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**PRIORITY HEALTH CARE, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2019**

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Postlethwaite & Netterville

A Professional Accounting Corporation

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**PRIORITY HEALTH CARE, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2019**

## TABLE OF CONTENTS

	<u>Page</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1 - 2
<u>FINANCIAL STATEMENTS</u>	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 16
<u>SUPPLEMENTARY INFORMATION</u>	
Schedule of Compensation, Benefits, and Other Payments to Agency Head	17
<u>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</u>	18 - 19
<u>INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE</u>	20 - 21
Schedule of Expenditures of Federal Awards	22
Notes to Schedule of Expenditures of Federal Awards	23
Schedule of Findings and Questioned Costs	24 - 25

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Priority Health Care, Inc.  
Marrero, Louisiana

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Priority Health Care, Inc. ("the Organization"), a nonprofit organization, which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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



### *Opinion*

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of Priority Health Care, Inc. as of December 31, 2019, and the changes in its net assets and its 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 12 to the financial statements, the Organization is being impacted by disruptions in the economy and business interruptions associated with the coronavirus (COVID-19) pandemic. The Organization expects this matter to negatively impact its operating results and cash flows in the near future. Our opinion is not modified with respect to this matter.

### *Other Matters*

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

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2020, on our consideration of the Organization'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 the Organization'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 the Organization's internal control over financial reporting and compliance.

*Postlethwaite & Netterville*

Metairie, Louisiana  
June 29, 2020

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2019**

**A S S E T S**

**Assets:**

Cash	\$ 2,660,358
Grants receivable	717,968
Pharmacy receivable, net of allowance of \$133,488	274,110
Other patient receivables, net of allowance of \$640,263	358,729
Other receivables	52,992
Pharmacy inventory	39,304
Other assets	22,366
Total current assets	<u>4,125,827</u>
Property and equipment, net	<u>3,784,413</u>
<b>Total assets</b>	<b><u>\$ 7,910,240</u></b>

**L I A B I L I T I E S   A N D   N E T   A S S E T S**

**Liabilities:**

Accounts payable and accrued expenses	\$ 205,398
Accrued salaries and related liabilities	123,737
Note payable - current portion	106,109
Line of credit - current portion	<u>36,730</u>
Total current liabilities	<u>471,974</u>
Note payable - long term portion	2,548,264
Line of credit - long term portion	<u>301,797</u>
Total long-term liabilities	<u>2,850,061</u>
Total liabilities	<u>3,322,035</u>

**Net assets:**

Without donor restriction	<u>4,588,205</u>
Total net assets	<u>4,588,205</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 7,910,240</u></b>

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

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**Changes in Net Assets Without Donor Restrictions**

Operating revenues:	
Patient service revenue, net of contractual adjustments of \$1,938,327	\$ 1,407,178
Patient pharmacy revenue, net of contractual adjustments of \$2,959,941	6,853,684
Less: provision for doubtful accounts	(453,805)
Net patient and pharmacy revenue	<u>7,807,057</u>
 Grants and contracts	 2,152,461
340B pharmacy revenue	808,034
Rent income	290,333
Interest	55,393
Other income	<u>56,764</u>
 Total operating revenues	 <u>11,170,042</u>
 Operating expenses:	
Program services	7,950,568
Support services	2,241,784
Fundraising	<u>11,041</u>
 Total operating expenses	 <u>10,203,393</u>
 Change in net assets	 966,649
 Net assets, beginning of year	 <u>3,621,556</u>
 Net assets, end of year	 <u><u>\$ 4,588,205</u></u>

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

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>Program Services</u>	<u>Support Services</u>	<u>Fundraising</u>	<u>Total</u>
Client services	\$ 135,219	\$ 18,115	\$ 589	\$ 153,923
Contract services	206,186	239,540	8,682	454,408
Depreciation	-	137,279	-	137,279
Facilities & equipment	19,906	64,143	-	84,049
Insurance	199,225	159,857	-	359,082
Interest	-	141,286	-	141,286
Lab fees & vaccine	86,825	-	-	86,825
Marketing	1,542	52,227	805	54,574
Memberships, dues & subscriptions	6,221	24,886	-	31,107
Postage & printing	20,689	6,480	526	27,695
Prescriptions & medication	4,968,268	-	-	4,968,268
Professional fees	-	22,529	-	22,529
Rent	52,258	55,814	-	108,072
Salaries & wages	2,203,854	1,023,263	-	3,227,117
Supplies	7,292	51,394	439	59,125
Utilities	39,607	87,600	-	127,207
Travel & training	318	18,274	-	18,592
Miscellaneous	3,158	139,097	-	142,255
<b>TOTAL EXPENSES</b>	<b><u>\$ 7,950,568</u></b>	<b><u>\$ 2,241,784</u></b>	<b><u>\$ 11,041</u></b>	<b><u>\$ 10,203,393</u></b>

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

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 966,649
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Provision for doubtful accounts	453,805
Depreciation	137,279
(Increase) decrease in operating assets:	
Grant receivable	(308,267)
Pharmacy and other patient receivables	(689,741)
Other receivables	(50,877)
Pharmacy inventory	(8,035)
Other assets	(4,901)
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	(11,850)
Accrued salaries and related liabilities	25,555
Net cash provided by operating activities	<u>509,617</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of property and equipment	<u>(262,364)</u>
Net cash used in investing activities	<u>(262,364)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Draws on line of credit	350,000
Payments on line of credit	(11,473)
Payments on note payable	<u>(261,847)</u>
Net cash provided by financing activities	<u>76,680</u>

Net change in cash	323,933
Cash, beginning of year	<u>2,336,425</u>
Cash, end of year	<u><u>\$ 2,660,358</u></u>

**Supplemental Disclosure**

Cash paid for interest during the year	<u><u>\$ 136,696</u></u>
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The accompanying notes are an integral part of these financial statements.

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies**

Organization

Priority Health Care, Inc. (the Organization) is a non-profit, federally qualified health center which provides primary medical, behavioral health, pharmacy, and social support services to residents within the New Orleans metro area. The Organization is classified by the IRS as a 501(c)(3) tax exempt organization, and serves the parishes of Jefferson, Orleans, St. Bernard, St. Tammany, St. Charles, St. John the Baptist, St. James and Plaquemines, with its clinic and offices located in Marrero, LA and a clinical site in Gretna, LA.

The mission of the Organization is to provide holistic health care to underserved communities that empower people to live healthy lives. The purpose is to offer services on a sliding fee scale to ensure everyone has access to needed care which they can afford in order to adopt lifestyle choices that have a positive effect on their health.

Basis of Accounting

The financial statements of the Organization are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP).

The financial statements of the Organization report information regarding its financial position and activities according to the following net asset classifications:

*Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and board of directors.

*Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Organization had no net assets with donor restrictions at December 31, 2019.

Use of Estimates

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

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies (continued)**

**Revenue Recognition**

**Grants and Contributions**

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

The Organization receives support in the form of grants from federal, state, and local governmental agencies, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the Statement of Financial Position. No amounts were received in advance under the Organization's grants in 2019.

Grants and contributions are recorded depending on the existence or nature of any donor restrictions. Support that is restricted by a donor is reported as an increase in net assets with donor restriction. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), net assets are reclassified to net assets without donor restriction and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting periods are reported as revenue without donor restriction.

**Patient Service Fees and Pharmacy Revenue**

Patient service fees and pharmacy revenue represent the estimated net realizable amounts from patients, third party payors, and others for services rendered or prescriptions dispensed. Revenues are recorded during the period the health care services are provided or prescriptions dispensed, based upon the estimated amounts due from payers. Estimates of contractual allowances are based upon the specified payment terms.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The estimated reimbursement amounts are made on a payer-specific basis and are recorded based on the best information available regarding management's interpretation of the applicable laws, regulations and contract terms. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals. Due to the complexities involved in the classification and documentation of health care services authorized and provided, the estimation of revenues earned and the related reimbursement are often subject to interpretations that could result in payments that are different from the Organization's estimates.

The Organization provides discounts from gross charges to uninsured patients who do not qualify for Medicaid. These discounts are similar to those provided to many local managed care plans. After the discounts are applied, if the Organization is still unable to collect a significant portion of uninsured patients' accounts, it records significant provisions for doubtful accounts (based upon historical collection experience) related to uninsured patients in the period the services are provided.

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies (continued)**

**Revenue Recognition (continued)**

Patient Service Fees and Pharmacy Revenue (continued)

The Organization receives payments for patient services from the federal government under the Medicare program, state governments under their respective Medicaid or similar programs, managed care plans, private insurers, and directly from patients.

Net patient and pharmacy revenues from third-party payers and the uninsured for the year ended December 31, 2019 are summarized as follows:

Medicare	\$ 1,671,691
Medicaid	3,762,830
Commercial	1,535,965
Ryan White, federal grant funding	<u>1,290,376</u>
Net patient and pharmacy revenues before provision for doubtful accounts	8,260,862
Less: provision for doubtful accounts	<u>(453,805)</u>
Net patient and pharmacy revenue	<u>\$ 7,807,057</u>

The laws and regulations governing the Organization's operations, along with the terms of participation in various government programs, regulate how the Organization does business, the services offered and its interactions with patients and the public. These laws and regulations, and their interpretations, are subject to frequent change. Changes in existing laws or regulations, or their interpretations, or the enactment of new laws or regulations could materially and adversely affect the Organization's operations and financial condition.

The Organization is subject to various routine and non-routine governmental reviews, audits and investigations. In recent years, federal and state civil and criminal enforcement agencies have heightened and coordinated their oversight efforts related to the healthcare industry, including referral practices, cost reporting, billing practices, joint ventures and other financial relationships among healthcare providers. Violation of the laws governing the Organization's operations, or changes in the interpretation of those laws, could result in the imposition of fines, civil or criminal penalties, and/or termination of the Organization's rights to participate in federal and state-sponsored programs and suspension or revocation of the Organization's licenses. The Organization believes that it is in material compliance with all applicable laws and regulations.

340B Program Revenue

The Organization participates in the 340B Drug Pricing Program (340B Program) administered by the Office of Pharmacy Affairs of the Health Resources and Services Administration (HRSA). The Organization contracts with local retail pharmacies under the program, which results in additional revenues and discounts on outpatient prescriptions for the Organization's patients. Revenue and expenditures related to this program are recorded once the prescription drugs are transferred from the retail pharmacy to the patient. Laws and regulations surrounding the 340B drug program are complex and are subject to interpretation and change.



**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies (continued)**

Cash

Cash includes amounts on deposit at local financial institutions.

Allowance for Uncollectible Accounts

Patients are expected to pay for services rendered at the time of the clinic visits. If a patient is unable to pay at the time of service, a receivable is recorded. Patients are sent a billing statement following the date of visit. Receivables are recorded at estimated net realizable value.

The Organization maintains an allowance for doubtful accounts based on management's assessment of collectability, current economic conditions, and prior experience. The Organization determines if pharmacy and patient accounts receivable are past-due based on the date of service; however, the Organization does not charge interest on past-due accounts. The Organization charges off patient accounts receivable if management considers the collection of the outstanding balances to be doubtful. Accounts are written off when all reasonable collection efforts have been performed.

Management of the Organization determined that year-end balances related to grants receivable were deemed collectible. Accordingly, a valuation allowance was determined to be unnecessary.

Pharmacy Inventory

Pharmacy inventory consists primarily of drugs and medical supplies and are stated at the lower of cost (using the first-in, first-out method) or net realizable value.

Property, Plant, and Equipment

Property, plant, and equipment is recorded at historical cost, if purchased, or at fair market value at the date of the gift, if donated. Additions, improvements and expenditures that significantly extend the useful life of an asset (greater than one year) and with a unit cost of greater than \$5,000 are capitalized.

Depreciation is provided using the straight-line method over the estimated useful lives of the related assets which range from 3 to 30 years. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gains and losses are recognized in the Organization's annual operations. Maintenance and repair expenditures are expensed as incurred. The Organization's management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recovered.

Functional Allocation of Expenses

Expenses presented in the financial statements are allocated between program services, support services, and fundraising based on the function benefited. Allocations are determined by management. Salaries, benefits, and related expenses are allocated based on estimated time and effort. Other expenses are allocated based on actual expenses and level of effort.

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies (continued)**

Advertising

Advertising costs are expensed as incurred.

Income Taxes

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from State income taxes under Section 121(5) of Title 47 of the Louisiana Revised Statutes of 1950. Accordingly, no provision for income taxes has been included in the financial statements.

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 provides detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in an entity's financial statement. As of December 31, 2019, the Organization has determined that it does not have any uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Tax returns generally remain subject to examination by the taxing authorities for three years.

Income from Operations

Income from operations includes, but is not limited to, patient service revenue, pharmacy revenue, grants and contract income related to patient and pharmacy services, and rental income. The Organization's activities are all considered operating activities. Thus, the change in net assets is also income from operations.

New Accounting Pronouncement Adopted

In June 2018, the Federal Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve 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, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Organization adopted this ASU during the fiscal year ended December 31, 2019. The ASU had no impact to beginning net assets.

Accounting Pronouncements Issued But Not Yet Adopted

FASB has issued ASU No. 2014-09, *Revenue from Contracts with Customers*, to update its revenue recognition standard to clarify the principles of recognizing revenue and eliminate industry-specific guidance as well as help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The implementation of this standard was delayed by FASB upon issuance of ASU 2020-05 on June 3, 2020. This standard will be applicable for the Organization's fiscal year ending December 31, 2020.

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies (continued)**

Accounting Pronouncements Issued But Not Yet Adopted (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU and its amendments supersedes the leasing guidance in Topic 840, entitled Leases. Under the guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The implementation of this standard was delayed by FASB upon issuance of ASU 2020-05 on June 3, 2020. This standard will be applicable for the Organization's fiscal year ending December 31, 2022.

The Organization is currently assessing the impact of these pronouncements on its financial statements.

**2. Liquidity and Availability of Resources**

The following table reflects the Organization's financial assets as of December 31, 2019. These amounts are available to meet general expenditures within one year of the statement of financial position date. The Organization also has a line of credit available to meet short-term needs, as described in Note 6. As of December 31, 2019, \$161,473 remained available on the line of credit. There were no net assets with donor restrictions at December 31, 2019.

Cash	\$ 2,660,358
Grants receivable	717,968
Pharmacy and other patient receivables	632,839
Other receivables	<u>52,992</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 4,064,157</u></u>

**3. Grants Receivable**

As of December 31, 2019, grants receivable consisted of the following:

<u>Description</u>	<u>Amount</u>
Mayor's Office of Health Policy (Ryan White)	\$ 593,563
Louisiana Office of Public Health	46,631
Health Resources and Service Administration	<u>77,774</u>
Total	<u><u>\$ 717,968</u></u>

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**

**4. Pharmacy and Other Patient Receivables**

The Organization grants credit without collateral to its patients, most of whom are local residents that may or may not be insured by a third party payer. The Organization's accounting policy for these revenues and related receivables are included in Note 1. Receivables related to pharmacy and other patient services are as follows:

	<u>Receivables</u>
Commercial	15%
Medicaid	10%
Medicare	6%
Private Pay	2%
Ryan White funding	67%

**5. Property, Plant and Equipment**

Property and equipment at December 31, 2019 consisted of the following:

Building	\$ 3,571,286
Building and leasehold improvements	195,254
Equipment, furniture, and fixtures	211,716
Land	54,220
	<u>4,032,476</u>
Less: accumulated depreciation	(248,063)
Property and equipment, net	<u>\$ 3,784,413</u>

**6. Note Payable and Line of Credit**

Note payable consists of the following at December 31, 2019:

Note payable to a financial institution, dated October 15, 2018 payable in monthly installments of principal and interest of \$19,551 with a variable rate of interest based on LIBOR. The effective rate at December 31, 2019 was 4.85%. The note matures with a final balloon payment in October 2028, and is secured by property owned by the Organization and certain deposits.

	\$ 2,654,373
Less: current maturities	(106,109)
Long-term portion	<u>\$ 2,548,264</u>

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**

**6. Note Payable and Line of Credit (continued)**

Maturities of the Organization's note payable are as follows for the years ending December 31:

<u>Year Ending</u>	<u>Amount</u>
2020	\$ 106,109
2021	111,815
2022	117,439
2023	123,345
2024	129,245
Thereafter	2,066,420
	<u>\$ 2,654,373</u>

In October 2018, the Organization obtained a \$500,000 line of credit with a financial institution, secured by all inventory, equipment, receivables, deposit accounts, and other assets. The line of credit expires October 15, 2026. Interest is due monthly at a rate of 4.85%, and payments of both principal and interest began in November 2019. At December 31, 2019 the line of credit had an outstanding balance of \$338,527 and an unused amount of \$161,473.

Maturities of the Organization's line of credit payable, based on the outstanding balance as of December 31, 2019, are as follows for the years ending December 31:

<u>Year Ending</u>	<u>Amount</u>
2020	\$ 36,730
2021	38,624
2022	40,567
2023	42,607
2024	44,726
Thereafter	135,273
	<u>\$ 338,527</u>

As part of the note payable and line of credit agreements with the financial institution, the Organization has agreed to comply with certain covenants. These consist of reporting requirements, financial benchmarks, and maintenance of certain insurance policies.

**7. Commitments and Contingencies**

The Organization participated in a number of state and federally-assisted programs in 2019. The programs are subject to compliance audits. Such audits could lead to requests for reimbursement by the grantor agency for expenditures disallowed under terms of the grants. The Organization believes that the amount of disallowances, if any, which may arise from future audits, will not be material to the financial statements.

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**

**7. Commitments and Contingencies (continued)**

The provision of healthcare services entails an inherent risk of liability. Participants in the healthcare industry are subject to lawsuits alleging malpractice, violations of false claims acts, product liability, or related legal theories, many of which involve large claims and significant defense costs. Like many other entities engaged in the healthcare industry in the United States, the Organization has the potential for liability claims, disputes and legal actions for professional liability and other related issues. It is expected that the Organization will continue to be subject to such suits as a result of the nature of its business. Further, as with all healthcare providers, the Organization is periodically subject to regulatory actions seeking fines and penalties for alleged violations of healthcare laws and is potentially subject to the increased scrutiny of regulators for issues related to compliance with healthcare fraud and abuse laws and with respect to the quality of care provided to its patients. Like other healthcare providers, in the ordinary course of business, the Organization is also subject to claims made by employees and other disputes and litigation arising from the conduct of its business.

In September 2019, the Organization signed an agreement with a vendor for a three-year license of software related to its patient revenue system. The Organization began using the software in December 2019, and the annual license fees owed to the vendor total approximately \$90,948, plus a usage cost-per transaction based on volume. Payments under this agreement related to monthly costs totaled approximately \$24,100 during 2019.

**8. Business and Credit Concentrations**

The Organization maintains its cash with several financial institutions operating primarily in southern Louisiana. The balances, at times, may exceed federally insured limits. Management believes the credit risk associated with these deposits is minimal.

**9. Operating Leases**

The Organization leases operating facilities under operating leases. Total rental expenses under operating leases totaled \$108,072 during the year ended December 31, 2019. The following is a schedule by year of future minimum lease payments required under operating leases which have an initial or remaining non-cancelable lease term in excess of one year:

<u>Year ending December 31st</u>	<u>Amount</u>
2020	\$ 108,076
2021	60,000
2022	60,000
2023	60,000
2024	22,000
	<u>\$ 310,076</u>

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**NOTES TO FINANCIAL STATEMENTS**

**10. Occupancy**

The Organization purchased facilities in Marrero, Louisiana in October 2018. The Organization leases space to other entities under leases expiring at various dates through December 2021. Rent income associated with these leases totaled \$290,333 for the year ended December 31, 2019. The cost of the leased facility and improvements is approximately \$3,767,000, and the carrying value at December 31, 2019 is approximately \$3,621,000. Approximately two thirds of the facility is held for leasing to others. The following is a schedule by year of future rent income under the non-cancelable lease agreements:

<u>Year ending</u> <u>December 31st</u>	<u>Amount</u>
2020	\$ 159,160
2021	56,150
	<u>\$ 215,310</u>

**11. Retirement Plan**

The Organization began a 401(k) retirement plan for its employees, which began effective January 1, 2019. The plan is open to employees who are over the age of twenty-one and who have met eligibility requirements. Contributions by the Organization include matching contributions to the employee up to 4% of the employee's compensation. Total contributions to the plan were \$78,112 for the year ended December 31, 2019.

**12. Subsequent Events**

A novel strain of coronavirus has spread around the world, resulting in business and social disruption. In March 2020, the novel coronavirus (COVID-19) global pandemic began affecting the Organization's employees, patients, communities, and business operations, as well as the United States economy and financial markets. The Centers for Medicare and Medicaid Services and the Louisiana Department of Health requested the postponement of non-essential procedures and medical services from approximately March 19, 2020 until April 27, 2020. While this disruption was temporary, much of its impact remains unknown and difficult to predict. There is a likelihood that this pandemic will affect the Organization's financial performance in fiscal year 2020 and beyond. The related financial impact and duration cannot be reasonably estimated at this time.

Subsequent to year end, the Organization applied for and was approved a \$523,000 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrues interest at 1%, but payments are not required to begin for six months after the funding of the loan. The Organization is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized.

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 29, 2020, and determined that no additional disclosures are necessary other than the items noted above. No events occurring after this date have been evaluated for inclusion in these financial statements.

**SUPPLEMENTARY INFORMATION**



**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**SCHEDULE OF COMPENSATION, BENEFITS, AND**  
**OTHER PAYMENTS TO AGENCY HEAD**  
  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

Agency Head: Tamara Boutte, Chief Executive Officer

<u>Purpose</u>	<u>Amount</u>
Salary	\$ 200,168
Benefits - insurance	8,955
Benefits - retirement	7,021
Travel	5,045
Conference travel	2,062
	<u>\$ 223,251</u>

See accompanying independent auditors' report.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
Priority Health Care, Inc.  
Marrero, 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 Priority Health Care, Inc. ("the Organization"), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization'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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Postlethwaite & Netterville*

Metairie, Louisiana  
June 29, 2020

**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  
Priority Health Care, Inc.  
Marrero, Louisiana

**Report on Compliance for Each Major Federal Program**

We have audited Priority Health Care, Inc.'s (the Organization's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2019. The Organization'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance the Organization'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 of 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 Organization'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 Organization's compliance.

### *Opinion on the Major Federal Program*

In our opinion, the Organization 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 Organization 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 Organization'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 expressing an opinion on compliance for the 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 Organization's internal control over compliance.

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

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

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

*Postlethwaite & Netterville*

Metairie, Louisiana  
June 29, 2020

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

<u>GRANTOR</u>	<u>CFDA NUMBER</u>	<u>ENTITY NUMBER</u>	<u>ACTIVITY</u>
<b><u>U.S. Department of Health &amp; Human Services</u></b>			
<u>Direct:</u>			
<u>Health Resources and Service Administration</u>			
<u>Health Center Program Cluster</u>			
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	93.527	H80CS28963	\$ 1,108,269
Total Health Center Program Cluster			<u>1,108,269</u>
<u>Pass-through program from:</u>			
<u>City of New Orleans</u>			
Ryan White-HIV Emergency Relief Project Grant	93.914	N/A	2,051,799
<u>Louisiana Department of Health and Hospitals</u>			
HIV Prevention Activities Health Department Based	93.940	N/A	<u>282,769</u>
<b>Total Expenditures of Federal Awards</b>			<b><u>\$ 3,442,837</u></b>

See accompanying notes to the schedule of expenditures of federal awards.

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Priority Health Care, Inc. (the Organization) under programs of the federal government for the year ended December 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization. The Organization is defined in Note 1 to the financial statements for the year ended December 31, 2019. All federal awards received directly from federal agencies are included on the schedule, as well as federal awards passed-through other government agencies, as applicable.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the Organization's financial statements for the year ended December 31, 2019. Such expenditures are recognized following the cost principles contained in accordance with the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented, or used in the preparation of, the basic financial statements.

3. Relationship to Financial Statements

Federal revenues of \$2,152,461 are included in the Statement of Activities and Changes in Net Assets in the category "Grants and Contracts." Additional federal revenues of \$723,974 and \$566,402 are included in the Statement of Activities in the categories of "Patient Service Revenue" and "Pharmacy Revenue," respectively.

4. Relationship to Federal Financial Reports

Amounts reported in the Schedule agree with the amounts reported in the related federal financial reports, except for the amounts in reports submitted as of a date subsequent to December 31, 2019.

5. De Minimis Cost Rate

During the year ended December 31, 2019, the Organization did not elect to use the 10% de minimis cost rate as covered in §200.414 of the Uniform Guidance.

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

**(1) Summary of Independent Auditors' Results**

*Financial Statements*

The type of report issued on the financial statements: Unmodified opinion

Internal control over financial reporting:

- |  |                   |
|--|-------------------|
| a. Material weakness(es) identified?   | <u>No</u>         |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | <u>None noted</u> |

Noncompliance material to the financial statements noted? No

*Federal Awards*

Internal controls over major program:

- |  |                   |
|--|-------------------|
| c. Material weakness(es) identified?   | <u>No</u>         |
| d. Significant deficiency(ies) identified that are not considered to be material weaknesses? | <u>None noted</u> |

Type of auditor's report issued on compliance for major program: Unmodified opinion

Any audit findings which are required to be reported under the Uniform Guidance? No

Identification of major program:

United States Department of Health and Human Services:	
Health Center Program Cluster:	
Affordable Care Act (ACA) Grants for New and Expanded Services under the Health Center Program	<u>93.527</u>

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee under Section 530 of The Uniform Guidance: Yes



PRIORITY HEALTH CARE, INC.  
MARRERO, LOUISIANA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

- (2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:

Not Applicable.

- (3) Findings and Questioned Costs relating to Federal Awards:

Not Applicable.

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**PRIORITY HEALTH CARE, INC.**

**REPORT ON STATEWIDE**  
**AGREED-UPON PROCEDURES ON COMPLIANCE**  
**AND CONTROL AREAS**

**FOR THE YEAR ENDED DECEMBER 31, 2019**

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Postlethwaite & Netterville

A Professional Accounting Corporation

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## **TABLE OF CONTENTS**

	<u>Page</u>
Independent Accountants' Report on Applying Agreed-Upon Procedures	1
Schedule A: Agreed-Upon Procedures Performed and Associated Findings	2 - 12
Schedule B: Management's Response and Corrective Action Plan	13

INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors of Priority Health Care, Inc.  
and the Louisiana Legislative Auditor:

We have performed the procedures enumerated in Schedule A, which were agreed to by Priority Health Care, Inc. (the Entity) and the Louisiana Legislative Auditor (LLA) (specified users) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2019 through December 31, 2019. The Entity's management is responsible for those C/C areas identified in the SAUPs.

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

The procedures we performed and the associated findings are summarized in the attached Schedule A, which is an integral part of this report.

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

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

*Postlethwaite & Netterville*

Metairie, Louisiana  
June 29, 2020

**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2019**

Schedule A

The procedures performed and the results thereof are set forth below. The procedure is stated first, followed by the results of the procedure presented in italics. If the item being subjected to the procedures is positively identified or present, then the results will read “*no exception noted.*” If not, then a description of the exception ensues. Additionally, certain procedures listed below may not have been performed in accordance with guidance provided by the Louisiana Legislative Auditor, the specified user of the report. For those procedures, “procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity” is indicated.

***Written Policies and Procedures***

---

1. Obtain and inspect the entity’s written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity’s operations):

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

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

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

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

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

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

- d) Receipts, including receiving, recording, and preparing deposits. Also, policies and procedures should include management’s actions to determine the completeness of all collections for each type of revenue or agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation).

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

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

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

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

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2019**

Schedule A

***Written Policies and Procedures (continued)***

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- g) Credit Cards (and debit cards, fuel cards, P-Cards, if applicable), including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases).

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

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

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

- i) Ethics, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.

*This procedure is not applicable to the entity.*

- j) Debt Service, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

- k) Disaster Recovery/Business Continuity, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.

*No exceptions noted.*

***Board (or Finance Committee, if applicable)***

---

2. Obtain and inspect the board/finance committee minutes for the fiscal period, as well as the board's enabling legislation, charter, bylaws, or equivalent document in effect during the fiscal period, and:

- a) Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.

*The Entity's bylaws indicate that the Board shall meet monthly. The Board met each month in 2019, but a quorum was not present in February 2019.*

**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2019**

Schedule A

***Board (or Finance Committee, if applicable) (continued)***

---

- b) For those entities reporting on the governmental accounting model, observe that the minutes referenced or included monthly budget-to-actual comparisons on the general fund and major special revenue funds, as well as monthly financial statements (or budget-to-actual comparisons, if budgeted) for major proprietary funds. *Alternately, for those entities reporting on the non-profit accounting model, observe that the minutes referenced or included financial activity relating to public funds if those public funds comprised more than 10% of the entity's collections during the fiscal period.*

*No exceptions noted.*

- c) For governmental entities, obtain the prior year audit report and observe the unassigned fund balance in the general fund. If the general fund had a negative ending unassigned fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unassigned fund balance in the general fund.

*This procedure is not applicable, as the entity is not a governmental entity.*

***Bank Reconciliations***

---

3. Obtain a listing of client bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for each selected account, and observe that:

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

- a) Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated, electronically logged);

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

- b) Bank reconciliations include evidence that a member of management/board member who does not handle cash, post ledgers, or issue checks has reviewed each bank reconciliation (e.g., initialed and dated, electronically logged); and

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

- c) Management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 12 months from the statement closing date, if applicable.

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2019**

Schedule A

*Collections*

---

4. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).

*A listing of deposit sites was provided and included a total of three deposit sites. No exceptions were noted as a result of performing this procedure.*

*From the listing provided, we selected the three deposit sites and performed the procedures below.*

5. For each deposit site selected, obtain a listing of collection locations and management's representation that the listing is complete. Randomly select one collection location for each deposit site (i.e. 5 collection locations for 5 deposit sites), obtain and inspect written policies and procedures relating to employee job duties (if no written policies or procedures, inquire of employees about their job duties) at each collection location, and observe that job duties are properly segregated at each collection location such that:

*A listing of collection locations for each deposit site selected in procedure #4 was provided and included a total of three collection locations. No exceptions were noted as a result of performing this procedure.*

*From each of the listings provided, we selected one collection location for each deposit site. Review of the Entity's written policies and procedures or inquiry with employee(s) regarding job duties was performed in order to perform the procedures below.*

- a) Employees that are responsible for cash collections do not share cash drawers/registers.

*No exception noted.*

- b) Each employee responsible for collecting cash is not responsible for preparing/making bank deposits, unless another employee/official is responsible for reconciling collection documentation (e.g. pre-numbered receipts) to the deposit.

*No exception noted.*

- c) Each employee responsible for collecting cash is not responsible for posting collection entries to the general ledger or subsidiary ledgers, unless another employee/official is responsible for reconciling ledger postings to each other and to the deposit.

*No exception noted.*

- d) The employee(s) responsible for reconciling cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions are not responsible for collecting cash, unless another employee verifies the reconciliation.

*No exception noted.*

6. Inquire of management that all employees who have access to cash are covered by a bond or insurance policy for theft.

*The Entity stated that all employees who have access to cash are bonded and/or covered under the Entity's insurance policy.*



**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2019**

Schedule A

***Collections (continued)***

---

7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under “Bank Reconciliations” above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). *Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 10 deposits and:

*We selected two deposit dates for each of the two operating bank accounts using the selection methodology in procedure #3. We obtained supporting documentation for each of the four deposits and performed the procedures below.*

- a) Observe that receipts are sequentially pre-numbered.

*The Entity does not maintain sequentially pre-numbered receipts. For cash receipts from patient service transactions, patients are issued a receipt from the respective patient revenue system and the credit card terminal, if applicable.*

- b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

*No exception noted.*

- c) Trace the deposit slip total to the actual deposit per the bank statement.

*No exception noted.*

- d) Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100).

*For the four deposit dates selected, no deposits were made within one business day of collection. For the deposits dates selected, two deposits were made two business days after collection and two deposits were made three business days after collection.*

- e) Trace the actual deposit per the bank statement to the general ledger.

*No exception noted.*

***Non-payroll Disbursements (excluding card purchases/payments, travel reimbursements, and petty cash purchases)***

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8. Obtain a listing of locations that process payments for the fiscal period and management’s representation that the listing is complete. Randomly select 5 locations (or all locations if less than 5).

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

PRIORITY HEALTH CARE, INC.  
AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS  
DECEMBER 31, 2019

Schedule A

*Non-payroll Disbursements (excluding card purchases/payments, travel reimbursements, and petty cash purchases) (continued)*

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9. For each location selected under #8 above, obtain a listing of those employees involved with non-payroll purchasing and payment functions. Obtain written policies and procedures relating to employee job duties (if the agency has no written policies and procedures, inquire of employees about their job duties), and observe that job duties are properly segregated such that:

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

- a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

- b) At least two employees are involved in processing and approving payments to vendors.

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

- c) The employee responsible for processing payments is prohibited from adding/modifying vendor files, unless another employee is responsible for periodically reviewing changes to vendor files.

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

- d) Either the employee/official responsible for signing checks mails the payment or gives the signed checks to an employee to mail who is not responsible for processing payments.

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

10. For each location selected under #8 above, obtain the entity's non-payroll disbursement transaction population (excluding cards and travel reimbursements) and obtain management's representation that the population is complete. Randomly select 5 disbursements for each location, obtain supporting documentation for each transaction and:

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

- a) Observe that the disbursement matched the related original invoice/billing statement.

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

- b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2019**

Schedule A

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

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11. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards) for the fiscal period, including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

12. Using the listing prepared by management, randomly select 5 cards (or all cards if less than 5) that were used during the fiscal period. Randomly select one monthly statement or combined statement for each card (for a debit card, randomly select one monthly bank statement), obtain supporting documentation, and:

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

- a) Observe that there is evidence that the monthly statement or combined statement and supporting documentation (e.g., original receipts for credit/debit card purchases, exception reports for excessive fuel card usage) was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.]]

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

- b) Observe that finance charges and late fees were not assessed on the selected statements.

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

13. Using the monthly statements or combined statements selected under #12 above, excluding fuel cards, randomly select 10 transactions (or all transactions if less than 10) from each statement, and obtain supporting documentation for the transactions (i.e. each card should have 10 transactions subject to testing). For each transaction, observe that it is supported by (1) an original itemized receipt that identifies precisely what was purchased, (2) written documentation of the business/public purpose, and (3) documentation of the individuals participating in meals (for meal charges only).

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2019**

Schedule A

***Travel and Travel-Related Expense Reimbursements (excluding card transactions)***

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

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

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

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

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

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

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

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

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

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

***Contracts***

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15. Obtain from management a listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period. *Alternately, the practitioner may use an equivalent selection source, such as an active vendor list.* Obtain management's representation that the listing is complete. Randomly select 5 contracts (or all contracts if less than 5) from the listing, excluding the practitioner's contract, and:

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2019**

Schedule A

***Contracts (continued)***

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- a) Observe that the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

- b) Observe that the contract was approved by the governing body/board, if required by policy or law (e.g. Lawrason Act, Home Rule Charter).

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

- c) If the contract was amended (e.g. change order), observe that the original contract terms provided for such an amendment.

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

- d) Randomly select one payment from the fiscal period for each of the 5 contracts, obtain the supporting invoice, agree the invoice to the contract terms, and observe that the invoice and related payment agreed to the terms and conditions of the contract.

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

***Payroll and Personnel***

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16. Obtain a listing of employees/elected officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees/officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

17. Randomly select one pay period during the fiscal period. For the 5 employees/officials selected under #16 above, obtain attendance records and leave documentation for the pay period, and:

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

- a) Observe that all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.).

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2019**

Schedule A

***Payroll and Personnel (continued)***

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- b) Observe that supervisors approved the attendance and leave of the selected employees/officials.

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

- c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

18. Obtain a listing of those employees/officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees/officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations, agree the hours to the employee/officials' cumulative leave records, and agree the pay rates to the employee/officials' authorized pay rates in the employee/officials' personnel files.

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

19. Obtain management's representation that employer and employee portions of payroll taxes, retirement contributions, health insurance premiums, and workers' compensation premiums have been paid, and associated forms have been filed, by required deadlines.

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

***Ethics***

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20. Using the 5 randomly selected employees/officials from procedure #16 under "Payroll and Personnel" above obtain ethics documentation from management, and:

- a) Observe that the documentation demonstrates each employee/official completed one hour of ethics training during the fiscal period.

*Procedure was not performed, as this procedure does not apply to the entity.*

- b) Observe that the documentation demonstrates each employee/official attested through signature verification that he or she has read the entity's ethics policy during the fiscal period.

*Procedure was not performed, as procedure does not apply to the entity.*



**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2019**

Schedule A

***Debt Service***

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21. Obtain a listing of bonds/notes issued during the fiscal period and management's representation that the listing is complete. Select all bonds/notes on the listing, obtain supporting documentation, and observe that State Bond Commission approval was obtained for each bond/note issued.

*Procedure was not performed, as this procedure does not apply to the entity.*

22. Obtain a listing of bonds/notes outstanding at the end of the fiscal period and management's representation that the listing is complete. Randomly select one bond/note, inspect debt covenants, obtain supporting documentation for the reserve balance and payments, and agree actual reserve balances and payments to those required by debt covenants.

*Procedure was not performed, as this procedure does not apply to the entity.*

***Other***

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

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

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

*Procedure was not performed due to no exceptions occurring for this procedure in the prior year or the existence of mitigating internal controls as asserted by the entity.*

**PRIORITY HEALTH CARE, INC.**  
**MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN**  
**DECEMBER 31, 2019**

Schedule B

Priority Health Care, Inc. (the Entity) provided a response and corrective action plan for the exceptions noted in Schedule A as set forth below.

***Board (or Finance Committee, if applicable)***

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Procedure 2a: Observe that the board/finance committee met with a quorum at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, bylaws, or other equivalent document.

Management's Response: As per the Entity's bylaws, the Board meets on a monthly basis. In the event a quorum cannot be established, the meeting is rescheduled to another date within the same month. Due to the Mardi Gras holiday and the meeting already being scheduled on February 29<sup>th</sup>, the last day of the month, the meeting could not be rescheduled.

***Collections***

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Procedure 7d: Observe that the deposit was made within one business day of receipt at the collection location (within one week if the depository is more than 10 miles from the collection location or the deposit is less than \$100).

Management's Response: To increase control over cash collections and per the Entity's policies and procedures, cash received by mail or directly from patients shall be:

- i. deposited into a local banking institution, generally within five (5) business days of receipt;
- ii. recorded into the accounting system by the Senior Accountant, generally within three (3) business days of deposit;
- iii. posted against patient accounts, generally within five (5) business days of receipt;
- iv. payments unable to be deposited within five (5) business days of receipt are maintained in the safe secured with a combination lock and key, only to be opened by one of the two authorized individuals.
- v. the Entity does not maintain sequentially pre-numbered receipts; however, patients are issued a system generated receipt from the respective patient revenue system and the credit card terminal, if applicable.