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DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

P&N Postlethwaite & Netterville

A Professional Accounting Corporation

www.pncpa.com

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CONSOLIDATED FINANCIAL STATEMENTS

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A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Daughters of Charity Services of New Orleans
New Orleans, Louisiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Daughters of Charity Services of New Orleans (a nonprofit organization) (DCSNO) and its subsidiaries, which comprise the statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

30th Floor - Energy Centre • 1100 Poydras Street • New Orleans, LA 70163-3000 • Tel: 800.201.7332
One Galleria Blvd., Suite 2100 • Metairie, LA 70001 • Tel: 504.837.5990 • Fax: 504.834.3609

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial positions of the Daughters of Charity Services of New Orleans as of June 30, 2014 and 2013, and the consolidated changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 22 through 25 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual organizations. 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2014 on our consideration of DCSNO's internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grants 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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Daughters of Charity Services of New Orleans' internal control over financial reporting and compliance.

Postlethwaite + Netterville

Metairie, Louisiana
September 30, 2014

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

ASSETS

	2014	2013
CURRENT ASSETS		
Cash	$ 2,504,941	$ 1,511,151
Restricted cash	1,011,059	6,364,556
Investments	718,196	2,431,217
Patient receivables, net	203,612	8,951
Grants receivable	233,662	1,304,590
Due from affiliate	3,490,312	2,751,150
Prepaid expenses, inventory and other assets	79,491	82,112
Total current assets	8,241,273	14,453,727
NON-CURRENT ASSETS		
New market tax credit receivables	17,720,700	17,280,889
New market tax credit financing fees, net of amortization	607,035	776,720
Property, equipment, and improvements, net	24,053,218	18,155,677
Other assets	-	16,484
TOTAL ASSETS	$ 50,622,226	$ 50,683,497

LIABILITIES AND NET ASSETS

	2014	2013
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 760,506	$ 1,128,944
Accrued pension, salaries and vacation pay	898,350	842,251
Self insurance liability	135,719	122,301
Other current liabilities	279,099	279,079
Interest payable, current portion	16,920	10,087
Note payable, current portion	48,055	48,054
Deferred revenue, current portion	78,024	-
New market tax credit fees payable	18,757	18,757
Total current liabilities	2,235,430	2,449,473
NON-CURRENT LIABILITIES		
Deferred revenue, long-term portion	741,228	-
New market tax credit loans payable	20,500,000	20,500,000
Note payable, long-term portion	-	48,055
Total non-current liabilities	21,241,228	20,548,055
TOTAL LIABILITIES	23,476,658	22,997,528
NET ASSETS		
Unrestricted	26,807,566	27,200,729
Temporarily restricted	338,002	485,240
TOTAL NET ASSETS	27,145,568	27,685,969
TOTAL LIABILITIES AND NET ASSETS	$ 50,622,226	$ 50,683,497

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

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT		
Clinical service fees and reimbursements net of charity and contractual discounts of $318,855 and $307,292, respectively	$ 454,750	$ 977,862
Less: provision for doubtful accounts	(76,175)	(120,883)
Net clinical service fees and reimbursements	378,575	856,979
Grants:		
Daughters of Charity Foundation	2,198,090	2,187,961
Other	1,115,428	1,733,894
Special event income, net of expenses of $81,449 and $85,180, respectively	152,314	68,000
Lease income from affiliate	11,995,416	10,052,092
Other income from affiliate	826,064	-
Net assets released from restrictions	655,470	3,810,351
TOTAL UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT	17,321,357	18,709,277
EXPENSES		
Program services	13,553,833	11,718,777
Management and general	4,027,464	4,079,356
TOTAL EXPENSES	17,581,297	15,798,133
OPERATING INCOME (LOSS)	(259,940)	2,911,144
OTHER INCOME (EXPENSE)		
Contribution to affiliate	(872,373)	(1,135,256)
Investment income, net	699,909	956,110
Pension related changes other than net periodic pension cost	39,241	(66,800)
CHANGE IN UNRESTRICTED NET ASSETS	(393,163)	2,665,198
TEMPORARILY RESTRICTED NET ASSETS		
Operating grants	430,208	505,607
Construction grants:		
Daughters of Charity Foundation	-	493,774
Other	78,024	1,102,724
Net assets released from restrictions	(655,470)	(3,810,351)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(147,238)	(1,708,246)
CHANGE IN NET ASSETS	(540,401)	956,952
NET ASSETS		
Beginning of year	27,685,969	26,729,017
End of year	$ 27,145,568	$ 27,685,969

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

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014			2013		
	Program Services	Supporting Services- Management and General	Totals	Program Services	Supporting Services- Management and General	Totals
Salaries and wages	$ 7,251,002	$ 1,976,975	$ 9,227,977	$ 6,213,876	$ 1,831,319	$ 8,045,195
Employee benefits	1,411,941	641,941	2,053,882	953,880	598,406	1,552,286
Supplies	869,691	92,155	961,846	1,409,838	346,154	1,755,992
Purchased services	1,130,849	184,451	1,315,300	835,947	142,380	978,327
Bank charges	509	18,731	19,240	-	13,733	13,733
Depreciation	1,229,269	76,197	1,305,466	880,693	48,003	928,696
Insurance	194,226	-	194,226	195,469	44,985	240,454
Interest and fees	105,277	-	105,277	48,646	-	48,646
Janitorial services	219,372	6,841	226,213	159,846	17,214	177,060
Professional fees	424,867	376,100	800,967	449,407	480,886	930,293
Miscellaneous	13,073	5,491	18,564	-	16,523	16,523
Office expenses	62,411	61,575	123,986	69,398	52,817	122,215
Consumer awareness	27,385	310,375	337,760	14,059	216,378	230,437
Rent	-	91,262	91,262	-	69,194	69,194
Repairs and maintenance	33,453	289	33,742	24,919	1,467	26,386
Security	193,946	66	194,012	137,173	-	137,173
Temporary employees / internships	-	44,358	44,358	3,420	24,635	28,055
Travel, meetings, and conferences	33,415	82,908	116,323	13,304	94,438	107,742
Utilities	344,136	53,115	397,251	306,828	78,409	385,237
Vehicle maintenance	9,011	4,634	13,645	2,074	2,415	4,489
TOTAL EXPENSES	$ 13,553,833	$ 4,027,464	$ 17,581,297	$ 11,718,777	$ 4,079,356	$ 15,798,133

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

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (540,401)	$ 956,952
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,305,466	928,696
Amortization of financing fees	169,686	118,632
Bad debt expense	76,175	120,883
Changes in assets and liabilities:		
(Increase) decrease in operating assets:		
Patient receivables	(270,836)	28,965
Grants receivable	1,070,928	938,945
Pledges receivable	-	1,100,000
Interest receivable	(439,811)	(439,812)
Due from affiliate	(739,162)	(481,963)
Prepaid expenses, inventory and other assets	2,621	161,809
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(368,438)	497,265
Accrued salaries and vacation pay	56,099	206,652
Self insurance liability	13,418	26,463
Other current liabilities	20	279,079
Interest payable, current portion	6,833	10,087
Deferred revenue	819,252	-
Net cash provided by operating activities	1,161,850	4,452,653
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments, net of purchases	1,729,505	(713,119)
Property and equipment purchases	(7,203,007)	(2,942,054)
Net cash used in investing activities	(5,473,502)	(3,655,173)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings of debt	-	7,000,000
Payment to FNBC Bank Investment Fund	-	(5,284,800)
Payments on note payable	(48,055)	(48,054)
Financing fees from borrowings	-	(428,851)
Net cash provided by (used in) financing activities	(48,055)	1,238,295
NET INCREASE (DECREASE) IN CASH	(4,359,707)	2,035,775
CASH		
Beginning of year	7,875,707	5,839,932
End of year	$ 3,516,000	$ 7,875,707
RECONCILIATION OF CASH AND CASH EQUIVALENTS:		
Cash	$ 2,504,941	$ 1,511,151
Restricted cash	1,011,059	6,364,556
	$ 3,516,000	$ 7,875,707
SUPPLEMENTAL DISCLOSURE		
Cash paid for interest	$ 10,560	$ 10,560

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

1. Organization and Mission

Organizational Structure

Daughters of Charity Services New Orleans is a member of Ascension Health. In December 2011, Ascension Health Alliance, doing business as Ascension, became the sole corporate member and parent organization of Ascension Health, a Catholic, national health system consisting primarily of nonprofit corporations that own and operate local health care facilities, or Health Ministries, located in 23 of the United States and the District of Columbia. In addition to serving as the sole corporate member of Ascension Health, Ascension serves as the member or shareholder of various other subsidiaries. Ascension, its subsidiaries, and the Health Ministries are referred to collectively from time to time hereafter as the System.

Ascension is sponsored by Ascension Sponsor, a Public Juridic Person. The Participating Entities of Ascension Sponsor are the Daughters of Charity of St. Vincent de Paul, St. Louise Province, the Congregation of St. Joseph, the Congregation of the Sisters of St. Joseph of Carondelet, the Congregation of Alexian Brothers of the Immaculate Conception Province – American Province and the Sisters of the Sorrowful Mother of the Third Order of St. Francis of Assisi – US/Caribbean Province.

Daughters of Charity Services New Orleans located in New Orleans, Louisiana, is a nonprofit Health Ministry. The Health Ministry provides outpatient health care services for the residents of New Orleans and surrounding areas. The Health Ministry is related to Ascension Health's other sponsored organizations through common control. Substantially all expenses of Ascension Health are related to providing health care services.

Mission

The System directs its governance and management activities toward strong, vibrant, Catholic Health Ministries united in service and healing and dedicates its resources to spiritually centered care which sustains and improves the health of the individuals and communities it serves. In accordance with the System's mission of service to those persons living in poverty and other vulnerable persons, each Health Ministry accepts patients regardless of their ability to pay. The System uses four categories to identify the resources utilized for the care of persons living in poverty and community benefit programs:

Traditional charity care includes the cost of services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured.

Unpaid cost of public programs, excluding Medicare, represents the unpaid cost of services provided to persons covered by public programs for persons living in poverty and other vulnerable persons.

Cost of other programs for persons living in poverty and other vulnerable persons includes unreimbursed costs of programs intentionally designed to serve the persons living in poverty and other vulnerable persons of the community, including substance abusers, the homeless, victims of child abuse, and persons with acquired immune deficiency syndrome.

Community benefit consists of the unreimbursed costs of community benefit programs and services for the general community, not solely for the persons living in poverty, including health promotion and education, health clinics and screenings, and medical research.

1. Organization and Mission (continued)

Mission (continued)

Discounts are provided to all uninsured patients, including those with the means to pay. Discounts provided to those patients who did not qualify for assistance under charity care guidelines are not included in the cost of providing care of persons living in poverty and other community benefit programs. The cost of providing care to persons living in poverty and other community benefit programs is estimated using internal cost data and is estimated by reducing charges forgone by a factor derived from the ratio of total operating expenses to billed charges for patient care.

The amount of traditional charity care provided, determined on the basis of cost, was approximately $ 157,497 and $ 121,207 for the years ended June 30, 2014 and 2013, respectively. The amount of unpaid cost of public programs, cost of other programs for persons living in poverty and other vulnerable persons, and community benefit cost are reported in the accompanying supplementary information. (This paragraph is unaudited.)

2. Organization and Summary of Significant Accounting Policies

Description of Business and Basis of Presentation

Daughters of Charity Services of New Orleans (DCSNO) and its controlled subsidiaries Daughters of Charity Services of New Orleans Foundation (DCSNOF), Daughters of Charity Services of New Orleans East (DCSNOE), and Daughters of Charity Foundation of New Orleans, L.L.C. (DCFNO) (collectively, the Organization). DCSNO, DCSNOF, and DCSNOE are each 501(c) (3) exempt organizations, with status pending for the two subsidiaries. DCFNO is a wholly owned subsidiary which is disregarded for income tax purposes. The organization provides health care services, counseling, and educational assistance to men, women, and children in the New Orleans area and reports to the national organization, Ascension Health.

Organization and Income Taxes

DCSNO is a nonprofit corporation organized under the laws of the State of Louisiana in 1996. It is exempt from Federal income tax under Section 501(c) (3) of the Internal Revenue Code, and qualifies as an organization that is not a private foundation as defined in Section 509(a) of the Code. It is also exempt from Louisiana income tax under the authority of R.S.47:121(5).

DCSNOF was incorporated in the state of Louisiana on November 23, 2009. The sole mission of the foundation is to provide financial resources for the execution of the mission of DCSNO.

DCSNOE was incorporated in the state of Louisiana on January 24, 2012. The primary purpose of the corporation is to further the tradition of healing and service to the sick and poor established by St. Vincent dePaul, St. Louise de Marillac, and St. Elizabeth Ann Seton and exemplified by the philosophy and mission of DCSNO.

DCFNO was incorporated in the state of Louisiana on September 18, 2012. The sole mission of the foundation is to provide financial resources for the execution of the mission of DCSNO. As of June 30, 2014, DCFNO has not incurred any activity.

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

The Organization applies a "more-likely-than-not" recognition threshold for all tax uncertainties. This approach only allows the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the taxing authorities. As a result of implementing this approach, the Organization has reviewed its tax positions and determined there were no outstanding, or retroactive tax positions with less than a 50% likelihood of being sustained upon examination by the taxing authorities. Therefore, the implementation of this standard has not had a material effect on the Organization. The Organization's tax returns for the years ended June 30, 2013, 2012 and 2011 remain open and subject to examination by taxing authorities. The Organization's tax return for the year ended June 30, 2014 has not yet been filed.

Basis of Accounting

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

Principles of Consolidation

The consolidated financial statements include the financial statements of DCSNO and its controlled subsidiaries, DCSNOF, DCSNOE, and DCFNO. All significant intercompany balances and transactions have been eliminated in consolidation.

Financial Statement Presentation

The accounting for not-for-profit organizations requires the reporting of information regarding financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets, based on donor stipulations and restrictions place on contributions, if any. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Support, revenue, and expenses for the general operation of the Organization.

Temporarily Restricted Net Assets – Contributions specifically authorized by the grantor or donor to be used for a certain purpose or to benefit a specific accounting period.

Permanently Restricted Net Assets – Contributions specifically authorized by the grantor or donor to be held in perpetuity for a specific purpose. The Organization had no net assets classified as permanently restricted as of June 30, 2014 or 2013.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, the Organization considers all short-term securities purchased with a maturity of three months or less to be cash equivalents.

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

Use of Estimates

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

Grants, Contributions, and Revenue Recognition

Grants and contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Support that is restricted by a donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statements of Activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting periods are reported as unrestricted support. Grant revenue restricted to capital improvements is deferred and amortized over the life of the improvement.

Clinic Service Fees and Revenue Recognition

Clinical service fees represent the estimated net realizable amounts from patients, third party payors, and others for services rendered. Revenues are recorded during the period the health care services are provided, based upon the estimated amounts due from payers. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreements.

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

Revenues from pharmacy sales are recorded at the time products are sold.

The Organization does not pursue collection of amounts related to patients who meet guidelines to qualify as charity care. The federal poverty level is established by the federal government and is based on income and family size. The Organization provides discounts from gross charges to uninsured patients who do not qualify for Medicaid or charity care. These discounts are similar to those provided to many local managed care plans. After the discounts are applied, the Organization is still unable to collect a significant portion of uninsured patients' accounts, and

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

Clinic Service Fees and Revenue Recognition (continued)

records significant provisions for doubtful accounts (based upon historical collection experience) related to uninsured patients in the period the services are provided.

The Organization receives payments for patient services from the federal government under the Medicare program, state governments under their respective Medicaid or similar programs, managed care plans, private insurers, and directly from patients. Revenues from third-party payers and the uninsured for the years ended June 30, 2014 and 2013 are summarized as follows:

	2014	2013
Medicare	$ 21,517	$ 13,460
Medicaid	174,696	(93,315)
Managed care and other insurers	110,771	352,215
Self-pay	147,766	705,502
Revenues before provision for doubtful accounts	$ 454,750	$ 977,862

Allowance for Uncollectible Accounts

Patients are expected to pay for services rendered at the time of the clinic visits. If a patient is unable to pay at the time of service, a receivable is recorded. Patients are sent a billing statement within 28 days following the date of visit and every 28 days thereafter. Receivables are recorded at estimated net realizable value.

The collection of outstanding receivables from Medicare, managed care payers, other third-party payers and patients is our primary source of cash and is critical to our operating performance. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and copayments) remain outstanding.

The provision for doubtful accounts and the allowance for doubtful accounts relate primarily to amounts due directly from patients. An estimated allowance for doubtful accounts is recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed or when the accounts reach 365 days old.

The Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a 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.

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

Allowance for Uncollectible Accounts (continued)

During 2013, the Organization adopted the provisions of Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* ("ASU 2011-07"). ASU 2011-07 requires health care entities to change the presentation of the statement of operations by reclassifying the provision for doubtful accounts from an operating expense to a deduction from patient service revenues. The amount of the provision for doubtful accounts is based upon management's assessment of historical writeoffs and expected net collections, business and economic conditions, trends in federal, state, and private employer health care coverage and other collection indicators.

The allowance for uncollectible accounts was $1,339,636 and $1,167,616, respectively, at June 30, 2014 and 2013. The Organization has not changed its charity care or uninsured discount policies during fiscal years 2014 or 2013. The Organization maintains a significant allowance for doubtful accounts from third-party payors, which pertain to uncollectible claims from prior periods.

New Market Tax Credit Financing Fees

Financing fees represent the costs associated with the New Market Tax Credit financings and are amortized over the term of the loans payable. Accumulated amortization was $509,293 and $339,607 respectively, at June 30, 2014 and 2013.

Third Party Contractual Adjustments

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

Other Assets

Other assets consist of an investment in another entity, in which DCSNO has a non-controlling interest, and is recorded under the equity method. As of June 30, 2014 and 2013, investment income consisted of $17,038 and $501,207, respectively. This amount is not included in the investment section following.

Investments

The Organization maintains an investment in the Health System Depository (HSD) investment pool managed by Ascension Health for its member institutions. Net earnings of the HSD are allocated to investing participants on a pro rata basis.

The HSD investments consist primarily of U.S. Government obligations, corporate obligations, marketable equity securities, and loans receivable from member institutions. Investments are carried at market value. The Organization's investment in the HSD investment pool was $718,916 and $2,431,217, net of reconciling items, respectively, at June 30, 2014 and 2013.

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

Investments (continued)

As of June 30, 2014 and 2013, investment income (excluding approximately $442,657 and $444,606 related to New Market Tax Credits in 2014 and 2013, respectively) consisted of earnings from the HSD pool as well as interest earned on bank accounts totaling:

		2014		2013
Interest and dividends	$	70,276	$	32,491
Unrealized gain (loss)		97,856		(22,194)
Total investment income	$	168,132	$	10,297

Dividend, interest and other investment income is recorded as increases in unrestricted net assets unless the use is restricted by the donor. Donated investments are recorded at fair market value at the date of receipt. Investments consisting of real property contributed to the Organization are recorded at fair value at the date of the donation.

Realized gains and losses, and declines in value judged to be other than temporary, are included in net interest income of investments. Realized gains and losses on the sales of securities are determined using the specific-identification method. A decline in the fair value of investments below cost that is deemed to be other than temporary results in a charge to change in net assets and the establishment of a new cost basis for the investment.

Inventory

Inventory is stated at the lower of cost, determined by the first in-first out method (FIFO), or market.

Property, Equipment, and Improvements

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

Impairment of long-lived assets is tested whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using appraisals. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose. There were no impairments of long-lived assets recorded by management during the years ended June 30, 2014 and 2013.

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

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

Allocated Expenses

The costs of providing the various programs and other activities are summarized in the Consolidated Statements of Functional Expenses. Certain expenses have been allocated between the program and supporting services based on management's estimate of the costs involved.

Reclassifications

Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year consolidated financial statements.

3. **Restricted Net Assets**

Temporarily restricted net assets are restricted by grantors for specific programs, purposes, or for use in subsequent periods. These restrictions are considered to expire when payments are made. Temporary restricted net assets are shown in the Consolidated Statements of Financial Position as restricted cash and restricted pledges receivable.

Additionally, restricted cash in the Consolidated Statements of Financial Position includes $673,057 and $5,879,316 at June 30, 2014 and 2013, respectively, of cash related to the New Market Tax Credits which is payable in future periods for management fees and/or construction and is not included in temporarily restricted net assets.

Temporary restricted net assets as of June 30, 2014 and 2013, respectively, are as follows:

	2014	2013
Sisters of Mercy, restricted cash	$ -	$ 40,000
Other grants received, restricted cash	159,625	243,045
SC Ministry Grant, restricted cash	75,000	-
Gert Town Biggest Loser Program, restricted cash	40,000	-
Methodist Health, restricted cash	63,377	202,195
Grants received in advance for future operations	$ 338,002	$ 485,240

4. **Property, Equipment and Improvements**

At June 30, 2014 and 2013, respectively, the cost of property, equipment and improvements was as follows:

	2014	2013	Useful lives
Land	$ 1,622,516	$ 1,622,516	
Building	21,083,230	12,917,345	5 – 20 years
Leasehold improvements	312,179	199,222	3 – 8 years
Furniture and equipment	4,788,402	3,123,556	5 – 20 years
Vehicles	367,829	367,829	5 years
Construction in progress - DCSNOE	25,230	2,765,918	
	28,199,386	20,996,386	
Less accumulated depreciation	(4,146,168)	(2,840,709)	
Total	$ 24,053,218	$ 18,155,677	

5. Notes Payable and New Market Tax Credit Receivables

Notes payable consisted of the following at June 30, 2014 and 2013, respectively:

	2014	2013
Note payable to a financial institution, interest fixed at 1.0% with quarterly interest payments until December 1, 2016, at which time all principal and interest shall be due. Secured by the new market tax credit note receivable.	$ 9,000,000	$ 9,000,000
Note payable to a financial institution, interest fixed at 1.0% with quarterly interest payments until December 1, 2016, at which time all principal and interest shall be due. Secured by the new market tax credit note receivable.	4,500,000	4,500,000
Promissory note payable with imputed interest at 7.0% per annum and payable in five annual installments of $58,600, which began on April 17, 2011 and continuing through April 17, 2015. Collateralized by the St. Cecilia building.	48,055	96,109
Note payable to a financial institution, interest fixed at 1.15% with quarterly interest payments until January 5, 2020, at which time principal and interest shall be payable quarterly through January 5, 2043. Secured by the new market tax credit note receivable.	5,284,800	5,284,800
Note payable to a financial institution, interest fixed at 1.15% with quarterly interest payments until January 5, 2020, at which time principal and interest shall be payable quarterly through January 5, 2043. Secured by the new market tax credit note receivable.	1,715,200	1,715,200
	20,548,055	20,596,109
Less current portion	48,055	48,054
	$ 20,500,000	$ 20,548,055

5. **Notes Payable and New Market Tax Credit Receivables (continued)**

Maturities of notes payable for the next five years and thereafter are:

Year	Amount
2015	$ 48,055
2016	-
2017	13,500,000
2018	-
2019	-
2020 - 2024	1,298,219
2025 - 2029	1,445,249
2030 - 2034	1,530,658
2035 - 2039	1,621,119
2040 - 2043	1,104,755
	$ 20,548,055

The DCSNO and the DSCNO Foundation are parties to two new market tax credits (NMTC).

The first NMTC financing is in connection with the acquisition and redevelopment of the land and buildings located at 3201 South Carrollton Avenue, New Orleans, Louisiana and 4201 North Rampart Street, New Orleans, Louisiana for use as a nonprofit medical center.

The Organization designated its Carrolton Medical Center and Bywater Medical Center as a separate business for NMTC purposes, which qualify as a Qualified Active Low Income Community Business (QALICB).

As part of the NMTC financing, DCSNO Foundation has a note receivable from the Iberia Bank Investment Fund of $10,566,700 at June 30, 2014 and 2013. Interest accrues at a fixed rate of 4.8508%, and the note and interest is payable on December 1, 2016.

Accrued interest on the note receivable was $1,869,200 and $1,429,389 at June 30, 2014 and 2013, respectively, and is included in the new market tax credit receivables balance on the Consolidated Statements of Financial Position.

The second NMTC financing is in connection with the acquisition and development of the land and buildings located in New Orleans East, Louisiana for use as a nonprofit medical center.

The Organization designated its New Orleans East Medical Center as a separate business for NMTC purposes, which qualify as a Qualified Active Low Income Community Business (QALICB).

As part of the NMTC financing, DCSNO Foundation has a note receivable from the FNBC Investment Fund of $5,284,800 and $5,284,800 at June 30, 2014 and 2013. Interest accrues at a fixed rate of 1.42%, with interest payable quarterly in arrears commencing April 10, 2013 through January 10, 2020, and note and interest payments occurring quarterly in arrears commencing April 10, 2020 through January 10, 2038. Interest received on the note receivable was $75,044 and $4,794 as of June 30, 2014 and 2013, respectively, and is included in investment income on the Consolidated Statements of Activities and in restricted cash on the Consolidated Statements of Financial Position.

6. Transactions with Affiliates

The Organization incurred legal fees totaling $34,086 and $63,835 during the years ended June 30, 2014 and 2013, respectively, to a law firm of which a member of the Organization's Board of Directors is a partner.

The Organization participates in the Ascension Health Retirement Plan. During the years ended June 30, 2014 and 2013, respectively, the Organization was allocated part of the Plan's net periodic pension costs as described in Note 7 – Employee Benefit Plans.

Various insurance coverages are maintained by Ascension Health for the benefit of its member organizations. The Organization participated in several group insurance policies including professional/general liability, workers compensation, property, automobile, directors and officers, etc.

The Organization receives yearly allocations from the Daughters of Charity Foundation (DCF). DCF also provides additional funding for certain projects in which the Organization participates. For the years ended June 30, 2014 and 2013, the Organization had a receivable of $-0- and $-0-, respectively, from DCF included in grants receivable in the Consolidated Statements of Financial Position.

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

As consideration for the Organization's provision of these goods and services, the Organization bills MCHC on a monthly basis for the fees incurred. Leased employees are charged at a ratable amount of their wages for the period based on the allocation of their time with an additional allocation for benefits. Paid time off for leased employees is charged as an expense to MCHC with the ultimate liability recorded on the Organization's books. Building space is charged at $14 per square foot for space assigned to MCHC as stipulated in the agreement. Equipment is charged at the monthly rate of depreciation for items with a remaining net book value plus 10%. Purchased services for billing are charged at 8% of net revenue collections remitted to the Organization. During 2014, pharmacy administrative services were charged at a rate of $12 per prescription. All other services are based on internal allocation assessments.

During the years ended June 30, 2014 and 2013, total billings from the agreement to MCHC were $11,995,416 and $10,052,092, respectively. Pharmacy administrative services paid by MCHC to the Organization total $826,064 during 2014. The Organization donated $872,373 and $1,135,256, respectively, to MCHC for the years ended June 30, 2014 and 2013. At June 30, 2014, the Organization has a payable of $149,943 which offsets the receivable of $3,640,255 to a total of $3,490,312 as presented in the Consolidated Statements of Financial Position. At June 30, 2013, the Organization had a payable of $1,134,256 which offsets the receivable of $3,885,406 to a total of $2,751,150 as presented in the Consolidated Statements of Financial Position.

6. Transactions with Affiliates (continued)

If MCHC's operations in fiscal year 2014 do not provide sufficient working capital to meet the Organization's obligations, DCSNO has the option to forgive the balance as assessed and approved by its Board. At this time, the Board does not anticipate forgiving the balance.

7. Concentrations of Risk

Health care counseling services and educational assistance are provided to clients who reside primarily in the New Orleans area. In addition, a substantial portion of net clinic service fees and reimbursements are provided for by federal agencies.

During the year ended June 30, 2014, the Organization received approximately 45% of its grant revenue from one source (45% private). During the period ended June 30, 2013, the Organization received approximately 77% of its grant revenue from three sources (32% federal and 45% private). The ability of the Organization to continue functioning at its current level of operations is dependent upon its ability to generate similar future support.

Funds on deposits in financial institutions exceeded FDIC insurance limits by $2,301,634 at June 30, 2014.

8. Employee Benefit Plans

The Organization participates in the Ascension Health Retirement Plan (the Plan), which is a non-contributory defined benefit pension plan covering all eligible employees of Ascension Health entities. Plan benefits are based on each participant's years of service and compensation. Plan assets are invested in a master trust consisting of cash and cash equivalents, equities, fixed income funds and alternative investments. The Trust also invests in derivative instruments, the purpose of which is to economically hedge the change in the net funded status of the Ascension Plan for a significant portion of the total pension liability that can occur due to changes in interest rates. Contributions to the Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to Plan participants. The Organization's contributions to the plan totaled $56,524 and $16,197, respectively, for the years ended June 30, 2014 and 2013.

Net periodic pension benefit (cost) was $39,241 and $(66,800) for the years ended June 30, 2014 and 2013, respectively. The service cost component of net periodic pension cost charged to the Organization is actuarially determined while other components are allocated based on the Organization's pro rata share of Ascension Health's overall projected benefit obligation.

The net prepaid pension cost was $14,191 and $33,166 at June 30, 2014 and June 30, 2013, respectively. These amounts are included as components of prepaid expenses and deferred pension cost, respectively, on the Consolidated Statements of Financial Position.

The assets of the Plan are available to pay the benefits of eligible employees of all participating entities. In the event entities participating in the Plan are unable to fulfill their financial obligations under the Plan, each of the other participating entities in the Plan becomes obligated to do so. As of June 30, 2014, the Plan had a net unfunded liability of approximately $74,000. The Organization's allocated share of the Plan's net unfunded liability reflected in the accompanying Consolidated Statements of Financial Position was a funded asset of $17,574. As a result of updating the funded status of the Plan, the Organization's allocated share of the Plan's net funded liability was reduced by $63,946 during 2014.

8. Employee Benefit Plans (continued)

The Organization maintains a defined contribution retirement plan, which allows participants to contribute by salary reduction pursuant to Section 403(b) of the Internal Revenue Code. Employee contributions are matched beginning January 1, 2013 by the Organization at a rate of 50% percent of the first 6% percent of earnings contributed by employees. The Organization's contributions are fully vested to the employee after three years of service for employees hired after January 1, 2013. Prior to January 1, 2013, employee contributions are matched by the Organization at a rate of one dollar for each three dollars of employee contributions up to 5% of an employee's salary. The Organization's contributions become fully vested to the employee after five years of service to the Organization.

Beginning January 1, 2013, an employer automatic contribution amount is based on years of benefit service from a contribution of no less than $1,400, or from 2% to 3.5% of earnings based on years of benefit service from less than 5 to more than 15 years. Employer automatic contributions are vested after completing a vesting service requirement (usually three or five years).

The Organization's contributions to the plan totaled $56,524 and $54,482, respectively, for the years ended June 30, 2014 and 2013.

9. Fair Value Measurements

The Organization applies fair value accounting which establishes a framework for measuring fair value. That framework provides 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 priced in active markets for identical assets or liabilities (Level 1 Measurements) and the lowest priority to unobservable inputs (Level 3 Measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Quoted prices that are readily available in active markets/exchanges for identical investments and derivatives. The types of investment and derivatives that are classified at this level generally include exchange-traded equities, futures, real estate investment trusts, pooled short-term investment funds, and options.

Level 2 – Pricing inputs other than quoted prices included within Level 1 that are observable for the investment or derivative, either directly or indirectly. Level 2 pricing inputs include prices quoted for similar investments and derivatives in active markets/exchanges or prices quoted for identical or similar investments and derivatives in markets that are not active, and fair value is determined using inputs that are derived principally from or corroborated by observable model data by correlation or other means. The types of investments and derivatives that are classified at this level typically include fixed income securities, government issues, and certain derivatives.

Level 3 – Significant pricing inputs that are unobservable for the investment or derivative and includes investments and derivatives for which there is little, if any, market activity for the investment or derivative. The inputs into determination of fair value require significant management judgment and estimation. The types of investments and derivatives that are classified at this level typically include private investments, limited partnerships, and certain fixed income securities and derivatives.

9. Fair Value Measurements (continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Organization maintains an investment in the Health System Depository (HSD) investment pool managed by Ascension Health for its member institutions. During 2012, the HSD pool was reorganized as the Alpha Fund and is considered to be a Level 2 investment.

As of June 30, 2014 and 2013, the composition of total Alpha Fund and HSD investments is as follows:

	2014	2013
Cash, cash equivalents and short-term investments	2.5%	3.3%
U.S. government obligations	21.8%	24.7%
Asset backed securities	6.7%	8.6%
Corporate and foreign fixed income investments	11.0%	12.0%
Equity securities	19.6%	17.4%
Private equity and real estate funds	7.0%	5.8%
Hedge funds	23.0%	21.9%
Commodities funds and other investments	8.4%	6.3%
Total	100.0%	100.0%

As of June 30, 2014, 21%, 38% and 41% of total HSD assets that are measured at fair value on a recurring basis were measured based on Level 1, Level 2 and Level 3 inputs, respectively, while 0%, 100% and 0% of total HSD liabilities that are measured at fair value on a recurring basis were measured at such fair values based on Level 1, Level 2 and Level 3 inputs, respectively. As of June 30, 2013, 20%, 43% and 37% of total HSD assets that are measured at fair value on a recurring basis were measured based on Level 1, Level 2 and Level 3 inputs, respectively, while 0%, 100% and 0% of total HSD liabilities that are measured at fair value on a recurring basis were measured at such fair values based on Level 1, Level 2 and Level 3 inputs, respectively.

10. Contingencies

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

DCSNO participated in a number of state and federally-assisted grant programs in fiscal year 2014 and 2013. The programs are subject to compliance audits. Such audits could lead to requests for reimbursement by the grantor agency for expenditures disallowed under terms of the grants. DCSNO believes that the amount of disallowances, if any, which may arise from future audits, will not be material to the consolidated financial statements.

11. Social Accountability (Unaudited)

On an annual basis, the Organization reports its fulfillment of its religious, charitable, educational, scientific, and other philanthropic purposes. The following summarizes the Organization's social accountability report. As evidence of public support for its works and validation of its charitable character, the Organization received approximately $4.9 million and $6.0 million for the years ended June 30, 2014 and 2013, respectively, from public foundations, corporations, and private individuals and government contracts for services. The Organization received $-0- and $-0- for the years ended June 30, 2014 and 2013, respectively, in contributed professional services and use of facilities which directly benefited the "sick poor."

The Organization provides access to essential health and social services in a federally-designated Health Professions Shortage Area, as well as six other under-served neighborhoods of Orleans Parish. Total service provided was 85,358 and 57,703 encounters for the years ended June 30, 2014 and 2013, respectively.

To increase financial access to these services, the Organization offers its services on a sliding fee scale basis, adjusting for income and family size. During the years ended June 30, 2014 and 2013, respectively, these fee reductions amounted to $157,497 and $121,207. The Organization accepts Medicaid as payment for its clinical services, which resulted in fee additions (reductions) from the State of $31,316 and $250,270 for the years ended June 30, 2014 and 2013, respectively.

12. Subsequent Events

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, September 30, 2014, and determined that there were no subsequent events requiring disclosure, except as disclosed below.

On September 9, 2014, the Organization entered into agreements with Children's Hospital, Children's Hospital Medical Practice Corporation ("CHMPC"), and Marillac Community Health Centers to assume operations of four pediatric clinics operated by CHMPC. Under the terms of the agreements, assets of the clinics will be donated to the Organization. The Organization will assume responsibility for operations of the clinics, including items such as employees and lease agreements. The Organization will also negotiate related physician agreements. The agreement effective September 9, 2014, with many of the provisions set to become effective October 1, 2014.

CONSOLIDATING STATEMENTS

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

ASSETS

	2014			
	DCSNO (1)	DCSNOF	Eliminating Entries	Consolidated Total
CURRENT ASSETS				
Cash	$ 2,504,941	$ -	$ -	$ 2,504,941
Restricted cash	1,011,059	-	-	1,011,059
Investments	718,196	-	-	718,196
Patient receivables, net	203,612	-	-	203,612
Grants receivable	233,662	-	-	233,662
New market tax credit fees receivable	-	136,118	(136,118)	-
Due from affiliate	3,490,312	-	-	3,490,312
Prepaid expenses, inventory and other assets	79,491	-	-	79,491
Total current assets	8,241,273	136,118	(136,118)	8,241,273
NON-CURRENT ASSETS				
New market tax credit receivables	-	17,720,700	-	17,720,700
New market tax credit financing fees, net	607,035	-	-	607,035
Property, equipment and improvements, net	24,053,218	-	-	24,053,218
Other assets	-	-	-	-
TOTAL ASSETS	$ 32,901,526	$ 17,856,818	$ (136,118)	$ 50,622,226

LIABILITIES AND NET ASSETS

	DCSNO (1)	DCSNOF	Eliminating Entries	Consolidated Total
CURRENT LIABILITIES				
Accounts payable and accrued expenses	$ 760,506	$ -	$ -	$ 760,506
Accrued pension, salaries and vacation pay	898,350	-	-	898,350
Self insurance liability	135,719	-	-	135,719
Other current liabilities	279,099	-	-	279,099
Interest payable, current portion	16,920	-	-	16,920
Note payable, current portion	48,055	-	-	48,055
Deferred revenue, current portion	78,024	-	-	78,024
New market tax credit fees payable	154,875	-	(136,118)	18,757
Total current liabilities	2,371,548	-	(136,118)	2,235,430
NON-CURRENT LIABILITIES				
Deferred revenue, long-term portion	741,228	-	-	741,228
New market tax credit loans payable	20,500,000	-	-	20,500,000
Note payable, long-term portion	-	-	-	-
Total current liabilities	21,241,228	-	-	21,241,228
TOTAL LIABILITIES	23,612,776	-	(136,118)	23,476,658
NET ASSETS				
Unrestricted	8,950,748	17,856,818	-	26,807,566
Temporarily restricted	338,002	-	-	338,002
TOTAL NET ASSETS	9,288,750	17,856,818	-	27,145,568
TOTAL LIABILITIES AND NET ASSETS	$ 32,901,526	$ 17,856,818	$ (136,118)	$ 50,622,226

(1) This column represents the consolidated results for the DCSNO and DCSNOE entities. (Continued)

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

ASSETS

	2013			
	DCSNO (1)	DCSNOF	Eliminating Entries	Consolidated Total
CURRENT ASSETS				
Cash	$ 1,511,151	$ -	$ -	$ 1,511,151
Restricted cash	6,359,762	4,794	-	6,364,556
Investments	2,431,217	-	-	2,431,217
Patient receivables, net	8,951	-	-	8,951
Grants receivable	1,304,590	-	-	1,304,590
New market tax credit fees receivable	-	67,493	(67,493)	-
Due from affiliate	2,751,150	-	-	2,751,150
Prepaid expenses, inventory and other assets	82,112	-	-	82,112
Total current assets	14,448,933	72,287	(67,493)	14,453,727
NON-CURRENT ASSETS				
New market tax credit receivables	-	17,280,889	-	17,280,889
New market tax credit financing fees, net	776,720	-	-	776,720
Property, equipment and improvements, net	18,155,677	-	-	18,155,677
Other assets	16,484	-	-	16,484
TOTAL ASSETS	$ 33,397,814	$ 17,353,176	$ (67,493)	$ 50,683,497

LIABILITIES AND NET ASSETS

	DCSNO (1)	DCSNOF	Eliminating Entries	Consolidated Total
CURRENT LIABILITIES				
Accounts payable and accrued expenses	$ 1,128,944	$ -	$ -	$ 1,128,944
Accrued pension, salaries and vacation pay	842,251	-	-	842,251
Self insurance liability	122,301	-	-	122,301
Other current liabilities	279,079	-	-	279,079
Interest payable, current portion	10,087	-	-	10,087
Note payable, current portion	48,054	-	-	48,054
Deferred revenue, current portion	-	-	-	-
New market tax credit fees payable	86,250	-	(67,493)	18,757
Total current liabilities	2,516,966	-	(67,493)	2,449,473
NON-CURRENT LIABILITIES				
Deferred revenue, long-term portion	-	-	-	-
New market tax credit loans payable	20,500,000	-	-	20,500,000
Note payable, long-term portion	48,055	-	-	48,055
Total current liabilities	20,548,055	-	-	20,548,055
TOTAL LIABILITIES	23,065,021	-	(67,493)	22,997,528
NET ASSETS				
Unrestricted	9,847,553	17,353,176	-	27,200,729
Temporarily restricted	485,240	-	-	485,240
TOTAL NET ASSETS	10,332,793	17,353,176	-	27,685,969
TOTAL LIABILITIES AND NET ASSETS	$ 33,397,814	$ 17,353,176	$ (67,493)	$ 50,683,497

See accompanying independent auditors' report. (Concluded)

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATING STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014			
	DCSNO (1)	DCSNOF	Eliminating Entries	Consolidated Total
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT				
Clinical service fees and reimbursements net of charity and contractual discounts of $318,855 and $307,292, respectively	$ 454,750	$ -	$ -	$ 454,750
Less: provision for doubtful accounts	(76,175)	-	-	(76,175)
Net clinical service fees and reimbursements	378,575	-	-	378,575
Grants:				
Daughters of Charity Foundation	2,198,090	-	-	2,198,090
Other	1,115,428	-	-	1,115,428
Special event income, net of expenses of $81,449 and $85,180, respectively	152,314	-	-	152,314
Lease income from affiliate	11,995,416	-	-	11,995,416
Other income from affiliate	826,064	-	-	826,064
Net assets released from restrictions	655,470	-	-	655,470
TOTAL UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT	17,321,357	-	-	17,321,357
EXPENSES				
Program services	13,761,018	-	(207,185)	13,553,833
Management and general	4,027,464	-	-	4,027,464
TOTAL EXPENSES	17,788,482	-	(207,185)	17,581,297
OPERATING INCOME (LOSS)	(467,125)	-	207,185	(259,940)
OTHER INCOME (EXPENSE)				
Grant to affiliate	(872,373)	-	-	(872,373)
Investment income, net	196,267	710,827	(207,185)	699,909
Donated funds from DCSNO to DCSNOF	-	-	-	-
Donated funds from DCSNOF to DCSNO	207,185	(207,185)	-	-
Pension related changes other than net periodic pension cost	39,241	-	-	39,241
CHANGE IN UNRESTRICTED NET ASSETS	(896,805)	503,642	-	(393,163)
TEMPORARILY RESTRICTED NET ASSETS				
Operating grants	430,208	-	-	430,208
Construction grants:				
Daughters of Charity Foundation	-	-	-	-
Other	78,024	-	-	78,024
Net assets released from restrictions	(655,470)	-	-	(655,470)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(147,238)	-	-	(147,238)
CHANGE IN NET ASSETS	(1,044,043)	503,642	-	(540,401)
NET ASSETS				
Beginning of year	10,332,793	17,353,176	-	27,685,969
End of year	$ 9,288,750	$ 17,856,818	$ -	$ 27,145,568

(1) This column represents the consolidated results for the DCSNO and DCSNOE entities.

(Continued)

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATING STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2013			
	DCSNO (1)	DCSNOF	Eliminating Entries	Consolidated Total
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT				
Clinical service fees and reimbursements net of charity and contractual discounts of $318,855 and $307,292, respectively	$ 977,862	$ -	$ -	$ 977,862
Less: provision for doubtful accounts	(120,883)	-	-	(120,883)
Net clinical service fees and reimbursements	856,979	-	-	856,979
Grants:				
Daughters of Charity Foundation	2,187,961	-	-	2,187,961
Other	1,733,894	5,284,800	(5,284,800)	1,733,894
Special event income, net of expenses of $85,180 and $97,851, respectively	68,000	-	-	68,000
Lease income from affiliate	10,052,092	-	-	10,052,092
Other income from affiliate	-	-	-	-
Net assets released from restrictions	3,810,351	-	-	3,810,351
TOTAL UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT	18,709,277	5,284,800	(5,284,800)	18,709,277
EXPENSES				
Program services	11,853,763	-	(134,986)	11,718,777
Management and general	4,079,356	-	-	4,079,356
TOTAL EXPENSES	15,933,119	-	(134,986)	15,798,133
OPERATING INCOME (LOSS)	2,776,158	5,284,800	(5,149,814)	2,911,144
OTHER INCOME (EXPENSE)				
Grant to affiliate	(1,135,256)	-	-	(1,135,256)
Investment income, net	490,358	600,738	(134,986)	956,110
Donated funds from DCSNO to DCSNOF	(5,284,800)	-	5,284,800	-
Donated funds from DCSNOF to DCSNO	156,132	(156,132)	-	-
Pension related changes other than net periodic pension cost	(66,800)	-	-	(66,800)
CHANGE IN UNRESTRICTED NET ASSETS	(3,064,208)	5,729,406	-	2,665,198
TEMPORARILY RESTRICTED NET ASSETS				
Operating grants	505,607	-	-	505,607
Construction grants:				
Daughters of Charity Foundation	493,774	-	-	493,774
Other	1,102,724	-	-	1,102,724
Net assets released from restrictions	(3,810,351)	-	-	(3,810,351)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(1,708,246)	-	-	(1,708,246)
CHANGE IN NET ASSETS	(4,772,454)	5,729,406	-	956,952
NET ASSETS				
Beginning of year	15,105,247	11,623,770	-	26,729,017
End of year	$ 10,332,793	$ 17,353,176	$ -	$ 27,685,969

See accompanying independent auditors' report.

(Concluded)

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS

SINGLE AUDIT REPORT

JUNE 30, 2014

P&N Postlethwaite & Netterville

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DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS

SINGLE AUDIT REPORT

JUNE 30, 2014

Daughters of Charity Services of New Orleans
New Orleans, Louisiana

Single Audit Report

June 30, 2014

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

To the Board of Directors
Daughters of Charity Services of New Orleans
New Orleans, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Daughters of Charity Services of New Orleans (a nonprofit organization) (DCSNO) which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 30, 2014.

Internal Control over Financial Reporting

In planning and performing our audit, we considered DCSNO'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of DCSNO's internal control. Accordingly, we do not express an opinion on the effectiveness of DCSNO'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 consolidated 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether DCSNO's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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.

Postlethwaite + Netterville

September 30, 2014
Metairie, Louisiana

P&N Postlethwaite & Netterville

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Board of Directors
Daughters of Charity Services of New Orleans
New Orleans, Louisiana

Report on Compliance for Each Major Federal Program

We have audited the compliance of Daughters of Charity Services of New Orleans (a nonprofit organization) (DCSNO), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on DCSNO's major federal program for the year ended June 30, 2014. DCSNO's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for DCSNO's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 DCSNO's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination on DCSNO's compliance with those requirements.

Opinion on Major Federal Program

In our opinion, DCSNO complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

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Report on Internal Control over Compliance

Management of DCSNO 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 DCSNO's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 DCSNO'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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the consolidated financial statements of DCSNO as of and for the year ended June 30, 2014, and have issued our report thereon dated September 30, 2014, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the consolidated financial statements.

The information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 basic consolidated financial statements taken as a whole.

Postlethwaite + Netterville

September 30, 2014
Metairie, Louisiana

P&N

Daughters of Charity Services of New Orleans
New Orleans, Louisiana

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2014

Federal Grantor/Pass-Through Grantor/ Program Title/Grant Name	Federal CFDA Number	Pass-Through Entity Identifying Number		Federal Expenditures
U.S. Department of Health and Human Services:				
Pass-through program from:				
Louisiana State University Health Sciences Center				
Minority Health and Health Disparities Research				
Community Partnership to Address Health				
Disparities in New Orleans	93.307	13-91-031	$	48,000
U.S. Department of Housing and Urban Development				
Pass-through program from:				
The Parish Hospital Service District for the Parish of Orleans - District A				
Community Development Block Grant				
(CDBG)	14.228	unknown		897,276
Total Federal Award Expenditures			$	945,276

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

Daughters of Charity Services of New Orleans
New Orleans, Louisiana

Notes to Schedule of Expenditures of Federal Awards

June 30, 2014

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Daughters of Charity Services of New Orleans (DCSNO) under programs of the federal government for the year ended June 30, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of DCSNO, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the DCSNO. The DCSNO reporting entity is defined in Note 1 to the consolidated financial statements for the year ended June 30, 2014. All federal awards received directly from federal agencies are included on the schedule, as well as federal awards passed-through other government agencies.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to DCSNO's consolidated financial statements for the year ended June 30, 2014. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented, or used in the preparation of, the basic financial statements.

3. Relationship to Financial Statements

Federal revenues of $48,000 are included in the Consolidated Statements of Activities in the category "Unrestricted Revenues, Gains, and Other Support – Grants – Other." Federal revenues of $78,024 are included in the Consolidated Statements of Activities in the category "Temporarily Restricted Net Assets – Construction Grants – Other." Federal revenues of $819,252 are included in the Consolidated Statements of Financial Position as "Deferred Revenue."

4. Relationship to Federal Financial Reports

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

Daughters of Charity Services of New Orleans
New Orleans, Louisiana

Schedule of Current Year Audit Findings and Questioned Costs

For the Year Ended June 30, 2014

(1) Summary of the Independent Auditors' Results

Financial Statements

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

Federal Awards

Internal controls over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	None noted
Type of report issued on compliance for major programs:	Unmodified opinion
Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133?	No
Major programs:	
United States Department of Health and Human Service: Passed through the Parish Hospital Service District For the Parish of Orleans – District A Community Development Block Grant	14.228
Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133:	No

Daughters of Charity Services of New Orleans
New Orleans, Louisiana

Summary Schedule of Current Year Audit Findings and Questioned Costs

For the Year Ended June 30, 2014

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

<u>Not Applicable</u>

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

<u>Not Applicable</u>

Daughters of Charity Services of New Orleans
New Orleans, Louisiana

Summary Schedule of Prior Year Findings

For the Year Ended June 30, 2014

<u>Finding 2013-1</u>

Criteria:	DCSNO should have systems of internal accounting control which ensure the clinic service fee revenue and grant revenue is properly recorded and presented on the schedule of federal awards and the consolidated financial statements.
Condition:	DCSNO did not have adequate controls in place regarding revenue recognition.
Context:	During our audit, we noted inaccuracies in revenue recognition and the presentation of the schedule of federal awards which was not timely identified and/or corrected.
Cause:	Procedures for revenue recognition, classification, and presentation of the schedule of federal awards were not followed.
Effect:	A potential misstatement in the financial statements or the schedule of federal awards related to revenue recognition may go undetected.
Recommendation:	Management should establishing preventative controls including (1) a formal policy for revenue recognition, classification, and presentation of the schedule of federal awards and (2) procedures for gathering adequate information to support classification. In addition, controls should be established whereby evidence of review of classification and approval for reimbursement requests, particularly from Medicaid and other federal grant programs, is conducted. Also, retraining of individuals who are obtaining and determining coding in EHS at the time of patient incoming should be conducted.
Views of responsible officials and planned corrective actions:	Management has reviewed the controls surrounding the determination of insurance and will be implementing preventative controls and manual review controls to prevent, detect or deter a material misstatement to the financial statements.
Status:	This finding is resolved.

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The Board of Directors
Daughters of Charity Services of New Orleans
New Orleans, Louisiana

In planning and performing our audit of the consolidated financial statements of the Daughters of Charity Services of New Orleans (a nonprofit organization) (the Organization) as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, during our audit, we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. We previously reported on the Organization's internal control in our reported dated September 30, 2014. This letter does not affect our report dated September 30, 2014 on the consolidated financial statements of the Organization.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with Organization personnel and we will be pleased to discuss the comment in further detail at your convenience to perform any additional study of this matter, or to assist you in implementing the recommendation.

Our comment is summarized in Appendix A which also contains management's response to the current year comment. Appendix B contains the status of prior year comments.

We wish to thank the Chief Financial Officer and his department for their support and assistance during our audit.

This report is intended solely for the information and use of the Board, management, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Postlethwaite & Netterville

Metairie, Louisiana
September 30, 2014

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CURRENT YEAR COMMENTS AND MANAGEMENT'S RESPONSE

Payroll

Management should consider establishing a preventative control with a formal documentation policy requiring that pay rate forms be signed off by the department supervisor, Human Resources Director, and Chief Executive Officer prior to pay rate changes or new employee information being entered into the payroll system.

Management's Response

Concur. In June 2014 management carried out changes in the Human Resources department. Additionally, policies have been reviewed and modified to obtain timely approval of pay rate forms.

STATUS OF PRIOR YEAR COMMENTS

Fixed Assets

There is no policy requiring the tagging of fixed assets or periodic observation to ensure accuracy, existence, and completeness of the fixed asset listing. Management should consider establishing a preventive control requiring a formal policy and tagging procedure, as well as a documentation system requiring sign offs and dating by preparer and reviewer over the observation.

Status

Resolved.

Journal Entries and Disbursements

During sample testing of journal entry and disbursements transactions, supporting documentation could not be located for some items selected. Management should consider establishing a preventative control requiring journal entry packets and disbursements as well as documented approval to be retained for a specific time period as documented by management.

Status

Resolved.

Payroll

Management should consider establishing a preventative control with a formal documentation policy requiring the payroll register, time sheet review if conducted outside of the electronic payroll system, and pay rate forms to be signed off timely by the Human Resources Director. In addition, employee files for those employees terminated should be retained for a specific time period as documented by management.

Status

Partially resolved. See current year comments.

STATUS OF PRIOR YEAR COMMENTS

Revenue

Revenue from the GNOCHC grant was partially recorded as patient revenue and also partially recorded under the name of a different grant. Additionally, patient revenue from the subsystems at year end is not reconciled to the general ledger. Management should consider establishing a detective control of performing analytical reviews and reconciliations from the subledgers to the general ledger on a monthly basis, as well as annual comparison to ensure the accuracy and completeness of revenue recorded. As part of this monthly review, management should consider establishing a detective control of performing review over the accuracy of system reports to ensure the accuracy, existence and completeness of data obtained. In addition, management should consider establishing a detective control of performing user access reviews annually of the subsystems.

Documentation of expenditures for grants is not maintained and reconciled in the preparation of the schedule of federal awards. Management should consider establishing a detective control of performing analytical reviews and reconciliations of grant revenue and expenditures to ensure the accuracy and completeness of the schedule of federal awards.

Status

Resolved.

Inventory

There is no formal policy requiring the observation of inventory for the Optometry department and for all departments regarding supplies. Management should consider establishing a detective control regarding physical counts over all departments to ensure accuracy of inventory and supplies.

Status

Resolved.

Year End Adjustments

Due to the time sensitivity of the financial close process, all activity may not be posted at year end. Management should consider establishing a detective control regarding accumulation of all activity to be posted to the year end balances at the time of the audit.

Status

Resolved.

STATUS OF PRIOR YEAR COMMENTS

Information Technology

Due to the nature of the Organization, information technology is playing an increasing role. Management should consider strengthening their informational technology procedures, including, but not limited to, the following:

- Documentation of user access approval
- Restriction of administrator access to systems
- Issuance of unique user identification for systems
- Management of patches
- Change management

Status

Resolved.