

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

**Financial and Compliance Report
July 31, 2019**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Statements of Functional Expenses	6
Notes to Financial Statements	7 - 17
Supplementary Information	
Schedule of Expenditures of Federal Awards	18
Schedule of Compensation, Benefits and Other Payments	19
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 <i>Government Auditing Standards</i>	20 - 21
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	22 - 23
Schedule of Findings and Questioned Cost	24 - 25
Summary Schedule of Prior Year Findings and Questioned Costs	26

STEVEN M. DEROUEN & ASSOCIATES

Certified Public Accountants

P. O. BOX 4265
LAKE CHARLES, LA 70606
(337) 513-4915 OFFICE/ (337) 205-6927 FAX
steve@ssderouencpa.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, 2019, 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, 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.

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 17, 2020, 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 17, 2020

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Statement of Financial Position
As of July 31, 2019

Assets	
Current Assets	
Cash and cash equivalents	\$ 6,229,346
Certificates of deposit investment	450,054
Patient accounts receivable, net	700,076
Grant receivable	267,279
Unconditional promises to give	27,743
Prepaid expenses	58,077
Total Current Assets	<u>7,732,575</u>
Property, Plant and Equipment	
Buildings	2,224,173
Furniture and equipment	442,219
Vehicles	465,847
	<u>3,132,239</u>
Less accumulated depreciation	<u>(1,014,799)</u>
	2,117,440
Land	278,336
Construction in progress	408,164
Net Property, Plant and Equipment	<u>2,803,940</u>
Other Assets	
Certificates of deposit investment	1,854,608
Deposits	20,987
Total Other Assets	<u>1,875,595</u>
Total Assets	<u><u>\$ 12,412,110</u></u>
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	\$ 1,011,956
Accrued payroll and related liabilities	455,077
Total Current Liabilities	<u>1,467,033</u>
Net Assets	
Without donor restrictions	<u>10,945,077</u>
Total Net Assets	<u>10,945,077</u>
Total Liabilities and Net Assets	<u><u>\$ 12,412,110</u></u>

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Statement of Activities
For the Year Ended July 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Revenue:			
Gross patient service revenue	\$ 9,715,418	\$ -	\$ 9,715,418
Less: contractual allowances and discounts	(4,218,188)	-	(4,218,188)
	5,497,230	-	5,497,230
Less: provision for uncollectible accounts	(47,780)	-	(47,780)
Net patient service revenue	5,449,450	-	5,449,450
Pharmacy 340 B program income	2,000,625	-	2,000,625
Total Revenue	7,450,075	-	7,450,075
Support:			
Grant awards	2,849,356	-	2,849,356
Contributions	209,243	-	209,243
Interest income	24,791	-	24,791
Unrealized gain on investments	26,675	-	26,675
Other income	115,226	-	115,226
Loss on sale of assets	(6,682)	-	(6,682)
Total Support	3,218,609	-	3,218,609
Net assets released from restrictions			
Satisfaction of program restrictions	98,627	(98,627)	-
Total Revenue and Support	10,767,311	(98,627)	10,668,684
Expenses			
Program services	5,933,456	-	5,933,456
General and administrative	2,376,050	-	2,376,050
Total Expenses	8,309,506	-	8,309,506
Change in Net Assets (Revenues over Expenses)	2,457,805	(98,627)	2,359,178
Net Assets - Beginning of Year	8,487,272	98,627	8,585,899
Net Assets - End of Year	\$ 10,945,077	\$ -	\$ 10,945,077

See accompanying notes to the financial statements

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Statement of Cash Flows
For the Year Ended July 31, 2019

Cash Flows From Operating Activities

Change in net assets	\$ 2,359,178
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	172,430
Changes in operating assets and liabilities:	
Change in allowance for doubtful accounts	(17,173)
(Increase) decrease in accounts receivable	(50,717)
(Increase) decrease in grant receivable	(267,279)
(Increase) decrease in prepaid expenses	47,553
(Increase) decrease in unconditional promises to give	(27,743)
(Increase) decrease in deposits	(8,967)
Increase (decrease) in accounts payable	152,096
Increase (decrease) in accrued payroll and related liabilities	106,681
	<hr/>
Net Cash Provided (Used) by Operating Activities	2,466,059

Cash Flows From Investing Activities

Proceeds from disposition and maturity of investments	854,228
Purchase of certificate of deposit	(2,134,886)
Disposal of fixed assets	8,353
Fixed asset acquisitions	(1,563,013)
	<hr/>
Net Cash Provided (Used) by Investing Activities	(2,835,318)

Cash Flows From Financing Activities

Principal payments on long-term debt	(12,000)
	<hr/>
Net Cash Provided (Used) by Financing Activities	(12,000)
	<hr/>
Net Increase in Cash and Cash Equivalents	(381,259)

Cash and Cash Equivalents - Beginning of Year	6,610,605
	<hr/>

Cash and Cash Equivalents - End of Year	\$ 6,229,346
	<hr/> <hr/>

Supplemental Disclosure of Cash Flow Information:

Interest paid	\$ 1,111
	<hr/> <hr/>

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Statement of Functional Expenses
For the Year Ended July 31, 2019

		Supporting Services	
	Program Services	General and Administrative	Total
Salaries	\$ 3,300,373	\$ 1,429,024	\$ 4,729,397
Fringe benefits	425,066	239,100	664,166
Payroll taxes	219,890	123,688	343,578
Consultants and contractual services	348,784	15,890	364,674
Supplies	358,960	273,968	632,928
Dues and subscriptions	47,310	9,011	56,321
Maintenance and repairs	509,327	97,015	606,342
Telephone	74,710	14,230	88,940
Postage	7,145	1,361	8,506
Printing	70	13	83
Insurance	75,571	14,394	89,965
Travel and seminars	40,711	86,908	127,619
Occupancy	41,202	7,848	49,050
Rent	65,488	12,474	77,962
Legal and professional	97,398	18,552	115,950
Interest	933	178	1,111
Recruitment	11,693	2,227	13,920
Miscellaneous	13,543	2,580	16,123
Donations	19,400	-	19,400
Outreach, advertising and sponsorships	131,041	-	131,041
Total expenses before depreciation	5,788,614	2,348,462	8,137,076
Depreciation	144,841	27,589	172,430
Total expenses	\$ 5,933,456	\$ 2,376,050	\$ 8,309,506

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2019

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, 2019

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

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, 2019

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, 2019

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 PTO, Sick and Holiday Pay Policy for a more complete description the policy's provisions.

If an employee terminates employment and has unused accrued PTO and/or sick hours, they will be paid for those hours on their final paycheck. The amount of paid time off (PTO) and sick time 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 (Rollover Balance)	Maximum Sick Time Benefit	Maximum Sick Time Accrual (Rollover Balance)
0-60 days	80	N/A	48	N/A
1 Year	88	N/A	52	N/A
2 Years	96	192	56	112
3 Years	104	208	60	120
4 Years	112	224	64	128
5 Years	120	240	68	136
6 Years	128	256	72	144
7 Years	136	272	76	152
8 Years	144	288	80	160
9 Years	152	304	-	-
10 Years	160	320	-	-

For the year ended July 31, 2019, Morehouse Community Medical Centers, Inc. had \$156,255 and \$128,230 in accrued Paid Time Off – Vacation and accrued Paid Time Off – Sick, respectively.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2019

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.

Blue Cross – Fee-For-Service – Reimbursed on Blue Cross Fee Schedule.

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, 2019

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, 2019, the total minimum rental expense under this lease equaled \$59,598.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2019

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,	
2020	59,598
2021	59,598
2022	59,598
2023	59,598
2024	24,833
Total Minimum Lease Payments	\$ <u>263,225</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, 2019, the cost totaled \$131,041.

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, 2019:

Medicare	\$ 31,251
Medicaid	136,785
Private	73,199
Pharmacy 340 B Program	464,557
	<u>705,792</u>
Less allowance for doubtful accounts	(5,716)
	<u>\$ 700,076</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 \$47,780 for the fiscal year July 31, 2019. The Organization did not change its charity care policy during the fiscal year.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2019

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 \$6,240,672. At July 31, 2019, the Organization had cash deposits totaling \$6,360,762 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, 2019 was as follows:

Medicare	4 %
Medicaid	20
Other	10
Pharmacy 340 B Program	66
	<u>100 %</u>

The mix of net patient revenues for the year ended July 31, 2019 was as follows:

Medicare	6 %
Medicaid	72
Other	22
	<u>100 %</u>

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, 2019, Morehouse Community Medical Centers, Inc. recorded \$2,547,150 in grant support from the Department of Health and Human Services. This represents 24% of total support and revenues for the year ended July 31, 2019.

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, 2019

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, 2019, 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, unconditional promises to give, 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, 2019, 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>Amortized Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Certificate of deposit investments (Level 2 Observable Inputs)	\$ 2,277,987	\$ 2,304,662	\$ 26,675

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2019

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, 2019 totaled \$134,747.

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, 2019 was \$303,204. 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 \$7,674,498 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 \$6,229,346, certificate of deposit investments of \$450,054, patient accounts receivable of \$700,076, unconditional promises to give of \$27,743 and grants receivable of \$267,279. 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 unconditional promises to give are subject to implied time restrictions but are expected to be collected within one year. The Organization has a goal to maintain financial assets which consist of cash on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$1,337,602. 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, 2019

NOTE 12 - PROPERTY AND EQUIPMENT

The balances and changes in property, plant, and equipment as of and for the year ended July 31, 2019 are as follows:

	Balance Beginning	Additions	Deletions	Balance Ending
Asset type:				
Non-depreciable assets:				
Land	\$ 169,818	\$ 108,518	\$ -	\$ 278,336
Construction in progress	9,700	398,464	-	408,164
Total non-depreciable assets	179,518	506,982	-	686,500
Depreciable assets:				
Buildings	1,266,598	957,575	-	2,224,173
Furniture and equipment	443,899	6,673	8,353	442,219
Vehicles	374,064	91,783	-	465,847
Total depreciable assets	2,084,561	1,056,031	8,353	3,132,239
Accumulated depreciation				
Buildings	245,617	49,201	-	294,818
Furniture and equipment	370,706	52,205	1,670	421,241
Vehicles	235,071	63,669	-	298,740
Total	851,394	165,075	1,670	1,014,799
Total depreciable assets	1,233,167	890,956	6,683	2,117,440
Total property and equipment, net	\$ 1,412,685	\$ 1,397,938	\$ 6,683	\$ 2,803,940

NOTE 13 - SUBSEQUENT EVENTS

The Organization evaluated its July 31, 2019 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 - UNCONDITIONAL PROMISES TO GIVE

During the fiscal year ended July 31, 2019, the Organization received funding from the Living Well Foundation totaling \$240,000. The receivable of \$27,743 is the amount for August 1, 2020 through February 28, 2020.

NOTE 15 - COMMITMENT

In April 2019, the Organization entered into a construction contract to build a school based health center at the Union Parish High School. The total budget, expenditures to date and committed amounts total \$603,402, \$408,164 and \$179,206, respectively.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.

**Schedule of Expenditures of Federal Awards
Year Ended July 31, 2019**

<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	8/1/18 - 7/31/19	<u>\$ 2,547,150</u>	<u>\$ 2,547,150</u>
Total federal assistance				<u><u>\$ 2,547,150</u></u>	<u><u>\$ 2,547,150</u></u>

Above program consider major.

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, 2019

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, 2019, 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 17, 2020.

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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. See 2019-01.

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 17, 2020

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 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, 2019. 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, 2019.

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 17, 2020

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.
Bastrop, LA
Schedule of Findings and Questioned Costs
Year Ended July 31, 2019

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditor’s report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	_____ Yes <u> x </u> No
Significant deficiency identified not considered to be material weaknesses?	_____ Yes <u> x </u> None reported
Noncompliance material to financial statements noted?	_____ Yes <u> x </u> No see Finding 2019-01

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	_____ Yes <u> x </u> No
Significant deficiency identified not considered to be material weaknesses?	_____ Yes <u> x </u> 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 <u> x </u> 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: \$750,000

Auditee qualified as low-risk auditee? x Yes _____ No

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, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding: 2019-01 Late Filing of Audit Report –

Condition: The audit report was due by January 31, 2019. The report was filed in February 2020.

Response: The audit report was not submitted until February 2020. The Board will strive to continue to monitor such filings in the future to prevent a reoccurrence of this event.

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, 2019

PRIOR YEAR FINDINGS

None

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

AGREED-UPON PROCEDURES REPORT

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC.

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

FOR THE PERIOD OF AUGUST 1, 2018 THROUGH JULY 31, 2019

To the Board of Directors and the Louisiana Legislative Auditor:

I have performed the procedures enumerated below, which were agreed to by Morehouse Community Medical Centers, Inc. and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period August 1, 2018 through July 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, I make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

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
 - 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.
 - c) **Disbursements**, including processing, reviewing, and approving
 - d) **Receipts/Collections**, 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).
 - e) **Payroll/Personnel**, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.
 - 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
 - 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)
 - h) **Travel and expense reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers
 - 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.
 - j) **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.
 - 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.

Written Policies and Procedures (Continued)

Observation: While the Organization does have a Disaster Recovery/Business Continuity Policy, it does not specifically address: 1(k)(4) use of antivirus software on all systems and 1(k)(5) timely application of all available system and software patch updates.

Management's Response: While the Organization does maintain antivirus software on all computers and the computers are programmed to automatically update, it is not listed in the written Disaster Recovery/Business Continuity Policy. The Organization will update the Disaster Recovery/Business Continuity Policy to include written descriptions of these procedures.

Board or Finance Committee

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.
 - 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.*
 - c) For governmental entities, obtain the prior year audit report and observe the unrestricted fund balance in the general fund. If the general fund had a negative ending unrestricted 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 unrestricted fund balance in the general fund.

There were no observations noted in the prior year's "Board or Finance Committee" testing, therefore the above procedures are not applicable.

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 selected each account, and observe that:
 - 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);
 - 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
 - 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.

There were no observations noted in the prior year's "Bank Reconciliations" testing, therefore the above procedures are not applicable.

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).
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) Employees that are responsible for cash collections do not share cash drawers/registers.
 - 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.
 - 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.
 - 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.
6. Inquire of management that all employees who have access to cash are covered by a bond or insurance policy for theft.
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:
 - a) Observe that receipts are sequentially pre-numbered.
 - b) Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.
 - c) Trace the deposit slip total to the actual deposit per the bank statement.
 - 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).
 - e) Trace the actual deposit per the bank statement to the general ledger.

These procedures are not applicable to the grants received by the Non-Profit Organization.

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

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).
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:
 - a) At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.
 - b) At least two employees are involved in processing and approving payments to vendors.
 - 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.
 - 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.
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:
 - a) Observe that the disbursement matched the related original invoice/billing statement.
 - b) Observe that the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under #9, as applicable.

There were no observations noted in the prior year's "Non-Payroll Disbursements" testing, therefore the above procedures are not applicable.

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

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.
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:
 - 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.]]
 - b) Observe that finance charges and late fees were not assessed on the selected statements.
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). For missing receipts, the practitioner should describe the nature of the transaction and note whether management had a compensating control to address missing receipts, such as a "missing receipt statement" that is subject to increased scrutiny.

There were no observations noted in the prior year's "Credit Cards/Debit Cards/Fuel Cards/P-Cards" testing, therefore the above procedures are not applicable.

Travel and Travel-Related Expense Reimbursements

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:
- 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).
 - b) If reimbursed using actual costs, observe that the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.
 - 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).
 - d) Observe that each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

There were no observations noted in the prior year's "Travel and Travel-Related Expense Reimbursements" testing, therefore the above procedures are not applicable.

Contracts

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

There were no observations noted in the prior year's "Contracts" testing, therefore the above procedures are not applicable.

Payroll and Personnel

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.
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:
 - 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.)
 - b) Observe that supervisors approved the attendance and leave of the selected employees/officials.
 - c) Observe that any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records.
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.
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.

These procedures were superseded by Uniform Guidance testing procedures.

Ethics

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.
 - 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.

These procedures are not applicable to the grants received by the Non-Profit Organization.

Debt Service

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.
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.

These procedures are not applicable to the grants received by the Non-Profit Organization.

Other

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.
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.

There were no observations noted in the prior year’s “Other” testing, therefore the above procedures are not applicable.

I was 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, I do not express such an opinion or conclusion. Had I performed additional procedures, other matters might have come to my 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.

Steven M. DeRouen & Associates

January 17, 2020
Lake Charles, Louisiana