

**MOREHOUSE COMMUNITY
MEDICAL CENTERS, INC.
AND AFFILIATE
Bastrop, Louisiana**

**Financial and Compliance Report
July 31, 2024**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 3
Financial Statements:	
Combined Statements of Financial Position	4
Combined Statements of Activities	5
Combined Statements of Cash Flows	6
Combined Statements of Functional Expenses	7
Notes to Financial Statements	8 - 30
Supplementary Information	
Schedule of Expenditures of Federal Awards	31
Combining Statement of Financial Position	32
Combining Statement of Activities	33
Schedule of Compensation, Benefits and Other Payments	34
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	35 - 36
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	37 - 39
Schedule of Findings and Questioned Cost	40 - 41
Summary Schedule of Prior Year Findings and Questioned Costs	42

STEVEN M. DEROUEN & ASSOCIATES, LLC

Certified Public Accountants

P. O. BOX 4265
LAKE CHARLES, LA 70606
(337) 513-4915 OFFICE/ (337) 205-6927 FAX
steve@sderouencpa.com

Member American Institute of
Certified Public Accountants

Member Louisiana Society of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Morehouse Community Medical Centers, Inc. and Affiliate
Bastrop, Louisiana

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Morehouse Community Medical Centers, Inc. and Affiliate (a nonprofit organization), which comprise the combined statement of financial position as of July 31, 2024, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

In our opinion, the combined financial statements present fairly, in all material respects, the financial position of Morehouse Community Medical Centers, Inc. and Affiliate as of July 31, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Morehouse Community Medical Centers, Inc. and Affiliate and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Morehouse Community Medical Centers, Inc. and Affiliate's ability to continue as a going concern within one year after the date that the combined financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Morehouse Community Medical Centers, Inc. and Affiliate's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Morehouse Community Medical Centers, Inc. and Affiliate's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the combined financial statements. In addition, the accompanying combining statement of financial position, combining statement of activities and schedule of compensation, benefits and other payments, are also presented for additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards, combining statement of financial position, combining statement of activities, and schedule of compensation, benefits and other payments are 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 January 24, 2025, on our consideration of Morehouse Community Medical Centers, Inc. and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Morehouse Community Medical Centers, Inc. and Affiliate's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Morehouse Community Medical Centers, Inc. and Affiliate's internal control over financial reporting and compliance.

Steven M. DeRouen & Associates, LLC

Lake Charles, Louisiana
January 24, 2025

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Combined Statement of Financial Position
As of July 31, 2024

Assets	
Current Assets	
Cash and cash equivalents	\$ 7,303,126
Cash - restricted	227,911
Cash and cash equivalent - money market mutual fund investment	5,593,109
Patient accounts receivable, net	1,108,357
Grants receivable	24,580
Contracts receivable	136,609
Other receivables	12,892
Pharmacy inventory	172,862
Prepaid expenses	311,166
Total Current Assets	<u>14,890,612</u>
Property, Plant and Equipment	
Buildings	14,600,668
Furniture and equipment	1,041,507
Vehicles	875,216
Operating right-of-use asset	93,430
	<u>16,610,821</u>
Less accumulated depreciation	<u>(2,853,415)</u>
	13,757,406
Land	535,189
Net Property, Plant and Equipment	<u>14,292,595</u>
Other Assets	
Cash - restricted	1,188
Investment LPCACO	128,039
Deposits	11,262
Notes receivable - new markets tax credit	7,416,400
Total Other Assets	<u>7,556,889</u>
Total Assets	<u><u>36,740,096</u></u>
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	720,272
Accrued payroll and related liabilities	879,474
Accrued interest payable	23,162
Current portion of notes payable	148,914
Current portion of operating right-of-use lease liability	41,255
Total Current Liabilities	<u>1,813,077</u>
Long Term Liabilities	
Notes payable - net of current portion	14,407,365
Operating right-of-use lease liability - net of current portion	54,376
Total Long Term Liabilities	<u>14,461,741</u>
Total Liabilities	<u>16,274,818</u>
Net Assets	
Without donor restrictions	20,369,525
With donor restrictions	95,753
Total Net Assets	<u>20,465,278</u>
Total Liabilities and Net Assets	<u><u>\$ 36,740,096</u></u>

See accompanying notes to the financial statements

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Combined Statement of Activities
For the Year Ended July 31, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Revenue:			
Gross patient service revenue	\$ 21,436,319	\$ -	\$ 21,436,319
Less: contractual allowances and discounts	(6,597,872)	-	(6,597,872)
Net patient service revenue	14,838,447	-	14,838,447
Less: provision for uncollectible accounts	(203,904)	-	(203,904)
Net patient service revenue	14,634,543	-	14,634,543
Pharmacy 340B program income	3,356,307	-	3,356,307
 Total Revenue	 17,990,850	 -	 17,990,850
 Support:			
Grant awards	3,741,852	95,753	3,837,605
Contract revenue	391,364	-	391,364
Interest income	237,418	-	237,418
Unrealized gain/(loss) on investments	104,039	-	104,039
Rental income	16,693	-	16,693
Other income	351,370	-	351,370
 Total Support and Other Income	 4,842,736	 95,753	 4,938,489
 Net assets released from restrictions			
Satisfaction of program restrictions	127,070	(127,070)	-
 Total Revenue, Support and Other Income	 22,960,656	 (31,317)	 22,929,339
 Expenses			
Program services	16,856,217	-	16,856,217
General and administrative	3,537,784	-	3,537,784
 Total Expenses	 20,394,001	 -	 20,394,001
 Change in Net Assets (Revenues over Expenses)	 2,566,655	 (31,317)	 2,535,338
 Net Assets - Beginning of Year	 17,802,870	 127,070	 17,929,940
 Net Assets - End of Year	 <u>\$ 20,369,525</u>	 <u>\$ 95,753</u>	 <u>\$ 20,465,278</u>

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Combined Statement of Cash Flows
For the Year Ended July 31, 2024

Cash Flows From Operating Activities

Change in net assets	\$ 2,535,338
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	709,726
Amortization	57,465
Changes in operating assets and liabilities:	
Change in allowance for doubtful accounts	393,047
(Increase) decrease in accounts receivable	(131,590)
(Increase) decrease in grants receivable	276,246
(Increase) decrease in contracts receivable	(136,609)
(Increase) decrease in other receivable	260,935
(Increase) decrease in prepaid expenses	(124,775)
(Increase) decrease in pharmacy inventory	(51,145)
(Increase) decrease in deposits	1,000
Increase (decrease) in accounts payable	(353,816)
Increase (decrease) in accrued payroll and related liabilities	100,233
	<hr/>
Net Cash Provided (Used) by Operating Activities	<hr/> 3,536,055 <hr/>

Cash Flows From Investing Activities

Proceeds from disposition and maturity of investments	103,109
Appreciation of LPCACO investment	(104,039)
Fixed asset acquisitions	(386,375)
	<hr/>
Net Cash Provided (Used) by Investing Activities	<hr/> (387,305) <hr/>

Cash Flows From Financing Activities

Principal payments on long-term debt	(140,003)
	<hr/>
Net Cash Provided (Used) by Financing Activities	<hr/> (140,003) <hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	3,008,747

Cash and Cash Equivalents - Beginning of Year	<hr/> 10,116,587 <hr/>
Cash and Cash Equivalents - End of Year	<hr/> <hr/> 13,125,334 <hr/> <hr/>

Cash Flows From Financing Activities:

Cash - unrestricted	7,303,126
Cash - restricted	229,099
Cash and cash equivalent - money market mutual fund	5,593,109
	<hr/> 13,125,334 <hr/> <hr/>

Supplemental Disclosure:

Interest paid	<hr/> \$ 389,653 <hr/> <hr/>
---------------	------------------------------

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Combined Statement of Functional Expenses
For the Year Ended July 31, 2024

		Supporting Services	
	Program Services	General and Administrative	Total
Salaries	\$ 7,006,797	\$ 2,247,348	\$ 9,254,145
Fringe benefits	941,034	297,169	1,238,203
Payroll taxes	509,619	160,932	670,551
Consultants and contractual services	2,359,497	271,112	2,630,609
Supplies	3,421,825	139,317	3,561,142
Dues and subscriptions	43,792	8,341	52,133
Maintenance and repairs	437,838	83,398	521,236
Telephone	70,794	13,484	84,278
Postage	10,798	2,057	12,855
Insurance	203,944	38,847	242,791
Travel and seminars	132,834	11,948	144,782
Occupancy	94,818	18,060	112,878
Rent	62,331	11,873	74,204
Legal and professional	159,031	30,292	189,323
Interest	327,309	62,344	389,653
Recruitment	14,172	2,699	16,871
Printing	2,346	447	2,793
Miscellaneous	128,939	24,560	153,499
Donations	3,392	-	3,392
Outreach	328,937	-	328,937
	<hr/>	<hr/>	<hr/>
Total expenses before depreciation	16,260,047	3,424,228	19,684,275
	<hr/>	<hr/>	<hr/>
Depreciation	596,170	113,556	709,726
	<hr/>	<hr/>	<hr/>
Total expenses	<u>\$ 16,856,217</u>	<u>\$ 3,537,784</u>	<u>\$ 20,394,001</u>

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

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

Nature of Activities

Morehouse Community Medical Centers, Inc. was organized without capital stock under Louisiana laws on November 15, 2002, as a non-profit corporation for the purpose of operating one or more community health centers for the public and/or providing medical care or medical education for the benefit of the public. The Organization is a federally qualified health center (FQHC) and is principally funded under a grant from the Office of Public Health Services, a component of the U.S. Department of Health and Human Services (DHHS). The Board of Directors of Morehouse Community Medical Centers, Inc. is comprised of ten members who serve without paid compensation.

During October 2020, Communihealth Development Corporation, a non-profit corporation, was organized for the purpose of recognizing the benefits of the New Markets Tax Credit transaction that occurred in January 2021.

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

Income Taxes

Morehouse Community Medical Centers, Inc. and Affiliate are exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code and applicable state codes. Accordingly, no provision for federal and state income taxes is included in the combined financial statements. The Morehouse Community Medical Centers, Inc. and Communihealth Development Corporation's Form 990's, Return of Organization Exempt from Income Tax, are subject to examination by the IRS, generally for three (3) years after they are filed.

Budgetary Planning and Control

Once Morehouse Community Medical Centers, Inc. and Affiliate determines the activities to undertake for the coming year(s), the budget is prepared to translate those goals, objectives, and plans into revenue and expense figures. The Chief Financial Officer develops the budget in collaboration with the executive staff with input obtained from others such as other senior management. The governing board reviews and approves the operating budget. Once approved, the budgets are submitted to the full board for review and approval. Budgets are reviewed and revised annually. A continuing actual to budget comparison is prepared monthly with year-to-date figures in adequate detail to provide basic comparative data to staff responsible for expenses or revenues.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

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

Accounting Estimates

The preparation of combined 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 and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

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

Method of Accounting

The accompanying combined financial statements of the Organization have been prepared on the accrual basis of accounting, in accordance with generally accepted accounting principles. Net assets and revenues, expense, gains and losses are classified based on the existence or absence of grantor/contributor imposed or time restrictions.

The financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) in its Accounting Standard Codification (ASC) Topic, *Financial Statements of Not-for-Profit Organizations*. In accordance with this guidance, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets available subject to donor-imposed or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

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

Method of Accounting (Continued)

Net assets with donor restrictions are restricted for the following purposes or periods:

Subject to expenditure or deliverables for specified Purpose:	
Louisiana Clinical Services – Various Clinics	\$ 95,753

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors as follows for the year ended July 31, 2024:

Purpose restrictions satisfied:	
Living Well Foundation – Remote Patient Care	\$ 4,606
Louisiana Clinical Services – Various Clinics	122,464
Total	<u>\$ 127,070</u>

Accounts Receivable

The Organization records accounts receivable at the time of service according to fees developed from cost data of this and similar organizations. These amounts are often reduced because of the patients' inability to pay or because of disallowances and reductions from third party payors.

Allowance for Doubtful Accounts and Bad Debts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

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

Investments

The Organization reports its investments in accordance with generally accepted accounting principles for not-for-profit organizations, which establish accounting standards for investments in certain equity securities and for all debt securities. The guidance prescribes that covered investments be reported in the statement of financial position at fair value with any realized or unrealized gains or losses reported in the statement of activities.

Risk Management

The Organization is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice claims and judgments. Commercial insurance coverage is purchased for claims arising from such matters. The Organization is deemed under the Federal Torts Claims Act for claims arising from malpractice and commercial insurance (remained of what is there).

Property and Equipment

Property and equipment are stated at cost. It is the Organization's policy to capitalize expenditures for these items in excess of \$5,000. Property and equipment donated for Morehouse Community Medical Centers, Inc. and Affiliate operations are valued at their fair market value as of the date received. Repairs and maintenance are charged to operations when incurred. Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	15 - 40
Land improvements	10 - 30
Fixed equipment	5 - 20
Equipment, furniture and fixtures	3 - 20

Grants and Contributions

Grants and contributions are recognized as income when received. The Board reports grants as with donor restrictions support if they are received with stipulations that limit the use of the funds. When grantor restrictions expire, with donor restrictions net assets are reclassified to without donor restrictions net assets and reported in the statement of activities as net assets released from restrictions. All other support is recognized when earned. Grants and contributions that are restricted by the grantor or donor are reported as increases in without donor restrictions net assets if the restrictions expire in the same fiscal year in which the grants and contributions are recognized.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

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

Compensated Absences

The following description of the Organization's compensated absences policy provides only general information. Employees should refer to the Paid Time Off (PTO) Policy for a more complete description the policy's provisions.

If an employee terminates employment and has unused accrued PTO hours, they will be paid for those hours on their final paycheck. The amount of PTO accruals or credit (including accrual rollovers) is based on the number of months/years of continuous service as shown in the following schedule:

Length of Service	Maximum PTO Benefit	Maximum PTO Accrual
0-60 days	80	N/A
1 Year	88	N/A
2 Years	96	376
3 Years	104	406
4 Years	112	436
5 Years	120	466
6 Years	128	496
7 Years	136	526
8 Years	144	556
9 Years	152	578
10 Years	160	600

For the year ended July 31, 2024, Morehouse Community Medical Centers, Inc. had \$392,623 in accrued Paid Time Off (PTO).

HOLIDAYS EARNED

After 30 days, all full-time employees will be paid their base rate for holidays designated by the Governing Board. Holiday pay is based on the employee's normal scheduled hours for the applicable shift. If an employee is not scheduled to work on a holiday recognized by the clinic, that employee shall receive a flat 8 hours of holiday pay.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

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

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Retroactive adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Morehouse Community Medical Centers, Inc. has agreements with third-party payors that provide reimbursement to the Morehouse Community Medical Centers, Inc. at amounts different from its established rates. Contractual adjustment under third-party reimbursement programs represent the difference between the Morehouse Community Medical Centers, Inc.'s rates for services and amounts reimbursed by third-party payors.

Patient service revenue is reported at the amount the Organization expects to be paid for providing patient care. These amounts are due from patients and third-party payors (including health insurers and government programs) and include variable consideration for retroactive revenue adjustments due to the settlement of audits, reviews, and investigations. Generally, the Organization bills the patients and third-party payors soon after the services are performed.

Patient service revenue is recognized as performance obligations are satisfied based on the nature of the services provided by the Organization. Revenue for performance obligations that are satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving outpatient services. The Organization measures the performance obligations for patient services over a period of less than one day when goods or services are provided and the Organization does not believe it is required to provide additional goods or services to the patient.

Because all its performance obligations relate to contracts with a duration of less than one year, the Organization has elected to apply the optional exemption provided in ASC 606. Under this exemption, the Organization is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Since the unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to outpatient services at the end of the reporting period, the performance obligations for these contracts are generally completed within days or weeks of the end of the reporting period.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

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

Net Patient Service Revenue (Continued)

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization's policy, and other implicit price concessions provided to uninsured patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and its historical settlement experience. The Organization determines its estimate of implicit price concessions for uninsured patients based on its historical collection experience with this class of patients.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- **Medicare:** Certain services are paid at prospectively determined rates based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies (subject to certain limits) with final settlement determined after Medicare Administrative Contractors have audited annual cost reports submitted by the Organization. Services are paid based upon established fee schedules that are based on services provided.
- **Medicaid:** Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.
- **Other:** Payment agreements with certain commercial insurance carriers, HMOs, and preferred provider organizations provide for payment using prospectively determined rates.

The healthcare industry is subject to laws and regulations concerning government programs, including Medicare and Medicaid, which are complex and subject to varying interpretation. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. While the Organization operates a Compliance Program, which reviews its compliance with these laws and regulations, there can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Organization. In addition, the contracts the Organization has with commercial payors also provide for retroactive audit and review of claims.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

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

Net Patient Service Revenue (Continued)

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

Consistent with the Organization's mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). For uninsured patients, the Organization applies a policy discount from standard charges to determine amounts billed to those patients. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the Organization expects to collect based on its collection history with that class of patients.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Major Funding Source

The Organization receives funds from the Department of Health and Human Services (DHHS), under section 330 of the Public Health Service Act (42 U.S.C. 254c). In accordance with DHHS policies, all funds disbursed should be in compliance with the specific terms of the grant agreements.

DHHS may, at its discretion, request reimbursement for expenses or return of unexpended funds, or both, as a result of non-compliance by the Organization with the terms of the grants. In addition, if the Organization terminates its DHHS grant activities, all unexpended federal funds are to be returned to DHHS.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

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

Functional Expenses

Expenses were allocated in the accompanying combined financial statements to program and support services functional expense groups. The methods of allocation were based on the Organization's estimates of the relative proportion of various staff members' time and effort between program and support services as well as the Organization's estimates of the amount of each expense utilized for program or support service functions.

Outreach Expense

The Organization expenses the cost of outreach as the expenses are incurred. For the year ended July 31, 2024, the cost totaled \$328,937.

Right-Of-Use Operating Lease

Morehouse Community Medical Centers, Inc. and Affiliate implemented ASU 2016-02, Leases (Topic 842), effective August 1, 2022. The ASU's core principle is that "a lessee should recognize the assets and liabilities that arise from leases." The ASU considered that "all leases create an asset and a liability," and accordingly requires recording the assets and liabilities related to all leases with a term greater than 12 months.

Right-of-use assets are a result of leases in which Morehouse Community Medical Centers, Inc. and Affiliate has entered into a contract with a lessor that conveys control of the right-of-use the lessor's nonfinancial asset (the underlying asset) as specified by the contract for a period of time in an exchange or exchange-like transaction. Such assets are reported on the financial statements, net of amortization. Right-of-use assets are amortized at the lesser of the useful life of the lease term.

Effective June 29, 2018, Morehouse Community Medical Centers, Inc. entered into a building lease to house the Monroe site clinic. The lease is for five-and-one-half years and an option exists to renew the lease for an additional three years. The Organization incurred a lease cost of \$60,096 for the year ended July 31, 2024. This building lease is expected to be renewed for an additional three years which will expire on December 31, 2026.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

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

Key estimates and judgments related to leases include how the Organization determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Organization uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Organization generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease as well as the expected lease renewal for an additional three years. Lease payments included in the measurement of the lease liability are composed of fixed payments for the initial five-and-one-half lease term as well as the renewal three year lease term the Organization is reasonably certain to exercise.

The Organization monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

The Organization is obligated for the rental payments through 2026 which totals \$147,458 and is expected to renew the lease for an additional three years. The operating lease asset and liability includes the expectation the lease will be renewed after the initial five-and-one-half year term.

Year Ending July 31,		
2025	\$	61,017
2026		61,017
2027		<u>25,424</u>
Total Undiscounted Cash Flows		147,458
Less: Present Value		<u>(51,827)</u>
Total Operating Lease Liability	\$	<u>95,631</u>

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

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

Other Rental of Facilities

Morehouse Community Medical Centers, Inc. entered into a Memorandum of Agreement with Morehouse Parish School Board for the use of space at Morehouse Jr. High School and Morehouse Elementary School. This space is used for the School Based Health Clinic provided by Morehouse Community Medical Centers, Inc. with both parties providing specific services in a cooperative endeavor agreement. This agreement is for ten years ending October 1, 2029. Morehouse Community Medical Centers, Inc. receives the use of this space rent free from the School Board.

Morehouse Community Medical Centers, Inc. entered into a Memorandum of Agreement with Morehouse Parish School Board for the use of land at Bastrop High School. This land is used for the School Based Health Clinic provided by Morehouse Community Medical Centers, Inc. with both parties providing specific services in a cooperative endeavor agreement. This agreement is for ten years ending April 30, 2033 and receives the use of this land rent free from the School Board.

Morehouse Community Medical Centers, Inc. entered into a Memorandum of Understanding with the Union Parish School System for the use of land at Union Parish High School. This land is used for the School Based Health Clinic provided by Morehouse Community Medical Centers, Inc. with both parties providing specific services in a memorandum of understanding. This agreement is for ten years ending June 30, 2030 and receives the use of this land rent free from the School System.

Effective March 13, 2015, Morehouse Community Medical Centers, Inc. entered into a Memorandum of Agreement with Ouachita Parish School Board for the use of space at Riser Middle School and West Monroe High School. This space is used for the School Based Health Clinics provided by Morehouse Community Medical Centers, Inc. with both parties providing specific services in a cooperative endeavor agreement. This agreement is indefinite and may be terminated by providing a sixty days termination notice. Morehouse Community Medical Centers, Inc. receives the use of this space rent free from the School Board.

Effective April 11, 2022, Morehouse Community Medical Centers, Inc. entered into a sublease administration agreement to house the West Monroe site clinic. The agreement is for ten years, and an option exists to renew the agreement for an additional twenty years. The Organization incurred a sublease administration agreement cost of \$18,000 for the year ending July 31, 2024.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

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

Inventory

Inventories are stated at lower of cost, determined by the FIFO method, or market.

Performance Indicator

The Organization utilizes revenues over expenses as its performance indicator.

Revenue Recognition

The Organization adopted ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), using the full retrospective method. This guidance outlines a single, comprehensive model for accounting for revenue in exchange transactions from contracts with other entities. The Organizations revenue derived from exchange transactions are for services performed under the terms of various contracts. The Organization applied Topic 606 to its revenue derived from exchange transactions as follows:

Transaction price – The transaction price of contract revenue are based on the cost expended to provide such goods and services.

Performance obligations – The Organization has identified the following performance obligation in exchange transactions: services under the terms of various contracts. The Organization applies the principles of materiality in the determination of the performance obligations.

Payments under cost-reimbursable contracts and deliverable contracts recognize revenue when performance obligations under the terms of the contracts with other entities are satisfied.

The following table presents the Organization's net revenue disaggregated based on revenues from contracts with other entities:

Cost reimbursement and deliverable performance obligation contracts \$391,364

The following table presents the Organization's contract balances on revenues from contracts with customers as of July 31, 2024:

Receivables from contracts – Medicaid Unwind program	\$123,830
Receivables from contracts – Office of Behavioral Health	<u>12,779</u>
Total	<u>\$136,609</u>

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

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

Revenue Recognition (Continued)

340b Drug Program – The 340b drug program is a federal program whereby drug manufacturers provide outpatient drugs to eligible healthcare organizations at significantly reduced costs. The Organization tracks separately the revenues and expenses related to the outpatient drugs provided under this program.

This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA conducts routine audits and monitoring of these programs at healthcare organizations. Laws and regulations governing the 340b program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to amounts related to the 340b Program could occur in the near term.

Incentive Revenue – The Organization participates in various incentive programs with third party insurers who provide bonus payments based on quality measures and metrics established by the program. The Organization recognizes incentive payments as revenue when it is reasonably assured that the quality measures and metrics have been achieved.

NOTE 2 - PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable are comprised of the following for the year ending July 31, 2024:

Medicare	\$ 211,953
Medicaid	476,093
Private	311,264
Pharmacy 340 B Program	376,317
	<u>1,375,627</u>
Less allowance for doubtful accounts	<u>(267,270)</u>
	<u>\$ 1,108,357</u>

The method to calculate allowance for doubtful accounts did not significantly change from the prior year. The Organization's write-off recoveries, which primarily consisted of self-pay charges, totaled \$203,904 for the fiscal year July 31, 2024. The Organization amended its charity care policy to adhere to the annually revised Federal Poverty Level Guidelines during the fiscal year.

NOTE 3 - ECONOMIC DEPENDENCY

The Organization receives a substantial portion of its total support and revenues from the federal government. During the fiscal year ended July 31, 2024, Morehouse Community Medical Centers, Inc. and Affiliate recorded \$2,780,396 in grant support from the Department of Health and Human Services. This represents 12% of total support and revenues for the year ended July 31, 2024.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

NOTE 4 - COST REPORT RECEIVABLE

The Organization participates in the Medicare and Medicaid programs as a provider of medical services to program beneficiaries. The Organization participates in the Medicaid program as a federally qualified health center. Final settlements will be made upon completion of audits by program representatives.

NOTE 5 – RESTRICTED CASH

As of July 31, 2024, Communihealth Development Corporation held in separate bank accounts \$49,880 for the payment of interest on debt obligations and New Market Tax Credit related expense reimbursements, \$178,031 New Market Tax Credit related accounting and asset management expenses, and \$1,188 in remaining funds reserved for the construction of a health clinic facility in Bastrop, Louisiana.

NOTE 6 - FUNCTIONAL ALLOCATION OF EXPENSES

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

NOTE 7 - CONCENTRATIONS OF CREDIT RISK

The Organization maintains several bank accounts at various banks. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution and one bank secures excess deposits over FDIC insurance with pledged securities totaling \$8,511,929. As of July 31, 2024, the Organization had cash deposits totaling \$7,580,389 of which deposits in excess of FDIC insured limits and pledged securities totaled \$49,604.

The majority of the Organization's patients are located in northeast Louisiana. The Organization grants credit without collateral to its patients. The mix of receivables from patients and third-party payors as of July 31, 2024 was as follows:

Medicare	15 %
Medicaid	35
Other	23
Pharmacy 340 B Program	27
	<u>100 %</u>

The mix of net patient revenues for the year ended July 31, 2024 was as follows:

Medicare	8 %
Medicaid	74
Other	18
	<u>100 %</u>

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

NOTE 8 – NEW MARKET TAX CREDIT

During the year ended July 31, 2021, the Organization received \$16 million in New Market Tax Credit Program (NMTC) financing as a qualified low-income community investment within the meaning of Section 45D of the Internal Revenue Code. The NMTC Program attracts investment capital to low-income communities by allowing individual and corporate investors to receive a tax credit against their federal income tax return in exchange for making equity investments in a specialized financial institution called a “Community Development Entity” (CDE). The tax credit totals thirty-nine percent (39%) of the original investment amount and is claimed over a period of seven (7) years (compliance period). QCDEs, in turn, make investments into businesses or projects with terms that are more favorable than typically available with conventional financing.

In order for the CDE to provide NMTC financing, the borrower must be deemed a “qualified active low-income community business” (QALICB) and the financed project must be deemed a “qualified low-income community investment” (QLICI) in order for tax credit investors in a CDE to receive the tax credits described above. As part of this transaction, Communihealth Development Corporation was formed to serve as the QALICB for the NMTC transaction. Communihealth Development Corporation is a supporting organization of Morehouse Community Medical Centers, Inc. and two of Communihealth Development Corporation’s five board members are employees of Morehouse Community Medical Centers, Inc.

Utilization of the NMTC Program has the end result of providing the financing to complete construction and renovation of a new medical clinic located in Bastrop, Louisiana, which began in 2020, at favorable and below market rate terms.

The NMTC transaction was structured whereby Communihealth Development Corporation received six QLICI loans and the Bastrop clinic land and clinic construction in progress was sold and contributed to Communihealth Development Corporation for \$648,586 and \$427,377, respectively. The \$427,377 in contribution proceeds and expenditures were intercompany transactions that were eliminated for purposes of the combined financial statements. The NMTC transaction is as follows: The Community Health Center Capital Fund, Inc. and Primary Care Development Corporation provided loans to Morehouse Community Medical Centers, Inc. in the amounts of \$2,000,000 and \$3,000,000, respectively, who in turn used this loan along with the proceeds of the sale of the Bastrop clinic land and clinic construction in progress to make loans in the amount of \$3,825,000 to Enhanced Capital LA NMTC Investment Fund I, LLC and \$3,591,400 to Chase NMTC MCMC Investment Fund, LLC. Enhanced Capital Louisiana NMTC Investor II, LLC provided an equity contribution to an entity who transferred to Chase Investment Fund, LLC in the amount of \$1,375,000. Chase Community Equity, LLC provided an equity contribution to Chase Investment Fund, LLC in the amount of \$3,603,600. The total investment was then transferred to PCDC Health Opportunities Fund XXX, LLC (CDE) and Capital Fund NMTC CD #14, LLC (CDE) in the amounts of \$6,500,000 and \$5,500,000, respectively. PCDC Health Opportunities Fund XXX, LLC and Capital Fund NMTC CD #14, LLC then made three and four loans, respectfully (seven total loans) to Communihealth Development Corporation. totaling \$11,797,500. The remaining \$202,500 was used to pay upfront fees owed to the Primary Care Development Corporation and sub-allocation fees owed to the Community Health Center Fund, Inc.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

NOTE 8 – NEW MARKET TAX CREDIT (CONTINUED)

The loans will be made at an interest rate of approximately 1.0% for Community Development Corporation and 6% for Morehouse Community Medical Centers, Inc. The loans provide for interest-only debt payments for an initial seven (7) year period (compliance period) and then interest and principal payments sufficient to fully repay the loan at maturity. Prepayment of the loans during the compliance period will not be permitted.

After the seven-year recapture period, the Chase Community Equity, LLC and Enhanced Capital Louisiana NMTC Investor II, LLC has the option to sell, within the three month “put period”, to put its equity interest in Chase NMTC MCMC Investment Fund, LLC and Enhanced Capital Louisiana NMTC Investment Fund I, LLC to Morehouse Community Medical Centers, Inc. or an affiliate for an amount equal to \$1,000 (each) plus taxes and transfer expenses. In the event that Chase Community Equity, LLC and/or Enhanced Capital Louisiana NMTC Investor II, LLC does not put its interest in Chase NMTC MCMC Investment Fund, LLC and/or Enhanced Capital Louisiana NMTC Investment Fund I, LLC, Morehouse Community Medical Centers, Inc. has a call option to purchase these interests at fair market value as determined by an independent appraiser.

Immediately after the exit transactions are completed, Community Development Corporation may be dissolved and the Bastrop campus may be transferred back to Morehouse Community Medical Centers, Inc. The Organization anticipates receiving a net benefit from the results of these transactions of approximately \$3,275,573 net of transaction costs.

After the Bastrop Clinic was completed, Community Development Corporation leased the Bastrop campus to Morehouse Community Medical Centers, Inc., for which the lease payments were used to pay the debt service on the new loans. The rental expense and rental income of \$150,000 are intercompany transactions that were eliminated for purposes of the combined financial statements. As of July 31, 2024, Community Development Corporation has a liability of \$30,079 to Morehouse Community Medical Centers, Inc. for the payment of interest and fees.

NOTE 9 – NOTE RECEIVABLE

Morehouse Community Medical Center, Inc.’s note receivable of \$3,825,000 from Enhanced Capital LA NMTC Investment Fund I, LLC accrues interest at 1.13763% which is payable quarterly through April 15, 2028. Beginning July 15, 2028, principal and interest will be payable quarterly sufficient to fully amortize the note, including a \$1,426,165 principal payment due on July 15, 2028, with the final payment due January 15, 2051. Interest income totaled \$65,804 during the fiscal year ending July 31, 2024.

Morehouse Community Medical Center, Inc.’s note receivable of \$3,591,400 from Chase NMTC MCMC Investment Fund, LLC accrues interest at 1.0530% which is payable quarterly through April 10, 2028. Principal and remaining interest will be payable in a balloon payment due on July 10, 2028. Interest income totaled \$37,816 during the fiscal year ending July 31, 2024.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

NOTE 10 - NOTES PAYABLE

Notes payable for the year ended July 31, 2024 consisted of the following:

<u>Morehouse Community Medical Centers, Inc. Promissory Note Payable from Community Health Center Capital Fund, Inc.:</u> New Market Tax Credit loan dated January 15, 2021, in the amount of \$2,000,000, interest payable monthly in 30 installments starting on February 15, 2022 until conversion to amortizing loan with principal and interest payments commencing on July 15, 2022 with a balloon principal payment on July 15, 2028, bearing an fixed interest of 6.00%; collateralized by accounts, receivables, property, inventory, equipment and leveraged loan documents and security agreement.	\$ 1,319,525
<u>Morehouse Community Medical Centers, Inc. Promissory Note Payable from Primary Care Development Corporation:</u> New Market Tax Credit loan dated January 15, 2021, in the amount of \$3,000,000, interest payable monthly in 89 installments starting on February 1, 2021 until conversion to amortizing loan with principal and interest payments commencing on August 1, 2022 with a balloon principal payment due on July 15, 2028, bearing an fixed interest of 6.00%; collateralized by accounts, property, premises, leveraged loan documents, cross collateralized and security agreement.	1,908,689
<u>Communihealth Development Corporation Promissory Note Payable (A) from PCDC Health Opportunities Fund XXX, LLC:</u> New Market Tax Credit loan dated January 15, 2021, in the amount of \$3,000,000, interest payable quarterly in 90 installments starting on April 1, 2021 until balloon principal payment due on July 1, 2028, bearing an fixed interest of 1.00%; collateralized by property, assignment of leases and rents, security agreement, accounts, equipment, fixtures, inventory, contracts and fixture filing encumbrance.	3,000,000
<u>Communihealth Development Corporation Promissory Note Payable (B) from PCDC Health Opportunities Fund XXX, LLC:</u> New Market Tax Credit loan dated January 1, 2021, in the amount of \$848,350, interest payable quarterly in 120 installments starting on April 1, 2021 until conversion to amortizing loan with principal and interest payments commencing on April 1, 2028 through January 1, 2051, bearing an fixed interest of 1.00%; collateralized by property, assignment of leases and rents, security agreement, accounts, equipment, fixtures, inventory, contracts and fixture filing encumbrance.	848,350
<u>Communihealth Development Corporation Promissory Note Payable (C) from PCDC Health Opportunities Fund XXX, LLC:</u> New Market Tax Credit loan dated January 15, 2021, in the amount of \$1,514,150, interest payable quarterly in 120 installments starting on April 1, 2021 until conversion to amortizing loan with principal and interest payments commencing on April 1, 2028 through January 1, 2051, bearing an fixed interest of 1.00%; collateralized by property, assignment of leases and rents, security agreement, accounts, equipment, fixtures, inventory, contracts and fixture filing encumbrance.	1,514,150

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

NOTE 10 - NOTES PAYABLE (CONTINUED)

Communihealth Development Corporation Promissory Note Payable (A) from Capital Fund NMTC CD #14 LLC: New Market Tax Credit loan dated January 15, 2021, in the amount of \$1,435,000, interest payable quarterly in 29 installments starting on April 1, 2021 until balloon principal payment due on July 1, 2028, bearing an fixed interest of 1.00%; collateralized by property, assignment of leases and rents, security agreement, accounts, equipment, fixtures, inventory, contracts and fixture filing encumbrance.

1,435,000

Communihealth Development Corporation Promissory Note Payable (B) from Capital Fund NMTC CD #14 LLC: New Market Tax Credit loan dated January 15, 2021, in the amount of \$565,000, interest payable quarterly in 29 installments starting on April 1, 2021 until balloon principal payment due on July 1, 2028, bearing an fixed interest of 1.00%; collateralized by property, assignment of leases and rents, security agreement, accounts, equipment, fixtures, inventory, contracts and fixture filing encumbrance.

565,000

Communihealth Development Corporation Promissory Note Payable (C) from Capital Fund NMTC CD #14 LLC: New Market Tax Credit loan dated January 15, 2021, in the amount of \$1,691,950, interest payable quarterly in 120 installments starting on April 1, 2021 until conversion to amortizing loan with principal and interest payments commencing on April 1, 2028 through January 1, 2051, bearing an fixed interest of 1.00%; collateralized by property, assignment of leases and rents, security agreement, accounts, equipment, fixtures, inventory, contracts and fixture filing encumbrance.

1,691,950

Communihealth Development Corporation Promissory Note Payable (D) from Capital Fund NMTC CD #14 LLC: New Market Tax Credit loan dated January 15, 2021, in the amount of \$2,743,050, interest payable quarterly in 120 installments starting on April 1, 2021 until conversion to amortizing loan with principal and interest payments commencing on April 1, 2028 through January 1, 2051, bearing an fixed interest of 1.00%; collateralized by property, assignment of leases and rents, security agreement, accounts, equipment, fixtures, inventory, contracts and fixture filing encumbrance.

2,743,050

15,025,714

Less: current portion (148,914)

Less: deferred financing costs, net (469,435)

Long-term debt \$ 14,407,365

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

NOTE 10 - NOTES PAYABLE (CONTINUED)

Maturities of debt are as follows:

<u>July 31,</u>	<u>Amount</u>
2025	\$ 152,275
2026	158,098
2027	167,850
2028	5,310,845
2029	265,325
Thereafter	<u>8,971,321</u>
Total	<u>\$ 15,025,714</u>

NOTE 11 – COMPLIANCE WITH LOAN COVENANTS

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

NOTE 12 – DEFERRED FINANCING COSTS

Deferred financing costs are capitalized and amortized over the life of the related debt using the straight-line method. Total capitalized costs were \$554,402 and \$116,159 and the related accumulated amortization was \$146,918 and \$54,208, as of July 31, 2024, for Morehouse Community Medical Centers, Inc. and Communihealth Development Corporation, respectively. Deferred financing costs are reported as a direct deduction from the face amount of the related notes payable in the combined statements of financial position. Amortization expense totaled \$57,465 for the fiscal year ended July 31, 2024.

The following is the estimated aggregate amortization expense for each of the five years succeeding July 31, 2024:

Year	Morehouse Community Medical Centers, Inc.	Communihealth Development Corporation	Total Amount
2025	\$ 15,488	\$ 41,977	\$ 57,465
2026	15,488	41,977	57,465
2027	15,488	41,977	57,465
2028	15,488	41,977	57,465
2029	15,488	41,977	57,465

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

NOTE 13 – FAIR VALUE OF INSTRUMENTS

The Organization has a number of financial instruments, none of which is held for trading purposes. The Organization estimates that the fair value of all financial instruments as of July 31, 2024, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The estimated fair value amounts have been determined by the Organization using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the agency could realize in a current market exchange. The recorded values of cash and cash equivalents, accounts receivable, grants receivable, contracts receivable, other receivables, prepaid expenses, accounts payable, interest payable and accrued expenses approximate their fair values based on their short-term nature. The recorded values of notes receivable and notes payable approximate their fair value, as interest is insignificant.

NOTE 14 – INVESTMENTS

The Organization applies GAAP for fair value measurements of financial assets that are recognized at fair value in the financial statements on a recurring basis. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair market hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Organization has the ability to access.

Level 2 inputs are inputs (other than quoted prices in Level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available).

The Organization's investments are measured on a recurring basis and consist of a government money market mutual fund investment and a limited liability member of Louisiana Primary Care – Accountable Care Organization, LLC, a Louisiana limited liability company. The Organization has a 3.44% interest in Louisiana Primary Care – Accountable Care Organization, LLC whose purpose is to tie provider reimbursements to quality metrics and reductions in the cost of care. The carrying value of the member share is equal to its capital balance or historical cost increased or decreased for the Organization's share of the limited liability company's profit or loss. The Organization's capital balance in Louisiana Primary Care – Accountable Care Organization, LLC as of July 31, 2024 was \$128,039. There were no indicators of impairment on this investment during the fiscal year ended July 31, 2024.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

NOTE 14 – INVESTMENTS (CONTINUED)

As of July 31, 2024, the Organization’s investments measured on a recurring basis consisted of a government money market mutual fund investment with fair market value (Level 1) and a limited liability company membership with fair market value (Level 3) with cost bases as follows:

	Cost	Fair Value	Unrealized Gain (Loss)
Government money market mutual fund investment (Level 1 Observable Inputs)	\$ 5,593,109	\$ 5,593,109	\$ -0-
Limited Liability Company Member – 3.44% Interest (Level 3 Unobservable Inputs)	\$ 128,039	Not Determined	Not Determined

The Organization’s investments are primarily concentrated in government money market mutual fund investments.

Changes in the Louisiana Primary Care – Accountable Care Organization, LLC membership for the year ended June 31, 2024 are as follows:

Balance as of July 31, 2023	\$ 62,769
Amounts invested in the membership	-
Share of profit/(loss) of membership	65,270
Distributions made from membership	-
Balance as of July 31, 2024	\$ 128,039

NOTE 15 – RETIREMENT PLAN

The Organization has established a 403B defined contribution retirement plan. All employees are eligible to participate after thirty days of service. The Organization will contribute to each qualifying participant a dollar-per-dollar match up to 5% of the qualifying participant’s monthly wages (including base wages, overtime, incentives and bonuses) which is subjected to a vesting period. The Organization’s contributions to the plan for the year ended July 31, 2024 totaled \$316,478.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

NOTE 16 – CHARITY CARE

The Organization provides care to patients who qualify under federal guidelines and other policies of the Organization at fees less than its established rates. The amount of charity care is reduced from the amount of fees for services presented in the statement of activities. The amount of charity care for disclosure purposes should be measured by costs, including direct and indirect costs. The Organization receives a Department of Health and Human Services grant to subsidize the charity care medical services provided to qualifying patients.

NOTE 17 – LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization has \$14,178,673 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures consisting of substantially cash of \$7,303,126, government money market mutual fund investment of \$5,593,109, patient accounts receivable of \$1,108,357, grant receivables of \$24,580, contract receivables of \$136,609, and other receivables of \$12,892. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position. The Organization has a goal to maintain financial assets which consist of cash on hand to meet six (6) months of normal operating expenses, which are, on average, approximately \$10,000,000. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, as part of its liquidity management, the Organization deposits cash in excess of daily requirements in certificate of deposit investments.

NOTE 18 – SUBSEQUENT EVENTS

The Organization evaluated its July 31, 2024 financial statements for subsequent events through the date of the audit report, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Notes to Financial Statements
July 31, 2024

NOTE 19 - PROPERTY AND EQUIPMENT

The balances and changes in property, plant, and equipment as of and for the year ended July 31, 2024 are as follows:

	Balance Beginning	Additions	Deletions	Balance Ending
Asset type:				
Non-depreciable assets:				
Land	\$ 535,189	\$ -	\$ -	\$ 535,189
Total non-depreciable assets	535,189	-	-	535,189
Depreciable assets:				
Buildings	14,216,909	383,759	-	14,600,668
Furniture and equipment	1,039,222	2,285	-	1,041,507
Vehicles	875,216	-	-	875,216
Total depreciable assets	16,131,347	386,044	-	16,517,391
Accumulated depreciation				
Buildings	884,969	463,029	-	1,347,998
Leasehold improvements	138,075	67,271	-	205,346
Furniture and equipment	580,388	93,189	-	673,577
Vehicles	540,257	86,237	-	626,494
Total	2,143,689	709,726	-	2,853,415
Total depreciable assets	13,987,658	(323,682)	-	13,663,976
Total property and equipment, net	\$14,522,847	\$ (323,682)	\$ -	\$14,199,165

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE

**Schedule of Expenditures of Federal Awards
Year Ended July 31, 2024**

<u>Program Title</u>		<u>Assistance Listing Number</u>	<u>Grant Number</u>	<u>Program Year</u>	<u>Program Revenues</u>	<u>Program Expenses</u>
U. S. Department of Health and Human Services Cluster						
Direct Programs:						
Community Health Center Section 330	*	93.224	H80CS08764	8/1/23 - 7/31/24	\$ 2,613,881	\$ 2,613,881
Capital Assistance for Disaster Response and Recovery Efforts	*	93.224	C14CS39923	8/1/23 - 7/31/24	33,000	33,000
FY 2023 Expanding COVID-19 Vaccination	*	93.527	H8GCS48268	8/1/23 - 7/31/24	84,156	84,156
Health Center Program Service Expansion School Based Service Sites	*	93.224	H8KCS49754	8/1/23 - 7/31/24	<u>49,359</u>	<u>49,359</u>
Total U.S. Department of Health and Human Services Cluster					<u>2,780,396</u>	<u>2,780,396</u>
United States Department of Agriculture Community Facilities Grants Cluster						
Direct Programs:						
Equipment		10.766		8/1/23 - 7/31/24	132,437	132,437
Staffing Revenues		10.766		8/1/23 - 7/31/24	<u>234,602</u>	<u>234,602</u>
Total U.S. Department of Agriculture Community Facilities Grants Cluster					<u>367,039</u>	<u>367,039</u>
Total federal assistance					<u>\$ 3,147,435</u>	<u>\$ 3,147,435</u>

* Major Program

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Morehouse Community Medical Centers, Inc. and Affiliate, and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of Title 2 of U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Certain costs have been allocated to the federal program in accordance with OMB Circular A-122, *Cost Principles of Non-Profit Organizations*. The amounts presented in this schedule do not differ from the amounts presented in, or used in the preparation of the financial statements. Morehouse Community Medical Centers, Inc. and Affiliate has elected not to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Combining Statement of Financial Position
As of July 31, 2024

Assets	Morehouse Community Medical Centers, Inc.	Communihealth Development Corporation	Eliminations	Combined Total
Current Assets				
Cash and cash equivalents	\$ 7,293,110	\$ 10,016	\$ -	\$ 7,303,126
Cash - restricted	-	227,911	-	227,911
Cash and cash equivalent - money market mutual fund investment	5,593,109	-	-	5,593,109
Patient accounts receivable, net	1,108,357	-	-	1,108,357
Grants receivable	24,580	-	-	24,580
Contracts receivable	136,609	-	-	136,609
Other receivables	12,892	-	-	12,892
Pharmacy inventory	172,862	-	-	172,862
Prepaid expenses	311,166	-	-	311,166
Due from Communihealth Development Corporation	30,079	-	(30,079)	-
Total Current Assets	<u>14,682,764</u>	<u>237,927</u>	<u>(30,079)</u>	<u>14,890,612</u>
Property, Plant and Equipment				
Buildings	3,950,874	10,649,794	-	14,600,668
Furniture and equipment	964,248	77,259	-	1,041,507
Vehicles	875,216	-	-	875,216
Operating right-of-use leased asset	93,430	-	-	93,430
	<u>5,883,768</u>	<u>10,727,053</u>	<u>-</u>	<u>16,610,821</u>
Less accumulated depreciation	(2,241,022)	(612,393)	-	(2,853,415)
	<u>3,642,746</u>	<u>10,114,660</u>	<u>-</u>	<u>13,757,406</u>
Land	326,555	208,634	-	535,189
Net Property, Plant and Equipment	<u>3,969,301</u>	<u>10,323,294</u>	<u>-</u>	<u>14,292,595</u>
Other Assets				
Cash - restricted	-	1,188	-	1,188
Investment LPCACO	128,039	-	-	128,039
Deposits	7,062	4,200	-	11,262
Notes receivable - new markets tax credit	7,416,400	-	-	7,416,400
Total Other Assets	<u>7,551,501</u>	<u>5,388</u>	<u>-</u>	<u>7,556,889</u>
Total Assets	<u><u>26,203,566</u></u>	<u><u>10,566,609</u></u>	<u><u>(30,079)</u></u>	<u><u>36,740,096</u></u>
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	720,272	-	-	720,272
Accrued payroll and related liabilities	879,474	-	-	879,474
Accrued interest payable	13,465	9,697	-	23,162
Due to Morehouse Community Medical Centers, Inc.	-	30,079	(30,079)	-
Current portion of notes payable	148,914	-	-	148,914
Current portion of operating right-of-use lease liability	41,255	-	-	41,255
Total Current Liabilities	<u>1,803,380</u>	<u>39,776</u>	<u>(30,079)</u>	<u>1,813,077</u>
Long Term Liabilities				
Notes payable - net of current portion	3,017,349	11,390,016	-	14,407,365
Operating right-of-use lease liability - net of current portion	54,376	-	-	54,376
Total Long Term Liabilities	<u>3,071,725</u>	<u>11,390,016</u>	<u>-</u>	<u>14,461,741</u>
Total Liabilities	<u>4,875,105</u>	<u>11,429,792</u>	<u>(30,079)</u>	<u>16,274,818</u>
Net Assets				
Without donor restrictions	21,232,708	(863,183)	-	20,369,525
With donor restrictions	95,753	-	-	95,753
Total Net Assets	<u>21,328,461</u>	<u>(863,183)</u>	<u>-</u>	<u>20,465,278</u>
Total Liabilities and Net Assets	<u><u>\$ 26,203,566</u></u>	<u><u>\$ 10,566,609</u></u>	<u><u>\$ (30,079)</u></u>	<u><u>\$ 36,740,096</u></u>

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Combining Statement of Activities
For the Year Ended July 31, 2024

	Morehouse Community Medical Centers, Inc.	Communihealth Development Corporation	Eliminations	Combined Total
Revenue and Support				
Revenue:				
Gross patient service revenue	\$ 21,436,319	\$ -	\$ -	\$ 21,436,319
Less: contractual allowances and discounts	(6,597,872)	-	-	(6,597,872)
Net patient service revenue	14,838,447	-	-	14,838,447
Less: provision for uncollectible accounts	(203,904)	-	-	(203,904)
Net patient service revenue	14,634,543	-	-	14,634,543
Pharmacy 340 B program income	3,356,307	-	-	3,356,307
Total Revenue	17,990,850	-	-	17,990,850
Support:				
Grant awards	3,837,605	-	-	3,837,605
Contract revenue	391,364	-	-	391,364
Interest income	231,596	5,822	-	237,418
Unrealized gain/(loss) on investments	104,039	-	-	104,039
Rental income	16,693	150,000	(150,000)	16,693
Other income	351,370	-	-	351,370
Total Support and Other Income	4,932,667	155,822	(150,000)	4,938,489
Total Revenue, Support and Other Income	22,923,517	155,822	(150,000)	22,929,339
Expenses				
Program services	16,422,393	559,824	(126,000)	16,856,217
General and administrative	3,532,289	29,495	(24,000)	3,537,784
Total Expenses	19,954,682	589,319	(150,000)	20,394,001
Change in Net Assets (Revenues over Expenses)	2,968,835	(433,497)	-	2,535,338
Net Assets - Beginning of Year	18,359,626	(429,686)	-	17,929,940
Net Assets - End of Year	<u>\$ 21,328,461</u>	<u>\$ (863,183)</u>	<u>\$ -</u>	<u>\$ 20,465,278</u>

Morehouse Community Medical Centers, Inc. and Affiliate
Schedule of Compensation, Benefits and Other Payments to Executive Director
July 31, 2024

NO COMPENSATION PAID FROM PUBLIC FUNDS

Agency Head Name: Katie Parnell, Executive Director

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

STEVEN M. DEROUEN & ASSOCIATES, LLC

Certified Public Accountants

P. O. BOX 4265
LAKE CHARLES, LA 70606
(337) 513-4915 OFFICE/ (337) 205-6927 FAX
steve@sderouencpa.com

Member American Institute of
Certified Public Accountants

Member Louisiana Society of
Certified Public Accountants

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

Board of Directors
Morehouse Community Medical Centers, Inc. and Affiliate
Bastrop, 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 Morehouse Community Medical Centers, Inc. and Affiliate (a nonprofit organization), which comprise the combined statement of financial position as of July 31, 2024, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 24, 2025.

Report on Internal Control Over Financial Reporting

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

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

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

Board of Directors
Morehouse Community Medical Centers, Inc. and Affiliate
Bastrop, Louisiana

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morehouse Community Medical Centers, Inc. and Affiliate's combined financial statements are free of 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 combined financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Steven M. DeRouen & Associates, LLC

Lake Charles, Louisiana
January 24, 2025

STEVEN M. DEROUEN & ASSOCIATES, LLC

Certified Public Accountants

P. O. BOX 4265
LAKE CHARLES, LA 70606
(337) 513-4915 OFFICE/ (337) 205-6927 FAX
steve@sderouencpa.com

Member American Institute of
Certified Public Accountants

Member Louisiana Society of
Certified Public Accountants

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

The Board of Directors
Morehouse Community Medical Centers, Inc. and Affiliate
Bastrop, Louisiana

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Morehouse Community Medical Centers, Inc. and Affiliate's compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of Morehouse Community Medical Centers, Inc. and Affiliate's major federal programs for the year ended July 31, 2024. Morehouse Community Medical Centers, Inc. and Affiliate's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Morehouse Community Medical Centers, Inc. and Affiliate complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended July 31, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Morehouse Community Medical Centers, Inc. and Affiliate and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Morehouse Community Medical Centers, Inc. and Affiliate's compliance with the compliance requirements referred to above.

Board of Directors
Morehouse Community Medical Centers, Inc. and Affiliate
Bastrop, Louisiana

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Morehouse Community Medical Centers, Inc. and Affiliate's federal programs.

Auditor Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Morehouse Community Medical Centers, Inc. and Affiliate's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Morehouse Community Medical Centers, Inc. and Affiliate's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Morehouse Community Medical Centers, Inc. and Affiliate's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Morehouse Community Medical Centers, Inc. and Affiliate's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Morehouse Community Medical Centers, Inc. and Affiliate's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Board of Directors
Morehouse Community Medical Centers, Inc. and Affiliate
Bastrop, Louisiana

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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. However, this report is a matter of public record and its distribution is not limited.

Steven M. DeRouen & Associates, LLC

Lake Charles, Louisiana
January 24, 2025

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, LA
Schedule of Findings and Questioned Costs
Year Ended July 31, 2024

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:
Material weaknesses identified? ☐ Yes ☒ No
Significant deficiency identified not considered
to be material weaknesses? ☐ Yes ☒ None reported
Type of auditor’s report issued on compliance
for major programs: Unmodified
Any audit findings disclosed that are required
to be reported in accordance with the Uniform
Guidance? ☐ Yes ☒ No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.224	U.S. Department of Health and Human
93.527	Services, Community Health Centers
	Cluster

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

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

A separate management letter was not issued.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Schedule of Findings and Questioned Costs (Continued)
Year Ended July 31, 2024

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The results of my tests disclosed no instances of non-compliance with the requirements applicable to each major federal program that are required to be reported in accordance with the Uniform Guidance.

MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE
Bastrop, Louisiana
Summary Schedule of Prior Year Findings and Questioned Costs
Year Ended July 31, 2024

PRIOR YEAR FINDINGS

None

STEVEN M DEROUEN & ASSOCIATES LLC

Certified Public Accountants
2720 RUE DE JARDIN, SUITE 300
P. O. BOX 4265
LAKE CHARLES, LA 70606
(337) 513-4915 OFFICE/ (337) 205-6927 FAX
steve@sderouencpa.com

Member American Institute of
Certified Public Accountants

Member Louisiana Society of
Certified Public Accountants

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors of Morehouse Community Medical Centers, Inc. and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below on the control and compliance (C/C) areas identified in the Louisiana Legislative Auditor's (LLA's) Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period August 1, 2023 through July 31, 2024. Morehouse Community Medical Centers, Inc.'s management is responsible for those C/C areas identified in the SAUPs.

Morehouse Community Medical Centers, Inc. has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of the engagement, which is to perform specified procedures on the C/C areas identified in LLA's SAUPs for the fiscal period August 1, 2023 through July 31, 2024. Additionally, LLA has agreed to and acknowledged that the procedures performed are appropriate for its purposes. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are as follows:

1) Written Policies and Procedures

- A. Obtain and inspect the entity's written policies and procedures and observe whether they address each of the following categories and subcategories if applicable to public funds and the entity's operations:
 - i. **Budgeting**, including preparing, adopting, monitoring, and amending the budget.
 - ii. **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.
 - iii. **Disbursements**, including processing, reviewing, and approving.

- iv. ***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).
- v. ***Payroll/Personnel***, including (1) payroll processing, (2) reviewing and approving time and attendance records, including leave and overtime worked, and (3) approval process for employee(s) rate of pay or approval and maintenance of pay rate schedules.
- vi. ***Contracting***, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process.
- vii. ***Travel and Expense Reimbursement***, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers.
- viii. ***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).
- ix. ***Ethics***, including (1) the prohibitions as defined in Louisiana Revised Statute (R.S.) 42:1111-1121, (2) actions to be taken if an ethics violation takes place, (3) system to monitor possible ethics violations, and (4) a requirement that documentation is maintained to demonstrate that all employees and officials were notified of any changes to the entity's ethics policy.
- x. ***Debt Service***, including (1) debt issuance approval, (2) continuing disclosure/EMMA reporting requirements, (3) debt reserve requirements, and (4) debt service requirements.
- xi. ***Information Technology 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.
- xii. ***Prevention of Sexual Harassment***, including R.S. 42:342-344 requirements for (1) agency responsibilities and prohibitions, (2) annual employee training, and (3) annual reporting.

Were any exceptions found? - No

We performed the Information Technology Disaster Recovery/Business Continuity procedure (IAxi) and discussed the results with management.

2) Board or Finance Committee

- A. 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:
- i. 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.
 - ii. For those entities reporting on the governmental accounting model, observe whether the minutes referenced or included monthly budget-to-actual comparisons on the general fund, quarterly budget-to-actual, at a minimum, on proprietary funds, and semi-annual budget-to-actual, at a minimum, on all special revenue funds. *Alternately, for those entities reporting on the not-for-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.*
 - iii. 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.
 - iv. Observe whether the board/finance committee received written updates of the progress of resolving audit finding(s), according to management's corrective action plan at each meeting until the findings are considered fully resolved.

Were any exceptions found? - No

3) Bank Reconciliations

- A. Obtain a listing of entity 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 each selected account, and observe that:
- i. Bank reconciliations include evidence that they were prepared within 2 months of the related statement closing date (e.g., initialed and dated or electronically logged);
 - ii. 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 within 1 month of the date of the reconciliation was prepared (e.g., initialed and dated, electronically logged); and

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

Were any exceptions found? – No

4) Collections (excluding electronic funds transfers)

- A. Obtain a listing of deposit sites for the fiscal period where deposits for cash/checks/money orders (cash) are prepared and management's representation that the listing is complete. Randomly select 5 deposit sites (or all deposit sites if less than 5).
- B. 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:
 - i. Employees responsible for cash collections do not share cash drawers/registers.
 - ii. 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.
 - iii. 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.
 - iv. 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/official verifies the reconciliation.
- C. Obtain from management a copy of the bond or insurance policy for theft covering all employees who have access to cash. Observe the bond or insurance policy for theft was enforced during the fiscal period.
- D. Randomly select two deposit dates for each of the 5 bank accounts selected for Bank Reconciliations procedure 3A (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:
 - i. Observe that receipts are sequentially pre-numbered.
 - ii. Trace sequentially pre-numbered receipts, system reports, and other related collection documentation to the deposit slip.
 - iii. Trace the deposit slip total to the actual deposit per the bank statement.

- iv. Observe 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 and the cash is stored securely in a locked safe or drawer).
- v. Trace the actual deposit per the bank statement to the general ledger.

These procedures are not applicable to the public funds administered by this non-profit organization.

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

- A. 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).
- B. For each location selected under #5A 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:
 - i. At least two employees are involved in initiating a purchase request, approving a purchase, and placing an order/making the purchase.
 - ii. At least two employees are involved in processing and approving payments to vendors.
 - iii. 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.
 - iv. 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.
 - v. Only employees/officials authorized to sign checks approve the electronic disbursement (release) of funds, whether through automated clearinghouse (ACH), electronic funds transfer (EFT), wire transfer, or some other electronic means.

[Note: Findings related to controls that constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality) should not be reported.]
- C. For each location selected under #5A 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:
 - i. Observe whether the disbursement, whether by paper or electronic means, matched the related original itemized invoice and supporting documentation indicates deliverables included on the invoice were received by the entity.
 - ii. Observe whether the disbursement documentation included evidence (e.g., initial/date, electronic logging) of segregation of duties tested under procedure #5B, as applicable.

- D. Using the entity's main operating account and the month selected in Bank Reconciliations procedure #3A, randomly select 5 non-payroll-related electronic disbursements (or all electronic disbursements if less than 5) and observe that each electronic disbursement was (a) approved by only those persons authorized to disburse funds (e.g., sign checks) per the entity's policy, and (b) approved by the required number of authorized signers per the entity's policy. *Note: If no electronic payments were made from the main operating account during the month selected the practitioner should select an alternative month and/or account for testing that does include electronic disbursements.*

Were any exceptions found? – N/A

The Non-Payroll Disbursements items were subject to testing under the Allowable Costs and Procurement in the OMB Compliance Supplement (Uniform Guidance).

6) Credit Cards/Debit Cards/Fuel Cards/P-Cards

- A. 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.
- B. 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:
- i. Observe whether 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) were reviewed and approved, in writing (or electronically approved), 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.]
 - ii. Observe that finance charges and late fees were not assessed on the selected statements.
- C. Using the monthly statements or combined statements selected under #6B 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 (e.g., each card should have 10 transactions subject to testing). For each transaction, observe 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). For missing receipts, the practitioner should describe the nature of the transaction and note whether management had a compensating control to address missing receipts, such as a "missing receipt statement" that is subject to increased scrutiny.

Were any exceptions found? – No

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

- A. 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:
- i. If reimbursed using a per diem, observe the approved reimbursement rate is no more than those rates established either by the State of Louisiana or the U.S. General Services Administration (www.gsa.gov).
 - ii. If reimbursed using actual costs, observe the reimbursement is supported by an original itemized receipt that identifies precisely what was purchased.
 - iii. Observe 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 Policies and Procedures procedure #1A(vii); and
 - iv. Observe each reimbursement was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

Were any exceptions found? – No

8) Contracts

- A. 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:
- i. Observe whether the contract was bid in accordance with the Louisiana Public Bid Law (e.g., solicited quotes or bids, advertised), if required by law.
 - ii. Observe whether the contract was approved by the governing body/board, if required by policy or law (e.g., Lawrason Act, Home Rule Charter).
 - iii. If the contract was amended (e.g., change order), observe the original contract terms provided for such an amendment and that amendments were made in compliance with the contract terms (e.g., if approval is required for any amendment, was approval documented).
 - iv. 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 the invoice and related payment agreed to the terms and conditions of the contract.

Were any exceptions found? – N/A

The Contracts items were subject to testing under the Allowable Costs and Procurement in the OMB Compliance Supplement (Uniform Guidance).

9) Payroll and Personnel

- A. Obtain a listing of employees and officials employed during the fiscal period and management's representation that the listing is complete. Randomly select 5 employees or officials, obtain related paid salaries and personnel files, and agree paid salaries to authorized salaries/pay rates in the personnel files.
- B. Randomly select one pay period during the fiscal period. For the 5 employees or officials selected under #9A above, obtain attendance records and leave documentation for the pay period, and:
 - i. Observe all selected employees or officials documented their daily attendance and leave (e.g., vacation, sick, compensatory);
 - ii. Observe whether supervisors approved the attendance and leave of the selected employees or officials.
 - iii. Observe any leave accrued or taken during the pay period is reflected in the entity's cumulative leave records; and
 - iv. Observe the rate paid to the employees or officials agree to the authorized salary/pay rate found within the personnel file.
- C. Obtain a listing of those employees or officials that received termination payments during the fiscal period and management's representation that the list is complete. Randomly select two employees or officials, obtain related documentation of the hours and pay rates used in management's termination payment calculations and the entity's policy on termination payments. Agree the hours to the employee's or officials' cumulative leave records, agree the pay rates to the employee's or officials' authorized pay rates in the employee's or officials' personnel files, and agree the termination payment to entity policy.
- D. Obtain management's representation that employer and employee portions of third-party payroll related amounts (e.g., payroll taxes, retirement contributions, health insurance premiums, garnishments, workers' compensation premiums, etc.) have been paid, and any associated forms have been filed, by required deadlines.

Were any exceptions found? – N/A

The Payroll and Personnel items were subject to testing under the Allowable Costs and Procurement in the OMB Compliance Supplement (Uniform Guidance).

10) Ethics

- A. Using the 5 randomly selected employees/officials from Payroll and Personnel procedure #9A, obtain ethics documentation from management, and:
 - i. Observe whether the documentation demonstrates each employee/official completed one hour of ethics training during the calendar year as required by R.S. 42:1170; and
 - ii. Observe whether the entity maintains documentation which demonstrates each employee and official were notified of any changes to the entity's ethics policy during the fiscal period, as applicable.
- B. Inquire and/or observe whether the agency has appointed an ethics designee as required by R.S. 42:1170.

These procedures are not applicable to this non-profit organization.

11) Debt Service

- A. Obtain a listing of bonds/notes and other debt instruments issued during the fiscal period and management's representation that the listing is complete. Select all debt instruments on the listing, obtain supporting documentation, and observe State Bond Commission approval was obtained for each debt instrument issued as required by Article VII, Section 8 of the Louisiana Constitution.
- B. 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 (including contingency funds, short-lived asset funds, or other funds required by the debt covenants).

These procedures are not applicable to this non-profit organization.

12) Fraud Notice

- A. 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 as required by R.S. 24:523.
- B. Observe 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.

Were any exceptions found? – No

13) Information Technology Disaster Recovery/Business Continuity

- A. Perform the following procedures, **verbally discuss the results with management, and report “We performed the procedure and discussed the results with management.”**
- i. Obtain and inspect the entity’s most recent documentation that it has backed up its critical data (if there is no written documentation, then inquire of personnel responsible for backing up critical data) and observe evidence that such backup (a) occurred within the past week, (b) was not stored on the government’s local server or network, and (c) was encrypted.
 - ii. Obtain and inspect the entity’s most recent documentation that it has tested/verified that its backups can be restored (if there is no written documentation, inquire of personnel responsible for testing/verifying backup restoration) and observe evidence that the test/verification was successfully performed within the past 3 months.
 - iii. Obtain a listing of the entity’s computers currently in use and their related locations, and management’s representation that the listing is complete. Randomly select 5 computers and observe while management demonstrates that the selected computers have current and active antivirus software and that the operating system and accounting system software in use are currently supported by the vendor.
- B. Randomly select 5 terminated employees (or all terminated employees if less than 5) using the list of terminated employees obtained in Payroll and Personnel procedure #9C. Observe evidence that the selected terminated employees have been removed or disabled from the network.
- C. Using the 5 randomly selected employees/officials from Payroll and Personnel procedure #9A, obtain cybersecurity training documentation from management, and observe that the documentation demonstrates that the following employees/officials with access to the agency’s information technology assets have completed cybersecurity training as required by R.S. 42:1267. The requirements are as follows:
- Hired before June 9, 2020 - completed the training; and
 - Hired on or after June 9, 2020 - completed the training within 30 days of initial service or employment.

We performed the Information Technology Disaster Recovery/Business Continuity procedures and discussed the results with management.

14) Prevention Sexual Harassment

- A. Using the 5 randomly selected employees/officials from Payroll and Personnel procedure #9A, obtain sexual harassment training documentation from management, and observe the documentation demonstrates each employee/official completed at least one hour of sexual harassment training during the calendar year as required by R.S. 42:343.

- B. Observe that the entity has posted its sexual harassment policy and complaint procedure on its website (or in a conspicuous location on the entity's premises if the entity does not have a website).
- C. Obtain the entity's annual sexual harassment report for the current fiscal period, observe that the report was dated on or before February 1, and observe that the report includes the applicable requirements of R.S. 42:344:
 - i. Number and percentage of public servants in the agency who have completed the training requirements;
 - ii. Number of sexual harassment complaints received by the agency;
 - iii. Number of complaints which resulted in a finding that sexual harassment occurred;
 - iv. Number of complaints in which the finding of sexual harassment resulted in discipline or corrective action; and
 - v. Amount of time it took to resolve each complaint.

These procedures are not applicable to this non-profit organization.

We were engaged by Morehouse Community Medical Centers, Inc. to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. We were not engaged to and did not conduct an examination or review engagement, 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.

We are required to be independent of Morehouse Community Medical Centers, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended 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.

Steven M DeRouen & Associates LLC

Lake Charles, Louisiana
January 24, 2025