

**SOUTHEAST COMMUNITY
HEALTH SYSTEMS**

Zachary, Louisiana

**Financial and Compliance Report
December 31, 2023**

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STEVEN M. DEROUEN & ASSOCIATES, LLC

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
Southeast Community Health Systems
Zachary, Louisiana

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Southeast Community Health Systems (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Southeast Community Health Systems as of December 31, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Southeast Community Health Systems and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Prior Period Financial Statements

The financial statements of Southeast Community Health Systems as of December 31, 2022 were audited by other auditors whose report dated June 22, 2023 expressed an unmodified opinion on those financial statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Southeast Community Health Systems' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Southeast Community Health Systems' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Southeast Community Health Systems' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2024, on our consideration of Southeast Community Health Systems' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Southeast Community Health Systems' 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 Southeast Community Health Systems' internal control over financial reporting and compliance.

Report on Summarized Comparative Information

Other auditors audited Southeast Community Health Systems' 2022 financial statements, and expressed an unmodified audit opinion on those audited financial statements in their report dated June 22, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Steven M. DeRouen & Associates, LLC

Lake Charles, Louisiana
June 21, 2024

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Statements of Financial Position
As of December 31, 2023
With Summarized Comparative Totals as of December 31, 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 913,932	\$ 1,894,897
Cash and cash equivalents - restricted	500,000	-
Patient accounts receivable, net	545,337	665,007
Grant receivables	421,956	395,155
Inventory	93,443	114,217
Prepaid expenses	183,882	132,125
Total Current Assets	<u>2,658,550</u>	<u>3,201,401</u>
Property, Plant and Equipment		
Machinery and equipment	3,424,002	3,118,053
Furniture and fixtures	289,504	287,184
Leasehold improvements	13,777	13,777
Buildings	10,476,229	9,345,278
Vehicles	884,612	884,612
Software	54,637	54,637
Operating right-of-use asset	39,325	458,279
	<u>15,182,086</u>	<u>14,161,820</u>
Less accumulated depreciation	<u>(6,233,440)</u>	<u>(5,711,259)</u>
	8,948,646	8,450,561
Land	851,224	851,224
Construction in progress	-	63,981
Net Property, Plant and Equipment	<u>9,799,870</u>	<u>9,365,766</u>
Other Assets		
Goodwill	-	131,450
Investment LPCACO	128,041	11,000
Deposits	15,279	15,384
Total Other Assets	<u>143,320</u>	<u>157,834</u>
 Total Assets	 <u>\$ 12,601,740</u>	 <u>\$ 12,725,001</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 468,252	\$ 408,627
Accrued payroll and related liabilities	312,585	289,549
Due to IRS	390,782	390,782
Accrued interest payable	1,266	1,207
Current portion of notes payable	443,477	95,354
Current portion of operating right-of-use lease liability	39,321	47,096
Other liabilities	1,323	24,005
Total Current Liabilities	<u>1,657,006</u>	<u>1,256,620</u>
Long Term Liabilities		
Notes payable - net of current portion	1,603,978	1,702,356
Operating right-of-use lease liability - net of current portion	-	411,183
Total Long Term Liabilities	<u>1,603,978</u>	<u>2,113,539</u>
 Total Liabilities	 <u>3,260,984</u>	 <u>3,370,159</u>
Net Assets		
Without donor restrictions	9,340,756	9,354,842
Total Net Assets	<u>9,340,756</u>	<u>9,354,842</u>
 Total Liabilities and Net Assets	 <u>\$ 12,601,740</u>	 <u>\$ 12,725,001</u>

See accompanying notes to the financial statements

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Statements of Activities and Changes in Net Assets
For the Year Ended December 31, 2023
With Summarized Comparative Totals for the Year Ended December 31, 2022

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue and Support				
Revenue:				
Gross patient service revenue	\$ 6,983,192	\$ -	\$ 6,983,192	\$ 6,935,964
Less: contractual allowances and discounts	(1,153,862)	-	(1,153,862)	(1,252,186)
Net patient service revenue	5,829,330	-	5,829,330	5,683,778
Less: provision for uncollectible accounts	(664,382)	-	(664,382)	(662,936)
Net patient service revenue	5,164,948	-	5,164,948	5,020,842
Pharmacy 340B program income	124,259	-	124,259	72,613
Managed care incentive payments	58,629	-	58,629	83,545
Total Revenue	5,347,836	-	5,347,836	5,177,000
Support and Other Income:				
Grant awards	5,661,943	-	5,661,943	5,417,160
Other grants	503,521	-	503,521	492,440
Contract income	185,236	-	185,236	-
Interest and investment income	141,891	-	141,891	40,192
In-kind contributions	711,064	-	711,064	56,860
Loss on goodwill impairment	(131,450)	-	(131,450)	-
Other income	106,881	-	106,881	131,304
Total Support and Other Income	7,179,086	-	7,179,086	6,137,956
Net assets released from restrictions				
Satisfaction of program restrictions	-	-	-	-
Total Revenue, Support and Other Income	12,526,922	-	12,526,922	11,314,956
Expenses				
Program services	10,115,829	-	10,115,829	9,952,924
General and administrative	2,425,179	-	2,425,179	2,521,510
Total Expenses	12,541,008	-	12,541,008	12,474,434
Change in Net Assets (Revenues over Expenses)	(14,086)	-	(14,086)	(1,159,478)
Net Assets - Beginning of Year, As Previously Reported	9,354,842	-	9,354,842	10,468,774
Prior Period Adjustment	-	-	-	45,546
Net Assets - Beginning of Year, As Restated	9,354,842	-	9,354,842	10,514,320
Net Assets - End of Year	<u>\$ 9,340,756</u>	<u>\$ -</u>	<u>\$ 9,340,756</u>	<u>\$ 9,354,842</u>

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Statements of Cash Flows
For the Year Ended December 31, 2023
With Summarized Comparative Totals for the Year Ended December 31, 2022

	<u>2023</u>	<u>2022</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (14,086)	\$ (1,159,478)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	522,183	680,804
Bad debt expense	664,382	662,934
Changes in operating assets and liabilities:		
Change in allowance for doubtful accounts	(902,434)	-
(Increase) decrease in patient accounts receivable	1,022,104	3,503
(Increase) decrease in grant receivables	(26,801)	84,330
(Increase) decrease in inventory	20,774	81,190
(Increase) decrease in prepaid expenses	(51,757)	(5,679)
(Increase) decrease in deposits	(105)	-
Increase (decrease) in accounts payable	13,339	157,993
Increase (decrease) in accrued payroll and related liabilities	23,036	65,768
Increase (decrease) in other liabilities	(22,682)	(30,491)
Increase (decrease) in due to IRS	-	390,782
	<u>1,247,953</u>	<u>931,656</u>
Net Cash Provided (Used) by Operating Activities		
	<u>1,247,953</u>	<u>931,656</u>
Cash Flows From Investing Activities		
Appreciation of LPCACO investment	(117,041)	-
Fixed asset acquisitions	(1,362,362)	(569,979)
Disposal of fixed assets	171	-
	<u>(1,479,232)</u>	<u>(569,979)</u>
Net Cash Provided (Used) by Investing Activities		
	<u>(1,479,232)</u>	<u>(569,979)</u>
Cash Flows From Financing Activities		
Proceeds from the issuance of long-term debt	-	1,878,845
Increase (decrease) in accrued interest payable	59	-
Write off of loan origination costs	-	40,781
Payments payments on long-term debt	(249,745)	(1,920,748)
	<u>(249,686)</u>	<u>(1,122)</u>
Net Cash Provided (Used) by Financing Activities		
	<u>(249,686)</u>	<u>(1,122)</u>
Net Decrease in Cash and Cash Equivalents	(480,965)	360,555
Cash and Cash Equivalents - Beginning of Year	<u>1,894,897</u>	<u>1,534,342</u>
Cash and Cash Equivalents - End of Year	<u><u>1,413,932</u></u>	<u><u>1,894,897</u></u>
Presentation on the Statement of Financial Position:		
Cash and cash equivalents	913,932	1,894,897
Cash and cash equivalents - restricted	500,000	-
	<u><u>1,413,932</u></u>	<u><u>1,894,897</u></u>
Supplemental Disclosure of Cash Flow Information:		
Interest paid	<u><u>\$ 81,543</u></u>	<u><u>\$ 84,663</u></u>

See accompanying notes to the financial statements

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Statements of Functional Expenses
For the Year Ended December 31, 2023
With Summarized Comparative Totals for the Year Ended December 31, 2022

	Supporting Services		Total	
	Program Services	General and Administrative	2023	2022
Salaries	\$ 5,496,466	\$ 1,238,916	\$ 6,735,382	\$ 6,876,671
Fringe benefits	478,245	153,218	631,463	583,766
Payroll taxes	427,502	92,235	519,737	519,967
Contractual services	699,202	63,188	762,390	701,864
Pharmacy and medical supplies	1,377,245	-	1,377,245	1,104,233
Dues and subscriptions	2,631	27,861	30,492	26,626
Repairs and maintenance	233,275	41,166	274,441	239,635
Telephone	108,463	19,141	127,604	130,485
Professional development	22,032	60,420	82,452	77,108
Bank charges	25,169	2,227	27,396	103,770
Postage	2,394	5,586	7,980	2,311
Insurance	151,439	26,725	178,164	178,370
Supplies	41,441	92,800	134,241	145,651
Utilities	96,444	17,020	113,464	147,420
Travel	83,822	60,068	143,890	147,165
Interest	69,362	12,240	81,602	84,663
Legal and accounting	135,788	316,838	452,625	475,077
Miscellaneous	-	32,080	32,080	20,646
Taxes and licenses	10,330	2,653	12,983	17,556
Rent	78,723	4,143	82,866	129,513
Advertising and promotion	210,328	-	210,328	81,132
	<u>9,750,301</u>	<u>2,268,524</u>	<u>12,018,825</u>	<u>11,793,629</u>
Total expenses before depreciation				
Depreciation	<u>365,528</u>	<u>156,655</u>	<u>522,183</u>	<u>680,805</u>
Total expenses	<u>\$ 10,115,829</u>	<u>\$ 2,425,179</u>	<u>\$ 12,541,008</u>	<u>\$ 12,474,434</u>

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Notes to Financial Statements
December 31, 2023

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

Nature of Activities

Southeast Community Health Systems (the “Organization”) is a Federally Qualified Health Center (FQHC) that is federally funded to provide primary and preventative health care in communities across southeast Louisiana. The Organization is a 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 Southeast Community Health Systems is comprised of nine members who serve without paid compensation. The Organization is supported primarily through fees for services paid by patients, Medicare, Medicaid and private insurance as well as from grants. Southeast Community Health Systems offers medical, dental, OB/GYN, podiatry, and behavioral health services, which include mental health counseling and substance abuse treatment and services. The Organization’s main location is in Zachary, Louisiana, but also operates six other primary health care sites in Louisiana, located in Greensburg, Kentwood, Hammond, Independence, and Bathon Rouge. Southeast Community Health Systems also operates thirteen school-based health centers and two mobile medical units that cover the Organization’s service area of East Baton Rouge, Livingston, St. Helena, and Tangipahoa parishes.

The mission of Southeast Community Health Systems is to provide quality, affordable healthcare to all patients in underserved areas, and to improve the health and wellness of the communities we serve.

Income Taxes

Southeast Community Health Systems 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. Southeast Community Health System’s Form 990’s, Return of Organization Exempt from Income Tax, are subject to examination by the IRS, generally for three (3) years after they are filed.

Prior Year Balances

Certain prior year amounts may have been reclassified to conform to current year presentation.

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.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Notes to Financial Statements
December 31, 2023

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

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. Bank restrictions exist to maintain a separate bank account for collateral on a promissory note which totals \$500,000 as of December 31, 2023.

Method of Accounting

The accompanying financial statements of the Organization 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 those 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 Organization reports 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.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Notes to Financial Statements
December 31, 2023

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

Method of Accounting (Continued)

There were no significant net assets with donor restrictions as of December 31, 2023.

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.

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.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Notes to Financial Statements
December 31, 2023

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

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 \$2,500. Property and equipment donated for Southeast Community Health Systems 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:

	Years
Buildings and improvements	15 - 40
Equipment, furniture and fixtures	3 - 20

Grants and Contributions

Grants and contributions are recognized as income when received. The Board reports grants as with donor restrictions support if they are received with stipulations that limit the use of the funds. When grantor restrictions expire, with donor restrictions net assets are reclassified to without donor restrictions 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 without donor restrictions net assets if the restrictions expire in the same fiscal year in which the grants and contributions are recognized.

Compensated Absences

Employees of Southeast Community Health Systems are entitled to paid vacation and personal days off depending on job classification, length of service and other factors. The values of these compensated absences is calculated based on the employee’s pay rate at the end of the year. Accrued compensated absences totaled \$127,886 and \$115,098 as of December 31, 2023 and 2022, respectively.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Notes to Financial Statements
December 31, 2023

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

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.

Southeast Community Health Systems has agreements with third-party payors that provide reimbursement to the organization at amounts different from its established rates. Contractual adjustment under third-party reimbursement programs represent the difference between the Southeast Community Health System's rates for services and amounts reimbursed by third-party payors.

Patient service revenue is reported at the amount the Organization expects to be paid for providing patient care. These amounts are due from patients and third-party payors (including health insurers and government programs) and include variable consideration for retroactive revenue adjustments due to the settlement of audits, reviews, and investigations. Generally, the Organization bills the patients and third-party payors soon after the services are performed.

Patient service revenue is recognized as performance obligations are satisfied based on the nature of the services provided by the Organization. Revenue for performance obligations that are satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving outpatient services. The Organization measures the performance obligations for patient services over a period of less than one day when goods or services are provided and the Organization does not believe it is required to provide additional goods or services to the patient.

Because all its performance obligations relate to contracts with a duration of less than one year, the Organization has elected to apply the optional exemption provided in ASC 606. Under this exemption, the Organization is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Since the unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to outpatient services at the end of the reporting period, the performance obligations for these contracts are generally completed within days or weeks of the end of the reporting period.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Notes to Financial Statements
December 31, 2023

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

Net Patient Service Revenue (Continued)

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization's policy, and other implicit price concessions provided to uninsured patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and its historical settlement experience. The Organization determines its estimate of implicit price concessions for uninsured patients based on its historical collection experience with this class of patients.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** Certain services are paid at prospectively determined rates based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies (subject to certain limits) with final settlement determined after Medicare Administrative Contractors have audited annual cost reports submitted by the Organization. Services are paid based upon established fee schedules that are based on services provided.
- **Medicaid:** Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.
- **Other:** Payment agreements with certain commercial insurance carriers, HMOs, and preferred provider organizations provide for payment using prospectively determined rates.

The healthcare industry is subject to laws and regulations concerning government programs, including Medicare and Medicaid, which are complex and subject to varying interpretation. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. While the Organization operates a Compliance Program, which reviews its compliance with these laws and regulations, there can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Organization. In addition, the contracts the Organization has with commercial payors also provide for retroactive audit and review of claims.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Notes to Financial Statements
December 31, 2023

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

Net Patient Service Revenue (Continued)

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

Consistent with the Organization's mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). For uninsured patients, the Organization applies a policy discount from standard charges to determine amounts billed to those patients. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Organization expects to collect based on its collection history with that class of patients.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Major Funding Source

The Organization receives funds from the Department of Health and Human Services (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 property, 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.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Notes to Financial Statements
December 31, 2023

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.

Inventory

Supply inventories are stated at lower of cost, determined by the FIFO method, or market.

Right-Of-Use Operating Lease

Southeast Community Health Systems implemented ASU 2016-02, Leases (Topic 842), effective January 1, 2022. The ASU's core principle is that "a lessee should recognize the assets and liabilities that arise from leases." The ASU considered that "all leases create an asset and a liability," and accordingly requires recording the assets and liabilities related to all leases with a term greater than 12 months. This accounting was applied to all lease agreements using the modified retrospective method and recognized the leased assets and liabilities on its balance sheet at the earliest comparative period beginning on January 1, 2022.

Southeast Community Health Systems entered into an operating lease agreement on August 23, 2021 to operate a women's health clinic for three years with options to renew. Monthly payments of \$5,508 will be made until September 1, 2024. Payments will then increase to \$5,784 per month for three years. The final option to renew will be effective on September 1, 2027 and will require monthly payments of \$6,073 for an additional three years. For the year ended December 31, 2022, management determined that these renewal options will more likely than not be exercised. In adopting the standard on September 1, 2022, the Organization recognized a right-of-use operating asset and corresponding lease liability totaling \$458,279.

The Organization monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

During 2023, management determined to terminate the lease effective September 1, 2024. Accordingly, the lease right-of-use asset and liability amounts were adjusted to reflect this decision resulting in the right-of-use asset and corresponding lease liability decreased to \$186,264 effective January 1, 2023.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Notes to Financial Statements
December 31, 2023

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

Right-Of-Use Operating Lease (Continued)

Right-of-use assets are a result of leases in which Southeast Community Health Systems has entered into a contract with a lessor that conveys control of the right-of-use the lessor's nonfinancial asset (the underlying asset) as specified by the contract for a period of time in an exchange or exchange-like transaction. Such assets are reported on the financial statements, net of amortization. Right-of-use assets are amortized at the lesser of the useful life of the lease term.

While the lease agreement does not state an explicit rate, the discount rate was determined using financing arrangements available to the Organization at the time the agreement was entered into which was 4.35%. The Organization recognized \$66,092 as lease expense related to this agreement for the year ended December 31, 2023.

Key estimates and judgments related to leases include how the Organization determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Organization uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Organization generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments for the thirty-six month lease term.

The Organization is obligated for the rental payments through August 2024 which totals \$44,067.

Year Ending December 31, 2024	\$	44,067
Total Undiscounted Cash Flows		44,067
Less: Present Value		(4,746)
Total Operating Lease Liability	\$	39,321

Advertising and Promotion Expense

The Organization expenses the cost of advertising and promotion as the expenses are incurred. For the years ended December 31, 2023 and 2022, the costs totaled \$210,328 and \$81,132, respectively.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Notes to Financial Statements
December 31, 2023

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

Performance Indicator

The Organization utilizes revenues over expenses as its performance indicator.

Revenue Recognition

The Organization adopted ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), using the full retrospective method. This guidance outlines a single, comprehensive model for accounting for revenue in exchange transactions from contracts with other entities. The Organizations revenue derived from exchange transactions are for services performed under the terms of various contracts. The Organization applied Topic 606 to its revenue derived from exchange transactions as follows:

Transaction price – The transaction price of contract revenue are based on the cost expended to provide such goods and services.

Performance obligations – The Organization has identified the following performance obligation in exchange transactions: services under the terms of various contracts. The Organization applies the principles of materiality in the determination of the performance obligations.

Payments under cost-reimbursable contracts and deliverable contracts recognize revenue when performance obligations under the terms of the contracts with other entities are satisfied.

The following table presents the Organization’s net revenue disaggregated based on revenues from contracts with other entities:

Cost reimbursement and deliverable performance obligation contracts \$185,236

340b Drug Program – The 340b drug program is a federal program whereby drug manufacturers provide outpatient drugs to eligible healthcare organizations at significantly reduced costs. The Organization tracks separately the revenues and expenses related to the outpatient drugs provided under this program.

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

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Notes to Financial Statements
December 31, 2023

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

Revenue Recognition (Continued)

Incentive Revenue – The Organization participates in various incentive programs with third party insurers who provide bonus payments based on quality measures and metrics established by the program. The Organization recognizes incentive payments as revenue when it is reasonably assured that the quality measures and metrics have been achieved.

NOTE 2 - PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable are comprised of the following for the years ending December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Medicare	\$ 360,788	\$ 761,781
Medicaid	388,730	666,559
Private	<u>608,945</u>	<u>952,227</u>
	1,358,463	2,380,567
Less allowance for doubtful accounts	<u>(813,126)</u>	<u>(1,715,560)</u>
	<u>\$ 545,337</u>	<u>\$ 665,007</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 \$664,382 for the fiscal year December 31, 2023. The Organization amended its charity care policy to adhere to the annually revised Federal Poverty Level Guidelines during the fiscal year.

NOTE 3 - ECONOMIC DEPENDENCY

The Organization receives a substantial portion of its total support and revenues from the federal government. During the fiscal year ended December 31, 2023, Southeast Community Health Systems recorded \$5,661,943 in grant support from the Department of Health and Human Services. This represents 45% of total support and revenues for the year ended December 31, 2023.

NOTE 4 - 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. As of December 31, 2023, the Organization has a total due from the filing of its Medicare cost report in the amount of \$7,172.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Notes to Financial Statements
December 31, 2023

NOTE 5 - DUE TO IRS

During 2022, Southeast Community Health Systems received a remittance from the Internal Revenue Service (IRS) stemming from a duplicate payroll tax return refund. The duplicate payment was received due to the Organization changing payroll providers late in the previous year and both providers filing a Form 941 payroll tax return for the same quarter. The Organization is currently in contact with the Internal Revenue Service to determine how the remittance should be repaid. The estimated balance as of December 31, 2023 and 2022 was \$390,782. It is possible the estimated potential settlement could change in the near term.

NOTE 6 - PRIOR-YEAR SUMMARIZED INFORMATION

The financial statements include certain prior year summarized comparative information in total, but not by asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2022, from which the summarized information was derived.

NOTE 7 - RETIREMENT PLAN

Southeast Community Health Systems has established a 403(b) tax-sheltered annuity plan, which covers substantially all of its employees who meet eligibility requirements. Eligible employees are allowed to contribute, on a tax-deferred basis, a portion of their compensation, up to federally designated limits. The Organization matches 100% of employee contributions up to a maximum of 5% of the employee's annual salary. Employees are vested in the plan at 25% after one year, 50% after two years, 75% after three years and 100% after four years. The Organization's contributions to the plan for the year ended December 31, 2023 and 2022 totaled \$193,829 and \$158,785, respectively.

NOTE 8 - GOODWILL

Goodwill represents the excess of the cost of a purchased clinic and physician practice over the fair value of the net assets at the date of acquisition. In accordance with generally accepted accounting principles goodwill having indefinite lives will no longer be amortized. Instead, goodwill is tested annually for impairment. Prior to the date these financial statements were issued, management elected to close the clinic and physician practice effective August 31, 2024. Accordingly, the \$131,450 value of goodwill was considered impaired and reduced to \$-0-.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Notes to Financial Statements
December 31, 2023

NOTE 9 – 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 December 31, 2023, totaled \$400,462. The Organization receives a Department of Health and Human Services grant to subsidize the charity care medical services provided to qualifying patients.

NOTE 10 - 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. As of December 31, 2023, the Organization had cash deposits totaling \$1,439,164 of which deposits in excess of FDIC insured limits totaled \$939,164.

The majority of the Organization's patients are located in South Central Louisiana. The Organization grants credit without collateral to its patients. The mix of receivables from patients and third-party payors as of December 31, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Medicare	27 %	32 %
Medicaid	29	28
Other	44	40
	<u>100 %</u>	<u>100 %</u>

The mix of net patient revenues for the year ended December 31, 2023 and 2022 were as follows:

	<u>2023</u>	<u>2022</u>
Medicare	14 %	15 %
Medicaid	75	64
Other	11	21
	<u>100 %</u>	<u>100 %</u>

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Notes to Financial Statements
December 31, 2023

NOTE 11 - NOTES PAYABLE

Notes payable for the year ended December 31, 2023 consisted of the following:

Promissory Note Payable from Bank of Zachary: Mortgage loan dated January 7, 2022, in the amount of \$1,878,845, due in 119 installments of \$14,302 starting on February 15, 2022 until loan maturity and balloon payment of 783,119 due on January 15, 2032, bearing an fixed interest of 4.35%; collateralized by real estate (East Baton Rouge Parish, State of Louisiana) and deposit accounts. Cross-collateralization multiple indebtedness mortgage. \$ 1,703,473

Promissory Note Payable from Bank of Zachary: Promissory note dated April 26, 2023, multiple advance loan in the amount of \$500,000, due in 12 interest only installments starting on May 26, 2023 until loan maturity and ballon payment due on April 26, 2024, bearing a variable interest rate initially at 3.00%; collateralized by a savings deposit account and other deposit accounts held with the bank. 343,982

Total 2,047,455
Less: current portion (443,477)

Long-term debt \$ 1,603,978

Maturities of debt are as follows:

<u>December 31,</u>	<u>Amount</u>
2024	\$ 443,477
2025	103,911
2026	108,522
2027	113,338
2028	118,368
Thereafter	<u>1,159,839</u>
Total	<u>\$ 2,047,455</u>

The promissory note dated April 26, 2023 is a multiple advance loan up to \$500,000. As of December 31, 2023, the Organization has incurred advances on this loan totaling \$343,982. An additional \$156,018 may be advanced on this loan.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Notes to Financial Statements
December 31, 2023

NOTE 12 – 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 as of December 31, 2023, 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, contract receivables, other receivables, inventory, prepaid expenses, accounts payable, accrued payroll and related liabilities, and accrued interest 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 13 – 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).

The Organization's investment is measured on a recurring basis and consists of being a limited liability member of Louisiana Primary Care – Accountable Care Organization, LLC, a Louisiana limited liability company. The Organization has a 3.44% interest in Louisiana Primary Care – Accountable Care Organization, LLC whose purpose is to tie provider reimbursements to quality metrics and reductions in the cost of care. The carrying value of the member share is equal to its capital balance or historical cost increased or decreased for the Organization's share of the limited liability company's profit or loss. The Organization's capital balance in Louisiana Primary Care – Accountable Care Organization, LLC as of December 31, 2023 is \$128,041 and \$11,000, respectively. There were no indicators of impairment on this investment during the years ended December 31, 2023 and 2022.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Notes to Financial Statements
December 31, 2023

NOTE 13 – INVESTMENTS (CONTINUED)

As of December 31, 2023, the Organization’s investments measured on a recurring basis consisted of a limited liability company membership with fair market value (Level 3) and cost bases as follows:

	Cost	Fair Value
Limited Liability Company Member – 3.44% Interest (Level 3 Observable Inputs)	\$ 128,041	Not Determined

As of December 31, 2022, the Organization’s investments measured on a recurring basis consisted of a limited liability company membership with fair market value (Level 3) and cost bases as follows:

	Cost	Fair Value
Limited Liability Company Member – 3.44% Interest (Level 3 Observable Inputs)	\$ 11,000	Note Determined

Changes in the membership for the year ended December 31, 2023 and 2022 are as follows:

Balance as of January 1, 2022	\$ 11,000
Amounts invested in the membership	-
Share of profit/(loss) of membership	-
Distributions made from membership	-
Balance as of December 31, 2022	\$ 11,000
Amounts invested in the membership	-
Share of profit/(loss) of membership	117,041
Distributions made from membership	-
Balance as of December 31, 2023	\$ 128,041

NOTE 14 – SUBSEQUENT EVENTS

The Organization evaluated its December 31, 2023 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.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Notes to Financial Statements
December 31, 2023

NOTE 15 – IN-KIND CONTRIBUTIONS

The Organization recognized in-kind contribution revenue of \$711,064 and \$56,860 during the years ending December 31, 2023 and 2022, respectively. These in-kind contributions of medical and pharmaceutical supplies are recorded based on their fair value as of the dates of the contributions. These contributed supplies were utilized in the Organization’s programs.

NOTE 16 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization has \$1,881,225 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 \$913,932, patient accounts receivable of \$545,337, and grants receivable of \$421,956. 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 one (1) month of normal operating expenses, which are, on average, approximately \$1,000,000. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

NOTE 17 – PRIOR PERIOD ADJUSTMENT

The Organization reduced its beginning net assets for the fiscal year ending December 31, 2021 in the amount of \$45,546 for the adjustment of a accrued payroll and related liabilities balance and the prior year recognition of other income. This prior period adjustment resulted in the following changes to the December 31, 2021 financial statements:

Account	Balance as of December 31, 2021, as previously reported	Prior Period Adjustment	Balance as of December 31, 2021, as restated
Accrued payroll and related liabilities	\$ 269,327	\$ (45,546)	\$ 223,781

SOUTHEAST COMMUNITY HEALTH SYSTEMS

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2023**

<u>Program Title</u>	<u>Assistance Listing 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	H80CS00370	1/1/23 - 12/31/23	\$ 4,100,200	\$ 4,100,200
American Rescue Plan Act Funding for Health Centers	* 93.224	H8FCS40984	1/1/23 - 12/31/23	713,040	713,040
FY 2023 Bridge Access Program	* 93.527	H8LCS50872	1/1/23 - 12/31/23	1,405	1,405
FY 2023 Expanding COVID-19 Vaccination	* 93.527	H8GCS47486	1/1/23 - 12/31/23	183,978	183,978
Health Center Program Service Expansion - School Based Service Sites	* 93.527	H2ECS50211	1/1/23 - 12/31/23	<u>43,156</u>	<u>43,156</u>
Total U.S. Department of Health and Human Services Cluster				<u>5,041,779</u>	<u>5,041,779</u>
U.S. Department of Health and Human Services					
Grants for Capital Development in Health Centers	93.526	C8ECS43647	1/1/23 - 12/31/23	<u>620,164</u>	<u>620,164</u>
Total U.S. Department of Health and Human Services				<u>620,164</u>	<u>620,164</u>
Total federal assistance				<u>\$ 5,661,943</u>	<u>\$ 5,661,943</u>

* Major Program

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Southeast Community Health Systems, 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. Southeast Community Health Systems has elected not to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

Southeast Community Health Systems

Schedule of Compensation, Benefits and Other Payments to Executive Director

December 31, 2023

NO COMPENSATION PAID FROM PUBLIC FUNDS

Agency Head Name: Alecia Cyprian, Ph.D, Chief Executive Officer

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, LLC

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
Southeast Community Health Systems
Zachary, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Southeast Community Health Systems (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities and changes of net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 21, 2024.

Report on Internal Control Over Financial Reporting

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

Board of Directors
Southeast Community Health Systems
Zachary, Louisiana

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeast Community Health Systems' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Steven M. DeRouen & Associates, LLC

Lake Charles, Louisiana
June 21, 2024

STEVEN M. DEROUEN & ASSOCIATES, LLC

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

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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

Board of Directors
Southeast Community Health Systems
Zachary, Louisiana

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Southeast Community Health Systems' compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of Southeast Community Health Systems' major federal programs for the year ended December 31, 2023. Southeast Community Health Systems' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Southeast Community Health Systems complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Southeast Community Health Systems and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Southeast Community Health Systems' compliance with the compliance requirements referred to above.

Board of Directors
Southeast Community Health Systems
Zachary, Louisiana

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Southeast Community Health Systems' federal programs.

Auditor Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Southeast Community Health System's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Southeast Community Health Systems' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Southeast Community Health Systems' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Southeast Community Health Systems' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Southeast Community Health Systems' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Board of Directors
Southeast Community Health Systems
Zachary, Louisiana

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Steven M. DeRouen & Associates, LLC

Lake Charles, Louisiana
June 21, 2024

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, LA
Schedule of Findings and Questioned Costs
Year Ended December 31, 2023

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>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
93.224	U.S. Department of Health and Human
93.527	Services, Community Health Centers Cluster

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.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2023

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.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
Zachary, Louisiana
Summary Schedule of Prior Year Findings and Questioned Costs
Year Ended December 31, 2023

PRIOR YEAR FINDINGS

None

STEVEN M DEROUEN & ASSOCIATES LLC

Certified Public Accountants
2720 RUE DE JARDIN, SUITE 300
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 ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Commissioners of Southeast Community Health Systems and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below on the control and compliance (C/C) areas identified in the Louisiana Legislative Auditor's (LLA's) Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2023 through December 31, 2023. Southeast Community Health Systems' management is responsible for those C/C areas identified in the SAUPs.

Southeast Community Health Systems has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of the engagement, which is to perform specified procedures on the C/C areas identified in LLA's SAUPs for the fiscal period January 1, 2023 through December 31, 2023. Additionally, LLA has agreed to and acknowledged that the procedures performed are appropriate for its purposes. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are as follows:

1) Written Policies and Procedures

- A. Obtain and inspect the entity's written policies and procedures and observe whether they address each of the following categories and subcategories if applicable to public funds and the entity's operations:
- i. **Budgeting**, including preparing, adopting, monitoring, and amending the budget.
 - ii. **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.
 - iii. **Disbursements**, including processing, reviewing, and approving.

- iv. **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).
- v. **Payroll/Personnel**, including (1) payroll processing, (2) reviewing and approving time and attendance records, including leave and overtime worked, and (3) approval process for employee(s) rate of pay or approval and maintenance of pay rate schedules.
- vi. **Contracting**, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.
- vii. **Travel and Expense Reimbursement**, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.
- viii. **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).
- ix. **Ethics**, including (1) the prohibitions as defined in Louisiana Revised Statute (R.S.) 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) a requirement that documentation is maintained to demonstrate that all employees and officials were notified of any changes to the entity's ethics policy.
- x. **Debt Service**, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.
- xi. **Information Technology 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.
- xii. **Prevention of Sexual Harassment**, including R.S. 42:342-344 requirements for (1) agency responsibilities and prohibitions, (2) annual employee training, and (3) annual reporting.

Were any exceptions found? - Yes

We performed the Information Technology Disaster Recovery/Business Continuity procedure (IAxi) and discussed the results with management.

Exception (IAv) - The Organization's payroll policy does not include (3) approval process for employee rates of pay or approval and maintenance of pay rate schedules.

2) Board or Finance Committee

- A. 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:
- i. 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.
 - ii. For those entities reporting on the governmental accounting model, observe whether the minutes referenced or included monthly budget-to-actual comparisons on the general fund, quarterly budget-to-actual, at a minimum, on proprietary funds, and semi-annual budget-to-actual, at a minimum, on all special revenue funds. *Alternately, for those entities reporting on the not-for-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.*
 - iii. For governmental entities, obtain the prior year audit report and observe the unassigned fund balance in the general fund. If the general fund had a negative ending unassigned fund balance in the prior year audit report, observe that the minutes for at least one meeting during the fiscal period referenced or included a formal plan to eliminate the negative unassigned fund balance in the general fund.
 - iv. Observe whether the board/finance committee received written updates of the progress of resolving audit finding(s), according to management's corrective action plan at each meeting until the findings are considered fully resolved.

Were any exceptions found? - No

3) Bank Reconciliations

- A. Obtain a listing of entity bank accounts for the fiscal period from management and management's representation that the listing is complete. Ask management to identify the entity's main operating account. Select the entity's main operating account and randomly select 4 additional accounts (or all accounts if less than 5). Randomly select one month from the fiscal period, obtain and inspect the corresponding bank statement and reconciliation for each selected account, and observe that:
- i. Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated or electronically logged);
 - ii. 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 within 1 month of the date of the reconciliation was prepared (e.g., initialed and dated, electronically logged); and

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

Were any exceptions found? – Yes

Exception (3Aii) – Noted the member of management who reviews the bank reconciliation can also post ledgers.

4) Collections (excluding electronic funds transfers)

- A. 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).
- B. 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:
 - i. Employees responsible for cash collections do not share cash drawers/registers.
 - ii. 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.
 - iii. 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.
 - iv. 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/official verifies the reconciliation.
- C. Obtain from management a copy of the bond or insurance policy for theft covering all employees who have access to cash. Observe the bond or insurance policy for theft was enforced during the fiscal period.
- D. Randomly select two deposit dates for each of the 5 bank accounts selected for Bank Reconciliations procedure 3A (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:
 - i. Observe that receipts are sequentially pre-numbered.
 - ii. Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.

- iii. Trace the deposit slip total to the actual deposit per the bank statement.
- iv. Observe 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 and the cash is stored securely in a locked safe or drawer).
- v. Trace the actual deposit per the bank statement to the general ledger.

These procedures are not applicable to the public funds administered by this non-profit organization.

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

- A. 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).
- B. For each location selected under #5A 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:
 - i. At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.
 - ii. At least two employees are involved in processing and approving payments to vendors.
 - iii. 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.
 - iv. 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.
 - v. Only employees/officials authorized to sign checks approve the electronic disbursement (release) of funds, whether through automated clearinghouse (ACH), electronic funds transfer (EFT), wire transfer, or some other electronic means.

[Note: Findings related to controls that constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality) should not be reported.]
- C. For each location selected under #5A 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:
 - i. Observe whether the disbursement, whether by paper or electronic means, matched the related original itemized invoice and supporting documentation indicates deliverables included on the invoice were received by the entity.

- ii. Observe whether the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under procedure #5B, as applicable.
- D. Using the entity's main operating account and the month selected in Bank Reconciliations procedure #3A, randomly select 5 non-payroll-related electronic disbursements (or all electronic disbursements if less than 5) and observe that each electronic disbursement was (a) approved by only those persons authorized to disburse funds (e.g., sign checks) per the entity's policy, and (b) approved by the required number of authorized signers per the entity's policy. *Note: If no electronic payments were made from the main operating account during the month selected the practitioner should select an alternative month and/or account for testing that does include electronic disbursements.*

Were any exceptions found? – N/A

The Non-Payroll Disbursements items were subject to testing under the Allowable Costs and Procurement in the OMB Compliance Supplement (Uniform Guidance).

6) Credit Cards/Debit Cards/Fuel Cards/P-Cards

- A. 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.
- B. 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:
 - i. Observe whether 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) were reviewed and approved, in writing (or electronically approved), 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.]
 - ii. Observe that finance charges and late fees were not assessed on the selected statements.

- C. Using the monthly statements or combined statements selected under #6B 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 (e.g., each card should have 10 transactions subject to testing). For each transaction, observe 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.

Were any exceptions found? – Yes

Exception (6Bi): Noted the credit card statement was reviewed by an individual other than the cardholder, but no evidence of review was indicated on the statement.

Exception (6C): Noted documentation of the individuals participating in one meal receipt in sample was not documented.

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

- A. 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:
- i. If reimbursed using a per diem, observe the approved reimbursement rate is no more than those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).
 - ii. If reimbursed using actual costs, observe the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.
 - iii. Observe 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 Policies and Procedures procedure #1A(vii); and
 - iv. Observe each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Were any exceptions found? – N/A

The Travel and Travel-Related Expense Reimbursement items were subject to testing under the Allowable Costs and Procurement in the OMB Compliance Supplement (Uniform Guidance).

8) Contracts

- A. 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:
- i. Observe whether the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.
 - ii. Observe whether the contract was approved by the governing body/board, if required by policy or law (e.g., Lawrason Act, Home Rule Charter).
 - iii. If the contract was amended (e.g., change order), observe the original contract terms provided for such an amendment and that amendments were made in compliance with the contract terms (e.g., if approval is required for any amendment, was approval documented).
 - iv. 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 the invoice and related payment agreed to the terms and conditions of the contract.

Were any exceptions found? – N/A

The Contracts items were subject to testing under the Allowable Costs and Procurement in the OMB Compliance Supplement (Uniform Guidance).

9) Payroll and Personnel

- A. Obtain a listing of employees and officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees or officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.
- B. Randomly select one pay period during the fiscal period. For the 5 employees or officials selected under #9A above, obtain attendance records and leave documentation for the pay period, and:
- i. Observe all selected employees or officials documented their daily attendance and leave (e.g., vacation, sick, compensatory);
 - ii. Observe whether supervisors approved the attendance and leave of the selected employees or officials.
 - iii. Observe any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records; and
 - iv. Observe the rate paid to the employees or officials agree to the authorized salary/pay rate found within the personnel file.

- C. Obtain a listing of those employees or officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees or officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations and the entity's policy on termination payments. Agree the hours to the employee's or officials' cumulative leave records, agree the pay rates to the employee's or officials' authorized pay rates in the employee's or officials' personnel files, and agree the termination payment to entity policy.
- D. Obtain management's representation that employer and employee portions of third-party payroll related amounts (e.g., payroll taxes, retirement contributions, health insurance premiums, garnishments, workers' compensation premiums, etc.) have been paid, and any associated forms have been filed, by required deadlines.

Were any exceptions found? – N/A

The Payroll and Personnel items were subject to testing under the Allowable Costs and Procurement in the OMB Compliance Supplement (Uniform Guidance).

10) Ethics

- A. Using the 5 randomly selected employees/officials from Payroll and Personnel procedure #9A: obtain ethics documentation from management, and:
 - i. Observe whether the documentation demonstrates each employee/official completed one hour of ethics training during the calendar year as required by R.S. 42:1170; and
 - ii. Observe whether the entity maintains documentation which demonstrates each employee and official were notified of any changes to the entity's ethics policy during the fiscal period, as applicable.
- B. Inquire and/or observe whether the agency has appointed an ethics designee as required by R.S. 42:1170.

These procedures are not applicable to this non-profit organization.

11) Debt Service

- A. Obtain a listing of bonds/notes and other debt instruments issued during the fiscal period and management's representation that the listing is complete. Select all debt instruments on the listing, obtain supporting documentation, and observe State Bond Commission approval was obtained for each debt instrument issued as required by Article VII, Section 8 of the Louisiana Constitution.

- B. 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 (including contingency funds, short-lived asset funds, or other funds required by the debt covenants).

These procedures are not applicable to this non-profit organization.

12) Fraud Notice

- A. 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 as required by R.S. 24:523.
- B. Observe 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.

Were any exceptions found? – No

13) Information Technology Disaster Recovery/Business Continuity

- A. Perform the following procedures, **verbally discuss the results with management, and report "We performed the procedure and discussed the results with management."**
- i. Obtain and inspect the entity's most recent documentation that it has backed up its critical data (if there is no written documentation, then inquire of personnel responsible for backing up critical data) and observe evidence that such backup (a) occurred within the past week, (b) was not stored on the government's local server or network, and (c) was encrypted.
 - ii. Obtain and inspect the entity's most recent documentation that it has tested/verified that its backups can be restored (if there is no written documentation, inquire of personnel responsible for testing/verifying backup restoration) and observe evidence that the test/verification was successfully performed within the past 3 months.
 - iii. Obtain a listing of the entity's computers currently in use and their related locations, and management's representation that the listing is complete. Randomly select 5 computers and observe while management demonstrates that the selected computers have current and active antivirus software and that the operating system and accounting system software in use are currently supported by the vendor.
- B. Randomly select 5 terminated employees (or all terminated employees if less than 5) using the list of terminated employees obtained in Payroll and Personnel procedure #9C. Observe evidence that the selected terminated employees have been removed or disabled from the network.

- C. Using the 5 randomly selected employees/officials from Payroll and Personnel procedure #9A, obtain cybersecurity training documentation from management, and observe that the documentation demonstrates that the following employees/officials with access to the agency's information technology assets have completed cybersecurity training as required by R.S. 42:1267. The requirements are as follows:
- Hired before June 9, 2020 - completed the training; and
 - Hired on or after June 9, 2020 - completed the training within 30 days of initial service or employment.

We performed the Information Technology Disaster Recovery/Business Continuity procedures and discussed the results with management.

14) Prevention Sexual Harassment

- A. Using the 5 randomly selected employees/officials from Payroll and Personnel procedure #9A, obtain sexual harassment training documentation from management, and observe the documentation demonstrates each employee/official completed at least one hour of sexual harassment training during the calendar year as required by R.S. 42:343.
- B. Observe that the entity has posted its sexual harassment policy and complaint procedure on its website (or in a conspicuous location on the entity's premises if the entity does not have a website).
- C. Obtain the entity's annual sexual harassment report for the current fiscal period, observe that the report was dated on or before February 1, and observe that the report includes the applicable requirements of R.S. 42:344:
- i. Number and percentage of public servants in the agency who have completed the training requirements;
 - ii. Number of sexual harassment complaints received by the agency;
 - iii. Number of complaints which resulted in a finding that sexual harassment occurred;
 - iv. Number of complaints in which the finding of sexual harassment resulted in discipline or corrective action; and
 - v. Amount of time it took to resolve each complaint.

These procedures are not applicable to this non-profit organization.

Management's Responses:

1Av – While the Organization has a process to approve employee pay rates, it will incorporate the approval process for employee rates of pay or approval and maintenance of pay rate schedules into their written payroll policy.

3Aii – The Organization will request an individual who does not handle cash, post ledgers, or issue checks review and provide written documentation of approval of bank statement reconciliations.

6Bi – While the Organization's credit card statements are reviewed by a non-cardholder, it will request this individual to provide written evidence of review and approval.

6C – The Organization will institute a new procedure whereby all credit card receipts are reviewed for written business purpose documentation.

We were engaged by Southeast Community Health Systems to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of Southeast Community Health Systems and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended 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 LLC

Lake Charles, Louisiana
June 21, 2024