

SOUTHEAST COMMUNITY HEALTH SYSTEMS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Southeast Community Health Systems
Zachary, LA

Report on the Financial Statements

We have audited the accompanying financial statements of Southeast Community Health Systems (a non-profit organization), which comprise the statement of financial position as of December 31, 2019 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 the 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 above present fairly, in all material respects, the financial position of Southeast Community Health Systems as of December 31, 2019 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200*, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the Schedule of Compensation, Benefits, and Other Payments to the CEO, is 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 25, 2020 on our consideration of Southeast Community Health Systems' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Southeast Community Health System'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 Southeast Community Health Systems' internal control over financial reporting and compliance.



Daigrepont & Brian, APAC
Baton Rouge, LA

June 25, 2020

SOUTHEAST COMMUNITY HEALTH SYSTEMS
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019

ASSETS

Current Assets

| | |
|--------------------------|------------------|
| Cash | \$ 2,445,514 |
| Patient receivables, net | 774,611 |
| Grants receivable | 394,002 |
| Inventory | 75,757 |
| Prepaid expenses | 110,754 |
| Deposits | 18,508 |
| Total Current Assets | <u>3,819,146</u> |

| | |
|-----------------------------|-----------|
| Property and Equipment, net | 7,339,466 |
|-----------------------------|-----------|

Other Assets

| | |
|--|------------------|
| Cash restricted to secure note payable | 2,273,706 |
| Goodwill | 131,450 |
| Loan origination costs, net | 49,839 |
| Total Other Assets | <u>2,454,995</u> |

| | |
|--------------|-----------------------------|
| Total Assets | <u><u>\$ 13,613,607</u></u> |
|--------------|-----------------------------|

LIABILITIES AND NET ASSETS

Current Liabilities

| | |
|----------------------------------|------------------|
| Current portion of notes payable | \$ 613,574 |
| Accounts payable | 410,920 |
| Accrued expenses | 451,311 |
| Total Current Liabilities | <u>1,475,805</u> |

| | |
|----------------|-----------|
| Long Term Debt | 2,007,912 |
|----------------|-----------|

Net Assets

| | |
|---------------------------------------|-------------------|
| Net assets without donor restrictions | <u>10,129,890</u> |
|---------------------------------------|-------------------|

| | |
|----------------------------------|-----------------------------|
| Total Liabilities and Net Assets | <u><u>\$ 13,613,607</u></u> |
|----------------------------------|-----------------------------|

See accompanying notes and independent auditors' report.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDING DECEMBER 31, 2019

REVENUES

| | |
|---------------------|------------------|
| Net patient revenue | \$ 4,982,095 |
| Federal grants | 4,176,548 |
| Other grants | 422,931 |
| Interest income | 6,820 |
| Other income | 135,956 |
| Total Revenues | <u>9,724,350</u> |

EXPENSES

| | |
|------------------------|-------------------|
| Program services | 8,110,418 |
| Management and general | <u>2,078,597</u> |
| Total Expenses | <u>10,189,015</u> |

CHANGE IN NET ASSETS

| | |
|--------------------------------|----------------------|
| | (464,665) |
| Net assets - beginning of year | <u>10,594,555</u> |
| Net assets - end of year | <u>\$ 10,129,890</u> |

See accompanying notes and independent auditors' report.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
STATEMENT OF FUNCTIONAL EXPENSE
FOR THE YEAR ENDING DECEMBER 31, 2019**

| | Program Services | Management & General | Total |
|-------------------------------------|---------------------|-------------------------|---------------|
| Salaries and related expenses | | | |
| Salaries | \$ 5,620,111 | \$ 346,560 | \$ 5,966,671 |
| Employee fringe benefits | 334,460 | 53,233 | 387,693 |
| Payroll taxes | 422,515 | 24,791 | 447,306 |
| Total salaries and related expenses | 6,377,086 | 424,584 | 6,801,670 |
| General expenses | | | |
| Advertising | 21,873 | 63,364 | 85,237 |
| Amortization | - | 4,529 | 4,529 |
| Bad debts | 627,705 | - | 627,705 |
| Bank charges | - | 8,267 | 8,267 |
| Conferences and meetings | - | 14,575 | 14,575 |
| Depreciation | 368,509 | 158,334 | 526,843 |
| Dues and subscriptions | - | 34,472 | 34,472 |
| Insurance | 32,624 | 32,624 | 65,248 |
| Interest | - | 139,210 | 139,210 |
| Miscellaneous | - | 13,951 | 13,951 |
| Postage | - | 4,448 | 4,448 |
| Professional fees | 39,499 | 745,780 | 785,279 |
| Rent | 97,259 | 21,577 | 118,836 |
| Repairs and maintenance | 92,049 | 87,638 | 179,687 |
| Supplies | 279,288 | 133,435 | 412,723 |
| Taxes and licenses | - | 2,735 | 2,735 |
| Telephone | 71,100 | 66,237 | 137,337 |
| Travel | 23,222 | 113,925 | 137,147 |
| Utilities | 80,204 | 8,912 | 89,116 |
| Total general expenses | 1,733,332 | 1,654,013 | 3,387,345 |
| Total expenses | \$ 8,110,418 | \$ 2,078,597 | \$ 10,189,015 |

See accompanying notes and independent auditors' report.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|----------------|
| Change in net assets | \$ (464,665) |
| <u>Adjustments to reconcile net revenues over expenses</u> <u>to net cash provided by operating activities:</u> | |
| Depreciation | 526,843 |
| Amortization | 4,529 |
| Change in allowance for doubtful accounts | (1,261,375) |
| Decrease in gross accounts receivable | 1,194,641 |
| Increase in prepaid expenses | (7,771) |
| Decrease in inventory | 313 |
| Increase in deposits | (4,000) |
| Increase in accounts payable | 141,987 |
| Increase in accrued expenses | 19,566 |
| Decrease in deferred revenue | (78,003) |
| Total adjustments | <u>536,730</u> |
| Net cash provided by operating activities | <u>72,065</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---------------------------------------|------------------|
| Purchase of fixed assets | <u>(276,624)</u> |
| Net cash used by investing activities | <u>(276,624)</u> |

CASH FLOWS FROM FINANCING ACTIVITIES

| | |
|--|------------------|
| Principal payments on long term debt | (222,035) |
| Payments on line of credit | (415,000) |
| Draws on line of credit | 415,000 |
| Proceeds from the issuance of long term debt | <u>3,972</u> |
| Net cash used by financing activities | <u>(218,063)</u> |

DECREASE IN CASH (422,622)

CASH, BEGINNING OF YEAR 5,141,842

CASH, END OF YEAR \$ 4,719,220

RECONCILIATION OF CASH AND RESTRICTED CASH

| | |
|-----------------|---------------------|
| Cash | \$ 2,445,514 |
| Restricted Cash | <u>2,273,706</u> |
| | <u>\$ 4,719,220</u> |

SUPPLEMENTAL DISCLOSURE

Cash paid for interest \$ 139,210
See accompanying notes and independent auditors' report.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2019**

1. Summary of Significant Accounting Policies

Organization

Southeast Community Health Systems (SCHS) is a Federally Qualified Health Center that is federally and state funded to provide primary and preventative health care in communities across southeast Louisiana. SCHS operates 5 clinics in Zachary, Greensburg, Kentwood, Hammond, and Independence that offer medical, dental, and behavioral health services, which include mental health counseling and substance abuse treatment and services and 1 clinic in Baton Rouge that offers OB/GYN services. SCHS also operates 14 school based health centers and a mobile medical unit that covers the organization's service area of East Baton Rouge, Livingston, St. Helena, and Tangipahoa parishes. The organization also offers services at an assisted living facility in Hammond. The mission of SCHS is to provide quality, affordable healthcare to all patients in underserved areas, and to improve the health and wellness of the communities we serve.

Basis of Accounting

The financial statements of SCHS have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Revenues

Grant and Contracts

SCHS receives a significant portion of its revenue from Federal and State agencies. SCHS recognizes contract revenue (up to contract ceiling) from its contracts either on a pro-rata basis over the contract life or to the extent of expenses. Revenue recognition depends on the contract. Any of the funding sources may, at its discretion, request reimbursement for expenses or return of funds, or both, as a result of non-compliance by SCHS with the terms of the grant/contract.

Federal funds come from the United States Department of Health and Human Services (DHHS) through the Health Resources and Services Administration as part of the Consolidated Health Centers program (CHCP). Compliance is required based on the terms and conditions of the grant agreements, and DHHS may, at its discretion, request reimbursement for expense or the return of funds not expended, or both, based on non-compliance with the these terms.

Net Patient Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers (including Medicare and Medicaid), and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. It is reasonably possible that these estimates could change in the near term.

The Center has a sliding fee plan for patients without any third party payers and whose income level fall within the sliding fee guidelines. The sliding fee plan is based on the federal poverty guidelines.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2019**

1. Summary of Significant Accounting Policies (continued)

Net Assets

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board's (FASB) Accounting Standard Codification (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, SCHS is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions and are available for use at the organization's discretion.

Net Assets With Donor Restrictions

Net assets subject to donor-imposed restrictions that may or will be met by either actions of the organization or the passage of time. Once the restrictions are met, they are reclassified to net assets without donor restrictions.

Cash

Cash consists of bank deposits held with financial institutions.

Investment Valuation

Financial Accounting Standards Board (FASB) Accounting Standards Codification, (ASC 820), establishes a framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs (sources of pricing information) to valuation techniques used to measure fair value. The highest priority is given to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of fair value hierarchy under ASC 820 are described as follows:

Level 1 - Unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 - Inputs including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2019**

1. Summary of Significant Accounting Policies (continued)

Level 3 - Inputs that are unobservable and significant to the fair value measurement.

Certificates of deposit are recorded at cost, which approximates fair market value using level 2 inputs.

Patient Receivables and Allowance for Uncollectible Accounts

SCHS extends credit to patients, as well as third party intermediaries. Patient receivables are generally carried at the original billed amount less contractual adjustments and the allowance for uncollectible accounts. This allowance is based on management's estimates, historical experience and a review of all outstanding amounts on an ongoing basis. For the year ended December 31, 2019 the allowance for doubtful accounts was \$591,200. Patient receivables are written-off when deemed uncollectible and recoveries, if any, are recorded when received.

Recently Issued Accounting Standards

In May, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updates (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU and all subsequently issued clarifying ASUs, replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures related to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. SCHS adopted the new standard effective January 1, 2019, the first day of SCHS's fiscal year, using the modified retrospective method.

As part of the adoption of the ASU, SCHS elected the following transition practical expedients: (1) to reflect the aggregate of all contract modifications that occurred prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price; and (2) to apply the standard only to contracts that are not completed at the initial date of application.

The adoption of the standard did not result in any changes to beginning member's equity at January 1, 2019. Based on SCHS's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard.

Effective January 1, 2019, SCHS adopted the requirements of the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2018-08, Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The ASU clarifies and improves the guidance for contributions received and contributions made, and provides guidance to organizations on how to account for transactions as contributions or exchange transactions. In addition, it clarifies whether a contribution is conditional.

The adoption of this standard did not result in any changes to beginning net assets at January 1, 2019.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2019**

1. Summary of Significant Accounting Policies (continued)

Effective January 1, 2019, SCHS adopted the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash. This ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

The adoption of the standard caused the balance of beginning cash and restricted cash on the statement of cash flows to increase from \$4,724,730 to \$5,141,842.

Inventories of Supplies

Inventories of medical supplies and drugs are stated at the lower of cost or market.

Property and Equipment

Property and equipment is presented in the financial statements at cost less allowances for depreciation. Depreciation is computed using the straight-line method and is provided over the estimated useful lives of the assets which ranges from 5 to 39 years.

SCHS receives funding under Section 330 of the Public Health Services Act with various restrictions placed on items obtained with these funds. According to the Public Health Service grants Policy Statement, title to real and tangible property shall rest in the grantee upon acquisition, subject to the accountability requirements and the Public Health Service's right to transfer title.

Goodwill

Goodwill represents the excess of the cost of purchased clinics and physician practices over the fair value of the net assets at the date of acquisition. In accordance with generally accepted accounting principles goodwill having indefinite lives will no longer be amortized. Instead, goodwill is tested annually for impairment. During the year there were no additions to goodwill.

Functional Expenses

SCHS allocates its expenses on a functional basis between program service or management and general. Expenses that can be identified with a specific program are allocated directly according to their natural expense classification. Other expenses are allocated between programs and supporting services based on management's best estimate.

Use of Estimates

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

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2019**

1. Summary of Significant Accounting Policies (continued)

Income Taxes

SCHS accounts for income taxes in accordance with FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*. Management believes it has no material uncertain tax positions and, accordingly has not recognized a liability for any unrecognized tax benefits.

SCHS is a non-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization files Form 990 in the U.S. federal jurisdiction. The Organization is no longer subject to federal information return examinations by tax authorities for years before 2016.

Advertising Costs

The Center expenses its advertising costs as they are incurred. Total advertising costs for the year ended December 31, 2019 were \$85,237.

Subsequent Events

In preparing these financial statements SCHS has evaluated events and transactions for potential recognition or disclosure through the date of the independent auditors' report, which is June 25, 2020.

2. Property and Equipment

The following is a summary of property and equipment at December 31, 2019:

| | |
|--------------------------------|----------------------------|
| Land | \$ 851,224 |
| Buildings | 7,158,012 |
| Furniture and fixtures | 257,676 |
| Office equipment | 1,086,869 |
| Medical equipment | 1,400,440 |
| Construction in Progress | 509,665 |
| Vehicles | 309,268 |
| | <u>11,573,154</u> |
| Less: Accumulated depreciation | <u>(4,233,688)</u> |
| | <u><u>\$ 7,339,466</u></u> |
| Depreciation expense | <u><u>\$ 526,843</u></u> |

3. Economic Dependency

SCHS receives a significant portion of its revenue from funds provided by the U.S. Department of Health and Human Services Community Health Center Program. All funds received under the grant are federal funds and are appropriated each year by the federal government. If significant budget cuts are made at the federal level, the amount of funds received by SCHS could be reduced by an amount that could adversely impact its operations. Management is not aware of any actions that have been taken or are proposed to be taken by the federal government that will adversely impact the SCHS grant for the coming fiscal year.

SOUTHEAST COMMUNITY HEALTH SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2019

4. Concentrations

SCHS receives approximately 43% of its operating revenue from the U.S. Department of Health and Human Services with 80% of the grants receivable being related to this source of revenue.

Net patient revenue represents approximately 51% of total revenue. SCHS 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. Revenue and receivables related to net patient revenue are as follows.

| | <u>Revenue</u> | <u>Receivables</u> |
|-----------------------|----------------|--------------------|
| Medicare | 10% | 21% |
| Medicaid | 65% | 55% |
| Third party insurance | 19% | 16% |
| Private pay and other | 11% | 8% |

Financial instruments, which potentially subject SCHS to concentrations of credit risk consist of cash deposits held with local banks. Cash deposits are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. As of December 31, 2019 SCHS had \$4,295,351 above the insured limit. SCHS places its deposits with high-credit, quality financial institutions and does not believe that it is exposed to any significant credit risk on uninsured amounts.

5. Commitments and Contingencies

Funding

SCHS receives federal funding for specific purposes that is subject to audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant.

It is the opinion of management that its compliance with the terms of the grant will result in negligible, if any, disallowed costs in the future. No provision has been recorded in the accompanying financial statements for such contingencies.

Legal proceedings

SCHS is involved in various claims and legal actions in the normal course of business. SCHS has medical malpractice insurance that is covered by the Federal Tort Claims Act. After consultation with legal counsel, management estimates that any pending legal matters will be resolved without material adverse effect on the financial position of SCHS.

6. Notes Payable

Long-term debt consists of the following:

A note dated December 2010, with an original balance of \$3,650,750 due in 120 monthly installments. The principal portion is amortized over 10 years. Each installment, beginning December 2011, includes a principal portion of \$15,212 plus monthly interest at a variable rate. At December 31, 2019 the rate was 3.49%. The note is secured by buildings, land, and all deposit accounts.

\$ 2,190,450

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2019**

6. Notes Payable (continued)

A note dated December 2015, with an original balance of \$72,249 due in 60 monthly installments of \$1,477 with an interest rate of 8.33%.

This note is secured by equipment. 16,036

A line of credit dated December 2019, with an available balance of \$1,850,000 which matures in December 2020 with an interest rate of 3.36%. This note is secured by a Certificate of Deposit. The outstanding balance at December 31, 2019 is \$415,000.

415,000

Less: current installments

(613,574)

\$ 2,007,912

Long-term debt obligations mature in years ended December 31 are as follows:

| | |
|------------|---------------------|
| 2020 | 613,574 |
| 2021 | 2,007,912 |
| Thereafter | - |
| | <u>\$ 2,621,486</u> |

Total interest charged to expense for the year ended December 31, 2019 was \$139,210.

SCHS has an available line of credit with a bank in the amount of \$400,000 and an interest rate of 4.85%. There were no amounts outstanding on the line of credit at December 31, 2019.

7. Loan Origination Costs

Loan origination costs in the amount of \$86,193 were incurred in connection with the note payable from December 2010 as noted above. These costs are being amortized over the life of the loan.

Amortization expense for the year ended December 31, 2019 was \$4,529.

8. Retirement Plan

SCHS sponsors a 403 (b) tax-sheltered annuity plan, which covers substantially all of its employees who meet eligibility requirements. Eligible employees are allowed to contribute, on a tax-deferred basis, a portion of their compensation, up to federally designated limits. SCHS matches 100% of employee contributions up to a maximum of 5% of the employee's annual salary. Employees are vested in the plan at 25% after one year, 50% after two years, 75% after three years and 100% after four years. The Center's contributions to the plan for the year ended December 31, 2019 amounted to \$139,698.

9. Leases and Rent

SCHS leases a physician office building under a non-cancelable operating lease. The lease originated on October 1, 2016 and ended on September 30, 2019. The lease called for annual increases of 3% or the annual increase in the Consumer Price Index, whichever is greater. Total lease payments for the year ended December 31, 2019 was \$118,836.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDING DECEMBER 31, 2019**

10. Compensated Absences

Employees of SCHS had \$109,363 vested in accrued vacation pay at December 31, 2019.

11. Board of Directors Compensation

The Board of Directors is a voluntary board; therefore, no compensation or per diem has been paid to any Director.

12. Liquidity and Availability of Financial Assets

The following reflects SCHS's financial assets available within 1 year of the statement of financial position date, reduced by amounts not available for general use because of a contractual or donor imposed restriction (See note 13).

| | |
|---|----------------------------|
| Financial Assets at Year End | \$ 5,887,833 |
| Available balance of line of credit at year end | 1,435,000 |
| Unavailable for General Expenditures | |
| Cash secured as collateral for note payable | <u>(2,273,706)</u> |
| Financial Assets Available for General Expenditures | <u><u>\$ 5,049,127</u></u> |

13. Restrictd Cash - Certificate of Deposit

At December 31, 2019 SCHS held a certificate of deposit (CD) with a market value of \$2,273,706. The year end balance consists of \$2,265,000, invested to secure the note payable mentioned in note 6, for a term of 6 months at an annual percentage rate of 1.72%. Interest earnings at December 31, 2019 of \$6,594 are reinvested into the CD and, therefore, fair market value equals the cost of the investment.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

| <u>Federal Grantor/Program or Cluster Title</u> | <u>CFDA Number</u> | <u>Pass-through Entity Identifying Number</u> | <u>Federal Expenditure</u> |
|---|------------------------|---|--------------------------------|
| Department of Health and Human Services direct programs: | | | |
| Health Center Program | 93.224 | N/A | <u>\$4,176,548</u> |
| Total Department of Health and Human Services direct programs: | | | <u>4,176,548</u> |
| Total expenditures of federal awards | | | <u><u>\$4,176,548</u></u> |

SOUTHEAST COMMUNITY HEALTH SYSTEMS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Southeast Community Health Systems (SCHS) under programs of the federal government for the year ended December 31, 2019. 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 SCHS, it is not intended to and does not present the financial position, changes in net assets, or cash flows of SCHS.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations* , wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

SCHS has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
SCHEDULE OF COMPENSATION, BENEFITS, AND
OTHER PAYMENTS TO CEO FROM PUBLIC FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Chief Executive Officer: Alecia Cyprian, Ph.D.

No compensation, benefits, or other payments paid from public funds

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
Southeast Community Health Systems
Zachary, LA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Southeast Community Health Systems, (a non-profit organization), which comprise the statement of financial position as of December 31, 2019 and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 25, 2020.

Internal Control Over Financial Reporting

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

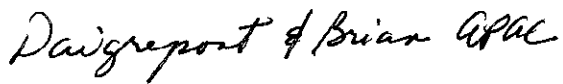
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southeast Community Health Systems' 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.

Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document. This report is intended solely for the information and use of the audit committee, management, others within the organization, the Legislative Auditor, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



Daigrepont & Brian, APAC
Baton Rouge, LA

June 25, 2020

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

To the Board of Directors
Southeast Community Health Systems
Zachary, LA

Report on Compliance for Each Major Federal Program

We have audited Southeast Community Health Systems' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Southeast Community Health Systems' major federal programs for the year ended December 31, 2019. Southeast Community Health Systems' major federal programs are 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Southeast Community Health Systems' major federal programs 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 for 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 Southeast Community Health Systems' 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 each major federal program. However, our audit does not provide a legal determination on Southeast Community Health Systems' compliance.

Opinion on Each Major Federal Program

In our opinion, Southeast Community Health Systems complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of Southeast Community Health Systems 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 Southeast Community Health Systems' 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

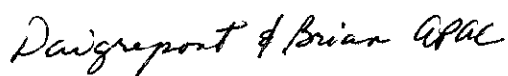
expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Southeast Community Health Systems' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the 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 our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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



Daigrepont & Brian, APAC
Baton Rouge, LA

June 25, 2020

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

We have audited the financial statements of Southeast Community Health Systems, as of December 31, 2019, and for the year then ended, and have issued our report thereon dated June 25, 2020. 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 and the provisions of the Uniform Guidance. Our audit of the financial statements as of December 31, 2019 resulted in an unmodified opinion.

Summary of Auditors' Reports

A. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

| | | | | |
|--------------------------|-----|---------------|----|--------------|
| Material Weaknesses | Yes | <u> </u> | No | <u> X </u> |
| Significant Deficiencies | Yes | <u> </u> | No | <u> X </u> |

Compliance

| | | | | |
|---|-----|---------------|----|--------------|
| Compliance Material to Financial Statements | Yes | <u> </u> | No | <u> X </u> |
|---|-----|---------------|----|--------------|

B. Federal Awards

Internal Control

| | | | | |
|--------------------------|-----|---------------|----|--------------|
| Material Weaknesses | Yes | <u> </u> | No | <u> X </u> |
| Significant Deficiencies | Yes | <u> </u> | No | <u> X </u> |

| | |
|--|-------------------|
| Type of Opinion on Compliance for Major Programs | <u>Unmodified</u> |
|--|-------------------|

| | | | | |
|--|-----|---------------|----|--------------|
| Are there findings required to be reported in accordance with the Uniform Guidance | Yes | <u> </u> | No | <u> X </u> |
|--|-----|---------------|----|--------------|

| | | | | |
|--------------------------------------|-----|---------------|----|--------------|
| Was there a management letter issued | Yes | <u> </u> | No | <u> X </u> |
|--------------------------------------|-----|---------------|----|--------------|

C. Identification of Major Programs

| | |
|----------------|--|
| CFDA Number(s) | Name of Federal Program or Cluster |
| 93.224 | Dept. of Health and Human Services - Health Center Program |

| | |
|---|-------------------|
| Dollar threshold used to distinguish between Type A and Type B programs | <u>\$ 750,000</u> |
|---|-------------------|

| | | | | |
|--|-----|--------------|----|---------------|
| Is the auditee a 'low risk' auditee as defined by the Uniform Guidance | Yes | <u> X </u> | No | <u> </u> |
|--|-----|--------------|----|---------------|

Findings - Financial Statement Audit

There are no findings for the year ended December 31, 2019.

Questioned Costs

There are no questioned costs for the year ended December 31, 2019.

**SOUTHEAST COMMUNITY HEALTH SYSTEMS
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Summary of Prior Audit Findings

There were no prior year audit findings or questioned costs.