MARILLAC COMMUNITY HEALTH CENTERS

FINANCIAL STATEMENTS

JUNE 30, 2020

P&N
Postlethwaite & Netterville
A Professional Accounting Corporation
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A Professional Accounting Corporation

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Marillac Community Health Centers
New Orleans, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of Marillac Community Health Centers (a nonprofit organization) (MCHC), which comprise the statements of financial position as of June 30, 2020 and 2019, the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 organization'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 organization'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.

Postlethwaite & Netterville

Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of Marillac Community Health Centers as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information on page 17 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In 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 October 7, 2020 on our consideration of the MCHC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MCHC's internal control over financial reporting and compliance.

Postlethwaite & Netterville

Metairie, Louisiana
October 7, 2020

MARILLAC COMMUNITY HEALTH CENTERS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

ASSETS

	2020	2019
CURRENT ASSETS		
Cash	$ 3,686,003	$ 2,984,921
Patient receivables, net	1,497,731	1,460,745
Grant receivable	793,505	268,156
Other receivable	55,584	82,658
Inventory	322,911	291,702
Prepaid expenses	79,466	72,740
Other current assets	11,000	11,000
Total current assets	6,446,200	5,171,922
NON-CURRENT ASSETS		
Property, equipment, and improvements, net	1,181,933	911,474
TOTAL ASSETS	$ 7,628,133	$ 6,083,396

LIABILITIES AND NET ASSETS

	2020	2019
CURRENT LIABILITIES		
Due to affiliate	$ 1,648,201	$ 1,523,182
Accounts payable and accrued expenses	762,827	382,987
Accrued salaries and payroll taxes	5,275	3,557
Unearned revenue	58,849	-
Total current liabilities	2,475,152	1,909,726
NET ASSETS		
Without donor restriction	4,742,442	3,659,978
With donor restriction	410,539	513,692
TOTAL NET ASSETS	5,152,981	4,173,670
TOTAL LIABILITIES AND NET ASSETS	$ 7,628,133	$ 6,083,396

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

MARILLAC COMMUNITY HEALTH CENTERS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
REVENUES AND SUPPORT WITHOUT DONOR RESTRICTION		
Patient service fees, net of contractual discounts of $6,020,935 and $6,855,626, respectively	$ 25,034,589	$ 25,803,358
Less: provision for doubtful accounts	(3,921,236)	(1,421,178)
Net patient service fees	21,113,353	24,382,180
Other revenues	2,591,393	1,136,560
Federal grants	5,507,204	4,033,007
Contributions from affiliate	111,467	255,100
Net assets released from restriction	1,032,653	1,374,668
TOTAL REVENUES AND SUPPORT WITHOUT DONOR RESTRICTION	30,356,070	31,181,515
EXPENSES		
Health care services	25,224,608	24,461,312
Management and general	4,048,998	4,055,075
TOTAL EXPENSES	29,273,606	28,516,387
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION	1,082,464	2,665,128
REVENUES AND SUPPORT WITH DONOR RESTRICTION		
Operating grants	929,500	1,093,187
Net assets released from restriction	(1,032,653)	(1,374,668)
CHANGE IN NET ASSETS WITH DONOR RESTRICTION	(103,153)	(281,481)
CHANGE IN NET ASSETS	979,311	2,383,647
NET ASSETS		
Beginning of year	4,173,670	1,790,023
End of year	$ 5,152,981	$ 4,173,670

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

MARILLAC COMMUNITY HEALTH CENTERS
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Health Care Services	Management and General	Totals	Health Care Services	Management and General	Totals
Salaries and wages	$ 12,041,661	$ 1,752,908	$ 13,794,569	$ 11,577,308	$ 1,632,377	$ 13,209,685
Professional fees	4,242,012	429,872	4,671,884	4,023,460	292,172	4,315,632
Supplies and equipment	2,971,954	64,473	3,036,427	3,633,286	60	3,633,346
Purchased services	1,595,485	1,103,991	2,699,476	1,195,685	1,402,685	2,598,370
Employee benefits	2,036,908	345,812	2,382,720	1,705,244	359,908	2,065,152
Rent	1,063,513	-	1,063,513	1,093,721	-	1,093,721
Depreciation	190,654	-	190,654	138,587	-	138,587
Insurance	281,923	73,931	355,854	305,226	75,209	380,435
Utilities	341,610	-	341,610	301,725	-	301,725
Consumer awareness	7,295	140,980	148,275	32,882	183,959	216,841
Security	215,994	-	215,994	187,827	-	187,827
Office expenses	56,635	37,183	93,818	64,418	20,820	85,238
Travel, meetings, and conferences	48,275	26,315	74,590	66,900	5,920	72,820
Janitorial services	73,662	-	73,662	72,118	-	72,118
Miscellaneous	-	7,688	7,688	11,233	12,723	23,956
Bank charges	-	45,845	45,845	-	39,242	39,242
Repairs and maintenance	50,193	-	50,193	38,625	-	38,625
Impairment loss on equipment	-	20,000	20,000	-	30,000	30,000
Vehicle maintenance	6,834	-	6,834	13,067	-	13,067
TOTAL EXPENSES	$ 25,224,608	$ 4,048,998	$ 29,273,606	$ 24,461,312	$ 4,055,075	$ 28,516,387

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

MARILLAC COMMUNITY HEALTH CENTERS
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 979,311	$ 2,383,647
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Bad debt expense	3,921,236	1,421,178
Depreciation	190,654	138,587
Impairment loss on equipment	20,000	30,000
Changes in assets and liabilities:		
(Increase) decrease in operating assets:		
Patient receivables	(3,958,222)	(1,576,560)
Grant receivable	(525,349)	(268,156)
Other receivable	27,074	144,728
Inventory	(31,209)	5,764
Prepaid expenses	(6,726)	(27,221)
Other assets	-	(4,000)
Increase (decrease) in operating liabilities:		
Due to affiliate	125,019	(2,558,178)
Accounts payable and accrued expenses	379,840	92,032
Accrued salaries and payroll taxes	1,718	-
Unearned revenue	58,849	-
Net cash provided by (used in) operating activities	1,182,195	(218,179)
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, equipment, and improvements purchases	(481,113)	(7,278)
Net cash used in investing activities	(481,113)	(7,278)
NET CHANGE IN CASH	701,082	(225,457)
CASH		
Beginning of year	2,984,921	3,210,378
End of year	$ 3,686,003	$ 2,984,921

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

MARILLAC COMMUNITY HEALTH CENTERS
NOTES TO FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Description of Business and Basis of Presentation

Marillac Community Health Centers (MCHC) (the Organization) provides health care services, counseling, and educational assistance to men, women, and children in the New Orleans area. MCHC began providing services effective March 1, 2012.

Organization and Income Taxes

The Organization is a nonprofit corporation organized under the laws of the State of Louisiana in 2010. It is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, and qualifies as an organization that is not a private foundation as defined in Section 509(a) of the Code. It is also exempt from Louisiana income tax under the authority of R.S.47:121(5).

The Organization applies a "more-likely-than-not" recognition threshold for all tax uncertainties. This approach only allows the recognition of those tax benefits or liabilities that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities. The Organization has reviewed its tax positions and determined there were no outstanding, or retroactive tax positions with more than a 50% likelihood of being sustained upon examination by the taxing authorities.

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, revenues are recognized when earned and expenses are recorded when incurred. Contributions are recognized when received or unconditionally promised. In-kind donations are recognized at their fair market value when received.

Financial Statement Presentation

The financial statements of the Organization have been prepared in accordance with U.S. GAAP, which require the Organization to report information regarding its financial position and activities according to the following net asset classifications:

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

- *Net assets with donor restrictions* – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Restrictions temporary in nature are described in Note 9. The Organization had no restrictions that were perpetual in nature as of June 30, 2020 and 2019.

1. Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Grants, Contributions, and Revenue Recognition

The Organization recognizes contributions when cash, securities or other assets, an unconditional promise to give, or a notification of beneficial interest is received. Conditional promises to give, that is those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

The Organization also receives support in the form of grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the Statements of Financial Position. No amounts were reported as refundable advances at June 30, 2020 or 2019. As of June 30, 2020, the Organization has been awarded cost – reimbursable grants of approximately $7,000,000 which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Of this amount, the conditional grant commitments that are not recognized in the June 30, 2020 financial statements consisted of conditional cost-reimbursement grants awarded by government agencies of approximately $5,600,000.

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

Patient Service Fees and Revenue Recognition

Patient service fees represent the estimated net realizable amounts from patients, third party payors, and others for services rendered. Revenues are recorded during the period the health care services are provided, based upon the estimated amounts due from payers. Estimates of contractual allowances under commercial health plans are based upon the payment terms specified in the related contractual agreements. Amounts received prior to providing services are reported as unearned revenue.

1. Organization and Summary of Significant Accounting Policies (continued)

Patient Service Fees and Revenue Recognition (continued)

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

The Organization does not pursue collection of amounts related to patients who meet guidelines to qualify as charity care. The federal poverty level is established by the federal government and is based on income and family size. The Organization provides discounts from gross charges to uninsured patients who do not qualify for Medicaid or charity care.

These discounts are similar to those provided to many local commercial plans. After the discounts are applied, if the Organization is still unable to collect a significant portion of uninsured patients' accounts, it records significant provisions for doubtful accounts (based upon historical collection experience) related to uninsured patients in the period the services are provided.

The Organization receives payments for patient services from the federal government under the Medicare program, state governments under their respective Medicaid or similar programs, commercial plans, private insurers, and directly from patients. Revenues from third-party payers and the uninsured for the years ended June 30, 2020 and 2019 are summarized as follows:

	2020	2019
Medicare	$ 3,914,242	$ 5,041,330
Medicaid	19,851,096	21,479,420
Commercial and other insurers	4,361,193	3,750,523
Self-pay	2,928,993	2,387,711
Gross patient revenues	31,055,524	32,658,984
Contractual adjustments	(6,020,935)	(6,855,626)
Revenues before provision for doubtful accounts	$ 25,034,589	$ 25,803,358

Allowance for Uncollectible Accounts

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

1. Organization and Summary of Significant Accounting Policies (continued)

Allowance for Uncollectible Accounts (continued)

The collection of outstanding receivables from Medicare, Medicaid, commercial payers, other third-party payers and patients is the primary source of cash and is critical to operating performance. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and copayments) remain outstanding. The provision for doubtful accounts and the allowance for doubtful accounts relate primarily to amounts due directly from patients. An estimated allowance for doubtful accounts is recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed or when the accounts reach approximately 365 days old.

The Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely.

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 provision for bad debts 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.

The Organization presents in the statements of activities and changes in net assets the provision for doubtful accounts as a deduction from patient service revenues. The amount of the provision for doubtful accounts is based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state, and private employer health care coverage and other collection indicators.

The allowance for uncollectible accounts was approximately $2,897,000 and $2,724,000 as of June 30, 2020 and 2019, respectively. The Organization has not changed its charity care or uninsured discount policies during fiscal years 2020 or 2019.

Third Party Contractual Adjustments

The Organization records net realizable revenue from third party payors (Medicaid/Medicare) at the time that patient services are provided. Contractual adjustments are made based upon expected claim reimbursement amounts.

Cash

The Organization considers cash to be all cash deposits in local financial institutions.

Inventory

Inventory includes freight-in and materials and are stated at the lower of cost (on a first-in, first-out basis) or net realizable value. Inventory includes vaccines and medical supplies. Provision is made for slow-moving, obsolete or unusable inventory.

1. Organization and Summary of Significant Accounting Policies (continued)

Property, Equipment, and Improvements

Property, equipment, and leasehold improvements are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Donated property is recorded at its fair market value at the date of donation.

Impairment of long-lived assets is tested whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using appraisals. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose. Included in expenses for the years ended June 30, 2020 and 2019 are impairment losses of $20,000 and $30,000, respectively.

Maintenance and repairs are expensed as incurred and major improvements are capitalized. When items of equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the statements of activities and changes in net assets.

Functional Expenses

The statements of functional expenses present expenses by function and natural classification. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques. Salaries, benefits, and related expenses are based on actual time and effort. Depreciation is allocated based on activities benefited. Other expenses directly attributable to a specific functional area of the Organization are reported as expenses of those functional areas (health care services or management and general).

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets or changes in net assets.

Change in Accounting Principle

In June 2018, the Financial Accounting Standards Board (FASB) issued 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" to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Organization adopted this ASU during the fiscal year ended June 30, 2020. The adoption of this ASU had no impact to the financial statements.

1. Organization and Summary of Significant Accounting Policies (continued)

Accounting Pronouncements Issued But Not Yet Adopted

FASB has issued ASU No. 2014-09, "Revenue from Contracts with Customers," to update its revenue recognition standard to clarify the principles of recognizing revenue and eliminate industry-specific guidance as well as help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. The implementation of this standard was delayed by FASB upon issuance of ASU 2020-05 in June 2020. This standard will be effective for the Organization's fiscal year ending June 30, 2021.

In February 2016, the FASB issued ASU No. 2016-02, "Leases." This accounting standard requires lessees to recognize assets and liabilities related to lease arrangements longer than twelve months on the statements of financial position as well as additional disclosures. The implementation of this standard was delayed by FASB upon issuance of ASU 2020-05 in June 2020. This standard will be effective for the Organization's fiscal year ending June 30, 2023.

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

2. Liquidity and Availability

As of June 30, 2020, the Organization has a working capital of $3,971,048. Financial assets available for general expenditure within one year as of June 30, consist of the following:

	2020	2019
Cash	$ 3,686,003	$ 2,984,921
Patient receivables, net	1,497,731	1,460,745
Grant and other receivables	849,089	350,814
Financial assets available to meet general expenditures over the next twelve months	$ 6,032,823	$ 4,796,480

The Organization considers general expenditures to include expenses covering both program and ongoing operational activities. Donor restricted assets which are expected to be available for general expenditure within one year are included above.

As part of the Organization's liquidity management plan, management of the Organization is focused on increasing the days cash on hand through business operations. In addition to financial assets available to meet general expenditures over the next twelve months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

3. Property, Equipment and Improvements

At June 30 the cost of property, equipment and improvements was as follows:

	2020	2019	Useful lives
Leasehold improvements	$ 569,840	$ 569,840	15 - 20 years
Furniture and equipment	969,071	493,242	5 - 20 years
Vehicles	69,343	69,343	5 years
Construction in progress	13,870	30,000	
	1,622,124	1,162,425	
Less accumulated depreciation	(440,191)	(250,951)	
Total	$ 1,181,933	$ 911,474	

4. Transactions with Affiliates

The Organization entered into an affiliation agreement with Ascension DePaul Services (ADS) effective March 1, 2012. Under the terms, ADS provides leased employees, building space, equipment leases, supplies, and other services to MCHC in order for MCHC to provide primary care and preventative services and facilitate access to comprehensive health and social services for medically underserved persons in the greater New Orleans area. The affiliation agreement shall continue indefinitely unless it is amended or terminated. Termination can occur with or without cause by either party.

As consideration for ADS's provision of these goods and services, ADS bills MCHC on a monthly basis for the fees incurred. Leased employees are charged at a ratable amount of their wages for the period based on the allocation of their time with an additional allocation for benefits. Paid time off for leased employees is charged as an expense to MCHC with the ultimate liability recorded on ADS's books. Building space is charged at $14 per square foot for space assigned to MCHC as stipulated in the affiliation agreement. Equipment is charged at the monthly rate of depreciation for items with a remaining net book value plus 10%. Purchased services for billing are charged at 6% of net revenue collections remitted to ADS during the years ended June 30, 2020 and 2019. During fiscal years 2020 and 2019, pharmacy administrative services are paid to ADS at a rate of $21.75 per prescription. All other services are based on internal allocation assessments.

Leases for four clinic sites are in the name of MCHC. However, for administrative purposes, ADS remits monthly payment to each lessor. Building space is then charged to MCHC by ADS at cost. See information on lease commitments in Note 8.

During the years ended June 30, 2020 and 2019, total billings from the agreement to MCHC were $25,652,429 and $25,224,449, respectively. ADS remitted $111,467 and $255,100, respectively, to MCHC for the years ended June 30, 2020 and 2019. At June 30, 2020, the net amount owed by MCHC to ADS is $1,648,201 as presented in the Statements of Financial Position. At June 30, 2019, the net amount owed by MCHC to ADS is $1,523,182 as presented in the Statements of Financial Position.

5. Contingencies

The Organization is, from time to time, involved in certain claims and legal actions arising in the normal course of business. The Organization is not aware of any pending lawsuits but the Organization believes that any potential claims resulting from litigation and not covered by insurance would not materially affect the financial statements.

5. Contingencies (continued)

The Organization participated in a number of state and federally-assisted grant programs in fiscal years 2020 and 2019. The programs are subject to compliance audits. Such audits could lead to requests for reimbursement by the grantor agency for expenditures disallowed under terms of the grants. The Organization believes that the amount of disallowances, if any, which may arise from future audits, will not be material to the consolidated financial statements.

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

6. Concentrations of Risk

Health care counseling services and educational assistance are provided to clients who reside primarily in the New Orleans area. In addition, a substantial portion of net clinic service fees and reimbursements are provided for by federal agencies. The Organization has a substantial amount of self-pay patients. The ability of these patients to pay for services is uncertain and additional allowance/provisions may be necessary in the future should management's estimates not reflect actual results.

The Organization grants credit without collateral to its patients. The mix of receivables from patients and third-party payors as of June 30, 2020 and 2019 was as follows:

	2020	2019
Medicare and Medicaid	85%	70%
Commercial and other insurers	10%	30%
Self-pay	5%	0%
	100%	100%

Federal grants are approximately 18% and 13% of the total revenues and support without donor restriction for the years ended June 30, 2020 and 2019. The ability of the Organization to continue functioning at its current level of operations is dependent upon its ability to generate similar future support.

The Organization maintains cash balances at various financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000. From time to time the amounts on deposit may exceed the federally insured limits.

7. Agreements with Other Entities

In September 2014, the Organization entered into agreements with Children's Hospital, Children's Hospital Medical Practice Corporation ("CHMPC"), and Ascension DePaul Services (ADS) to assume operations of four pediatric clinics operated by CHMPC. No assets or liabilities were assumed by MCHC. Under the terms of the agreements, assets of the clinics were donated to ADS. MCHC assumed responsibility for operations of the clinics under the affiliation agreement with ADS. The initial term of this agreement was three years, with automatic annual renewal options that have been exercised. Each party to the agreement has the option to terminate at an earlier date under certain circumstances.

In July 2016, MCHC entered into an additional agreement with Children's Clinic of New Orleans, L.L.C. (CCNO) and Ascension DePaul Services to assume operations of a clinic operated by CCNO. Under the terms of the agreement, ADS assumed responsibility for operations at the clinic, including items such as employees, assets, and lease agreements effective September 2016. The initial term of this agreement was three years, with automatic annual renewal options that have been exercised. Each party to the agreement has the option to terminate at an earlier date under certain circumstances.

Clinics involved in these agreements are added under the scope of MCHC's agreement with Ascension DePaul Services described in Note 4.

8. Leases

The Organization has entered into several operating leases for office space and buildings used in operations. Future minimum lease payments under the lease agreements are as follows at June 30, 2020:

2021	$ 152,228
2022	39,750
2023	39,750
2024	26,500
	$ 258,228

Total rental expense on cancelable and non-cancelable leases is included in the statements of activities and changes in net assets.

9. Net Assets With Donor Restrictions

Net assets restricted by grantors and donors for specific programs, purposes, or for use in subsequent periods are considered to be restrictions temporary in nature. These restrictions are considered to expire when the restriction has been met. Net assets with donor restrictions at June 30 are as follows:

	2020	2019
Training and recruitment (purpose and time)	$ -	$ 500,000
Coronavirus pandemic, COVID-19 (purpose)	372,500	-
Lung cancer screening & tobacco cessation (purpose)	34,492	-
Other (purpose)	3,547	13,692
	$ 410,539	$ 513,692

10. Coronavirus Pandemic (COVID-19)

A novel strain of coronavirus has spread around the world, resulting in business and social disruption. In March 2020, the novel coronavirus (COVID-19) global pandemic began affecting the Organization's employees, patients, communities, and business operations, as well as the United States economy and financial markets. The Centers for Medicare and Medicaid Services and the Louisiana Department of Health requested the postponement of non-essential procedures and medical services from approximately March 19, 2020 until April 27, 2020. While this disruption was temporary, it did impact the Organizations clinical and other patient-related operations during 2020. There is a likelihood that this pandemic will continue to affect the Organization's financial performance in fiscal year 2021 and beyond. The related financial impact and duration, however, cannot be reasonably estimated at this time.

During 2020, the Organization received approximately $517,000 in Provider Relief Fund distributions, as provided for under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act. This amount is reported as federal grants revenue in the Statements of Activities and Changes in Net Assets. These distributions from the Provider Relief Fund are not subject to repayment, provided the Organization is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. The Organization's management will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic on the Organization's revenues and expenses.

11. Subsequent Events

As described in Note 10, the COVID-19 pandemic has impacted the Organization's fiscal year 2020 and may continue to affect financial performance in the future.

Management has evaluated subsequent events through the date that the financial statements were available to be issued, October 7, 2020, and determined that there were no additional subsequent events requiring disclosure. No events occurring after this date have been evaluated for inclusion in these financial statements.

12. Social Accountability (Unaudited)

On an annual basis, the Organization reports its fulfillment of its religious, charitable, educational, scientific, and other philanthropic purposes. The following summarizes the Organization's social accountability report. The Organization provides access to essential health and social services in a federally-designated Health Professions Shortage Area, as well as other under-served neighborhoods of Orleans Parish. Total service provided was 139,773 and 149,333 encounters for the years ended June 30, 2020 and 2019, respectively. To increase financial access to these services, the Organization offers its services on a sliding fee scale basis, adjusting for income and family size. During the years ended June 30, 2020 and 2019, these fee reductions amounted to $2,422,412 and $1,593,092, respectively. The Organization accepts Medicaid as payment for its patient services, which resulted in fee reductions from the State of $3,160,628 and $4,304,284 for the year ended June 30, 2020 and 2019, respectively.

SUPPLEMENTARY INFORMATION

MARILLAC COMMUNITY HEALTH CENTERS

SCHEDULE OF COMPENSATION, BENEFITS AND OTHER PAYMENTS TO AGENCY HEAD YEARS ENDED JUNE 30, 2020

Agency Head: Michael Griffin, President and Chief Executive Officer

Not applicable. Public funds were not used for agency head compensation, benefits, and other payments during the fiscal year ended June 30, 2020.

See accompanying independent auditors' report.

MARILLAC COMMUNITY HEALTH CENTERS

SINGLE AUDIT REPORT

JUNE 30, 2020

Postlethwaite & Netterville

A Professional Accounting Corporation

www.pncpa.com

MARILLAC COMMUNITY HEALTH CENTERS

SINGLE AUDIT REPORT

JUNE 30, 2020

Marillac Community Health Centers
New Orleans, Louisiana

Single Audit Report

June 30, 2020

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A Professional Accounting Corporation

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
Marillac Community Health Centers
New Orleans, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Marillac Community Health Centers (a nonprofit organization) (MCHC) which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 7, 2020.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Postlethwaite & Netterville

Metairie, Louisiana
October 7, 2020

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A Professional Accounting Corporation

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Board of Directors
Marillac Community Health Centers
New Orleans, Louisiana

Report on Compliance for Major Federal Program

We have audited Marillac Community Health Centers' (a nonprofit organization) (MCHC) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on MCHC's major federal program for the year ended June 30, 2020. MCHC's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

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Opinion on Major Federal Program

In our opinion, MCHC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of MCHC 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 MCHC's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose 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, we do not express an opinion on the effectiveness of MCHC's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of 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.

Postlethwaite & Netterville

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of MCHC as of and for the year ended June 30, 2020, and have issued our report thereon dated October 7, 2020, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Postlethwaite & Netterville

Metairie, Louisiana
October 7, 2020

MARILLAC COMMUNITY HEALTH CENTERS
New Orleans, Louisiana

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2020

Federal Grantor/Pass-Through Grantor/ Program Title/Grant Name	Federal CFDA Number	Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services - Health Resources and Services Administration (HRSA):			
Direct:			
Health Center Program Cluster			
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care) (COVID-19)	93.224	H8CCS35030, H8DCS35829, H8ECS38123	$ 588,859
Grants for New and Expanded Services Under the Health Center Program	93.527	H80CS24198	3,915,312
Total Health Center Program Cluster			4,504,171
Grants for School-Based Health Center Capital Expenditures	93.501	C12CS32623	39,295
Provider Relief Fund (COVID-19)	93.498	N/A	49,403
Pass-through program from:			
Louisiana Department of Health, Office of Behavior Health			
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	1H79SM080236	446,718
Total Federal Award Expenditures			$ 5,039,587

MCHC did not pass through any amounts to sub-recipients.

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

Marillac Community Health Centers
New Orleans, Louisiana

Notes to Schedule of Expenditures of Federal Awards

June 30, 2020

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Marillac Community Health Centers (MCHC) under programs of the federal government for the year ended June 30, 2020. 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 MCHC, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the MCHC. The MCHC reporting entity is defined in Note 1 to the financial statements for the year ended June 30, 2020.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to MCHC's financial statements for the year ended June 30, 2020. Such expenditures are recognized following the cost principles contained in accordance with the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented, or used in the preparation of, the basic financial statements.

3. Relationship to Financial Statements

Federal revenues of $5,507,204 are included in the Statement of Activities and Changes in Net Assets in the category "Federal grants" within Revenues and Support Without Donor Restriction. Of this amount, $467,617 of grant proceeds were received and expended by MCHC during the year ended June 30, 2020, however the official award was made by the grantor and accepted by MCHC subsequent to June 30, 2020, and thus is not reported on the Schedule of Expenditures of Federal Awards for the year ended June 30, 2020.

4. Relationship to Federal Financial Reports

Amounts reported in the Schedule agree with the amounts reported in the related federal financial reports.

5. De Minimis Cost Rate

During the year ended June 30, 2020, MCHC did not elect to use the 10% de minimis cost rate as covered in §200.414 of the Uniform Guidance.

Marillac Community Health Centers
New Orleans, Louisiana

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

(1) Summary of Independent Auditors' Results

Financial Statements

The type of report issued on the financial statements:	Unmodified opinion
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	None noted
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal controls over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	None noted
Type of auditor's report issued on compliance for major programs:	Unmodified opinion
Any audit findings which are required to be reported under the Uniform Guidance?	No
Identification of major program:	
Health Center Program Cluster: Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224, 93.527
Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as a low-risk auditee under Section 530 of The Uniform Guidance:	Yes

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

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

Not Applicable.

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

Not Applicable.