

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

**Financial and Compliance Report  
July 31, 2021**

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## INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the accompanying statements of Morehouse Community Medical Centers, Inc. and Affiliate (a non-profit organization), which comprise the combined statement of financial position as of July 31, 2021, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

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

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

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

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

### ***Opinion***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Morehouse Community Medical Centers, Inc. and Affiliate as of July 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Other Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2022, 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 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 25, 2022

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
**Bastrop, Louisiana**  
**Combined Statement of Financial Position**  
**As of July 31, 2021**

<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 9,684,294
Cash - restricted	9,403,101
Patient accounts receivable, net	628,931
Grant receivable	207,851
Other receivables	540,199
Interest receivable	17,644
Prepaid expenses	138,575
Total Current Assets	<u>20,620,595</u>
<b>Property, Plant and Equipment</b>	
Buildings	3,194,585
Furniture and equipment	540,864
Vehicles	589,848
	<u>4,325,297</u>
Less accumulated depreciation	<u>(1,392,412)</u>
	2,932,885
Land	535,189
Construction in progress	2,503,370
Net Property, Plant and Equipment	<u>5,971,444</u>
<b>Other Assets</b>	
Certificates of deposit investment	300,770
Deposits	31,987
Notes receivable - new markets tax credit	7,416,400
Total Other Assets	<u>7,749,157</u>
 Total Assets	 <u>34,341,196</u>
<b>Liabilities and Net Assets</b>	
<b>Current Liabilities</b>	
Accounts payable	992,702
Accrued payroll and related liabilities	655,323
Accrued interest payable	29,752
Current portion of notes payable	4,329
Total Current Liabilities	<u>1,682,106</u>
<b>Long Term Liabilities</b>	
Notes payable - net of current portion	<u>16,151,342</u>
Total Long Term Liabilities	<u>16,151,342</u>
 Total Liabilities	 <u>17,833,448</u>
<b>Net Assets</b>	
Without donor restrictions	16,507,748
With donor restrictions	-
Total Net Assets	<u>16,507,748</u>
 Total Liabilities and Net Assets	 <u>\$ 34,341,196</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, 2021**

<b>Revenue and Support</b>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Revenue:			
Gross patient service revenue	\$ 9,541,408	\$ -	\$ 9,541,408
Less: contractual allowances and discounts	(3,118,411)	-	(3,118,411)
Net patient service revenue	6,422,997	-	6,422,997
Less: provision for uncollectible accounts	(253,582)	-	(253,582)
Net patient service revenue	6,169,415	-	6,169,415
Pharmacy 340B program income	3,205,491	-	3,205,491
<b>Total Revenue</b>	<b>9,374,906</b>	<b>-</b>	<b>9,374,906</b>
Support:			
Grant awards	5,996,195	-	5,996,195
Contributions	48,960	-	48,960
In-kind contributions	2,693	-	2,693
Interest income	90,334	-	90,334
Unrealized gain/(loss) on investments	(15,314)	-	(15,314)
Rental income	1,600	-	1,600
Payroll tax credits	1,462,502	-	1,462,502
Other income	50,941	-	50,941
<b>Total Support and Other Income</b>	<b>7,637,911</b>	<b>-</b>	<b>7,637,911</b>
Net assets released from restrictions			
Satisfaction of program restrictions	216,158	(216,158)	-
<b>Total Revenue, Support and Other Income</b>	<b>17,228,975</b>	<b>(216,158)</b>	<b>17,012,817</b>
<b>Expenses</b>			
Program services	10,659,865	-	10,659,865
General and administrative	2,776,697	-	2,776,697
<b>Total Expenses</b>	<b>13,436,562</b>	<b>-</b>	<b>13,436,562</b>
<b>Change in Net Assets (Revenues over Expenses)</b>	<b>3,792,413</b>	<b>(216,158)</b>	<b>3,576,255</b>
Net Assets - Beginning of Year	12,715,335	216,158	12,931,493
Net Assets - End of Year	\$ 16,507,748	\$ -	\$ 16,507,748

See accompanying notes to the financial statements

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
**Bastrop, Louisiana**  
**Combined Statement of Cash Flows**  
**For the Year Ended July 31, 2021**

<b>Cash Flows From Operating Activities</b>	
Change in net assets	\$ 3,576,255
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	168,690
Changes in operating assets and liabilities:	
Change in allowance for doubtful accounts	70,340
(Increase) decrease in accounts receivable	(159,879)
(Increase) decrease in grant receivable	(50,478)
(Increase) decrease in other receivable	(516,075)
(Increase) decrease in interest receivable	(17,644)
(Increase) decrease in prepaid expenses	77,720
(Increase) decrease in deposits	(1,000)
Increase (decrease) in accounts payable	423,706
Increase (decrease) in accrued payroll and related liabilities	78,933
Increase (decrease) in interest payable	29,752
	<hr/>
Net Cash Provided (Used) by Operating Activities	3,680,320
	<hr/>
<b>Cash Flows From Investing Activities</b>	
Proceeds from disposition and maturity of investments	2,243,411
Fixed asset acquisitions	(2,554,415)
	<hr/>
Net Cash Provided (Used) by Investing Activities	(311,004)
	<hr/>
<b>Cash Flows From Financing Activities</b>	
Issuance of notes receivable	(7,416,400)
Payment of deferred financing costs	(641,829)
Proceeds from loans	16,797,500
	<hr/>
Net Cash Provided (Used) by Financing Activities	8,739,271
	<hr/>
Net Increase in Cash and Cash Equivalents	12,108,587
Cash and Cash Equivalents - Beginning of Year	6,978,808
	<hr/>
Cash and Cash Equivalents - End of Year	19,087,395
	<hr/> <hr/>
<b>Cash Flows From Financing Activities:</b>	
Cash - unrestricted	9,684,294
Cash - restricted	9,403,101
	<hr/>
	19,087,395
	<hr/> <hr/>
<b>Supplemental Disclosure:</b>	
Interest paid	\$ 128,636
	<hr/> <hr/>

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
**Bastrop, Louisiana**  
**Combined Statement of Functional Expenses**  
**For the Year Ended July 31, 2021**

	<u>Program Services</u>	<u>Supporting Services General and Administrative</u>	<u>Total</u>
Salaries	\$ 4,397,388	\$ 1,908,052	\$ 6,305,440
Fringe benefits	614,265	263,257	877,522
Payroll taxes	357,524	153,224	510,748
Consultants and contractual services	1,942,401	57,252	1,999,653
Supplies	1,641,506	123,901	1,765,407
Dues and subscriptions	78,931	15,034	93,965
Maintenance and repairs	330,096	62,876	392,972
Telephone	58,099	11,067	69,166
Postage	6,092	1,160	7,252
Insurance	135,416	25,794	161,210
Travel and seminars	105,157	10,536	115,693
Occupancy	47,062	8,964	56,026
Rent	55,401	10,553	65,954
Legal and professional	191,045	36,389	227,434
Interest	208,566	39,727	248,293
Recruitment	10,507	2,001	12,508
Printing	4,199	800	4,999
Miscellaneous	100,382	19,120	119,502
Donations	75,867	-	75,867
Outreach, advertising and sponsorships	158,261	-	158,261
	<u>10,518,165</u>	<u>2,749,707</u>	<u>13,267,872</u>
Total expenses before depreciation			
Depreciation	<u>141,700</u>	<u>26,990</u>	<u>168,690</u>
Total expenses	<u>\$ 10,659,865</u>	<u>\$ 2,776,697</u>	<u>\$ 13,436,562</u>



**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2021**

**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 eleven 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 Affiliate's Form 990, Return of Organization Exempt from Income Tax, is subject to examination by the IRS, generally for three (3) years after it was 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.

**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.

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2021**

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

**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.

There are no net assets with donor restrictions as of July 31, 2021.

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2021**

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

**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.

**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).

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2021**

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

**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:

	Years
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.

**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:

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2021**

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

**Compensated Absences (Continued)**

<b>Length of Service</b>	<b>Maximum PTO Benefit</b>	<b>Maximum PTO Accrual</b>
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, 2021, Morehouse Community Medical Centers, Inc. had \$380,292 in accrued Paid Time Off (PTO).

**HOLIDAYS EARNED**

After 60 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.

**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.

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2021**

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

**Net Patient Service Revenue (Continued)**

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.

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 based on services provided.

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2021**

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

**Net Patient Service Revenue (Continued)**

- **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.

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.

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2021**

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

**Major Funding Source**

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

The CARES Act established a Provider Relief Fund to be used for economic support of health care entities in connection with health-care-related expenses or lost revenues attributable to COVID-19 and treatment of uninsured COVID-19 patients. The Organization received \$163,275 in provider relief funds during the fiscal year ending July 31, 2021.

**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.

**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. 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, 2023 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.



**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
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**NOTE 1 - NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(CONTINUED)**

**Rental of Facilities (Continued)**

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 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. During fiscal year ending July 31, 2021, the total minimum rental expense under this lease equaled \$55,578.

Effective February 9, 2021, Morehouse Community Medical Centers, Inc. entered into a building lease. The lease is for sixteen months and an option exists to renew the lease on a month-to-month basis. During fiscal year ending July 31, 2021, the total minimum rental expense under this lease equaled \$7,200.

The following is a schedule of the future minimum rental payments under this operating lease:

Year Ending July 31,	
2022	79,893
2023	66,693
2024	27,789
Total Minimum Lease Payments	\$ <u>174,375</u>

**Outreach and Advertising Expense**

The Organization expenses the cost of outreach and advertising as the expenses are incurred. For the year ended July 31, 2021, the cost totaled \$158,261.

**Performance Indicator**

The Organization utilizes revenues over expenses as its performance indicator.

**Recently Adopted Accounting Standards**

Effective August 1, 2020, the Organization adopted ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), using the full retrospective method. This guidance specifies that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. The impact of adopting ASU 2014-09 was not material to the Organization's net assets, change in net assets, or total assets.

Effective August 1 2020, the Organization adopted ASU 2018-08, *Not-for-Profit Entities* (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, on a modified prospective basis. There was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of August 1, 2020.

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
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**NOTE 2 - PATIENT ACCOUNTS RECEIVABLE**

Patient accounts receivable are comprised of the following for the year ending July 31, 2021:

Medicare	\$ 40,700
Medicaid	286,564
Private	125,645
Pharmacy 340 B Program	176,999
	629,908
Less allowance for doubtful accounts	(977)
	\$ 628,931

The method to calculate allowance for doubtful accounts did not significantly change from the prior year. The Organization's write-offs, which primarily consisted of self-pay charges, totaled \$253,582 for the fiscal year July 31, 2021. The Organization amended its charity care policy to adhere to the annually revised Federal Poverty Level Guidelines during the fiscal year.

**NOTE 3 - 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 \$6,535,436. As of July 31, 2021, the Organization had cash deposits totaling \$19,088,779 of which deposits in excess of FDIC insured limits and pledged securities totaled \$9,153,101.

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, 2021 was as follows:

Medicare	6 %
Medicaid	46
Other	20
Pharmacy 340 B Program	28
	100 %

The mix of net patient revenues for the year ended July 31, 2021 was as follows:

Medicare	7 %
Medicaid	77
Other	16
	100 %

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
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**Notes to Financial Statements**  
**July 31, 2021**

***NOTE 4 - 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, 2021, Morehouse Community Medical Centers, Inc. and Affiliate recorded \$5,389,271 in grant support from the Department of Health and Human Services. This represents 32% of total support and revenues for the year ended July 31, 2021.

***NOTE 5 - 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 6 - 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.

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
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**Notes to Financial Statements**  
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**NOTE 6 – NEW MARKET TAX CREDIT (CONTINUED)**

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 will be intercompany transactions that will be 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.

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.

Once the Bastrop Clinic is completed, Community Development Corporation will lease 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 will be intercompany transactions that will be eliminated for purposes of the combined financial statements.

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
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**NOTE 7 – 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 1.3763% 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.

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.

**NOTE 8 – RESTRICTED CASH**

As of July 31, 2021, Communihealth Development Corporation held in separate bank accounts \$94,828 for the payment of interest on debt obligations and New Market Tax Credit related expense reimbursements, \$308,539 New Market Tax Credit related accounting and asset management expenses, and \$8,999,734 in funds reserved for the construction of a health clinic facility in Bastrop, Louisiana.

**NOTE 9 - NOTES PAYABLE**

Notes payable for the year ended July 31, 2021 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 January 15, 2026 until 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.	\$ 2,000,000
<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 of \$2,128,395 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.	3,000,000
<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

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
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**Notes to Financial Statements**  
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**NOTE 9 - NOTES PAYABLE (CONTINUED)**

<p><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, 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.</p>	848,350
<p><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, 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.</p>	1,514,150
<p><u>Communihealth Development Corporation Promissory Note Payable (A) from Capital Fund NMTC CD #14 LLC:</u> 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.</p>	1,435,000
<p><u>Communihealth Development Corporation Promissory Note Payable (B) from Capital Fund NMTC CD #14 LLC:</u> 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.</p>	565,000
<p><u>Communihealth Development Corporation Promissory Note Payable (C) from Capital Fund NMTC CD #14 LLC:</u> 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, 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.</p>	1,691,950
<p><u>Communihealth Development Corporation Promissory Note Payable (D) from Capital Fund NMTC CD #14 LLC:</u> 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, 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.</p>	<u>2,743,050</u>

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2021**

**NOTE 9 - NOTES PAYABLE (CONTINUED)**

	16,797,500
Less: current portion	(4,329)
Less: deferred financing costs, net	<u>(641,829)</u>
Long-term debt	<u>\$ 16,151,342</u>

Maturities of debt are as follows:

July 31,	Amount
2022	\$ 4,329
2023	185,251
2024	192,080
2025	203,927
2026	216,505
Thereafter	<u>15,995,408</u>
Total	<u>\$ 16,797,500</u>

**NOTE 10 – 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 11 – 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 \$20,988 and \$7,744, as of July 31, 2021, 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 \$28,732 for the fiscal year ended July 31, 2021.

The following is the estimated aggregate amortization expense for each of the five years succeeding July 31, 2021:

Year	Morehouse Community Development Centers, Inc.	Communihealth Development Corporation	Total Amount
2022	\$ 15,488	\$ 41,977	\$ 57,465
2023	15,488	41,977	57,465
2024	15,488	41,977	57,465
2025	15,488	41,977	57,465
2026	15,488	41,977	57,465

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2021**

**NOTE 12 – 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, 2021, 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, interest 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 13 – 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).

As of July 31, 2021, the Organization’s investments measured on a recurring basis consisted of certificate of deposit investments with fair market value (Level 2) and cost bases as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Certificate of deposit investments (Level 2 Observable Inputs)	\$ 300,000	\$ 300,770	\$ 770



**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2021**

**NOTE 14 – RETIREMENT PLAN**

The Organization has established a 403B defined contribution retirement plan. All employees are eligible to participate after six months 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, 2021 totaled \$227,727.

**NOTE 15 - 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 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. Management has calculated the costs associated with providing charity care utilizing the cost to charge ratio obtained from the Medicare cost report data. The amount of costs associated with charity care for the fiscal year ended July 31, 2021 was \$423,529. 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 \$11,061,210 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 \$9,684,229, patient accounts receivable of \$628,931, other receivables of \$540,199 and grants receivable of \$207,851. 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 \$6,500,000. 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.

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
**Bastrop, Louisiana**  
**Notes to Financial Statements**  
**July 31, 2021**

**NOTE 18 - PROPERTY AND EQUIPMENT**

The balances and changes in property, plant, and equipment as of and for the year ended July 31, 2021 are as follows:

	Balance Beginning	Additions	Deletions	Balance Ending
Asset type:				
Non-depreciable assets:				
Land	\$ 278,336	\$ 256,853	\$ -	\$ 535,189
Construction in progress	810,792	2,246,550	553,972	2,503,370
Total non-depreciable assets	1,089,128	2,503,403	553,972	3,038,559
Depreciable assets:				
Buildings	2,640,614	553,971	-	3,194,585
Furniture and equipment	497,677	43,187	-	540,864
Vehicles	582,022	7,826	-	589,848
Total depreciable assets	3,720,313	604,984	-	4,325,297
Accumulated depreciation				
Buildings	399,268	127,145	-	526,413
Furniture and equipment	447,070	9,869	-	456,939
Vehicles	377,384	31,676	-	409,060
Total	1,223,722	168,690	-	1,392,412
Total depreciable assets	2,496,591	436,294	-	2,932,885
Total property and equipment, net	\$ 3,585,719	\$ 2,939,697	\$ 553,972	\$ 5,971,444

**NOTE 19 - SUBSEQUENT EVENTS**

The Organization evaluated its July 31, 2021 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.

**NOTE 20 - COMMITMENT**

In January 2021, the Organization entered into a construction contract to build a medical clinic in Bastrop, Louisiana. The total expenditures to date and estimated committed amounts total \$2,503,370 and \$14,100,000, respectively. The project is expected to be completed in June 2022.

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

**Schedule of Expenditures of Federal Awards  
Year Ended July 31, 2021**

<u>Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Program Year</u>	<u>Program Revenues</u>	<u>Program Expenses</u>	
U. S. Department of Health and Human Services Cluster						
Direct Programs:						
Community Health Center Section 330	*	93.224	H80CS08764	8/1/20 - 7/31/21	\$ 2,482,178	\$ 2,482,178
Coronavirus Supplemental Funding for Health Centers COVID-19	*	93.224	H8CCS34939	8/1/20 - 7/31/21	488,680	488,680
Capital Assistance for Disaster Response and Recovery Efforts	*	93.224	C1439923	8/1/20 - 7/31/21	108,913	108,913
American Rescue Plan Act Funding for Health Centers	*	93.224	H8F41372	8/1/20 - 7/31/21	2,309,500	2,309,500
Provider Relief Funds	*	93.498		8/1/20 - 7/31/21	<u>874,044</u>	<u>874,044</u>
Total federal assistance					<u>\$ 6,263,315</u>	<u>\$ 6,263,315</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, 2021**

Assets	<u>Morehouse Community Medical Centers, Inc.</u>	<u>Communihealth Development Corporation</u>	<u>Eliminations</u>	<u>Combined Total</u>
<b>Current Assets</b>				
Cash and cash equivalents	\$ 9,684,229	\$ 65	\$ -	\$ 9,684,294
Cash - restricted	-	9,403,101	-	9,403,101
Patient accounts receivable, net	628,931	-	-	628,931
Grant receivable	207,851	-	-	207,851
Other receivables	540,199	-	-	540,199
Interest receivable	17,644	-	-	17,644
Prepaid expenses	138,575	-	-	138,575
Total Current Assets	<u>11,217,429</u>	<u>9,403,166</u>	<u>-</u>	<u>20,620,595</u>
<b>Property, Plant and Equipment</b>				
Buildings	3,194,585	-	-	3,194,585
Furniture and equipment	540,864	-	-	540,864
Vehicles	589,848	-	-	589,848
	<u>4,325,297</u>	<u>-</u>	<u>-</u>	<u>4,325,297</u>
Less accumulated depreciation	(1,392,412)	-	-	(1,392,412)
	<u>2,932,885</u>	<u>-</u>	<u>-</u>	<u>2,932,885</u>
Land	326,555	208,634	-	535,189
Construction in progress	-	2,503,370	-	2,503,370
Net Property, Plant and Equipment	<u>3,259,440</u>	<u>2,712,004</u>	<u>-</u>	<u>5,971,444</u>
<b>Other Assets</b>				
Certificates of deposit investment	300,770	-	-	300,770
Deposits	31,987	-	-	31,987
Notes receivable - new markets tax credit	7,416,400	-	-	7,416,400
Total Other Assets	<u>7,749,157</u>	<u>-</u>	<u>-</u>	<u>7,749,157</u>
Total Assets	<u>22,226,026</u>	<u>12,115,170</u>	<u>-</u>	<u>34,341,196</u>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Accounts payable	267,622	725,080	-	992,702
Accrued payroll and related liabilities	655,323	-	-	655,323
Accrued interest payable	20,055	9,697	-	29,752
Current portion of notes payable	4,329	-	-	4,329
Total Current Liabilities	<u>947,329</u>	<u>734,777</u>	<u>-</u>	<u>1,682,106</u>
<b>Long Term Liabilities</b>				
Notes payable - net of current portion	4,887,256	11,264,086	-	16,151,342
Total Long Term Liabilities	<u>4,887,256</u>	<u>11,264,086</u>	<u>-</u>	<u>16,151,342</u>
Total Liabilities	<u>5,834,585</u>	<u>11,998,863</u>	<u>-</u>	<u>17,833,448</u>
<b>Net Assets</b>				
Without donor restrictions	16,391,441	116,307	-	16,507,748
With donor restrictions	-	-	-	-
Total Net Assets	<u>16,391,441</u>	<u>116,307</u>	<u>-</u>	<u>16,507,748</u>
Total Liabilities and Net Assets	<u>\$ 22,226,026</u>	<u>\$ 12,115,170</u>	<u>\$ -</u>	<u>\$ 34,341,196</u>

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE**  
**Bastrop, Louisiana**  
**Combining Statement of Activities**  
**For the Year Ended July 31, 2021**

<b>Revenue and Support</b>	<b>Morehouse Community Medical Centers, Inc.</b>	<b>Communihealth Development Corporation</b>	<b>Eliminations</b>	<b>Combined Total</b>
<b>Revenue:</b>				
Gross patient service revenue	\$ 9,541,408	\$ -	\$ -	\$ 9,541,408
Less: contractual allowances and discounts	(3,118,411)	-	-	(3,118,411)
Net patient service revenue	6,422,997	-	-	6,422,997
Less: provision for uncollectible accounts	(253,582)	-	-	(253,582)
Net patient service revenue	6,169,415	-	-	6,169,415
Pharmacy 340 B program income	3,205,491	-	-	3,205,491
<b>Total Revenue</b>	<b>9,374,906</b>	<b>-</b>	<b>-</b>	<b>9,374,906</b>
<b>Support:</b>				
Grant awards	5,996,195	-	-	5,996,195
Contributions	48,960	-	-	48,960
In-kind contributions	2,693	-	-	2,693
Capital contribution - MCMC, Inc.	-	427,377	(427,377)	-
Interest income	89,504	830	-	90,334
Unrealized gain/(loss) on investments	(15,314)	-	-	(15,314)
Rental income	1,600	-	-	1,600
Payroll tax credits	1,462,502	-	-	1,462,502
Other income	50,941	-	-	50,941
<b>Total Support and Other Income</b>	<b>7,637,081</b>	<b>428,207</b>	<b>(427,377)</b>	<b>7,637,911</b>
<b>Total Revenue, Support and Other Income</b>	<b>17,011,987</b>	<b>428,207</b>	<b>(427,377)</b>	<b>17,012,817</b>
<b>Expenses</b>				
Program services	10,377,906	281,958	-	10,659,865
General and administrative	2,746,756	29,942	-	2,776,697
Capital donation - CDC	427,377	-	(427,377)	-
<b>Total Expenses</b>	<b>13,552,039</b>	<b>311,900</b>	<b>(427,377)</b>	<b>13,436,562</b>
Change in Net Assets (Revenues over Expenses)	3,459,948	116,307	-	3,576,255
Net Assets - Beginning of Year	12,931,493	-	-	12,931,493
Net Assets - End of Year	<u>\$ 16,391,441</u>	<u>\$ 116,307</u>	<u>\$ -</u>	<u>\$ 16,507,748</u>

**Morehouse Community Medical Centers, Inc. and Affiliate**  
**Schedule of Compensation, Benefits and Other Payments to Executive Director**  
**July 31, 2021**

NO COMPENSATION PAID FROM PUBLIC FUNDS

Agency Head Name: Katie Parnell, Executive Director

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

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

Board of Directors  
Morehouse Community Medical Centers, Inc.  
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, 2021, 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 25, 2022.

### **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

### **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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

Steven M. DeRouen & Associates, LLC

Lake Charles, Louisiana  
January 25, 2022



# STEVEN M. DEROUEN & ASSOCIATES, LLC

*Certified Public Accountants*

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## 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.  
Bastrop, Louisiana

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

We have audited Morehouse Community Medical Centers, Inc. and Affiliate's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Morehouse Community Medical Centers, Inc. and Affiliate's major federal programs for the year ended July 31, 2021. 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.

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

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

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

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Morehouse Community Medical Centers, Inc. and Affiliate's compliance.

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

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

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, 2021.

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

Management of Morehouse Community Medical Centers, Inc. and Affiliate is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Morehouse Community Medical Centers, Inc. and Affiliate's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Morehouse Community Medical Centers, Inc. and Affiliate's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Steven M. DeRouen & Associates, LLC

Lake Charles, Louisiana  
January 25, 2022

**MOREHOUSE COMMUNITY MEDICAL CENTERS, INC. AND AFFILIATE  
Bastrop, LA  
Schedule of Findings and Questioned Costs  
Year Ended July 31, 2021**

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

Financial Statements

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

Federal Awards

Internal control over major programs:			
Material weaknesses identified?	___ Yes	_x_ No	
Significant deficiency identified not considered to be material weaknesses?	___ Yes	_x_ 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	_x_ 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 Services, Community Health Center Section 330
93.498	Provider Relief Funds

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

Auditee qualified as low-risk auditee?   x   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, 2021**

**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, 2021**

**PRIOR YEAR FINDINGS**

None