

**MOREHOUSE COMMUNITY
MEDICAL CENTERS, INC.
Bastrop, Louisiana**

**Financial and Compliance Report
July 31, 2020**

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STEVEN M. DEROUEN & ASSOCIATES

Certified Public Accountants

P. O. BOX 4265
LAKE CHARLES, LA 70606
(337) 513-4915 OFFICE/ (337) 205-6927 FAX
steve@sderouencpa.com

Member American Institute of
Certified Public Accountants

Member Louisiana Society of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Morehouse Community Medical Centers, Inc.
Bastrop, Louisiana

Report on the Financial Statements

I have audited the accompanying statements of Morehouse Community Medical Centers, Inc., (a non-profit organization), which comprise the statement of financial position as of July 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Board of Directors
Morehouse Community Medical Centers, Inc.
Bastrop, Louisiana

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Morehouse Community Medical Centers, Inc. as of July 31, 2020, 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.

Other Matters

Other Information

My 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, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the Schedule of Compensation, Benefits and Other Payments, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my 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*, I have also issued my report dated January 26, 2021, on my consideration of Morehouse Community Medical Centers, Inc.'s internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Morehouse Community Medical Centers, Inc.'s internal control over financial reporting and compliance.

Steven M. DeRouen & Associates

Lake Charles, Louisiana
January 26, 2021

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Statement of Financial Position
As of July 31, 2020

Assets	
Current Assets	
Cash and cash equivalents	\$ 6,978,808
Certificates of deposit investment	778,675
Patient accounts receivable, net	539,392
Grant receivable	157,373
Other receivables	24,124
Prepaid expenses	216,295
Total Current Assets	<u>8,694,667</u>
Property, Plant and Equipment	
Buildings	2,640,614
Furniture and equipment	497,677
Vehicles	582,022
	<u>3,720,313</u>
Less accumulated depreciation	<u>(1,223,722)</u>
	2,496,591
Land	278,336
Construction in progress	810,792
Net Property, Plant and Equipment	<u>3,585,719</u>
Other Assets	
Certificates of deposit investment	1,765,506
Deposits	30,987
Total Other Assets	<u>1,796,493</u>
Total Assets	<u>\$ 14,076,879</u>
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	\$ 568,996
Accrued payroll and related liabilities	576,390
Total Current Liabilities	<u>1,145,386</u>
Net Assets	
Without donor restrictions	12,715,335
With donor restrictions	216,158
Total Net Assets	<u>12,931,493</u>
Total Liabilities and Net Assets	<u>\$ 14,076,879</u>

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Statement of Activities
For the Year Ended July 31, 2020

Revenue and Support	Without Donor Restrictions	With Donor Restrictions	Total
Revenue:			
Gross patient service revenue	\$ 9,735,365	\$ -	\$ 9,735,365
Less: contractual allowances and discounts	(4,290,854)	-	(4,290,854)
Net patient service revenue	5,444,511	-	5,444,511
Pharmacy 340 B program income	1,480,643	-	1,480,643
Total Revenue	6,925,154	-	6,925,154
Support:			
Grant awards	3,715,764	-	3,715,764
Contributions	37,257	52,883	90,140
Interest income	53,306	-	53,306
Unrealized gain on investments	22,260	-	22,260
Other income	822,310	163,275	985,585
Total Support	4,650,897	216,158	4,867,055
Net assets released from restrictions			
Satisfaction of program restrictions	-	-	-
Total Revenue and Support	11,576,051	216,158	11,792,209
Expenses			
Program services	6,916,931	-	6,916,931
General and administrative	2,888,862	-	2,888,862
Total Expenses	9,805,793	-	9,805,793
Change in Net Assets (Revenues over Expenses)	1,770,258	216,158	1,986,416
Net Assets - Beginning of Year	10,945,077	-	10,945,077
Net Assets - End of Year	<u>\$ 12,715,335</u>	<u>\$ 216,158</u>	<u>\$ 12,931,493</u>

See accompanying notes to the financial statements

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Statement of Cash Flows
For the Year Ended July 31, 2020

Cash Flows From Operating Activities	
Change in net assets	\$ 1,986,416
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	208,926
Changes in operating assets and liabilities:	
Change in allowance for doubtful accounts	(5,068)
(Increase) decrease in accounts receivable	165,752
(Increase) decrease in grant receivable	109,906
(Increase) decrease in other receivable	(24,124)
(Increase) decrease in prepaid expenses	(158,218)
(Increase) decrease in unconditional promises to give	27,743
(Increase) decrease in deposits	(10,000)
Increase (decrease) in accounts payable	(443,013)
Increase (decrease) in accrued payroll and related liabilities	121,313
	<hr/>
Net Cash Provided (Used) by Operating Activities	1,979,633
	<hr/>
Cash Flows From Investing Activities	
Proceeds from disposition and maturity of investments	1,006,954
Purchase of certificate of deposit	(1,246,473)
Fixed asset acquisitions	(990,652)
	<hr/>
Net Cash Provided (Used) by Investing Activities	(1,230,171)
	<hr/>
Net Increase in Cash and Cash Equivalents	749,462
Cash and Cash Equivalents - Beginning of Year	6,229,346
	<hr/>
Cash and Cash Equivalents - End of Year	\$ 6,978,808
	<hr/> <hr/>

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Statement of Functional Expenses
For the Year Ended July 31, 2020

	<u>Program Services</u>	<u>Supporting Services General and Administrative</u>	<u>Total</u>
Salaries	\$ 3,767,760	\$ 1,959,554	\$ 5,727,314
Fringe benefits	565,957	291,554	857,511
Payroll taxes	198,360	102,186	300,546
Consultants and contractual services	435,519	16,388	451,907
Supplies	318,034	198,879	516,913
Dues and subscriptions	53,729	10,234	63,963
Maintenance and repairs	564,745	107,571	672,316
Telephone	47,988	9,141	57,129
Postage	6,050	1,152	7,202
Insurance	98,594	18,780	117,374
Travel and seminars	36,418	88,116	124,534
Occupancy	40,053	7,629	47,682
Rent	58,472	11,138	69,610
Legal and professional	132,508	25,240	157,748
Recruitment	28,425	5,414	33,839
Miscellaneous	145,580	2,459	148,039
Donations	8,135	-	8,135
Outreach, advertising and sponsorships	235,105	-	235,105
	<u>6,741,434</u>	<u>2,855,434</u>	<u>9,596,867</u>
Total expenses before depreciation			
Depreciation	<u>175,498</u>	<u>33,428</u>	<u>208,926</u>
Total expenses	<u>\$ 6,916,931</u>	<u>\$ 2,888,862</u>	<u>\$ 9,805,793</u>

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2020

NOTE 1 - NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Morehouse Community Medical Centers, Inc. was organized without capital stock under Louisiana laws on November 15, 2002, as a non-profit corporation for the purpose of operating one or more community health centers for the public and/or providing medical care or medical education for the benefit of the public. The Organization is a federally qualified health center (FQHC) and is principally funded under a grant from the Office of Public Health Services, a component of the U.S. Department of Health and Human Services (DHHS). The Board of Directors of Morehouse Community Medical Centers, Inc. is comprised of eleven members who serve without paid compensation.

Income Taxes

The Organization is exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code and applicable state codes. Accordingly, no provision for federal and state income taxes is included in the financial statements. The Morehouse Community Medical Centers, Inc. Form 990, Return of Organization Exempt from Income Tax, is subject to examination by the IRS, generally for three (3) years after it was filed.

Budgetary Planning and Control

Once Morehouse Community Medical Centers, Inc. determines the activities to undertake for the coming year(s), the budget is prepared to translate those goals, objectives, and plans into revenue and expense figures. The Chief Financial Officer develops the budget in collaboration with the executive staff with input obtained from others such as other senior management. The governing board reviews and approves the operating budget. Once approved, the budgets are submitted to the full board for review and approval. Budgets are reviewed and revised annually. A continuing actual to budget comparison is prepared monthly with year-to-date figures in adequate detail to provide basic comparative data to staff responsible for expenses or revenues.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Organization considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2020

NOTE 1 - NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Method of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, in accordance with generally accepted accounting principles. Net assets and revenues, expense, gains and losses are classified based on the existence or absence of grantor/contributor imposed or time restrictions.

The financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) in its Accounting Standard Codification (ASC) Topic, *Financial Statements of Not-for-Profit Organizations*. In accordance with this guidance, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets available subject to donor-imposed or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Organizations report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Net assets with donor restrictions are restricted for the following purposes:

Subject to expenditure for specified purpose:	
Program activities:	
Living Well Foundation Grant	\$ 33,722
Provider Relief Fund Grant	131,190
Rural Relief Fund Grant	32,086
United Healthcare Grant	19,160
Total	\$ 216,158

Accounts Receivable

The Organization records accounts receivable at the time of service according to fees developed from cost data of this and similar organizations. These amounts are often reduced because of the patients' inability to pay or because of disallowances and reductions from third party payors.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2020

NOTE 1 - NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Allowance for Doubtful Accounts and Bad Debts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Investments

The Organization reports its investments in accordance with generally accepted accounting principles for not-for-profit organizations, which establish accounting standards for investments in certain equity securities and for all debt securities. The guidance prescribes that covered investments be reported in the statement of financial position at fair value with any realized or unrealized gains or losses reported in the statement of activities.

Risk Management

The Organization is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice claims and judgments. Commercial insurance coverage is purchased for claims arising from such matters. The Organization is deemed under the Federal Torts Claims Act for claims arising from malpractice and commercial insurance (remained of what is there).

Property and Equipment

Property and equipment are stated at cost. It is the Organization's policy to capitalize expenditures for these items in excess of \$5,000. Property and equipment donated for Morehouse Community Medical Centers, Inc. operations are valued at their fair market value as of the date received. Repairs and maintenance are charged to operations when incurred. Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	15 - 40
Land improvements	10 - 30
Fixed equipment	5 - 20
Equipment, furniture and fixtures	3 - 20

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2020

NOTE 1 - NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Grants and Contributions

Grants and contributions are recognized as income when received. The Board reports grants as temporarily restricted support if they are received with stipulations that limit the use of the funds. When grantor restrictions expire, temporary restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. All other support is recognized when earned. Grants and contributions that are restricted by the grantor or donor are reported as increases in unrestricted net assets if the restrictions expire in the same fiscal year in which the grants and contributions are recognized.

Compensated Absences

The following description of the Organization's compensated absences policy provides only general information. Employees should refer to the Paid Time Off (PTO) Policy for a more complete description the policy's provisions.

If an employee terminates employment and has unused accrued PTO hours, they will be paid for those hours on their final paycheck. The amount of PTO accruals or credit (including accrual rollovers) is based on the number of months/years of continuous service as shown in the following schedule:

Length of Service	Maximum PTO Benefit	Maximum PTO Accrual
0-60 days	80	N/A
1 Year	88	N/A
2 Years	96	376
3 Years	104	406
4 Years	112	436
5 Years	120	466
6 Years	128	496
7 Years	136	526
8 Years	144	556
9 Years	152	578
10 Years	160	600

For the year ended July 31, 2020, Morehouse Community Medical Centers, Inc. had \$368,992 in accrued Paid Time Off (PTO).

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2020

NOTE 1 - NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Compensated Absences (Continued)

HOLIDAYS EARNED

After 60 days, all full-time employees will be paid their base rate for holidays designated by the Governing Board. Holiday pay is based on the employee's normal scheduled hours for the applicable shift. If an employee is not scheduled to work on a holiday recognized by the clinic, that employee shall receive a flat 8 hours of holiday pay.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Retroactive adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Morehouse Community Medical Centers, Inc. has agreements with third-party payors that provide reimbursement to the Morehouse Community Medical Centers, Inc. at amounts different from its established rates. Contractual adjustment under third-party reimbursement programs represent the difference between the Morehouse Community Medical Centers, Inc.'s rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

Medicare A – All-Inclusive Encounter Rate – Reimbursed on one rate regardless of the services provided.

Medicare B – Fee-For-Service – Reimbursed per encounter up to the payors allowable amount.

Regular Medicaid and Medicaid Bayou Health – All-Inclusive Encounter Rate – Reimbursed on one rate regardless of the services provided.

All Other Medicaid – Fee-For-Service – Reimbursed per encounter up to the payors allowable amount.

Commercial – Fee-For-Service – Reimbursed per contract or per payer's allowable fee schedule.

Major Funding Source

The Organization receives funds from DHHS, under section 330 of the Public Health Service Act (42 U.S.C. 254c). In accordance with DHHS policies, all funds disbursed should be in compliance with the specific terms of the grant agreements. DHHS may, at its discretion, request reimbursement for expenses or return of unexpended funds, or both, as a result of non-compliance by the Organization with the terms of the grants. In addition, if the Organization terminates its DHHS grant activities, all unexpended federal funds are to be returned to DHHS.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2020

NOTE 1 - NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Functional Expenses

Expenses were allocated in the accompanying financial statements to program and support services functional expense groups. The methods of allocation were based on the Organization's estimates of the relative proportion of various staff members' time and effort between program and support services as well as the Organization's estimates of the amount of each expense utilized for program or support service functions.

Rental of Facilities

Morehouse Community Medical Centers, Inc. entered into a Memorandum of Agreement with Morehouse Parish School Board for the use of space at Morehouse Jr. High School. This space is used for the School Based Health Clinic provided by Morehouse Community Medical Centers, Inc. with both parties providing specific services in a cooperative endeavor agreement. This agreement is for ten years ending October 1, 2029. Morehouse Community Medical Centers, Inc. receives the use of this space rent free from the School Board.

Morehouse Community Medical Centers, Inc. entered into a Memorandum of Agreement with Morehouse Parish School Board for the use of land at Bastrop High School. This land is used for the School Based Health Clinic provided by Morehouse Community Medical Centers, Inc. with both parties providing specific services in a cooperative endeavor agreement. This agreement is for ten years ending April 30, 2023 and receives the use of this land rent free from the School Board.

Morehouse Community Medical Centers, Inc. entered into a Memorandum of Understanding with the Union Parish School System for the use of land at Union Parish High School. This land is used for the School Based Health Clinic provided by Morehouse Community Medical Centers, Inc. with both parties providing specific services in a memorandum of understanding. This agreement is for ten years ending June 30, 2030 and receives the use of this land rent free from the School System.

Effective March 13, 2015, Morehouse Community Medical Centers, Inc. entered into a Memorandum of Agreement with Ouachita Parish School Board for the use of space at Riser Middle School and West Monroe High School. This space is used for the School Based Health Clinics provided by Morehouse Community Medical Centers, Inc. with both parties providing specific services in a cooperative endeavor agreement. This agreement is indefinite and may be terminated by providing a sixty days termination notice. Morehouse Community Medical Centers, Inc. receives the use of this space rent free from the School Board.

Effective June 29, 2018, Morehouse Community Medical Centers, Inc. entered into a building lease to house the Monroe site clinic. The lease is for five-and-one-half years and an option exists to renew the lease for an additional three years. During fiscal year ending July 31, 2020, the total minimum rental expense under this lease equaled \$66,693.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2020

NOTE 1 - NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Rental of Facilities (Continued)

The following is a schedule of the future minimum rental payments under this operating lease:

Year Ending July 31,	
2021	66,693
2022	66,693
2023	66,693
2024	<u>27,789</u>
Total Minimum Lease Payments	\$ <u>227,868</u>

Outreach and Advertising Expense

The Organization expenses the cost of outreach and advertising as the expenses are incurred. For the year ended July 31, 2020, the cost totaled \$235,105.

Performance Indicator

The Organization utilizes revenues over expenses as its performance indicator.

NOTE 2 - PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable are comprised of the following for the year ending July 31, 2020:

Medicare	\$ 37,568
Medicaid	171,867
Private	100,587
Pharmacy 340 B Program	<u>230,018</u>
	540,040
Less allowance for doubtful accounts	<u>(648)</u>
	<u>\$ 539,392</u>

The method to calculate allowance for doubtful accounts did not significantly change from the prior year. The Organization's write-offs, which primarily consisted of self-pay charges, totaled \$0- for the fiscal year July 31, 2020. The Organization amended its charity care policy to adhere to the annually revised Federal Poverty Level Guidelines during the fiscal year.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2020

NOTE 3 - CONCENTRATIONS OF CREDIT RISK

The Organization maintains several bank accounts at various banks. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution and one bank secures excess deposits over FDIC insurance with pledged securities totaling \$6,597,919. At July 31, 2020, the Organization had cash deposits totaling \$7,029,175 of which any deposits in excess of FDIC insured limits were covered by the pledged securities. The Organization deposits its cash with high quality financial institutions and management believes the Organization is not exposed to significant credit risk on those amounts.

The majority of the Organization's patients are located in northeast Louisiana. The Organization grants credit without collateral to its patients. The mix of receivables from patients and third-party payors as of July 31, 2020 was as follows:

Medicare	7 %
Medicaid	32
Other	18
Pharmacy 340 B Program	43
	100 %

The mix of net patient revenues for the year ended July 31, 2020 was as follows:

Medicare	7 %
Medicaid	80
Other	13
	100 %

NOTE 4 - ECONOMIC DEPENDENCY

The Organization receives a substantial portion of its total support and revenues from the federal government. During the fiscal year ended July 31, 2020, Morehouse Community Medical Centers, Inc. recorded \$3,096,839 in grant support from the Department of Health and Human Services. This represents 26% of total support and revenues for the year ended July 31, 2020.

NOTE 5 - COST REPORT RECEIVABLE

The Organization participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. The Organization participates in the Medicaid program as a federally qualified health center. Final settlements will be made upon completion of audits by program representatives.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2020

NOTE 6 – FAIR VALUE OF INSTRUMENTS

The Organization has a number of financial instruments, none of which is held for trading purposes. The Organization estimates that the fair value of all financial instruments at July 31, 2020, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Organization using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the agency could realize in a current market exchange. The recorded values of cash and cash equivalents, accounts receivable, grants receivable, other receivables, prepaid expenses, accounts payable and accrued expenses approximate their fair values based on their short-term nature. The recorded values of notes payable approximate their fair value, as interest is insignificant.

NOTE 7 – INVESTMENTS

The Organization applies GAAP for fair value measurements of financial assets that are recognized at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair market hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Organization has the ability to access.

Level 2 inputs are inputs (other than quoted prices in Level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3 are unobservable inputs for the asset or liability and rely on management’s own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available).

As of July 31, 2020, the Organization’s investments measured on a recurring basis consisted of certificate of deposit investments with fair market value (Level 2) and cost bases as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Certificate of deposit investments (Level 2 Observable Inputs)	\$ 2,521,921	\$ 2,544,181	\$ 22,260

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2020

NOTE 8 – RETIREMENT PLAN

The Organization has established a 403B defined contribution retirement plan. All employees are eligible to participate after six months of service. The Organization will contribute to each qualifying participant a dollar-per-dollar match up to 5% of the qualifying participant's monthly wages (including base wages, overtime, incentives and bonuses) which is subjected to a vesting period. The Organization's contributions to the plan for the year ended July 31, 2020 totaled \$176,126.

NOTE 9 – FUNCTIONAL ALLOCATION OF EXPENSES

Expenses were allocated in the accompanying financial statements to program and supporting service functional expense groups. The methods of allocation were based on several factors such as utilization of office space as well as the Organization's estimates of the relative proportion of various staff members' time and effort between program and administrative functions.

NOTE 10 – CHARITY CARE

The Organization provides care to patients who qualify under federal guidelines and other policies of the Organization at fees less than its established rates. The amount of charity care is reduced from the amount of fees for services presented in the statement of activities. The amount of charity care for disclosure purposes should be measured by costs, including direct and indirect costs. Management has calculated the costs associated with providing charity care utilizing the cost to charge ratio obtained from the Medicare cost report data. The amount of costs associated with charity care for the fiscal year ended July 31, 2020 was \$342,988. The Organization receives a Department of Health and Human Services grant to subsidize the charity care medical services provided to qualifying patients.

NOTE 11 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization has \$8,454,248 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of substantially cash of \$6,978,808, certificate of deposit investments of \$778,675, patient accounts receivable of \$539,392, and grants receivable of \$157,393. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position. The Organization has a goal to maintain financial assets which consist of cash on hand to meet six (6) months of normal operating expenses, which are, on average, approximately \$2,400,000. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, as part of its liquidity management, the Organization deposits cash in excess of daily requirements in certificate of deposit investments.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2020

NOTE 12 - PROPERTY AND EQUIPMENT

The balances and changes in property, plant, and equipment as of and for the year ended July 31, 2020 are as follows:

	Balance Beginning	Additions	Deletions	Balance Ending
Asset type:				
Non-depreciable assets:				
Land	\$ 278,336	\$ -	\$ -	\$ 278,336
Construction in progress	408,164	760,564	357,936	810,792
Total non-depreciable assets	686,500	760,564	357,936	1,089,128
Depreciable assets:				
Buildings	2,224,173	416,441	-	2,640,614
Furniture and equipment	442,219	55,458	-	497,677
Vehicles	465,847	116,175	-	582,022
Total depreciable assets	3,132,239	588,074	-	3,720,313
Accumulated depreciation				
Buildings	294,818	87,118	-	381,936
Furniture and equipment	421,241	43,161	-	464,402
Vehicles	298,737	78,647	-	377,384
Total	1,014,796	208,926	-	1,223,722
Total depreciable assets	2,117,443	379,148	-	2,496,591
Total property and equipment, net	\$ 2,803,943	\$ 1,139,712	\$ 357,936	\$ 3,585,719

NOTE 13 - SUBSEQUENT EVENTS

The Organization evaluated its July 31, 2020 financial statements for subsequent events through the date of the audit report, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

NOTE 14 - COMMITMENT

In August 2019, the Organization entered into a construction contract to build a medical clinic in Mer Rouge, LA. The total expenditures to date and committed amounts total \$332,697 and \$403,217, respectively. The project is expected to be completed in December 2020.

In July 2020, the Organization entered into a construction contract to build a school-based health center at the West Monroe High School. The total expenditures to date and committed amounts total \$90,884 and \$144,745, respectively. The project is expected to be completed in December 2020.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.

**Schedule of Expenditures of Federal Awards
Year Ended July 31, 2020**

<u>Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Program Year</u>	<u>Program Revenues</u>	<u>Program Expenses</u>
U. S. Department of Health and Human Services Cluster					
Direct Programs:					
Community Health Center Section 330	* 93.224	H80CS08764	8/1/19 - 7/31/20	\$ 2,606,090	\$ 2,606,090
Coronavirus Supplemental funding for Health Centers COVID-19	* 93.224	H8CCS34939	8/1/19 - 7/31/20	45,490	45,490
CARES Act Supplemental funding COVID-19	* 93.224	H8DCS35761	8/1/19 - 7/31/20	445,259	445,259
Federal Communications Commission COVID-19 Telehealth Program	32.006		8/1/19 - 7/31/20	<u>102,014</u>	<u>102,014</u>
Total federal assistance				<u>\$ 3,198,853</u>	<u>\$ 3,198,853</u>

* Major Program

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Morehouse Community Medical Centers, Inc., and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of Title 2 of U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Certain costs have been allocated to the federal program in accordance with OMB Circular A-122, *Cost Principles of Non-Profit Organizations*. The amounts presented in this schedule do not differ from the amounts presented in, or used in the preparation of the financial statements. Morehouse Community Medical Centers, Inc. has elected not to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

Morehouse Community Medical Centers, Inc.

Schedule of Compensation, Benefits and Other Payments to Executive Director

July 31, 2020

NO COMPENSATION PAID FROM PUBLIC FUNDS

Agency Head Name: Katie Parnell, Executive Director

Purpose	Amount
Salary	-
Benefits-health insurance	-
Benefits-retirement	-
Benefits-Life, ADD, LTD	-
Car allowance	-
Vehicle provided by government	-
Per diem	-
Reimbursements – Auto Mileage Reimb	-
Travel	-
Registration fees	-
Conference travel	-
Continuing professional education fees	-
Housing	-
Unvouchered expenses	-
Special meals	-
	-

STEVEN M. DEROUEN & ASSOCIATES

Certified Public Accountants

P. O. BOX 4265
LAKE CHARLES, LA 70606
(337) 513-4915 OFFICE/ (337) 205-6927 FAX
steve@sderouencpa.com

Member American Institute of
Certified Public Accountants

Member Louisiana Society of
Certified Public Accountants

INDEPENDENT AUDITOR'S 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

Board of Directors
Morehouse Community Medical Centers, Inc.
Bastrop, Louisiana

I 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 Morehouse Community Medical Centers, Inc. (a nonprofit organization), which comprise the statement of financial position as of July 31, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated January 26, 2021.

Internal Control Over Financial Reporting

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

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Morehouse Community Medical Centers, Inc.
Bastrop, Louisiana

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morehouse Community Medical Centers, Inc.'s financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my test 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 my 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. However, this report is a matter of public record and its distribution is not limited.

Steven M. DeRouen & Associates

Lake Charles, Louisiana
January 26, 2021

STEVEN M. DEROUEN & ASSOCIATES

Certified Public Accountants

P. O. BOX 4265
LAKE CHARLES, LA 70606
(337) 513-4915 OFFICE/ (337) 205-6927 FAX
steve@sderouencpa.com

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

The Board of Directors
Morehouse Community Medical Centers, Inc.
Bastrop, Louisiana

Report on Compliance for Each Major Federal Program

I have audited Morehouse Community Medical Centers, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Morehouse Community Medical Centers, Inc.'s major federal programs for the year ended July 31, 2020. Morehouse Community Medical Centers, Inc.'s major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Morehouse Community Medical Centers, Inc.'s major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that I 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 Morehouse Community Medical Centers, Inc.'s compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Morehouse Community Medical Centers, Inc.'s compliance.

Board of Directors
Morehouse Community Medical Centers, Inc.
Bastrop, Louisiana

Opinion on Each Major Federal Program

In my opinion, Morehouse Community Medical Centers, Inc. 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 July 31, 2020.

Report on Internal Control Over Compliance

Management of Morehouse Community Medical Centers, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Morehouse Community Medical Centers, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Morehouse Community Medical Centers, Inc.'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.

My 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. I did not identify any deficiencies in internal control over compliance that I 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 my 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. However, this report is a matter of public record and its distribution is not limited.

Steven M. DeRouen & Associates

Lake Charles, Louisiana
January 26, 2021

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, LA
Schedule of Findings and Questioned Costs
Year Ended July 31, 2020

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditor’s report issued			Unmodified
Internal control over financial reporting:			
Material weaknesses identified?	___ Yes	_x_ No	
Significant deficiency identified not considered to be material weaknesses?	___ Yes	_x_ None reported	
Noncompliance material to financial statements noted?	___ Yes	_x_ No	

Federal Awards

Internal control over major programs:			
Material weaknesses identified?	___ Yes	_x_ No	
Significant deficiency identified not considered to be material weaknesses?	___ Yes	_x_ None reported	
Type of auditor’s report issued on compliance for major programs:			Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	___ Yes	_x_ No	

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.224	U.S. Department of Health and Human Services, Community Health Center Section 330

Dollar threshold used to distinguish between

Type A and Type B programs:	<u>\$750,000</u>
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Auditee qualified as low-risk auditee?	_x_ Yes	___ No
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A separate management letter was not issued.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Schedule of Findings and Questioned Costs (Continued)
Year Ended July 31, 2020

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The results of my tests disclosed no instances of non-compliance with the requirements applicable to each major federal program that are required to be reported in accordance with the Uniform Guidance.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Summary Schedule of Prior Year Findings and Questioned Costs
Year Ended July 31, 2020

PRIOR YEAR FINDINGS

None