,013
CASH AND CASH EQUIVALENTS - Beginning of year	1,820,636	941,623
CASH AND CASH EQUIVALENTS - End of year	\$ 180,818	\$ 1,820,636
SUPPLEMENTAL DISCLOSURE FOR STATEMENTS OF CASH FLOWS		
Cash paid during the year for interest	\$ 131,574	\$ 144,875

See accompanying independent auditors' report and notes to consolidated financial statements.

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

St. Thomas Health Services, Inc. was founded in 1987 to improve the health status in the service area with major emphasis being placed on disease prevention. Due to the lingering effects of Hurricane Katrina, St. Thomas Health Services, Inc. discontinued operations on June 30, 2006 and was reformed on July 1, 2006 as St. Thomas Community Health Center, Inc. (STCHC).

STCHC operates in a neighborhood where 70%-80% of the residents are uninsured and where 10% of the patients are homeless; 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 STCHC.

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

STCHC is governed by a twelve 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, STCHC has applied for and has been awarded several governmental grants. During the year ended December 31, 2012 and 2011, STCHC received and administered the following:

GOVERNMENTAL GRANTS

Primary Care Access and Stabilization Grant – This program, administered by the Louisiana Public Health Institute, a non-profit corporation funded through the Department of Health and Hospitals, provides neighborhood-based, integrated health care services to residents in hurricane-affected communities.

Health Resources and Services Administration Grants – These grants, administered by the Department of Health and Human Services and funded by the American Recovery and Reinvestment Act (ARRA) of 2010, 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. The program also provides for

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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 the program providing eye, ear, nose and throat care for 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 as a healthy community. 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.

OTHER

Entergy – Entergy is a corporate sponsor that provides additional grant funding to the Greater New Orleans area.

Blue Cross and Blue Shield of Louisiana Foundation – Blue Cross and Blue Shield of Louisiana, a healthcare insurer, established their foundation to partner with community organizations to provide vital resources to Louisiana communities in need.

Ella West Freeman Foundation – The Ella West Freeman Foundation, funded primarily by the A.B. Freeman Estate, provides support to health and human service organizations with an emphasis on capital projects for established agencies in the Southeast Louisiana area.

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

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

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

- Permanently restricted net assets are contributions which are required by the donor-imposed restriction to be invested in perpetuity and only the investment income be made available for program operations in accordance with the donor restrictions. Such income is reflected in temporarily restricted net assets until utilized for donor-imposed restrictions. As of December 31, 2012 and 2011, the Clinic had no permanently restricted net assets.

Unrestricted Contributions – Contributions consisted of donations made to STCHC to provide support to the operation of STCHC as well as to fund specific projects as designed by the donor or the Board of Directors.

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

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.

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

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

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

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

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand and in banks. For purposes of the consolidated statements of cash flows, the Clinic considers all investments purchased with a maturity of three months or less to be cash equivalents.

Accounts Receivable – STCHC uses the direct write-off method to provide for uncollectible accounts. Management believes use of this method does not result in a material difference from the valuation method required by accounting principles generally accepted in the United States of America.

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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

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

Deferred Financing Fees – Deferred financing fees of \$822,885 are amortized over the respective debt period beginning in December 2011. For the years ended December 31, 2012 and 2011, amortization expense was \$20,572 and \$1,714, respectively.

Uncompensated Absences – In 2012, STCHC adopted a policy to payout unused vacation and sick days upon termination. Prior to this adoption, payout of unused vacation and sick days was at the discretion of the Board.

Revenue Recognition – Revenues received under government grant programs are recognized when earned. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Treatment of patient revenue is discussed in Note H.

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 STCHC. 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 STCHC. Donated facilities are recorded at fair market value in the consolidated statements of activities and changes in net assets and include STCHC’s parking lot surface, which is not included in STCHC’s building lease.

NOTE B – CASH AND RESTRICTED CASH

Bank accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. For the years ended December 31, 2012 and 2011, all noninterest-bearing transaction accounts are fully insured, regardless of the account balance and the ownership capacity of the funds. The coverage on noninterest-bearing accounts is separate from, and in addition to, the insurance coverage provided for a depositor's other accounts held at an FDIC-insured bank. The Clinic utilizes operating accounts at two financial institutions that qualify as noninterest-bearing transaction accounts and are, therefore, fully insured.

The unlimited insurance coverage for noninterest-bearing transaction accounts provided under the Dodd-Frank Wall Street Reform and Consumer Protection Act expired on December 31, 2012. Beginning January 1, 2013, deposits held in noninterest-bearing transaction account are aggregated with any interest-

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

bearing deposits the owner may hold in the same ownership category, and the combined total insured up to at least \$250,000.

Restricted Cash – As required by the terms set forth in multiple agreements with the Lenders (identified in Note E), STCHC must maintain certain reserve accounts for the receipt of proceeds from and payment of debt obligations. As of December 31, 2012 and 2011, these reserves have been established by STCHC for the purposes of the Project and are in accordance with lender agreements. Restricted cash at December 31, 2012 and 2011 consisted of:

	2012	2011
Rent reserve	\$ 528,415	\$ 584,100
LRA principal reserve	13,928	108,432
Bridge loan interest reserve	-	29,664
Bridge loan deposit account	176	176
	<u>\$ 542,519</u>	<u>\$ 722,372</u>

Rent Reserve – During 2011, STCHC transferred funds of \$597,270 from bridge loan proceeds to the rent reserve account. This amount is sufficient to cover 6 years of rent expense. During the initial lease term, STCHC will make annual sub-lease rent payments as discussed in Note E. Payments of interest on notes payable due to the Louisiana Recovery Authority (LRA) and the Louisiana Primary Care Association (LPCA) were also issued from the rent reserve account during 2012 and 2011.

LRA Principal Reserve – STCHC established a LRA principle reserve account for the purpose of satisfying the loan guaranty as discussed in Note E. The proceeds from the loan guaranty fee are used by STCHC to make principal payments on a note payable to the LRA.

Bridge Loan Interest Reserve – STCHC established a bridge loan interest reserve account to accept payments on the note receivable, in accordance with the terms of the promissory note and loan agreement evidencing the note receivable. From the bridge loan interest reserve, STCHC is making monthly payments of interest on the bridge loan to a financial institution (the Federal NMTC/HTC Investor).

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2012	2011
Land	\$ 43,600	\$ 43,600
Building	4,437,696	4,437,696
Furniture and fixtures	199,891	164,090
Computer equipment	73,697	88,999
Leasehold improvements	783,990	773,941
Medical equipment	574,582	568,993
	6,113,456	6,077,319
Accumulated depreciation	(1,223,296)	(878,811)
	<u>\$ 4,890,160</u>	<u>\$ 5,198,508</u>

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Depreciation expense for the years ended December 31, 2012 and 2011 is \$345,216 and \$211,431, respectively.

Capitalized Interest – Interest incurred during construction in the amount of \$26,030 was capitalized and included in property and equipment on the consolidated statements of financial position through December 15, 2011, the placed in service date.

NOTE D – LINE OF CREDIT

A revolving line of credit up to \$200,000, which bears interest at a rate equal to the greater of the Prime Rate or 4.5% (4.5% at December 31, 2012 and 2011), is provided to the Clinic under terms of a credit agreement which originally expired July 2011 and was extended through December 20, 2012. No extensions have been awarded since the expiration of the line of credit but the Clinic had an outstanding balance of \$170,000 at December 31, 2012 and paid off the line of credit in February 2013. The Clinic had no balance outstanding on this line at December 31, 2011. The line of credit is secured by a pledge of all the Clinic's assets.

NOTE E – LONG-TERM DEBT

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

	2012	2011
Note payable to Louisiana Primary Care Association (LPCA)	\$ 1,904,210	\$ 1,904,210
Note payable to Louisiana Recovery Authority (LRA)	1,905,495	1,830,106
Bridge loan payable to the Federal NMTC/HTC Investor	920,534	1,090,428
New Markets Tax Credits – Facility A	5,405,715	5,405,715
New Markets Tax Credits – Facility B	1,658,150	1,658,150
Total debt outstanding	11,794,104	11,888,609
Less: current maturities	(1,012,236)	(1,177,093)
Long-term debt	\$ 10,781,868	\$ 10,711,516

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

Bridge Loan – A loan agreement was executed between STCHC and a financial institution in the amount of \$4,190,956, maturing 364 days from the Closing Date, and an interest rate of Wall Street Journal prime + 1.00% with a floor of 5.50%. Interest only is payable monthly, with principal due at maturity. As collateral, STCHC granted to the financial institution a security interest in substantially all its assets.

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

During 2012 and 2011, STCHC made principal payments totaling \$169,894 and \$3,100,528, respectively, on this loan. In January 2013, the Bridge Loan was paid in full using the equity proceeds from the allocation of the Federal Historic Tax Credits to the Federal NMTC/HTC Investor.

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.

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 of which \$169,894 and \$1,830,106, respectively, was funded during 2012 and 2011, maturing 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. The unpaid principal balance and interest is due at maturity.

The lender has the option to forgive 50% of the outstanding principal amount of the loan as of the repayment date if the Property's business is conducted during normal business hours; the Property's maintenance is in compliance with applicable building codes and regulations; and the Project has created 20 or more new permanent full-time equivalent jobs.

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

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

New Markets Tax Credits Facilities – Loan agreements were executed between STRE and the CDE. Facilities A and B were funded for \$5,405,715 and \$1,658,150, respectively, both maturing 40 years from the Closing Date, and a holiday interest of 0.48% in year one with subsequent interest of 1.03%. Interest only 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 27 percent of the qualified equity investment and are claimed over a seven year credit allowance period.

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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 \$7,063,865 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.

Sale of the Property – On March 28, 2011, STCHC sold the Property to STRE for \$850,000 plus reimbursement of \$170,412 of development costs expended on the Project. STCHC used the proceeds from the transaction to partially repay the Bridge Loan. STRE rehabilitated the Property in a manner that qualified for the rehabilitation tax credit (the Historic Tax Credit) under section 47 of the Internal Revenue Code of 1986, as amended.

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

Lease – STRE entered into a net lease agreement with an unaffiliated bank subsidiary to lease the Property for annual lease payments of \$81,000. The lease term began in 2012 and extends for three years with the option to renew. Rental income for the year ended December 31, 2012 was \$56,908. Future minimum rental payments to be received are \$81,000 in 2013 and \$81,000 in 2014.

Sublease – STCHC entered into a triple net lease agreement with an unaffiliated bank 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. The lease term began in 2012 and extends for three years with the option to renew. 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, 2012 was \$60,891 (prorated for Part III receipt). Future minimum rental payments to be made are \$88,774 in 2013 and \$92,565 in 2014. Accrued rent expense of \$32,563 was paid in the first quarter of 2013.

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Long-term debt outstanding at December 31, 2012 matures as follows:

Year Ending	
2012	\$ 1,012,236
2013	92,623
2014	93,554
2015	94,494
2016	95,443
Thereafter	10,405,754
	\$ 11,794,104

Interest expense was \$154,732 and \$118,845 for the years ended December 31, 2012 and 2011, respectively.

NOTE F – RELATED PARTY TRANSACTIONS

Loan Guaranty Fee – STRE will make annual loan guaranty fee payments to STCHC (as guarantor on the notes payable of \$7,063,865 to CDE). The annual loan guaranty fee payments will be approximately \$140,000 for six years, and shall be payable annually over the seven year compliance period, with the first such payment of \$108,548 being due at Closing. During 2011, STRE made the required payment to STCHC. As of December 31, 2012, STRE had not made the required payment. In January 2013, STRE made the required 2012 payment and prepaid \$689,238 in loan guaranty fees.

Incentive Management Fee – To the extent there is Available Cash Flow as defined in the Management Agreement, STRE shall pay to STCHC an incentive management fee annually amounting to 10% of STRE’s gross revenue to compensate for STCHC’s management of STRE’s operations and assets and coordinating the preparation of the required LHFA, federal, state, and local tax and other required filings and financial reports. As of December 31, 2012 and 2011, no incentive management fee was incurred.

Deferred Development Fee – For the year ended December 31, 2011, a development fee of \$1,177,294 was incurred through services rendered by the developer, STCHC, in coordinating the planning, architectural, engineering and construction of the Project, and was capitalized into the depreciable basis of the Property. A payable of \$556,769 was outstanding as of December 31, 2011. As of December 31, 2012, the developer fee was fully paid.

NOTE G – 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.

NOTE H – PATIENT REVENUES

Net Patient Service Revenue – STCHC provides medical assistance to eligible Medicaid and Medicare recipients and receives reimbursements from the State of Louisiana’s Department of Health and Hospitals

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

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 years ended December 31, 2012 and 2011, STCHC received \$983,706 and \$805,596, respectively, in reimbursements for Medicaid and Medicare claims submitted. STCHC also received \$2,262,520 and \$1,885,485, respectively, of Medicaid funds from the Greater New Orleans Community Health Connection (GNOCHC) waiver program. The GNOCHC program period is from October 2010 to December 2013.

Third Party Reimbursements – STCHC has agreements with Medicare and Medicaid fiscal intermediaries to provide home and health service to qualified patients. Medicare and Medicaid account for approximately 58% and 43%, respectively, of STCHC's total support and revenue for the years ended December 31, 2012 and 2011.

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.

In addition to Medicare and Medicaid patient revenues, STCHC also receives patient and commercial insurance payments.

Patient Revenue Recognition Policy – As an FQHC, STCHC receives a fixed rate per encounter for its Medicare, Medicaid and GNOCHC patients. For commercial insurance and self-pay patients, revenue is based on the services performed. Patient revenue is recognized when the services are provided.

Bad Debt Expense – In accordance with Accounting Standards Update 2011-07, *Health Care Entities Allowance for Doubtful Accounts*, bad debt write-offs are presented as a deduction to patient revenue and included in the net patient revenue on the statements of activities and changes in net assets.

NOTE I – PENSION PLAN

Effective January 1, 2006, STCHC established the St. Thomas Community Healthcare Center Retirement Plan (the Plan), a 401(k) Plan. Employees over the age of 18, who have worked for STCHC for more than 90 days, and have 1,000 hours of service in a plan year, are eligible to participate in the Plan. Plan expenses may be paid by STCHC or by the Plan. Matching contributions are determined annually by STCHC. STCHC matches 100% of employee contributions up to 6% of gross pay. For the years ended December 31, 2012 and 2011, STCHC incurred \$101,081 and \$85,073, respectively, of administrative costs and matching contributions related to the Plan.

NOTE J – INCOME TAXES

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

STRE, with the consent of its members, has elected to be a limited liability company. In lieu of corporation income taxes, the members of the limited liability company are taxed on their proportionate

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

share of each member's taxable income. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements.

STI, with the consent of its member, has elected to be taxed as a "C" corporation and accounts for income taxes under an asset and liability approach that recognizes deferred income tax assets and liabilities for the estimated future tax consequences of differences between the financial statements and tax bases of assets and liabilities. As of December 31, 2012 and 2011, no deferred taxes or income taxes have been included in the consolidated financial statements due to STI's net loss position.

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

NOTE K – COMMITMENTS AND CONTINGENCIES

Operating Leases – Exclusive of the lease and sublease referenced in Note E, 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 E, was \$88,950 and \$126,469, respectively, for the years ended December 31, 2012 and 2011.

The following schedule details future minimum lease payments annually for five years as of December 31, 2012, for operating leases with initial or remaining lease terms in excess of one year, excluding the lease and sublease referenced in Note E.

<u>Year Ending</u>	
2013	\$ 87,000
2014	\$ 87,000
2015	\$ 87,000
2016	\$ 87,000
2017	\$ 87,000

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.

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE L – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, April 16, 2013, and determined that, except as disclosed in Notes B, E and F, no events occurred that require disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

OTHER REPORTS AND SUPPLEMENTARY SCHEDULES

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

	St. Thomas Community Health Center, Inc.	St. Thomas Investments, LLC	St. Thomas Real Estate, LLC	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash	\$ 69,996	\$ 24	\$ 110,798	\$ -	\$ 180,818
Grants receivable	74,967	-	-	-	74,967
Accounts receivable	302,664	-	29,908	-	332,572
Interest receivable	26,432	-	-	-	26,432
Due from related party	147,738	-	-	(147,738)	-
Prepaid expenses and other assets	53,356	-	2,971	-	56,327
Total current assets	675,153	24	143,677	(147,738)	671,116
RESTRICTED CASH	542,519	-	-	-	542,519
PROPERTY AND EQUIPMENT, net	376,635	-	5,661,387	(1,147,862)	4,890,160
OTHER ASSETS					
Deferred financing fees, net	-	-	800,599	-	800,599
Note receivable	5,405,715	-	-	-	5,405,715
Total other assets	5,405,715	-	800,599	-	6,206,314
TOTAL ASSETS	\$ 7,000,022	\$ 24	\$ 6,605,663	\$ (1,295,600)	\$ 12,310,109
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	\$ 273,649	\$ -	\$ 23,221	\$ -	\$ 296,870
Due to plan trustee	-	-	-	-	-
Accrued rent payable	32,563	-	-	-	32,563
Uncompensated absences	47,067	-	-	-	47,067
Due to related party	-	-	147,738	(147,738)	-
Line of credit	170,000	-	-	-	170,000
Current maturities of long-term debt	1,012,236	-	-	-	1,012,236
Total current liabilities	1,535,515	-	170,959	(147,738)	1,558,736
LONG-TERM DEBT, net of current maturities	3,718,003	-	7,063,865	-	10,781,868
NET ASSETS					
Unrestricted					
Unrestricted	1,292,916	24	(632,541)	(1,147,862)	(487,463)
Noncontrolling interest	-	-	3,380	-	3,380
Total unrestricted net assets	1,292,916	24	(629,161)	(1,147,862)	(484,083)
Temporarily restricted	453,588	-	-	-	453,588
Total net assets	1,746,504	24	(629,161)	(1,147,862)	(30,495)
TOTAL LIABILITIES AND NET ASSETS	\$ 7,000,022	\$ 24	\$ 6,605,663	\$ (1,295,600)	\$ 12,310,109

See accompanying independent auditors' report.

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2011

	St. Thomas Community Health Center, Inc.	St. Thomas Investments, LLC	St. Thomas Real Estate, LLC	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash	\$ 685,008	\$ 24	\$ 1,135,604	\$ -	\$ 1,820,636
Grants receivable	127,187	-	-	-	127,187
Accounts receivable	409,248	-	-	-	409,248
Prepaid expenses and other assets	599,239	-	2,971	(545,998)	56,212
Total current assets	1,820,682	24	1,138,575	(545,998)	2,413,283
RESTRICTED CASH	722,372	-	-	-	722,372
PROPERTY AND EQUIPMENT, net	546,423	-	5,829,379	(1,177,294)	5,198,508
OTHER ASSETS					
Deferred financing fees, net	-	-	821,171	-	821,171
Note receivable	5,405,715	-	-	-	5,405,715
Total other assets	5,405,715	-	821,171	-	6,226,886
TOTAL ASSETS	\$ 8,495,192	\$ 24	\$ 7,789,125	\$ (1,723,292)	\$ 14,561,049
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable and accrued liabilities	\$ 197,203	\$ -	\$ 869,648	\$ (545,998)	\$ 520,853
Due to plan trustee	4,681	-	-	-	4,681
Current maturities of long-term debt	1,177,093	-	-	-	1,177,093
Total current liabilities	1,378,977	-	869,648	(545,998)	1,702,627
LONG-TERM DEBT, net of current maturities	3,647,651	-	7,063,865	-	10,711,516
NET ASSETS					
Unrestricted					
Unrestricted	3,259,335	24	(152,398)	(1,177,294)	1,929,667
Noncontrolling interest	-	-	8,010	-	8,010
Total unrestricted net assets	3,259,335	24	(144,388)	(1,177,294)	1,937,677
Temporarily restricted	209,229	-	-	-	209,229
Total net assets	3,468,564	24	(144,388)	(1,177,294)	2,146,906
TOTAL LIABILITIES AND NET ASSETS	\$ 8,495,192	\$ 24	\$ 7,789,125	\$ (1,723,292)	\$ 14,561,049

See accompanying independent auditors' report.

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	St. Thomas Community Health Center, Inc.	St. Thomas Investments, LLC	St. Thomas Real Estate, LLC	Eliminations	Consolidated
Operating revenues					
Contributions	\$ 18,821	\$ -	\$ -	\$ -	\$ 18,821
Grant revenues	1,368,227	-	-	-	1,368,227
Patient revenues	160,284	-	-	-	160,284
Medicare and Medicaid	3,246,226	-	-	-	3,246,226
Program reimbursements	329,779	-	-	-	329,779
Private insurance	198,339	-	-	-	198,339
Donated medical supplies	61,914	-	-	-	61,914
Donated facilities	18,000	-	-	-	18,000
Donated services	74,800	-	-	-	74,800
Other revenues	223,465	-	56,908	(176,896)	103,477
Total operating revenues	5,699,855	-	56,908	(176,896)	5,579,867
Operating expenses					
Health care	3,662,542	-	-	-	3,662,542
Management and general	3,759,373	-	541,681	(206,328)	4,094,726
Total operating expenses	7,421,915	-	541,681	(206,328)	7,757,268
Nonoperating expenses					
Loss on equity investments	-	-	-	-	-
Total nonoperating expenses	-	-	-	-	-
Excess of expenses over revenues	(1,722,060)	-	(484,773)	29,432	(2,177,401)
Less: excess of expenses over revenues attributable to noncontrolling interest	4,630	-	(4,630)	-	-
Excess of expenses over revenues attributable to the Clinic	<u>\$ (1,726,690)</u>	<u>\$ -</u>	<u>\$ (480,143)</u>	<u>\$ 29,432</u>	<u>\$ (2,177,401)</u>

See accompanying independent auditors' report.

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	St. Thomas Community Health Center, Inc.	St. Thomas Investments, LLC	St. Thomas Real Estate, LLC	Eliminations	Consolidated
Operating revenues					
Contributions	\$ 42,514	\$ -	\$ -	\$ -	\$ 42,514
Grant revenues	1,715,194	-	-	-	1,715,194
Patient revenues	149,356	-	-	-	149,356
Medicare and Medicaid	2,691,081	-	-	-	2,691,081
Program reimbursements	358,228	-	-	-	358,228
Private insurance	98,276	-	-	-	98,276
Donated medical supplies	195,197	-	-	-	195,197
Donated facilities	18,000	-	-	-	18,000
Donated services	135,039	-	-	-	135,039
Other revenues	1,292,740	-	-	(1,285,842)	6,898
Total operating revenues	6,695,625	-	-	(1,285,842)	5,409,783
Operating expenses					
Health care	3,334,839	-	-	-	3,334,839
Management and general	2,900,965	-	156,463	(108,548)	2,948,880
Total operating expenses	6,235,804	-	156,463	(108,548)	6,283,719
Nonoperating expenses					
Loss on equity investments	2,500	2,500	-	(5,000)	-
Total nonoperating expenses	2,500	2,500	-	(5,000)	-
Excess of expenses over revenues	457,321	(2,500)	(156,463)	(1,172,294)	(873,936)
Less: excess of expenses over revenues attributable to noncontrolling interest	1,565	-	(1,565)	-	-
Excess of expenses over revenues attributable to the Clinic	<u>\$ 455,756</u>	<u>\$ (2,500)</u>	<u>\$ (154,898)</u>	<u>\$ (1,172,294)</u>	<u>\$ (873,936)</u>

See accompanying independent auditors' report.



Certified Public Accountants & Consultants

**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 subsidiaries
New Orleans, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of St. Thomas Community Health Center, Inc. and subsidiaries (the Clinic) which comprise of the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to consolidated financial statements, which collectively comprise the Clinic's basic financial statements, and have issued our report thereon dated April 16, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Clinic's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

4330 Dumaine Street
New Orleans, LA 70119
(504) 833-2436 (O) • (504) 484-0807 (F)

200-B Greenleaves Blvd.
Mandeville, LA 70448
(985) 626-8299 (O) • (985) 626-9767 (F)

900 Village Lane
P O Box 50, Pass Christian, MS 39571
(985) 626-8299 (O) • (985) 626-9767 (F)

Limited Liability Company
www.silva-cpa.com

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Silva Gurtner & Abney, LLC

April 16, 2013



Certified Public Accountants & Consultants

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OFFICE OF MANAGEMENT
AND BUDGET (OMB) CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited St. Thomas Community Health Center, Inc. and subsidiaries' (the Clinic) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Clinic's major federal programs for the year ended December 31, 2012. The Clinic's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of current year findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Clinic's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Clinic's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Clinic's compliance.

4330 Dumaine Street
New Orleans, LA 70119
(504) 833-2436 (O) • (504) 484-0807 (F)

200-B Greenleaves Blvd.
Mandeville, LA 70448
(985) 626-8299 (O) • (985) 626-9767 (F)

900 Village Lane
P O Box 50, Pass Christian, MS 39571
(985) 626-8299 (O) • (985) 626-9767 (F)

Limited Liability Company
www.silva-cpa.com

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 each of its major federal programs for the year ended December 31, 2012.

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 Circular A-133, 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Clinic as of and for the year ended December 31, 2012, and have issued our report thereon dated April 16, 2013, 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 OMB Circular A-133 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 expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Silva Gurtner & Abney, LLC

April 16, 2013

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Grantor/ Pass through Grantor Program Title	CFDA Number	Expenditures
EXPENDITURES OF FEDERAL AWARDS:		
<i>Awards made directly to St. Thomas Community Health Center, Inc. –</i>		
U.S. Department of Health and Hospitals:		
Direct Award through Health Resources and Services Administration:		
Health Center Cluster	93.224	\$ 767,763
Passed through Louisiana State University:		
Centers for Disease Control and Prevention National Cancer Prevention and Control Program	93.283	<u>57,370</u>
Total expenditures of federal awards		<u><u>\$ 825,133</u></u>
FEDERAL LOANS:		
<i>Loans made directly to St. Thomas Community Health Center, Inc. –</i>		
U.S. Department of Housing and Urban Development:		
Passed through State of Louisiana Office of Community Development, Louisiana Recovery Authority		<u>\$ 1,000,000</u>
Total federal loans		<u><u>\$ 1,000,000</u></u>

See accompanying independent auditors' report.

ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Notes to Schedule of Expenditures of Federal Awards

Basis of Accounting – The accompanying schedule of expenditures of federal awards includes the federal grant activity of St. Thomas Community Health Center, Inc. and subsidiaries and is presented on the accrual basis of accounting.

Basis of Presentation – The information in the schedule of federal awards is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

LRA Loan – A loan agreement was executed between St. Thomas Community Health Center, Inc. (STCHC) and the Louisiana Recovery Authority (LRA), a division of the State of Louisiana's Office of Community Development (the OCD), in the amount of \$2,000,000 of which \$169,894 and \$1,830,106 was funded during 2012 and 2011, respectively, maturing 20 years from the Closing Date, and an interest rate of 1.00%. Interest only is payable monthly until February 2012, when principal and interest payments will begin monthly until the maturity date. The unpaid principal balance and interest is due at maturity.

The lender has the option to forgive 50% of the outstanding principal amount of the loan as of the repayment date if the STCHC's business is conducted during normal business hours; STCHC's maintenance is in compliance with applicable building codes and regulations; and STCHC has created 20 or more new permanent full-time equivalent jobs.

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

As LRA has the option to forgive 50% of the outstanding principal amount of the loan or \$1,000,000 and STCHC must meet continuing compliance requirements, the forgivable amount of the loan is presented on the schedule of federal awards.

See accompanying independent auditors' report.

**ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
SCHEDULE OF CURRENT YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

PART I – SUMMARY OF AUDITORS’ RESULTS

1. Type of report issued on the consolidated financial statements: **Unqualified.**
2. Did the audit disclose any reportable conditions in internal control: **None Reported.**
3. Were any of the reportable conditions material weaknesses: **Not Applicable.**
4. Did the audit disclose any noncompliance which is material to the consolidated financial statements of the organization: **None Reported.**
5. Did the audit disclose any reportable conditions in internal control over major programs: **None Reported.**
6. Were any of the reportable conditions in internal control over major programs material weaknesses: **Not Applicable.**
7. Type of report issued on compliance for major programs: **Unqualified.**
8. Did the audit disclose any audit findings which the independent auditors are required to report under OMB Circular A-133, Section 510(a): **None reported.**
9. The following is an identification of major programs:

Health Center Cluster, CFDA #93.224
10. The dollar threshold used to distinguish between Type A and Type B Programs, as described in OMB Circular A-133, Section 520(b) was **\$300,000.**
11. Did the auditee qualify as low-risk under OMB Circular A-133, Section 530: **Yes.**

PART II – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

There are neither findings nor questioned costs.

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are neither findings nor questioned costs.

**ST. THOMAS COMMUNITY HEALTH CENTER, INC. AND SUBSIDIARIES
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2011**

PART II – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

There are neither findings nor questioned costs.

PART III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are neither findings nor questioned costs.