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**PRIORITY HEALTH CARE, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

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Postlethwaite & Netterville

A Professional Accounting Corporation

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**PRIORITY HEALTH CARE, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

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## INDEPENDENT AUDITORS' REPORT

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

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

We have audited the accompanying financial statements of Priority Health Care, Inc. ("the Organization"), a nonprofit organization, which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

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

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

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

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

*Opinion*

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of Priority Health Care, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

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

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2019, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

*Postlethwaite & Netterville*

Metairie, Louisiana  
June 24, 2019

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2018**

**ASSETS**

**Assets:**

Cash	\$	2,336,425
Grants receivable		409,701
Pharmacy receivable, net of allowance of \$494,036		147,955
Other patient receivables, net of allowance of \$325,194		251,063
Pharmacy inventory		31,269
Other assets		17,465
Total current assets		3,193,878
 Property and equipment, net		 3,659,328
 <b>Total assets</b>	 <b>\$</b>	 <b>6,853,206</b>

**LIABILITIES AND NET ASSETS**

**Liabilities:**

Accounts payable and accrued expenses	\$	217,248
Accrued salaries and related liabilities		98,182
Note payable - current portion		95,274
Total current liabilities		410,704
 Note payable - long term portion		 2,820,946
Total liabilities		3,231,650
 <b>Net assets:</b>		
Without donor restriction		3,621,556
Total net assets		3,621,556
<b>Total liabilities and net assets</b>	 <b>\$</b>	 <b>6,853,206</b>

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

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**STATEMENT OF ACTIVITIES AND**  
**CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**Changes in Net Assets Without Donor Restrictions**

Operating revenues:	
Patient service revenue, net of contractual adjustments of \$1,893,631	\$ 1,007,906
Pharmacy revenue, net of contractual adjustments of \$1,467,900	6,879,287
Less: provision for doubtful accounts	(712,011)
Net patient and pharmacy revenue	<u>7,175,182</u>
Grants and contracts	2,036,310
Interest	13,445
Rent income	62,385
Other income	<u>159,886</u>
Total operating revenues	<u>9,447,208</u>
Operating expenses:	
Program services	6,461,184
Support services	1,589,979
Fundraising	<u>11,611</u>
Total operating expenses	<u>8,062,774</u>
Change in net assets	1,384,434
Net assets, beginning of year	<u>2,237,122</u>
Net assets, end of year	<u><u>\$ 3,621,556</u></u>

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

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Program Services</u>	<u>Support Services</u>	<u>Fundraising</u>	<u>Total</u>
Client services	\$ 115,206	\$ 21,012	\$ 888	\$ 137,106
Contract services	186,354	128,498	8,420	323,272
Depreciation	-	42,107	-	42,107
Facilities & equipment	59,294	61,126	-	120,420
Insurance	152,710	117,334	-	270,044
Interest	-	24,220	-	24,220
Lab fees & vaccine	34,788	-	-	34,788
Marketing	3,556	68,285	1,318	73,159
Memberships, dues & subscriptions	224	6,574	-	6,798
Postage & printing	5,748	16,950	712	23,410
Prescriptions & medication	4,271,343	-	-	4,271,343
Professional fees	-	10,198	-	10,198
Rent	141,611	67,882	-	209,493
Salaries & wages	1,443,965	928,853	-	2,372,818
Supplies	9,344	17,556	273	27,173
Utilities	29,575	36,163	-	65,738
Travel & training	6,846	22,718	-	29,564
Miscellaneous	620	20,503	-	21,123
<b>TOTAL EXPENSES</b>	<b><u>\$ 6,461,184</u></b>	<b><u>\$ 1,589,979</u></b>	<b><u>\$ 11,611</u></b>	<b><u>\$ 8,062,774</u></b>

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

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Income from operations	\$ 1,384,434
Adjustments to reconcile income from operations to net cash provided by operating activities:	
Provision for doubtful accounts	712,011
Depreciation	42,107
(Increase) decrease in operating assets:	
Grant receivable	113,979
Pharmacy and other patient receivables	(786,032)
Pharmacy inventory	115,538
Other assets	(7,128)
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	96,367
Accrued salaries and related liabilities	41,854
Deferred grant revenue	(12,672)
Net cash provided by operating activities	<u>1,700,458</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of property and equipment	<u>(635,707)</u>
Net cash used in investing activities	<u>(635,707)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Payments on note payable	<u>(83,780)</u>
Net cash used in financing activities	<u>(83,780)</u>

Net change in cash	980,971
Cash, beginning of year	<u>1,355,454</u>
Cash, end of year	<u><u>\$ 2,336,425</u></u>

**Supplemental Disclosure**

Cash paid for interest during the year	<u>\$ 24,220</u>
Purchase of property and equipment through issuance of note payable	<u><u>\$ 3,000,000</u></u>

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

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

**1. Summary of Significant Accounting Policies**

Organization

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

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

Basis of Accounting

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

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

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

*Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. The Organization had no net assets with donor restrictions at December 31, 2018 or 2017.

Use of Estimates

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

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

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

Grants, Contributions, and Revenue Recognition

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

Patient Service Fees, Pharmacy Revenue, and Revenue Recognition

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

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

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

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

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

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

Patient Service Fees, Pharmacy Revenue, and Revenue Recognition (continued)

Net patient and pharmacy revenues from third-party payers and the uninsured for the year ended December 31, 2018 are summarized as follows:

Medicare	\$	243,368
Medicaid		1,155,184
Commercial		5,650,529
Ryan White, federal grant funding		838,112
Net patient and pharmacy revenues before provision for doubtful accounts		7,887,193
Less: provision for doubtful accounts		(712,011)
Net patient and pharmacy revenue	\$	7,175,182

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

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

Cash

Cash includes amounts on deposit at local financial institutions.

Allowance for Uncollectible Accounts

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

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

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

Allowance for Uncollectible Accounts (continued)

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

Pharmacy Inventory

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

Property, Plant, and Equipment

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

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

Functional Allocation of Expenses

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

Advertising

Advertising costs are expensed as incurred.

Income Taxes

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

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

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

Income Taxes (continued)

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740 provides detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in an entity's financial statement. As of December 31, 2018, the Organization has determined that it does not have any uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Tax returns generally remain subject to examination by the taxing authorities for three years.

Income from Operations

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

New Accounting Pronouncement Adopted

The Organization adopted ASU No. 2016-14: *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, during 2018. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. The adoption of this ASU had no impact on the Organization's net assets.

Accounting Pronouncements Issued But Not Yet Adopted

FASB has issued ASU No. 2014-09, *Revenue from Contracts with Customers*, to update its revenue recognition standard to clarify the principles of recognizing revenue and eliminate industry-specific guidance as well as help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. This standard will be effective for periods beginning after December 15, 2018.

In June 2018, the FASB issued ASU No. 2018-08: *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This ASU will be effective for fiscal periods beginning after December 15, 2018.

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

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

Accounting Pronouncements Issued But Not Yet Adopted (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases*. This accounting standard requires lessees to recognize assets and liabilities related to lease arrangements longer than 12 months on the statement of financial position as well as additional disclosures. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, to simplify the lease standard's implementation. The amended guidance relieves businesses and other organizations of the requirement to present prior comparative years' results when they adopt the new lease standard. Instead of recasting prior year results using the new accounting when they adopt the guidance, companies can choose to recognize the cumulative effect of applying the new standard to leased assets and liabilities as an adjustment to the opening balance of net assets. The standard is effective for annual periods beginning after December 15, 2019.

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

**2. Liquidity and Availability of Resources**

The following table reflects the Organization's financial assets as of December 31, 2018. These amounts are available to meet general expenditures within one year of the statement of financial position date. The Organization also has a line of credit available to meet short-term needs, as described in Note 6. As of December 31, 2018, \$500,000 remained available on the line of credit. There were no net assets with donor restrictions at December 31, 2018.

Cash	\$ 2,336,425
Grants receivable	409,701
Pharmacy and other patient receivables	<u>399,018</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,145,144</u>

**3. Grants Receivable**

As of December 31, 2018, grants receivable consisted of the following:

<u>Description</u>	<u>Amount</u>
Mayor's Office of Health Policy	\$ 234,167
Louisiana Office of Public Health	61,653
Health Resources and Service Administration	72,330
Other	41,551
Total	<u>\$ 409,701</u>

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

**4. Pharmacy and Other Patient Receivables**

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

	Receivables
Commercial	50%
Medicaid	9%
Medicare	4%
Private Pay	3%
Ryan White (federal grant)	34%

**5. Property, Plant and Equipment**

Property and equipment at December 31, 2018 consisted of the following:

Building	\$ 3,571,286
Equipment, furniture, and fixtures	104,853
Leasehold improvements	39,753
Land	54,220
	<u>3,770,112</u>
Less: accumulated depreciation	(110,784)
Property and equipment, net	<u>\$ 3,659,328</u>

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

Note payable consists of the following at December 31, 2018:

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

Less: current maturities

Long-term portion

\$ 2,916,220
<u>(95,274)</u>
<u>\$ 2,820,946</u>

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

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

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

<u>Year Ending</u>	<u>Amount</u>
2019	\$ 95,274
2020	99,999
2021	104,958
2022	110,163
2023	115,626
Thereafter	2,390,200
	<u>\$ 2,916,220</u>

In October 2018, the Organization obtained a \$500,000 line of credit with a financial institution, secured by all inventory, equipment, receivables, deposit accounts, and other assets. The line of credit expires October 15, 2026. Interest is due monthly at a rate of 4.85%. At December 31, 2018 there was no outstanding balance on the line of credit.

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

**7. Contingencies**

The Organization participated in a number of state and federally-assisted programs in 2018. The programs are subject to compliance audits. Such audits could lead to requests for reimbursement by the grantor agency for expenditures disallowed under terms of the grants. The Organization believes that the amount of disallowances, if any, which may arise from future audits, will not be material to the financial statements.

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

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

**8. Business and Credit Concentrations**

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

The Organization grants credit to patients, substantially all of whom are local residents. The Organization does not require collateral or other security in extending credit to patients. The mix of receivables from patients and third-party payors at December 31, 2018 is described in Note 4.

**9. Operating Leases**

The Organization leases various operating facilities under operating leases. Subsequent to the purchase of the Marrero facility in October 2018, only one of these facility leases remains. This remaining facility lease expires in September 2020. Total rental expenses under operating leases totaled \$209,493 during the year ended December 31, 2018. The following is a schedule by year of future minimum lease payments required under the remaining operating lease which has an initial or remaining non-cancelable lease term in excess of one year:

Year ending December 31st	Amount
2019	\$ 67,872
2020	48,076
	\$ 115,948

**10. Occupancy**

The Organization purchased facilities in Marrero, Louisiana in October 2018. The Organization leases space to other entities under leases expiring at various dates through September 2022. Rent income associated with these leases totaled \$62,385 for the year ended December 31, 2018. The cost of the leased facility and improvements is approximately \$3,636,000, and the carrying value at December 31, 2018 is approximately \$3,615,000. Approximately two thirds of the facility is held for leasing.

The following is a schedule by year of future rent income under the lease agreements:

Year ending December 31st	Amount
2019	\$ 238,803
2020	153,919
2021	77,935
2022	36,270
	\$ 506,927

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

**11. Subsequent Events**

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 24, 2019, and determined that there were no subsequent events requiring disclosure. No events occurring after this date have been evaluated for inclusion in these financial statements.

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**SCHEDULE OF COMPENSATION, BENEFITS, AND**  
**OTHER PAYMENTS TO AGENCY HEAD**  
  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

Agency Head Name: Tamara Boutte

<u>Purpose</u>	<u>Amount</u>
Salary	\$ 184,308
Benefits - insurance	8,397
Travel	5,656
	<u>\$ 198,361</u>

See accompanying independent auditors' report.

**SUPPLEMENTARY INFORMATION**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Priority Health Care, Inc. ("the Organization"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 24, 2019.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Postlethwaite & Netterville*

Metairie, Louisiana  
June 24, 2019

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

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

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

We have audited Priority Health Care, Inc.'s (the Organization's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2018. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on the Major Federal Program***

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

**Report on Internal Control over Compliance**

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

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

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

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

*Postlethwaite & Netterville*

Metairie, Louisiana  
June 24, 2019

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

<u>GRANTOR</u>	<u>CFDA NUMBER</u>	<u>ENTITY NUMBER</u>	<u>PASS-THROUGH TO SUBRECIPIENTS</u>	<u>ACTIVITY</u>
<b><u>U.S. Department of Health &amp; Human Services</u></b>				
<u>Direct:</u>				
<u>Health Resources and Service Administration</u>				
Community Health Centers, Health Care for the Homeless and Public Housing Primary Care	93.224	N/A	\$ -0-	\$ 975,646
<u>Pass-through program from:</u>				
<u>City of New Orleans</u>				
Ryan White-HIV Emergency Relief Project Grant	93.914	N/A	-0-	1,583,780
<u>Louisiana Department of Health and Hospitals</u>				
HIV Prevention Activities Health Department Based	93.940	N/A	-0-	<u>278,065</u>
<b>Total Expenditures of Federal Awards</b>			-0-	<u><u>\$ 2,837,491</u></u>

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

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Priority Health Care, Inc. (the Organization) under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization. The Organization is defined in Note 1 to the financial statements for the year ended December 31, 2018. All federal awards received directly from federal agencies are included on the schedule, as well as federal awards passed-through other government agencies, as applicable.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the Organization's financial statements for the year ended December 31, 2018. Such expenditures are recognized following the cost principles contained in accordance with the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented, or used in the preparation of, the basic financial statements.

3. Relationship to Financial Statements

Federal revenues of \$1,999,379 are included in the Statement of Activities and Changes in Net Assets in the category "Grants and Contracts." Additional federal revenues of \$346,209 and \$491,903 are included in the Statement of Activities in the categories of "Patient Service Revenue" and "Pharmacy Revenue," respectively.

4. Relationship to Federal Financial Reports

Amounts reported in the Schedule agree with the amounts reported in the related federal financial reports, except for the amounts in reports submitted as of a date subsequent to December 31, 2018.

5. De Minimis Cost Rate

During the year ended December 31, 2018, the Organization did not elect to use the 10% de minimis cost rate as covered in §200.414 of the Uniform Guidance.

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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

*Financial Statements*

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

Internal control over financial reporting:

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

Noncompliance material to the financial statements noted? No

*Federal Awards*

Internal controls over major program:

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

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

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

Identification of major program:

United States Department of Health and Human Services:  
Passed through the City of New Orleans  
Ryan White – HIV Emergency Relief Project Grant      93.914

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

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

**PRIORITY HEALTH CARE, INC.**  
**MARRERO, LOUISIANA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

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

**Not Applicable.**

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

**Not Applicable.**



The Board of Directors  
Priority Health Care, Inc.  
Marrero, Louisiana

In planning and performing our audit of the financial statements of Priority Health Care, Inc. (a nonprofit organization) (the Organization) as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency; or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph 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 have not been identified.

The appendix to this letter contains the status of prior year recommendations.

This report is intended solely for the information and use of the Board, management, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Postlethwaite & Netterville*

Metairie, Louisiana  
June 24, 2019

**STATUS OF PRIOR YEAR RECOMMENDATIONS****2017-001 Accounts Receivable: review of historical collections and allowance methodology**

The Organization should review its allowance methodology for doubtful accounts and contractual adjustments. Healthcare entities should maintain estimates of allowances for contractual adjustments and doubtful accounts based on management's assessment of collectability, current economic conditions, and prior experience. Those estimates should be reviewed and compared to actual cash receipts on historical receivables on a periodic basis. Management should review current collections on prior period receivable balances as a way to determine whether the allowances recorded in the prior period were reasonable and whether the current allowances should be adjusted based on actual historical results.

*Status*

Resolved

**2017-002 Information Technology: user access**

In reviewing the Organization's information technology systems, opportunities for improvement were identified with regard to user access. The Organization should formalize information technology policies and procedures with respect to user access and access management. At least on an annual basis, current users, their assigned job duties, and respective roles in each system should be compared to the level of access granted in each of the systems. Results of this review should be documented and approved by another employee with appropriate knowledge and responsibility to manage user access. Administrator access and segregation of duties considerations should also be a factor in this process.

*Status*

Resolved

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**PRIORITY HEALTH CARE, INC.**

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

**FOR THE YEAR ENDED DECEMBER 31, 2018**

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Postlethwaite & Netterville

A Professional Accounting Corporation

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INDEPENDENT ACCOUNTANTS' REPORT  
ON APPLYING AGREED-UPON PROCEDURES

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

We have performed the procedures enumerated below, which were agreed to by Priority Health Care, Inc. (the Entity) and the Louisiana Legislative Auditor (LLA) (specified users) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2018 through December 31, 2018. The Entity's management is responsible for those C/C areas identified in the SAUPs.

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

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

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

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

*Postlethwaite & Netterville*

Metairie, Louisiana  
June 24, 2019

**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2018**

Schedule A

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

***Written Policies and Procedures***

---

1. Obtain the entity’s written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures), as applicable:

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

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

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

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

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

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

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

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

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

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

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

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

**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2018**

Schedule A

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

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

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

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

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

- i) Ethics, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy. Note: Ethics requirements are not applicable to nonprofits.

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

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

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

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

---

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

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

*The Entity's bylaws indicate that the Board shall meet monthly. The Board met each month in 2018, but a quorum was not present in July 2018.*

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

*No exceptions noted.*

**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2018**

Schedule A

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

---

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

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

***Bank Reconciliations***

---

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

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

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

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

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

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

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

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

***Collections***

---

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

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

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

**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2018**

Schedule A

*Collections (continued)*

---

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

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

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

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

*No exception noted.*

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

*No exception noted.*

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

*No exception noted.*

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

*No exception noted.*

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

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

**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2018**

Schedule A

***Collections (continued)***

---

7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). *Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc.* Obtain supporting documentation for each of the 4 deposits and:

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

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

*The Entity does not maintain sequentially pre-numbered receipts.*

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

*No exception noted.*

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

*No exception noted.*

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

*For two of the four deposit dates selected, the deposit was not made within one business day of collection.*

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

*No exception noted.*

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

---

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

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

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

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

**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2018**

Schedule A

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

---

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2018**

Schedule A

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

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

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

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

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

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

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

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

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

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

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

**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2018**

Schedule A

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

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

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

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

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

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

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

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

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

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

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

***Contracts***

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

*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 was provided. No exceptions were noted as a result of performing this procedure.*

*We selected the three contracts on the listing provided and performed the procedures below.*

**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2018**

Schedule A

***Contracts (continued)***

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

*Of the three contracts selected for our procedures, none were subject to Louisiana Public Bid Law.*

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

*No exception noted.*

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

*No exception noted.*

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

*We selected one payment for each of the three contracts selected in procedure #15 and performed the specified procedures. No exception noted.*

***Payroll and Personnel***

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

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

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

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

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

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

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

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

**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2018**

Schedule A

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

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

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

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

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

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

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

***Ethics***

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

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

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

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

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

***Debt Service***

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

*We obtained a listing of the notes payable issued during the fiscal period. However, this procedure was deemed not applicable because the Entity does not require bonds/notes to be approved by the State Bond Commission.*

**PRIORITY HEALTH CARE, INC.**  
**AGREED-UPON PROCEDURES PERFORMED AND ASSOCIATED FINDINGS**  
**DECEMBER 31, 2018**

Schedule A

***Debt Service (continued)***

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

*A listing of bonds/notes outstanding at the end of the fiscal period was provided. No exceptions were noted as a result of performing this procedure.*

*From the listing provided, we selected 1 bond/note and performed the specified procedures. No exceptions noted.*

***Other***

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

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

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

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

**PRIORITY HEALTH CARE, INC.  
MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN  
DECEMBER 31, 2018**

Schedule B

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

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

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

Management's Response: Priority Health Care will continue to meet on a monthly basis. In the event a quorum cannot be established, the meeting will be rescheduled to a later date during that month.

***Collections***

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

Management's Response: Priority Health Care will update policies and procedures to allow for 10 business days from collection to bank deposit.