MARILLAC COMMUNITY HEALTH CENTERS

FINANCIAL STATEMENTS

JUNE 30, 2019

P&N
Postlethwaite & Netterville
A Professional Accounting Corporation
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CONTENTS

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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, 2019 and 2018, 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 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.

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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, 2019 and 2018, 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 16 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 September 6, 2019 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
September 6, 2019

MARILLAC COMMUNITY HEALTH CENTERS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

ASSETS

	2019	2018
CURRENT ASSETS		
Cash	$ 2,471,229	$ 2,415,205
Restricted cash	513,692	795,173
Patient receivables, net	1,460,745	1,305,363
Grant receivable	268,156	-
Other receivable	82,658	227,386
Inventory	291,702	297,466
Prepaid expenses	72,740	45,519
Other current assets	11,000	7,000
Total current assets	5,171,922	5,093,112
NON-CURRENT ASSETS		
Property, equipment, and improvements, net	911,474	1,114,324
TOTAL ASSETS	$ 6,083,396	$ 6,207,436

LIABILITIES AND NET ASSETS

	2019	2018
CURRENT LIABILITIES		
Due to affiliate	$ 1,523,182	$ 4,122,901
Accounts payable and accrued expenses	382,987	290,955
Accrued salaries and payroll taxes	3,557	3,557
Total current liabilities	1,909,726	4,417,413
NET ASSETS		
Without donor restriction	3,659,978	994,850
With donor restriction	513,692	795,173
TOTAL NET ASSETS	4,173,670	1,790,023
TOTAL LIABILITIES AND NET ASSETS	$ 6,083,396	$ 6,207,436

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

MARILLAC COMMUNITY HEALTH CENTERS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2019 AND 2018

	2019	2018
REVENUES AND SUPPORT WITHOUT DONOR RESTRICTION		
Patient service fees, net of contractual discounts of $6,855,626 and $4,483,247, respectively	$ 25,803,358	$ 26,088,222
Less: provision for doubtful accounts	(1,421,178)	(3,403,142)
Net patient service fees	24,382,180	22,685,080
Other revenues	1,136,560	798,568
Federal grants	4,033,007	3,588,203
Contributions from affiliate	255,100	247,229
Net assets released from restriction	1,374,668	829,471
TOTAL REVENUES AND SUPPORT WITHOUT DONOR RESTRICTION	31,181,515	28,148,551
EXPENSES		
Health care services	24,461,312	23,306,580
Management and general	4,055,075	3,403,243
TOTAL EXPENSES	28,516,387	26,709,823
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTION	2,665,128	1,438,728
REVENUES AND SUPPORT WITH DONOR RESTRICTION		
Operating grants	1,093,187	1,500,000
Net assets released from restriction	(1,374,668)	(829,471)
CHANGE IN NET ASSETS WITH DONOR RESTRICTION	(281,481)	670,529
CHANGE IN NET ASSETS	2,383,647	2,109,257
NET ASSETS		
Beginning of year	1,790,023	(319,234)
End of year	$ 4,173,670	$ 1,790,023

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

MARILLAC COMMUNITY HEALTH CENTERS
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Health Care Services	Management and General	Totals	Health Care Services	Management and General	Totals
Salaries and wages	$ 11,577,308	$ 1,632,377	$ 13,209,685	$ 10,349,010	$ 1,541,223	$ 11,890,233
Professional fees	4,023,460	292,172	4,315,632	3,970,260	63,265	4,033,525
Supplies	3,366,414	60	3,366,474	3,572,338	-	3,572,338
Purchased services	1,195,685	1,402,685	2,598,370	1,157,609	1,297,930	2,455,539
Employee benefits	1,705,244	359,908	2,065,152	1,552,845	380,266	1,933,111
Rent	1,093,721	-	1,093,721	1,052,061	-	1,052,061
Depreciation	138,587	-	138,587	123,899	-	123,899
Equipment Lease	266,872	-	266,872	485,326	-	485,326
Insurance	305,226	75,209	380,435	307,553	74,705	382,258
Utilities	301,725	-	301,725	319,583	-	319,583
Consumer awareness	32,882	183,959	216,841	8,057	-	8,057
Security	187,827	-	187,827	187,323	-	187,323
Office expenses	64,418	20,820	85,238	70,988	-	70,988
Travel, meetings, and conferences	66,900	5,920	72,820	28,748	3,775	32,523
Janitorial services	72,118	-	72,118	67,912	-	67,912
Miscellaneous	11,233	12,723	23,956	7,195	8,974	16,169
Bank charges	-	39,242	39,242	-	33,105	33,105
Repairs and maintenance	38,625	-	38,625	36,335	-	36,335
Impairment loss on equipment	-	30,000	30,000	-	-	-
Vehicle maintenance	13,067	-	13,067	9,538	-	9,538
TOTAL EXPENSES	$ 24,461,312	$ 4,055,075	$ 28,516,387	$ 23,306,580	$ 3,403,243	$ 26,709,823

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

MARILLAC COMMUNITY HEALTH CENTERS
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 2,383,647	$ 2,109,257
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Bad debt expense	1,421,178	3,403,142
Depreciation	138,587	123,899
Impairment loss on equipment	30,000	-
Changes in assets and liabilities:		
(Increase) decrease in operating assets:		
Patient receivables	(1,576,560)	(3,331,965)
Grant receivable	(268,156)	85,644
Other receivable	144,728	42,237
Inventory	5,764	(141,947)
Prepaid expenses	(27,221)	(7,850)
Other assets	(4,000)	(7,000)
Increase (decrease) in operating liabilities:		
Due to affiliate	(2,558,178)	(444,856)
Accounts payable and accrued expenses	92,032	(39,414)
Net cash provided by (used in) operating activities	(218,179)	1,791,147
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, equipment, and improvements purchases	(7,278)	(72,499)
Net cash used in investing activities	(7,278)	(72,499)
NET CHANGE IN CASH	(225,457)	1,718,648
CASH		
Beginning of year	3,210,378	1,491,730
End of year	$ 2,984,921	$ 3,210,378
RECONCILIATION OF CASH		
Cash	$ 2,471,229	$ 2,415,205
Restricted cash	513,692	795,173
	$ 2,984,921	$ 3,210,378

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. As a result of implementing this approach, 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, 2019 and 2018.

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

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.

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.

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

Patient Service Fees and Revenue Recognition (continued)

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, 2019 and 2018 are summarized as follows:

	2019	2018
Medicare	$ 5,041,330	$ 3,898,636
Medicaid	21,479,420	20,483,181
Commercial and other insurers	3,750,523	3,568,462
Self-pay	2,387,711	2,621,190
Gross patient revenues	32,658,984	30,571,469
Contractual adjustments	(6,855,626)	(4,483,247)
Revenues before provision for doubtful accounts	$ 25,803,358	$ 26,088,222

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.

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.

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

Allowance for Uncollectible Accounts (continued)

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 \$2,724,000 and \$2,394,000 as of June 30, 2019 and 2018, respectively. The Organization has not changed its charity care or uninsured discount policies during fiscal years 2019 or 2018.

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

For the purposes of the statements of cash flows, 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.

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 year ended June 30, 2019 is an impairment loss of \$30,000. There was no impairment of long-lived assets recorded by management during the year ended June 30, 2018.

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 statement of activities and changes in net assets.

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

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.

Change in Accounting Principle

FASB issued ASU No. 2016-14, "Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities" in 2016. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. The Organization adopted this ASU during the fiscal year ended June 30, 2019. In accordance with the ASU, previously reported amounts representing unrestricted net assets have been reclassified to net assets without donor restriction. Previously reported amounts representing temporarily restricted net assets have been reclassified to net assets with donor restriction. The adoption of this ASU had no impact on the Organization's total net assets.

Accounting Pronouncements Issued But Not Yet Adopted

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

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

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

Accounting Pronouncements Issued But Not Yet Adopted (continued)

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 12 months on the statement of financial position as well as additional disclosures. The updated guidance is effective for annual periods beginning after December 15, 2019.

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

2. **Liquidity and Availability**

As of June 30, 2019, the Organization has a working capital of $3,262,196 and average days (based on normal expenditures) cash on hand of 38.

Financial assets available for general expenditure within one year as of June 30, 2019, consist of the following:

Cash	$ 2,471,229
Restricted cash	513,692
Patient receivables, net	1,460,745
Grant and other receivables	350,814
Financial assets available to meet general expenditures over the next twelve months	$ 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:

	2019	2018	Useful lives
Leasehold improvements	$ 569,840	$ 569,840	15 - 20 years
Furniture and equipment	493,242	539,040	5 - 20 years
Vehicles	69,343	69,343	5 years
Construction in progress	30,000	60,000	
	1,162,425	1,238,223	
Less accumulated depreciation	(250,951)	(123,899)	
Total	$ 911,474	$ 1,114,324	

4. Transactions with Affiliates

The Organization entered into an affiliation agreement with Daughters of Charity Services of New Orleans (DCSNO) effective March 1, 2012. Under the terms, DCSNO 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 DCSNO's provision of these goods and services, DCSNO 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 DCSNO'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 DCSNO during the years ended June 30, 2019 and 2018. During 2019 and 2018, pharmacy administrative services are paid to DCSNO 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, DCSNO remits monthly payment to each lessor. Building space is then charged to MCHC by DCSNO at cost.

During the years ended June 30, 2019 and 2018, total billings from the agreement to MCHC were $25,224,449 and $23,980,599, respectively. DCSNO remitted $255,100 and $247,229, respectively, to MCHC for the years ended June 30, 2019 and 2018. At June 30, 2019, MCHC has a receivable of $732,032 which offsets the payable of $2,255,214 to a total of $1,523,182 as presented in the Statements of Financial Position. At June 30, 2018, MCHC has a receivable of $544,131 which offsets the payable of $4,667,032 to a total of $4,122,901 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.

MCHC participated in a number of state and federally-assisted programs in fiscal year 2019 and 2018. The programs are subject to compliance audits. Such audits could lead to requests for reimbursement by the granting agency for expenditures disallowed under terms of the agreements. MCHC believes that the amount of disallowances, if any, which may arise from future audits, will not be material to the financial statements.

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, 2019 and 2018 was as follows:

	2019	2018
Medicare and Medicaid	70%	83%
Commercial and other insurers	30%	14%
Self-pay	0%	3%
	100%	100%

Federal grants are approximately 13% of the total revenues and support without donor restriction for the years ended June 30, 2019 and 2018. 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 Daughters of Charity Services of New Orleans (DCSNO) 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 DCSNO. MCHC assumed responsibility for operations of the clinics under the affiliation agreement with DCSNO. The initial term of this agreement was three years, with an automatic annual renewal option. Parties of the agreement do have options 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 Daughters of Charity Services of New Orleans to assume operations of a clinic operated by CCNO. Under the terms of the agreement, DCSNO 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 is three years, with an automatic annual renewal option. Parties of the agreement do have options to terminate at an earlier date under certain circumstances.

Clinics involved in these agreements are added under the scope of MCHC's agreement with Daughters of Charity Services of New Orleans 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, 2019:

2020	$ 269,595
2021	178,222
2022	68,316
2023	39,750
2024	26,500
	$ 582,383

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:

	2019	2018
Training and recruitment (purpose and time)	$ 500,000	$ 750,000
Other (purpose)	13,692	45,173
	$ 513,692	$ 795,173

10. Subsequent Events

Effective July 2, 2019, the Organization filed for record with the Louisiana Secretary of State a trade name application for the trade name DePaul Community Health Centers.

Management has evaluated subsequent events through the date that the financial statements were available to be issued, September 6, 2019, 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.

11. 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 149,333 and 145,770 encounters for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, these fee reductions amounted to $1,593,092 and $821,806, respectively. The Organization accepts Medicaid as payment for its patient services, which resulted in fee reductions from the State of $4,304,284 and $4,281,898 for the year ended June 30, 2019 and 2018, respectively.

SUPPLEMENTARY INFORMATION

MARILLAC COMMUNITY HEALTH CENTERS
SCHEDULE OF COMPENSATION, BENEFITS AND
OTHER PAYMENTS TO AGENCY HEAD
FOR THE YEAR ENDED JUNE 30, 2019

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, 2019.

See accompanying independent auditors' report.

MARILLAC COMMUNITY HEALTH CENTERS

SINGLE AUDIT REPORT

JUNE 30, 2019

Postlethwaite & Netterville

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MARILLAC COMMUNITY HEALTH CENTERS

SINGLE AUDIT REPORT

JUNE 30, 2019

Marillac Community Health Centers
New Orleans, Louisiana

Single Audit Report

June 30, 2019

Table of Contents

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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, 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, and have issued our report thereon dated September 6, 2019.

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
September 6, 2019

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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, 2019. 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.

Postlethwaite & Netterville

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, 2019.

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.

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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, 2019, and have issued our report thereon dated September 6, 2019, 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
September 6, 2019

MARILLAC COMMUNITY HEALTH CENTERS
New Orleans, Louisiana

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2019

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)	93.224	H80CS24198	$ 3,826,496
Affordance Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	93.501	C12CS32623	7,279
Total Health Center Program Cluster			3,833,775
Pass-through program from:			
Office of Behavior Health			
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	1H79SM080236	199,232
Total Federal Award Expenditures			$ 4,033,007

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, 2019

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, 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 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, 2019.

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, 2019. 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 $4,033,007 are included in the Statement of Activities in the category "Unrestricted Revenues and Support – Federal grants."

4. Relationship to Federal Financial Reports

Amounts reported in the Schedule agree with the amounts reported in the related federal financial reports, except for the amounts in reports submitted as of a date subsequent to June 30, 2019.

5. De Minimis Cost Rate

During the year ended June 30, 2019, 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, 2019

(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
Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	93.501
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

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

<u>Not Applicable.</u>

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

<u>Not Applicable.</u>

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Independent Accountants' Report
On Applying Agreed-Upon Procedures
For the Year Ended June 30, 2019

To Board of Directors of Marillac Community Health Centers
and the Louisiana Legislative Auditor

We have performed the procedures enumerated below, which were agreed to by the Marillac Community Health Centers (the Entity) and the Louisiana Legislative Auditor (LLA) (specified users) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period July 1, 2018 through June 30, 2019. The Entity's management is responsible for those C/C areas identified in the SAUPs.

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

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

Written Policies and Procedures

1. Obtain and inspect the entity's written policies and procedures and observe that they address each of the following categories and subcategories (if applicable to public funds and the entity's operations):

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

   The Entity has written policies and procedures for budgeting. However, the policies and procedures do not contain information regarding amending the budget.

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

   The Entity has written policies and procedures for purchasing. However, the policies do not contain attributes for (2) how vendors are added to the vendor list and (3) for the preparation and approval process of purchase requisitions and purchase orders.

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

No exception noted.

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

The Entity has written policies and procedures for receipts/collections. However, the policies and procedures for receipts/collections do not include information related to receiving, recording, and preparing deposits. The policies and procedures also do not include management's actions to determine the completeness of all collections for each type of revenue.

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

No exception noted.

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

The Entity has written policies and procedures for contracting. However, the policies and procedures do not contain attributes (4) approval process or (5) monitoring process.

g) ***Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)***, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases)

The Entity has written policies and procedures for credit cards. However, the policies and procedures do not contain attributes (4) required approvers of statements, and (5) monitoring card usage (e.g., determining the reasonableness of fuel card purchases)

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

The Entity has written policies and procedures for travel and expense reimbursement. However, the policies and procedures do not contain attribute (2) dollar thresholds by category of expense.

i) ***Ethics***, including (1) the prohibitions as defined in Louisiana Revised Statute 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) requirement that all employees, including elected officials, annually attest through signature verification that they have read the entity's ethics policy.

This procedure is not applicable, as the Entity is a non-profit entity.

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

The Entity does not have written policies and procedures for debt service.

k) ***Disaster Recovery/Business Continuity***, including (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, (4) use of antivirus software on all systems, (5) timely application of all available system and software patches/updates, and (6) identification of personnel, processes, and tools needed to recover operations after a critical event.

The Entity has written policies and procedures related to disaster recovery/business continuity. However, the policies and procedures do not contain attributes (1) identification of critical data and frequency of data backups, (2) storage of backups in a separate physical location isolated from the network, (3) periodic testing/verification that backups can be restored, and (5) timely application of all available system and software patches/updates.

Board or Finance Committee

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

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

   No exception noted.

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

   No exception noted.

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

   Procedure not performed as the Entity is not a governmental entity.

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Bank Reconciliations

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

   A listing of the Entity's bank accounts was provided and included a total of four bank accounts related to public funds. Management identified the entity's main operating account. No exceptions were noted as a result of performing this procedure.

   From the listing provided, we selected the four bank accounts and obtained the respective bank reconciliations for one month during the fiscal period, resulting in four bank reconciliations obtained and subjected to the below procedures.

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

      No exception noted.

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

      No exception noted.

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

      Of the four bank accounts selected, no bank reconciliations had reconciling items that had been outstanding for more than twelve months. Therefore, no testing was performed.

Collections

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

   The Entity's management represented that all public funds are received electronically and thus, there are no deposit sites related to public funds. No exceptions were noted as a result of performing this procedure.

   Because the listing provided noted no physical deposit sites during the fiscal period, the below procedures were not performed.

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

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

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

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

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

   As noted in procedure 4 above, the Entity's management represented that all public funds are received electronically and thus, there are no deposit sites related to public funds during the fiscal period. Thus, this procedure was not performed.

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

   As noted in procedure 4 above, the Entity's management represented that all public funds are received electronically and thus, there are no deposit sites related to public funds during the fiscal period. Thus, this procedure was not performed.

7. Randomly select two deposit dates for each of the 5 bank accounts selected for procedure #3 under "Bank Reconciliations" above (select the next deposit date chronologically if no deposits were made on the dates randomly selected and randomly select a deposit if multiple deposits are made on the same day). Alternately, the practitioner may use a source document other than bank statements when selecting the deposit dates for testing, such as a cash collection log, daily revenue report, receipt book, etc. Obtain supporting documentation for each of the 10 deposits and:

   a) Observe that receipts are sequentially pre-numbered.

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

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

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

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

As noted in procedure 4 above, the Entity's management represented that all public funds are received electronically and thus, there are no deposit sites related to public funds during the fiscal period. Thus, this procedure was not performed.

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

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

   The listing of locations that process payments for the fiscal period was provided, noting one location. No exceptions were noted as a result of performing this procedure.

   From the listing provided, we selected the single location and performed the procedures below.

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

   The listing of employees involved with non-payroll purchasing and payment functions for the single payment processing location noted in procedure #8 was provided. No exceptions were noted as a result of performing this procedure.

   Review of the Entity's written policies and procedures or inquiry with employee(s) regarding job duties was performed in order to perform the procedures below.

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

      This procedure could not be performed as the Entity does not use a purchase request or purchase order system.

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

      No exception noted.

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

      No exception noted.

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

      No exception noted.

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

    A listing of public funds' non-payroll disbursements for the payment processing location selected in procedures #8 was provided related to the reporting period. No exceptions were noted as a result of performing this procedure. As ninety-five percent of expenditures of public funds during the fiscal period were related to the major program (subject to testing in the fiscal period's Single Audit), five percent of the requested sample size was selected for the following procedures (i.e. one disbursement selected for testing).

    From each of the listing provided, we selected one disbursement and performed the procedures below.

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

       No exception noted.

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

       No exception noted.

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

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

    Management represented that no cards were used for purchases related to public funds during the fiscal period. No exceptions were noted as a result of performing this procedure. Thus, the procedures below were not performed.

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

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

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

    As noted in procedure #11 above, the Entity's management represented that cards were not used for purchases related to public funds during the fiscal period. Thus, this procedure was not performed.

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

   As noted in procedure #11 above, the Entity's management represented that cards were not used for purchases related to public funds during the fiscal period. Thus, this procedure was not performed.

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

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

   The listing of public funds' travel and travel-related expense reimbursements was provided for the fiscal period, which included one item. No exceptions were noted as a result of performing this procedure.

   From the listing provided, we selected the single item and performed the procedures below.

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

      The single item selected was not a reimbursement of per diem. Thus, this procedure could not be performed.

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

      No exception noted.

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

      No exception noted.

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

      No exception noted.

Contracts

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

    A listing of all agreements/contracts for professional services, materials and supplies, leases, and construction activities that were initiated or renewed during the fiscal period was provided, noting no such items initiated or renewed during the fiscal period. No exceptions were noted as a result of performing this procedure. Thus, the procedures below were not applicable.

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

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

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

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

Payroll and Personnel

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

    A listing of employees/elected officials employed using public funds during the fiscal year was provided. No exceptions were noted as a result of performing this procedure.

    As ninety-five percent of public funds for payroll and personnel during the fiscal period were related to the major program (subject to testing in the fiscal period's Single Audit), five percent of the requested sample size was selected for the procedures in this area (i.e. one item selected for testing).

    From the listing provided, we selected one employee and performed the specified procedures. No exception noted.

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

As ninety-five percent of public funds for payroll and personnel during the fiscal period were related to the major program (subject to testing in the fiscal period's Single Audit), five percent of the requested sample size was selected for the procedures in this area (i.e. one item selected for testing). We selected one pay period during the fiscal period and performed the procedures below.

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

No exception noted.

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

No exception noted.

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

No exception noted.

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

A listing of employees/officials (paid with public funds) receiving termination payments during the fiscal period was provided. No exceptions were noted as a result of performing this procedure.

As ninety-five percent of public funds for payroll and personnel during the fiscal period were related to the major program (subject to testing in the fiscal period's Single Audit), five percent of the requested sample size was selected for the procedures in this area (i.e. one item selected for testing). We selected one employee/official and performed the specified procedures. No exception noted.

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

No exception noted.

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Ethics

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

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

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

    The procedures in this section are not applicable to the Entity.

Debt Service

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

    We obtained a listing of bonds/notes issued during the fiscal period from management, noting no such items were issued during the fiscal period. No exceptions were noted as a result of performing this procedure.

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

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

Other

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

    A listing of misappropriations of public funds and assets during the fiscal period was provided, noting no misappropriations during the fiscal period. No exceptions were noted as a result of performing this procedure.

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

    No exception noted.

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Corrective Action

25. Obtain management's response and corrective action plan for any exceptions noted in the above agreed-upon procedures.

    Management's response: Management of the Entity has noted and agreed to the above exceptions. Additionally, management has controls and procedures in place to address the exceptions noted. Management will consider the effects of such exceptions and the need to document in writing and/or amend the policies and procedures in the identified areas.

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

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

Postlethwaite & Netterville

Metairie, Louisiana
September 6, 2019