

**PRIMARY HEALTH SERVICES CENTER, INC.  
AND AFFILIATE**

**Monroe, Louisiana**

**Financial and Compliance Report  
December 31, 2018**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Primary Health Services Center, Inc. and Affiliate  
Monroe, Louisiana

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

I have audited the accompanying combined financial statements of Primary Health Services Center, Inc. and Affiliate (a non-profit organization), which comprise the combined statement of financial position as of December 31, 2018, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

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

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

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

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

## **Opinion**

In my opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Primary Health Services Center, Inc. and Affiliate 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.

## **Report on Summarized Comparative Information**

I have previously audited the Primary Health Services Center, Inc.'s 2017 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated June 15, 2018. In my opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Matters**

### *Other Information*

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

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

In accordance with *Government Auditing Standards*, I have also issued my report dated June 6, 2018, on my consideration of Primary Health Services Center, Inc. and Affiliate's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Primary Health Services Center, Inc. and Affiliate's internal control over financial reporting and compliance.

Steven M. DeRouen & Associates

Lake Charles, Louisiana

June 6, 2019

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Combined Statements of Financial Position**  
**As of December 31, 2018**  
**With Summarized Comparative Totals for 2017**

<b>Assets</b>	<b>2018</b>	<b>2017</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,273,684	\$ 1,398,956
Cash - restricted	183,497	239,547
Patient accounts receivable, net	223,414	163,337
Grants receivable	1,439,449	1,412,884
Certificates of deposit	676,660	671,216
Other receivable	-	-
Prepaid Expenses	36,426	25,250
 Total Current Assets	 3,833,130	 3,911,190
<b>Property, Plant and Equipment</b>		
Building and improvements	14,208,419	14,208,419
Furniture and equipment	3,754,755	3,488,827
Automobiles	502,805	426,697
	18,465,979	18,123,943
Less accumulated depreciation	(4,678,601)	(4,020,008)
	13,787,378	14,103,935
Land	807,491	807,491
 Net Property, Plant and Equipment	 14,594,869	 14,911,426
<b>Other Assets</b>		
LA Partnership for Choice & Access, LLC	10,000	3,000
Utility Deposits	13,820	13,820
PCDC receivable - new markets tax credit	74,394	74,394
Notes receivable - new markets tax credit	9,359,000	9,359,000
 Total Other Assets	 9,457,214	 9,450,214
 Total Assets	 \$ 27,885,213	 \$ 28,272,830

See accompanying notes to financial statements.

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Combined Statements of Financial Position (Continued)**  
**As of December 31, 2018**  
**With Summarized Comparative Totals for 2017**

	<b>2018</b>	<b>2017</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 417,878	\$ 132,913
Accrued vacation and payroll	345,110	243,416
Payroll taxes payable	61,357	65,232
Accrued interest payable	9,167	9,167
Current portion of notes payable	126,308	120,054
Total Current Liabilities	959,820	570,782
<b>Long Term Liabilities</b>		
Notes payable - net of current portion	15,848,621	15,947,372
Total Liabilities	16,808,441	16,518,154
<b>Net Assets</b>		
Without donor restrictions	9,637,323	10,341,792
With donor restrictions	1,439,449	1,412,884
Total Net Assets	11,076,772	11,754,676
Total Liabilities and Net Assets	\$ 27,885,213	\$ 28,272,830

See accompanying notes to financial statements.

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Combined Statements of Activities**  
**For the Year Ended December 31, 2018**  
**With Summarized Comparative Totals for the Year Ended December 31, 2017**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2018 Totals</u>	<u>2017 Totals</u>
<b>Revenue and Support</b>				
Revenue:				
Gross patient service revenue	\$ 13,462,116	\$ -	\$ 13,462,116	\$ 13,090,891
Less: contractual allowances and discounts	<u>(7,189,431)</u>	<u>-</u>	<u>(7,189,431)</u>	<u>(6,974,873)</u>
	6,272,685	-	6,272,685	6,116,018
Less: provision for uncollectible accounts	<u>(55,368)</u>	<u>-</u>	<u>(55,368)</u>	<u>(41,541)</u>
Net patient service revenue	<u>6,217,317</u>	<u>-</u>	<u>6,217,317</u>	<u>6,074,477</u>
Support and other income:				
Federal grants	2,852,385	-	2,852,385	2,384,630
Interest income	105,275	-	105,275	98,366
Other	24,952	-	24,952	305,311
Net assets released from restriction	1,412,884	(1,412,884)	-	-
Temporarily restricted revenue - federal grant	<u>-</u>	<u>1,439,449</u>	<u>1,439,449</u>	<u>1,412,884</u>
Total support and other income	<u>4,395,496</u>	<u>26,565</u>	<u>4,422,061</u>	<u>4,201,191</u>
Total revenue, support and other income	<u>10,612,813</u>	<u>26,565</u>	<u>10,639,378</u>	<u>10,275,668</u>
<b>Expenses</b>				
Program expenses	9,208,284	-	9,208,284	8,506,790
Management and general	<u>2,108,998</u>	<u>-</u>	<u>2,108,998</u>	<u>2,001,524</u>
Total Expenses	<u>11,317,282</u>	<u>-</u>	<u>11,317,282</u>	<u>10,508,314</u>
Increase (decrease) in Net Assets	(704,469)	26,565	(677,904)	(232,646)
Net Assets - Beginning of Year	<u>10,626,842</u>	<u>1,360,480</u>	<u>11,754,676</u>	<u>11,987,322</u>
Net Assets - End of Year	<u>\$ 9,922,373</u>	<u>\$ 1,387,045</u>	<u>\$ 11,076,772</u>	<u>\$ 11,754,676</u>

See accompanying notes to financial statements.

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Combined Statements of Cash Flows**  
**For the Year Ended December 31, 2018**  
**With Summarized Comparative Totals for 2017**

	<b>2018</b>	<b>2017</b>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ (677,904)	\$ (232,646)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	684,328	667,255
(Increase) decrease in accounts receivable, net	(60,077)	(17,876)
(Increase) decrease in grants receivable	(26,565)	(52,404)
(Increase) decrease in prepaid expenses	(11,176)	2,250
(Increase) decrease in other assets	(7,000)	37,148
Increase (decrease) in accounts payable	284,964	(25,553)
Increase (decrease) in accrued vacation and payroll	97,819	46,604
	<u>284,389</u>	<u>424,778</u>
<b>Net Cash Provided by Operating Activities</b>		
<b>Cash Flows From Investing Activities</b>		
Purchase of certificate of deposits	(5,444)	(206)
Fixed asset acquisitions	(342,037)	(841,628)
	<u>(347,481)</u>	<u>(841,834)</u>
<b>Net Cash Used by Investing Activities</b>		
<b>Cash Flows From Financing Activities</b>		
Proceeds from loans	-	584,165
Principal payments on bank loans	(118,230)	(67,187)
	<u>(118,230)</u>	<u>516,978</u>
<b>Net Cash Provided by Financing Activities</b>		
<b>Net Increase in Cash and Cash Equivalents</b>	(181,322)	99,922
Cash and Cash Equivalents - Beginning of Year	1,638,503	1,538,581
Cash and Cash Equivalents - End of Year	<u>\$ 1,457,181</u>	<u>\$ 1,638,503</u>
<b>Cash and Cash Equivalents:</b>		
Cash - unrestricted	1,273,684	1,398,956
Cash - restricted	183,497	239,547
	<u>\$ 1,457,181</u>	<u>\$ 1,638,503</u>
<b>Supplemental Disclosure:</b>		
Interest paid	<u>\$ 179,063</u>	<u>\$ 314,612</u>

See accompanying notes to financial statements.

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Combined Statement of Functional Expenses**  
**For the Year Ended December 31, 2018**  
**With Summarized Comparative Totals for 2017**

	<b>Public Health Service</b>	<b>Management and General</b>	<b>Total</b>	
			<b>2018</b>	<b>2017</b>
Personnel	\$ 6,469,418	\$ 1,141,662	7,611,080	\$ 6,804,016
Fringe benefits/insurance	503,135	88,789	591,924	540,989
Medical contract	15,239	-	15,239	15,061
Non-medical contract	-	94,456	94,456	72,094
Supplies and services - medical	260,838	-	260,838	309,871
Repairs and maintenance	227,006	40,060	267,066	217,740
Telephone	44,082	7,779	51,861	49,407
Travel and education	-	105,738	105,738	99,639
Dues and permits	-	34,861	34,861	46,010
Office	131,599	197,398	328,997	372,462
Professional	47,362	35,131	82,493	136,782
Technical assistance	-	146,989	146,989	126,308
Occupancy	353,065	62,306	415,371	380,850
Advertising	270,982	-	270,982	309,083
Depreciation and amortization	581,679	102,649	684,328	667,255
Interest	152,204	26,859	179,063	314,612
Recruitment	9,758	-	9,758	11,479
Rental	142,463	25,140	167,603	33,549
Other	(546)	(819)	(1,365)	1,107
<b>Total Functional Expenses</b>	<b>\$ 9,208,284</b>	<b>\$ 2,108,998</b>	<b>\$ 11,317,282</b>	<b>\$ 10,508,314</b>

See accompanying notes to financial statements.

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Notes to Combined Financial Statements**  
**December 31, 2018**

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

**Nature of Activities**

Primary Health Services Center, Inc. (a nonprofit corporation) was incorporated in the State of Louisiana to provide comprehensive health care to area residents, with particular emphasis on the socio-economically disadvantaged. The Organization is a federally qualified health center (FQHC).

During August 2014, the Healthcare Vision, Inc. non-profit corporation was organized for the purpose of recognizing the benefits of the New Markets Tax Credit transaction that occurred in September 2014.

These two entities whose financial statements are included in the combined financial statements are collectively referred to as the "Organization".

**Income Taxes**

Primary Health Services Center, Inc. and its Affiliate have been recognized as 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 combined financial statements. The Organization's income tax filings are subject to examination by the Internal Revenue Service generally for three years after they were filed. The Organization's income tax filings are subject to examination by the IRS, generally for three years after they are filed.

**Method of Accounting**

The accompanying combined financial statements of the Organization have been prepared on the accrual basis of accounting, in accordance with generally accepted accounting principles.

**Accounting Estimates**

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

**Cash and Cash Equivalents**

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

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Notes to Combined Financial Statements (Continued)**  
**December 31, 2018**

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

**Property and Equipment**

Property and equipment is stated at cost. It is the Organization's policy to capitalize expenditures for these items in excess of \$5,000. Depreciation of property and equipment is computed principally by the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	10 – 40
Equipment, furniture and fixtures	5 – 10
Computer software	5
Vehicles	5

**Functional Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the combined statement of activity. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**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.

**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.

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Notes to Combined Financial Statements (Continued)**  
**December 31, 2018**

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

**Grants and Contributions**

Grants and contributions are recognized as income when received. The Board reports grants as donor restricted support if they are received with stipulations that limit the use of the funds. When grantor restrictions expire, temporary restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. All other support is recognized when earned. Grants and contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the same year in which the grants and contributions are recognized. At December 31, 2018, net assets with donor restrictions were \$1,439,449, which represent amounts awarded, but not received from federal grants.

**Fair Values of Financial Instruments**

The Organization has a number of financial instruments, none of which is held for trading purposes. The Organization estimates that the fair values of all financial instruments as of December 31, 2018 do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Organization using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the agency could realize in a current market exchange. The recorded values of cash and cash equivalents, accounts receivable, grants receivable, prepaid expenses, accounts payable, and accrued expenses approximate their fair values based on their short-term nature. The recorded values of notes payable and notes receivable approximate their fair value, as interest is insignificant.

**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.

**Major Funding Source**

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

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Notes to Combined Financial Statements (Continued)**  
**December 31, 2018**

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

**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.

**NOTE 2 - PATIENT ACCOUNTS RECEIVABLE**

Patient accounts receivable are comprised of the following for the year ended December 31, 2018:

Medicaid	\$ 173,806
Medicare	7,972
Private	78,243
	260,021
Less allowance for doubtful accounts	(36,607)
	\$ 223,414

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 \$55,368 for the year ended December 31, 2018. The Organization changed its charity care policy during the year to update the patient’s sliding fee application for changes to the current Federal Poverty Level guidelines.

**NOTE 3 – NEW MARKET TAX CREDIT**

During the year ended December 31, 2014, the Organization received \$14 million in New Market Tax Credit Program (NMTC) financing as a qualified low income community investment within the meaning of Section 45D of the Internal Revenue Code. The NMTC Program attracts investment capital to low-income communities by allowing individual and corporate investors to receive a tax credit against their federal income tax return in exchange for making equity investments in a specialized financial institution called a “Community Development Entity” (CDE). The tax credit totals thirty-nine percent (39%) of the original investment amount and is claimed over a period of seven (7) years (compliance period). QCDEs, in turn, make investments into businesses or projects with terms that are more favorable than typically available with conventional financing.

In order for the CDE to provide NMTC financing, the borrower must be deemed a “qualified active low-income community business” (QALICB) and the financed project must be deemed a “qualified low-income community investment” (QLICI) in order for tax credit investors in a CDE to receive the tax credits described above. As part of this transaction, Healthcare Vision, Inc. was formed to serve as the QALICB for the NMTC transaction. Healthcare Vision, Inc. is a supporting foundation of Primary Health Services, Inc. and two of Healthcare Vision Inc.’s three board members also serve on Primary Health Services, Inc.’s board of directors.

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Notes to Combined Financial Statements (Continued)**  
**December 31, 2018**

***NOTE 3 – NEW MARKET TAX CREDIT (Continued)***

Utilization of the NMTC Program has the end result of providing the financing to complete construction and renovation of a new medical clinic, which began in 2012, at favorable and below market rate terms.

The NMTC transaction was structured whereby Healthcare Vision, Inc. received a QLICI loan and the Betin Street Campus was sold to Healthcare Vision, Inc. for \$12,723,484. The NMTC transaction is as follows: The Primary Care Development Corporation provided a loan to Primary Health Services Center, Inc. in the amount of \$2,000,000, who in turn used this loan along with the proceeds of the sale of the Betin Street campus to make a loan in the amount of \$9,359,000 to COCRF Investor 27, LLC. Capital One then made an equity contribution to COCRF Investor 27, LLC in the amount of \$4,641,000. The total investment of \$14,000,000 was then transferred from COCFR Investor 27, LLC as an equity contribution to PCDC Health Opportunities Fund V, LLC (CDE) and COCRF Sub CDE XX, LLC (CDE) in the amounts of \$9,500,000 and \$4,500,000, respectively. PCDC Health Opportunities Fund V, LLC and COCRF Sub CDE XX, LLC then made two (2) loans each (four total loans) to Healthcare Vision, Inc. totaling \$13,715,000. The remaining \$285,000 was used to pay upfront fees owed to the Primary Care Development Corporation.

The loans will be made at an interest rate of approximately 1.0%, with interest-only debt payments for an initial seven (7) year period (compliance period) and then interest and principal payments sufficient to fully repay the loan at maturity. Prepayment of the loans during the compliance period will not be permitted.

After the seven year recapture period, the Capital One has the option to sell, within the three month “put period”, to put its equity interest in COCRF Investor 27, LLC (\$4,641,000) to Primary Health Services Center, Inc. or an affiliate for an amount equal to \$1,000 plus taxes and transfer expenses. In the event that Capital One does not put its interest in COCRF Investor 27, LLC, Primary Health Services Center, Inc. has a call option to purchase Capital One’s interest in COCRF Investor 27, LLC at fair market value as determined by an independent appraiser. In conjunction with this event, COCFR SUBCDE XX, LLC (CDE) will be liquidated and its assets distributed to COCRF Investor 27, LLC.

Immediately after the exit transactions are completed, Healthcare Vision, Inc. may be dissolved and the Betin Street campus may be transferred back to Primary Health Services Center, Inc. The Organization anticipates receiving a net benefit from the results of these transactions of approximately \$4,500,000, net of transaction costs.

After the NMTC transaction was completed, Healthcare Vision, Inc. leased the Betin Street campus to Primary Health Services Center, Inc., for which the lease payments were used to pay the debt service on the new loans. The rental expense and rental income will be intercompany transactions that will be eliminated for purposes of the combined financial statements.

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Notes to Combined Financial Statements (Continued)**  
**December 31, 2018**

**NOTE 4 - NOTES PAYABLE**

Notes payable for the year ended December 31, 2018 consisted of the following:

<p><u>Healthcare Vision, Inc. Promissory Note Payable (A) from PCDC Health Opportunities Fund V, LLC:</u> New Market Tax Credit loan dated September 29, 2014, in the amount of \$6,350,750, interest payable quarterly in 28 installments starting on December 10, 2014 until conversion to amortizing loan with principal and interest payments commencing on December 10, 2021, and continuing until the maturity date of September 28, 2044, bearing an fixed interest of 1.028762%; collateralized by real estate, assignment of leases and rents, security agreement and fixture filing encumbrance.</p>	\$ 6,350,750
<p><u>Healthcare Vision, Inc. Promissory Note Payable (B) from PCDC Health Opportunities Fund V, LLC:</u> New Market Tax Credit loan dated September 29, 2014, in the amount of \$2,864,250, interest payable quarterly in 28 installments starting on December 10, 2014 until conversion to amortizing loan with principal and interest payments commencing on December 10, 2021, and continuing until the maturity date of September 28, 2044, bearing an fixed interest of 1.028762%; collateralized by real estate, assignment of leases and rents, security agreement and fixture filing encumbrance.</p>	2,864,250
<p><u>Healthcare Vision, Inc. Promissory Note Payable (A) from COCRF SUBCDE XX, LLC:</u> New Market Tax Credit loan dated September 29, 2014, in the amount of \$3,008,250, interest payable quarterly in 28 installments starting on December 10, 2014 until conversion to amortizing loan with principal and interest payments commencing on December 10, 2021, and continuing until the maturity date of September 28, 2044, bearing an fixed interest of 1.028762%; collateralized by real estate, assignment of leases and rents, security agreement and fixture filing encumbrance.</p>	3,008,250
<p><u>Healthcare Vision, Inc. Promissory Note Payable (B) from COCRF SUBCDE XX, LLC:</u> New Market Tax Credit loan dated September 29, 2014, in the amount of \$1,491,750, interest payable quarterly in 28 installments starting on December 10, 2014 until conversion to amortizing loan with principal and interest payments commencing on December 10, 2021, and continuing until the maturity date of September 28, 2044, bearing an fixed interest of 1.028762%; collateralized by real estate, assignment of leases and rents, security agreement and fixture filing encumbrance.</p>	1,491,750
<p><u>Primary Health Services Center, Inc. Promissory Note Payable from Origin Bank:</u> Real estate mortgage dated December 6, 2017, in the amount of \$559,677, payable in 59 monthly installments of \$5,965.50 beginning on January 21, 2018 and a balloon payment of \$391,469 payable on August 31, 2021, fixed interest rate of 4.99%, collateralized by real estate located in Lincoln Parish, Louisiana and funds on deposit with Origin Bank.</p>	516,605
<p><u>Primary Health Services Center, Inc. Loan from Community Trust Bank:</u> Automobile loan dated November 19, 2014, in the amount of \$52,569.86; 59 payments of \$992.50, fixed interest rate of 4.950%, matures November 19, 2019; collateralized by automobiles.</p>	10,649

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Notes to Combined Financial Statements (Continued)**  
**December 31, 2018**

**NOTE 4 - NOTES PAYABLE (Continued)**

<p><u>Primary Health Services Center, Inc. Promissory Note Payable from Primary Care Development Corporation:</u> New Market Tax Credit loan dated September 29, 2014, in the amount of \$2,000,000, interest payable quarterly installments commencing on December 1, 2014 until conversion to amortizing loan with principal and interest payments commencing on December 1, 2016, and continuing until the maturity date of September 29, 2021 at which time the remaining outstanding loan balance of \$1,785,431 will be due, bearing an fixed interest of 5.50%; collateralized by leasehold mortgage and pari-passu share in leveraged loan documents including pledge of investment fund membership interest in entities making the permanent financing loans to Healthcare Vision, Inc. Covenants include Debt Service Coverage Ratio of a minimum of 1.25:1, three prior year rolling average positive cash flow from operations, net assets not to fall below \$4MM, standard debt limitations, cross-default provisions.</p>	1,910,370
<p><u>Primary Health Services Center, Inc. Loan from Community Trust Bank:</u> Automobile loan dated September 27, 2017, in the amount of \$24,488.20; 36 payments of \$726.34, fixed interest rate of 4.250%, matures September 27, 2020; collateralized by automobiles.</p>	14,367
<p><u>Primary Health Services Center, Inc. Promissory Note Payable from Origin Bank:</u> Real estate mortgage dated August 31, 2016, in the amount of \$328,436.20, payable in 59 monthly installments of \$2,497.76 beginning on September 30, 2016 and a balloon payment of \$244,495.91 payable on August 31, 2021, fixed interest rate of 4.350%, collateralized by real estate located in Lincoln Parish, Louisiana and funds on deposit with Origin Bank.</p>	290,455
<p>Total debt</p>	16,580,941
<p>Less current portion</p>	(126,308)
<p>Less deferred financing costs, net</p>	(482,817)
<p>Long-term debt</p>	<u>\$ 15,947,372</u>

Maturities of debt are as follows:

<u>December 31,</u>	<u>Amount</u>
2019	\$ 126,308
2020	116,645
2021	2,632,118
2022	532,712
Thereafter	12,539,589
Total	<u>\$ 15,947,372</u>

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Notes to Combined Financial Statements (Continued)**  
**December 31, 2018**

**NOTE 5 – COMPLIANCE WITH LOAN COVENANTS**

The multiple loan agreements contain various requirements related to reserves, financial ratios, financial reporting due dates, etc. The Organization met the required loan covenants.

**NOTE 6 – NOTE RECEIVABLE**

Primary Health Services Center, Inc.'s note receivable of \$9,359,000 from COCRF Investor 27, LLC accrues interest at 1.0% which is payable quarterly through June 10, 2021. Beginning September 29, 2021, principal and interest will be payable quarterly sufficient to fully amortize the note with the final payment due September 28, 2044.

**NOTE 7 - CONCENTRATIONS OF CREDIT RISK**

The Organization maintains several bank accounts at various banks, where account balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, the Organization maintains deposit balances that exceed federally insured limits. Management believes this risk is limited.

The majority of the Organization's patients are located in Northeast Louisiana. The Organization grants credit without collateral to its patients. The mix of receivables from patients and third-party payors as of December 31, 2018 was as follows:

	2018
Medicaid	78 %
Medicare	4
Other	18
	100 %

The mix of net patient revenues for the year ended December 31, 2018 was as follows:

	2018
Medicaid	89 %
Medicare	5
Other	6
	100 %

**NOTE 8 – FUNCTIONAL ALLOCATION OF EXPENSES**

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

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Notes to Combined Financial Statements (Continued)**  
**December 31, 2018**

**NOTE 9 – RETIREMENT PLAN**

The Organization sponsors a 401(k) retirement plan covering qualified employees. The Organization made matching contributions of \$184,482 for 2018. Organization will match up to 4% of employee contributions to the plan.

**NOTE 10 – ADVERTISING**

The Organization expenses the cost of advertising as the expense is incurred. In 2018, the cost totaled \$256,681.

**NOTE 11 – RESTRICTED CASH**

As of December 31, 2018, \$7,268 was pledged and held in a separate bank account by Primary Health Services Center, Inc. for the payment of debt obligations.

As of December 31, 2018, Healthcare Vision, Inc. reserved and held in a separate bank account \$176,211 for audit, tax, asset management and incidental expenses.

**NOTE 12 – INVESTMENTS**

The Organization applies GAAP for fair value measurements of financial assets that are recognized at fair value in the combined 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 included 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).

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Notes to Combined Financial Statements (Continued)**  
**December 31, 2017**

**NOTE 12 – INVESTMENTS (Continued)**

As of December 31, 2018, the Organization’s investments measured on a recurring basis consisted of certificate of deposits with fair market value (quoted prices in active market – Level 1) and a member’s interest in a limited liability company with fair market value (Level 3) and costs bases as follows:

	Amortized Cost	Fair Value	Unrealized Gain/(Loss)
Certificate of deposits (Level 2 Observable Inputs)	\$ 676,660	\$ 676,660	\$ -0-

**NOTE 13 – 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. 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.

**NOTE 14 – DEFERRED FINANCING COSTS**

Deferred financing costs are capitalized and amortized over the life of the related debt using the straight-line method. Total capitalized costs were \$32,283 and \$579,016 and the related accumulated amortization was \$19,113 and \$109,369, as of December 31, 2018, for Primary Health Services Center, Inc. and Healthcare Vision, Inc., respectively. Deferred financing costs are reported as a direct deduction from the face amount of the related notes payable in the combined statements of financial position.

The following is the estimated aggregate amortization expense for each of the five years succeeding December 31, 2018:

Year	Healthcare Visions, Inc.	Primary Health Services, Inc.	Total Amount
2019	\$ 25,734	\$ 4,247	\$ 29,981
2020	25,734	4,247	29,981
2021	25,734	4,247	29,981
2022	25,734	4,247	29,981
2023	25,734	4,247	29,981

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Notes to Combined Financial Statements (Continued)**  
**December 31, 2018**

**NOTE 15 – LITIGATION**

The Organization is involved in litigation arising in the course of business. After consultation with legal counsel, no reliable evaluation of an unfavorable outcome or the estimated range of loss can be provided at this time.

**NOTE 16 – ECONOMIC DEPENDENCY**

The Organization receives a substantial portion of its total support and revenues from the federal government. During 2017, Primary Health Services Center, Inc. recorded \$4,291,834 in grant support from the Department of Health and Human Services. This represents 40% of total support and revenues for the year ended December 31, 2018.

**NOTE 17 – PRIOR-YEAR SUMMARIZED INFORMATION**

The financial statements include certain prior-year summarized comparative information in total but not by net 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, 2016, from which the summarized information was derived.

**NOTE 18 – 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 year ended December 31, 2018 was \$626,977.

**NOTE 19 - LEASES**

Effective September 29, 2014, Primary Health Services Center, Inc. began leasing its facilities from Healthcare Vision, Inc. as part of the New Markets Tax Credit transaction. The lease commenced on September 29, 2014 and is for a term of seven (7) years. At the end of the lease, Primary Health Services Center, Inc. will have the option to extend the lease in five (5) year increments or purchase the leased facilities for the greater of the debt owed or the premise's fair market value, which shall be determined by an independent appraiser.

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Notes to Combined Financial Statements (Continued)**  
**December 31, 2018**

**NOTE 19 - LEASES (Continued)**

The cost and accumulated depreciation of the property under these lease agreements was \$12,352,992 and \$1,312,504, respectively. In 2018, quarterly lease payments made by Primary Health Services, Inc. to Healthcare Vision, Inc. totaled \$113,680. This lease expense and lease income are intercompany transactions that were eliminated for purposes of these combined financial statements. The following is a schedule of future minimum rentals on non-cancelable leases due to Healthcare Vision, Inc. over the next five years:

Year ended December 31:

2018	\$ 113,680
2019	\$ 113,680
2020	\$ 113,680
2021	\$ 113,680
2022	\$ 113,680

Primary Health Services Center, Inc. entered into a lease for real estate effective June 1, 2018 for 12 Months. The monthly lease payment is \$3,900.

**NOTE 20 – THIRD PARTY PAYORS**

Primary Health Services Center, Inc. has agreements with third-party payors that provide reimbursement to the Organization at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Primary Health Services Center, Inc.’s rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

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

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

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

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

Commercial – Fee-For-Service – Reimbursed per contract or per payor’s allowable fee schedule.

**NOTE 21– SUBSEQUENT EVENTS**

The Organization evaluated its December 31, 2018 combined financial statements for subsequent events through the date of the independent auditor’s report, which is 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.

**FAMILY AND YOUTH COUNSELING AGENCY, INC.**  
**Lake Charles, Louisiana**  
**Notes to Financial Statements (Continued)**  
**December 31, 2018**

**NOTE 22 – QUANTITATIVE AND QUALITATIVE LIQUIDITY AND AVAILABILITY OF RESOURCES**

The following reflects the Agency’s financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations. Amounts not available include amounts set aside for operating and other reserves that could be drawn upon if the board of directors approves that action.

	<b>2018</b>
Current assets	\$3,833,130
Subtract: cash restricted	( 183,497)
Subtract: prepaid expenses	<u>( 36,426)</u>
Financial assets available to meet cash needs for general expenditure within one year	<b>\$ 3,611,207</b>

**PRIMARY HEALTH SERVICES CENTER, INC.**

**Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2018**

<u>Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Program Year</u>	<u>Program Revenues</u>	<u>Program Expenses</u>
U. S. Department of Health and Human Services					
Direct Programs:					
Community Health Center Section 330	93.224	H80CS00754	5/1/18 - 4/30/19	\$ 4,291,834	\$ 4,291,834
				<hr/>	<hr/>
Total federal assistance				<u>\$ 4,291,834</u>	<u>\$ 4,291,834</u>

**Above program consider major.**

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Primary Health Services Center, Inc., and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements contained by Title 2 of U. S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Requirements for Federal Awards (Uniform Guidance).

The amounts presented in this schedule do not differ from the amounts presented in, or used in the preparation of the financial statements.

Primary Health Services Center, Inc. has elected not to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Combining Statement of Financial Position**  
**As of December 31, 2018**

	<u>Primary Health Services Center, Inc.</u>	<u>Healthcare Vision, Inc.</u>	<u>Eliminations</u>	<u>Combined Total</u>
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	1,221,268	\$ 52,416	\$ -	\$ 1,273,684
Cash - restricted	7,286	176,211	-	183,497
Patient accounts receivable, net	223,414	-	-	223,414
Grants receivable	1,439,449	-	-	1,439,449
Certificates of deposit	676,660	-	-	676,660
Other receivable	-	-	-	-
Prepaid expenses	36,426	-	-	36,426
	<u>3,604,503</u>	<u>228,627</u>	<u>-</u>	<u>3,833,130</u>
<b>Property, Plant and Equipment</b>				
Building and improvements	1,855,427	12,352,992	-	14,208,419
Furniture and equipment	3,754,755	-	-	3,754,755
Automobiles	502,805	-	-	502,805
	<u>6,112,987</u>	<u>12,352,992</u>	<u>-</u>	<u>18,465,979</u>
Less accumulated depreciation	(3,366,097)	(1,312,504)	-	(4,678,601)
	<u>2,746,890</u>	<u>11,040,488</u>	<u>-</u>	<u>13,787,378</u>
Land	436,999	370,492	-	807,491
	<u>3,183,889</u>	<u>11,410,980</u>	<u>-</u>	<u>14,594,869</u>
<b>Other Assets</b>				
Investments other	10,000	-	-	10,000
Utility Deposits	13,820	-	-	13,820
PCDC receivable - new markets tax credit	74,394	-	-	74,394
Notes receivable - new markets tax credit	9,359,000	-	-	9,359,000
	<u>9,457,214</u>	<u>-</u>	<u>-</u>	<u>9,457,214</u>
Total Assets	<u>\$ 16,245,606</u>	<u>\$ 11,639,607</u>	<u>\$ -</u>	<u>\$ 27,885,213</u>

See accompanying notes to financial statements.

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Combining Statement of Financial Position (Continued)**  
**As of December 31, 2018**

	<u>Primary Health Services Center, Inc.</u>	<u>Healthcare Vision, Inc.</u>	<u>Eliminations</u>	<u>Combined Total</u>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 417,878	\$ -	\$ -	\$ 417,878
Accrued vacation and payroll	345,110	-	-	345,110
Payroll taxes payable	61,357	-	-	61,357
Accrued interest payable	9,167	-	-	9,167
Current portion of notes payable	<u>126,308</u>	<u>-</u>	<u>-</u>	<u>126,308</u>
Total Current Liabilities	959,820	-	-	959,820
<b>Long Term Liabilities</b>				
Notes payable - net of current portion	<u>2,603,268</u>	<u>13,245,353</u>	<u>-</u>	<u>15,848,621</u>
Total Liabilities	<u>3,563,088</u>	<u>13,245,353</u>	<u>-</u>	<u>16,808,441</u>
<b>Net Assets</b>				
Without donor restrictions	11,243,070	(1,605,747)	-	9,637,323
With donor restrictions	<u>1,439,449</u>	<u>-</u>	<u>-</u>	<u>1,439,449</u>
Total Net Assets	<u>12,682,519</u>	<u>(1,605,747)</u>	<u>-</u>	<u>11,076,772</u>
Total Liabilities and Net Assets	<u>\$ 16,245,607</u>	<u>\$ 11,639,606</u>	<u>\$ -</u>	<u>\$ 27,885,213</u>

See accompanying notes to financial statements.

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**  
**Monroe, Louisiana**  
**Combining Statement of Activities**  
**For the Year Ended December 31, 2018**

	<u>Primary Health Services Center, Inc.</u>	<u>Healthcare Vision, Inc.</u>	<u>Eliminations</u>	<u>Combined Total</u>
<b>Revenue and Support</b>				
Revenue:				
Gross patient service revenue	\$ 13,462,116	\$ -	\$ -	\$ 13,462,116
Less: contractual allowances and discounts	(7,189,431)	-	-	(7,189,431)
	<u>6,272,685</u>	<u>-</u>	<u>-</u>	<u>6,272,685</u>
Less: provision for uncollectible accounts	(55,368)	-	-	(55,368)
Net patient service revenue	<u>6,217,317</u>	<u>-</u>	<u>-</u>	<u>6,217,317</u>
Support and other income:				
Federal grants	2,852,385	-	-	2,852,385
Interest income	105,275	-	-	105,275
Lease income	-	113,680	(113,680)	-
Other	24,952	-	-	24,952
Temporarily restricted revenue - federal grant	<u>1,439,449</u>	<u>-</u>	<u>-</u>	<u>1,439,449</u>
Total support and other income	<u>4,422,061</u>	<u>113,680</u>	<u>(113,680)</u>	<u>4,422,061</u>
Total revenue, support and other income	<u>10,639,378</u>	<u>113,680</u>	<u>(113,680)</u>	<u>10,639,378</u>
<b>Expenses</b>				
Program expenses	8,879,482	411,065	(96,628)	9,193,919
Management and general	<u>2,058,927</u>	<u>81,488</u>	<u>(17,052)</u>	<u>2,123,363</u>
Total Expenses	<u>10,938,409</u>	<u>492,553</u>	<u>(113,680)</u>	<u>11,317,282</u>
Increase (decrease) in Net Assets	(299,031)	(378,873)	-	(677,904)
Net Assets - Beginning of Year	<u>12,981,550</u>	<u>(1,226,874)</u>	<u>-</u>	<u>11,754,676</u>
Net Assets - End of Year	<u>\$ 12,682,519</u>	<u>\$ (1,605,747)</u>	<u>\$ -</u>	<u>\$ 11,076,772</u>

See accompanying notes to financial statements.

**Primary Health Services Center, Inc. and Affiliate**  
**Schedule of Compensation, Benefits and Other Payments to Executive Director**  
**Paid from Public Funds**  
**December 31, 2018**

Agency Head Name: Catherine Tonore, Chief Executive Officer

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

# STEVEN M. DEROUEN & ASSOCIATES

## *Certified Public Accountants*

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## 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  
Primary Health Services Center, Inc. and Affiliate  
Monroe, Louisiana

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Primary Health Services Center, Inc. and Affiliate (a nonprofit organization), which comprise the combined statement of financial position as of December 31, 2018, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated June 6, 2019.

### **Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Primary Health Services Center, Inc. and Affiliate's combined financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Steven M. DeRouen & Associates

Lake Charles, Louisiana  
June 6, 2019

# STEVEN M. DEROUEN & ASSOCIATES

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

The Board of Directors  
Primary Health Services Center, Inc. and Affiliate  
Monroe, Louisiana

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

I have audited Primary Health Services Center, Inc. and Affiliate's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Primary Health Services Center, Inc. and Affiliate's major federal programs for the year ended December 31, 2018. Primary Health Services Center and Affiliate's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

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

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Primary Health Services Center, Inc. and Affiliate's compliance.

### ***Opinion on Each Major Federal Program***

In my opinion, Primary Health Services Center, Inc. and Affiliate 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, 2018.

### **Report on Internal Control Over Compliance**

Management of Primary Health Services Center, Inc. and Affiliate 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 Primary Health Services Center, Inc. and Affiliate's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Primary Health Services Center, Inc. and Affiliate's internal control over compliance.

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

*Steven M. DeRouen & Associates*

Lake Charles, Louisiana  
June 6, 2019

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**

**Schedule of Findings and Questioned Cost  
Year Ended December 31, 2018**

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

Financial Statements

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

Federal Awards

Internal control over major programs:  
Material weaknesses identified?  Yes  No  
Significant deficiencies identified not considered to  
be material weaknesses?  Yes  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 Uniform  
Guidance  Yes  No

Identification of major programs:

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

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

Auditee qualified as low-risk auditee?  Yes  No

**No Separate Management Letter Issued**

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**

**Schedule of Findings and Questioned Cost  
Year Ended December 31, 2018**

**SECTION II – FINDINGS**

**None**

**PRIMARY HEALTH SERVICES CENTER, INC. AND AFFILIATE**

**Summary Schedule of Prior Year Findings and Questioned Cost  
Year Ended December 31, 2017**

**SECTION III – PRIOR YEAR FINDINGS**

**None**