ST. BERNARD HOSPITAL FOUNDATION, INC.

Financial Statements as of December 31, 2013 and 2012
and for the Years Then Ended
and Independent Auditors' Report

ST. BERNARD HOSPITAL FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
St. Bernard Hospital Foundation, Inc.
Chalmette, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of St. Bernard Hospital Foundation, Inc. (the Foundation), a component unit of the Hospital Service District of the Parish of St. Bernard (the District), which comprise the statements of financial position as of December 31, 2013 and 2012 and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Bernard Hospital Foundation, Inc. as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Joint Venture Cooperative Endeavor Agreement

As discussed in Note C to the financial statements, the Foundation has a Joint Venture Cooperative Endeavor Agreement (Agreement) with the District related to the construction and operation of a hospital facility and to provide related health care services to the citizens of St. Bernard Parish. This Agreement includes certain revenue and expense sharing provisions between the District and the Foundation that may not necessarily be indicative of the conditions that would have existed or the results of operations if the Foundation had been operated as an entity unaffiliated with the District.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014 on our consideration of the Foundation'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 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 the Foundation's internal control over financial reporting and compliance.

Gurtner Zuniga Abney, LLC

New Orleans, Louisiana
October 31, 2014

ST. BERNARD HOSPITAL FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash	$ 479,526	$ 3,958,394
Restricted cash	137,500	5,194,622
Grants receivable	885,502	2,077,335
Prepaid expenses	5,274	10,555
Other current assets	7,942	3,547
Total current assets	1,515,744	11,244,453
NONCURRENT ASSETS		
Property and equipment, net	55,028,645	55,130,636
Unamortized debt issuance costs	3,003,150	3,082,915
TOTAL NONCURRENT ASSETS	58,031,795	58,213,551
TOTAL ASSETS	**$ 59,547,539**	**$ 69,458,004**
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 1,820,143	$ 3,046,454
Accrued payroll	1,028,149	674,004
Capital lease obligation - short-term	157,963	-
Due to the Hospital Service District of the Parish of St. Bernard	-	1,816,513
Total current liabilities	3,006,255	5,536,971
LONG-TERM LIABILITIES		
Due to the Hospital Service District of the Parish of St. Bernard	7,494,392	-
Capital lease obligation - long-term	607,328	-
Long-term debt	44,700,000	44,700,000
Total liabilities	55,807,975	50,236,971
COMMITMENTS (NOTES D, E, F)	-	-
NET ASSETS		
Unrestricted	3,739,564	19,221,033
Total net assets	3,739,564	19,221,033
TOTAL LIABILITIES AND NET ASSETS	**$ 59,547,539**	**$ 69,458,004**

See accompanying independent auditors' report and notes to financial statements.

ST. BERNARD HOSPITAL FOUNDATION, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
UNRESTRICTED REVENUE AND OTHER SUPPORT		
Capital grants	$ -	$ 8,975,662
Transfer of assets from the Hospital Service District of the Parish of St. Bernard	4,787,476	1,135,588
Other operating revenues	63,794	5,979
Total unrestricted revenue and other support	4,851,270	10,117,229
UNRESTRICTED EXPENSES		
Supporting services		
Salaries and wages	11,093,710	5,120,186
Employee benefits	1,833,956	821,279
Professional fees	1,761,025	819,402
Depreciation and amortization	3,854,251	1,843,761
Insurance	638,498	78,290
Interest expense	427,556	339,977
Other direct expenses	723,743	350,659
Total expenses	20,332,739	9,373,554
CHANGES IN NET ASSETS	(15,481,469)	743,675
NET ASSETS - Beginning of year	19,221,033	**18,477,358**
NET ASSETS - End of year	**$ 3,739,564**	**$ 19,221,033**

See accompanying independent auditors' report and notes to financial statements.

ST. BERNARD HOSPITAL FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (15,481,469)	$ 743,675
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,854,251	1,843,761
Transfer of property and equipment from the Hospital Service District of the Parish of St. Bernard	-	(532,034)
Changes in operating assets and liabilities:		
Grants receivable	1,191,833	5,937,634
Due to/from the District	5,677,879	2,618,748
Prepaid expenses	5,281	(9,057)
Other current assets	(4,395)	11,453
Accounts payable	(1,226,311)	(5,790,536)
Accrued payroll	354,145	643,665
Accrued interest and other expenses	-	(117,436)
Net cash (used in) provided by operating activities	(5,628,786)	5,349,873
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,899,699)	(26,935,283)
Debt issuance costs	-	(483,156)
Changes in restricted cash	5,057,122	14,291,193
Net cash provided by (used in) investing activities	2,157,423	(13,127,246)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligation	(7,505)	-
Proceeds from issuance of long-term debt	-	11,671,221
Net cash (used in) provided by financing activities	(7,505)	11,671,221
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(3,478,868)**	**3,893,848**
CASH AND CASH EQUIVALENTS - Beginning of year	3,958,394	64,546
CASH AND CASH EQUIVALENTS - End of year	**$ 479,526**	**$ 3,958,394**
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	$ 5,556	$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Equipment acquired with capital lease obligation	$ 772,796	$ -
Transfer of property and equipment from the District	$ -	$ 532,034

See accompanying independent auditors' report and notes to financial statements.

ST. BERNARD HOSPITAL FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – The St. Bernard Hospital Foundation, Inc. (the Foundation) is a Louisiana not-for-profit entity that was organized on September 21, 2010, for the purpose of assisting and promoting the St. Bernard Hospital Service District (the District) with the development of the hospital facility and raising of capital for the operation of health care related services to benefit the health and wellness of the residents of the District, particularly the indigent residents of the District. The Foundation is a voluntary, nonprofit, non-stock membership organization, exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The hospital became operational in August of 2012 and the medical office building was completed in January of 2013.

On August 23, 2011, the Foundation entered into a Joint Venture Cooperative Endeavor Agreement with the District to construct and operate a hospital facility and provide emergency and other essential hospital services to the citizens of St. Bernard Parish, State of Louisiana. During 2011, the District granted and donated to the Foundation the in-place construction in order for the Foundation to complete construction of the hospital building. See Note C for further details.

The Foundation is maintained by private loans, grants, operating revenues, and a joint venture with the District. The Foundation is governed by a Board of Commissioners made up of five members. Four of the Directors are appointed by the Board of the Hospital Service District of St. Bernard Parish, Louisiana and one member is appointed by Access Health Louisiana, a Louisiana nonprofit corporation. Although the foundation is a legally separate, not-for-profit organization, it exists for the benefit of the District and is considered a component unit of the District for financial reporting purposes.

Basis of Accounting – The Foundation prepares its financial statements in accordance with accounting principles generally accepted in the United States of America involving the application of accrual accounting, consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation – The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic, *Financial Statements of Not-for-Profit Organizations*.

Net Assets – Net assets and revenues and other support, are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets whose use is not restricted by donors, even though their use may be limited in other respects such as by contracts or by board designation.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. There were no temporarily restricted net assets as of December 31, 2013 and 2012.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that are maintained in perpetuity. There were no permanently restricted net assets as of December 31, 2013 and 2012.

Use of Estimates – The preparation of 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Foundation considers all short-term cash deposits with maturities of three months or less to be cash and cash equivalents. The Federal Deposit Insurance Corporation insures the accounts up to $250,000 as of December 31, 2013 and 2012. There were no uninsured deposits as of December 31, 2013 and 2012.

Restricted Cash – The Foundation's restricted cash includes cash received through a long-term arrangement whose use is restricted for the construction of the hospital and certain related management fees as outlined in the respective loan agreement.

Grants Receivable – The Foundation considers grants receivable to be fully collectible, accordingly, no allowance for doubtful accounts is provided. If amounts become uncollectible, they are charged to operations when that determination is made. The use of this method does not differ materially from the allowance method required by accounting principles generally accepted in the United States of America.

Property and Equipment – Property and equipment are recorded at acquisition cost. It is the District's policy to capitalize expenditures for these items in excess of $1,000. Depreciation and amortization of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years. One-half year depreciation is taken in the year of acquisition. Equipment under capital lease is amortized using the straight-line method over the shorter of the lease term of the equipment or its useful life.

Impairment of Long-Lived Assets – Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset to be tested for possible impairment, the Foundation first compares the undiscounted future cash flows expected to be generated by the, assets to its carrying value. If the carrying amount of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment charge is recognized to the extent the carrying amount of the asset exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third party appraisals, as considered necessary. No impairment losses were recorded in 2013 or 2012.

Unamortized Debt Issuance Costs – Costs related to the issuance of the New Markets Tax Credit Facility A and B Notes are deferred and amortized over the life of the debt using a method which approximates the interest method. Accumulated amortization totaled $175,227 and $95,463, as of December 31, 2013 and 2012, respectively.

Capital Grant Revenue – On September 18, 2012, St. Bernard Parish entered into a cooperative endeavor agreement with the State of Louisiana to aid in the construction of the hospital and the medical office building. Capital grants are paid on a cost reimbursement basis.

NOTE B – PROPERTY AND EQUIPMENT

As of December 31, 2013 and 2012, property and equipment consisted of the following:

	2013	2012
Hospital building	$ 43,567,030	$ 42,255,267
Computer equipment	5,743,528	4,347,236
Furniture	749,186	592,980
Fixed equipment	543,107	513,640
Major moveable equipment	9,972,537	9,193,771
Less: accumulated depreciation	(5,546,743)	(1,772,258)
Total property and equipment, net	**$ 55,028,645**	**$ 55,130,636**

NOTE C – JOINT VENTURE

As mentioned in Note A, on August 23, 2011, the District and the Foundation entered into a Joint Venture Cooperative Endeavor Agreement (Agreement) to engage in a joint venture to construct and operate a hospital facility and provide emergency and other essential and specialized hospital services to the citizens of St. Bernard Parish, State of Louisiana. This agreement was to facilitate the New Markets Tax Credit (NMTC) transaction, described further in Note E. On this date, the District transferred all construction in progress associated with the hospital to the Foundation. During 2012, the Foundation used the proceeds of the NMTC Notes (Facility A & B) to complete the construction of the hospital building, acquire essential equipment, materials and supplies necessary for the operation of the hospital, and employed health professionals, administrative staff and other needed personnel and contracted with physicians and other health professionals required for the operation of the hospital. Under the terms of the Agreement, the District is obligated to make the land that the District owns, including all of the District's rights, privileges, appurtenances, and amenities, available to itself and the Foundation for the operation of the hospital building which was constructed on this land. This agreement will terminate on June 30, 2051, unless sooner terminated as permitted.

Pursuant to the Agreement, there are certain revenue and expense sharing provisions between the District and the Foundation. Amounts due to the District totaled $7,494,392 and $1,816,513 as of December 31, 2013 and 2012, respectively, and represent the net balance of transactions with the District. The following is a summary of the significant transactions that occurred in 2013: 1) cash transfers to fund operations in excess of the revenue sharing agreement totaling $3,952,363, 2) Foundation expenses per the CEA paid by the District totaling $2,080,639 relating to professional fees, insurance, and maintenance and repairs, and 3) $355,123 relating to primarily capital expenditures and other start-up costs paid by the District. Amounts due at December 31, 2013 were classified as long-term based on the commitment from the District not to demand repayment within one year. Net amounts received from the District in accordance with the terms of the Agreement for the year ended December 31, 2012 totaled $2,618,748 which related primarily to the funding of construction costs and equipment purchases. Amounts due to the District are non-interest bearing, unsecured and have no scheduled repayment terms.

In accordance with the revenue sharing provisions of the Cooperative Endeavor agreement with the District, amounts transferred to the District recognized as unrestricted revenue and other support from the District to the Foundation totaled $4,787,476 and $1,135,588 during 2013 and 2012, respectively.

NOTE D – CAPITAL LEASE

The Foundation entered into a lease for equipment during 2013. There were no assets under capital lease during 2012. The economic substance of the lease is that the Foundation is financing the acquisition of the assets through the lease, and, accordingly, it is recorded in the Foundation's assets and liabilities. The capital lease obligation expires November 2018. The lease agreement contains a fair value purchase option at the end of the lease term. The net book value of assets recorded under capital leases as of December 31, 2013 consisted of the following:

	2013
Equipment	$ 772,796
Less accumulated amortization	(55,200)
	$ 717,596

Amortization of assets held under the capital lease totaling $55,200 for 2013 is included in depreciation and amortization expense.

The following is a schedule by years of future minimum payments required under the lease together with their present value as of December 31, 2013:

2014	$ 157,963
2015	157,963
2016	157,963
2017	157,963
2018	144,799
Total minimum lease payments	776,651
Less amount representing imputed interest	(185,237)
Present value of minimum lease payments	**$ 591,414**

NOTE E – LONG-TERM DEBT

The following table summarizes the Foundation's outstanding debt as of December 31, 2013 and 2012:

	2013	2012
New Markets Tax Credit Facility A. Interest payable semi-annually at a rate of 1.00%. Principal is payable annually through 2051	$ 33,028,779	$ 33,028,779
New Markets Tax Credit Facility B. Interest payable semi-annually at a rate of 1.00%. Principal is payable annually through 2051	11,671,221	11,671,221
Total long-term debt	**$ 44,700,000**	**$ 44,700,000**

The Facility A and B notes are intended to qualify as a "qualified low-income community investment" for the purposes of generating certain tax credits called New Markets Tax Credits (NMTCs) under section 45D of the Internal Revenue Code of 1986, as amended. To qualify, the Foundation must comply with certain representations, warranties, and covenants. These include, but are not limited to, a covenant that the "portion of the business" (as defined) will operate to qualify as a qualified low-income community business. If, as a result of the breach of the agreement or loan documents by the Foundation, the Lender is required to recapture all or any part of the New Markets Tax Credits previously claimed by the Lender, the Foundation agrees to pay to the Lender an amount equal to the sum of the credits recaptured. Additionally, the QLICI Lender has a security interest in the assets of the Foundation other than real property.

On August 23, 2011, the Foundation issued a note payable (Facility A) to SBP Redevelopment II, LLC. The note is subject to credit and loan agreements executed by the Foundation (as borrower), St. Bernard Parish Redevelopment, LLC as the community development entity (CDE) under the New Markets Tax Credit Program, and SBP Redevelopment II, LLC (Lender).

The Facility A Note, issued for $33,028,779, is secured under the aforementioned credit and loan agreements. The Facility A Note matures on June 30, 2051. There are, however, mandatory payments under a loan participation agreement which are due serially from June 30, 2019 to June 30, 2051. The Note will bear interest at a rate per annum equal to 1.00%. The Foundation will pay interest only on this Note semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2011, and continuing until December 31, 2018. Commencing on June 30, 2019, the principal and interest on this Note shall be due and payable in consecutive semi-annual installments on June 30 and December 31 of each year. The Foundation may not prepay this Note in full or in part any time prior to the expiration of the NMTC compliance period.

When all of the Facility A Note funds had been expended and the Certificate of Occupancy for the hospital facility was issued in July 2012, the Facility B Note (subordinate note) was issued for

$11,671,221 in September 2012 to SBP Redevelopment II, LLC. The note is secured under the same aforementioned credit and loan agreements executed by the Foundation for the Facility A Note. The Facility B Note matures August 22, 2051. The terms of the Facility B Note are similar to those of the Facility A Note. Mandatory payments under a loan participation agreement are due serially from June 30, 2019 to August 22, 2051. The Note bears interest at a rate per annum equal to 1% and the Foundation will pay interest only on this Note semi-annually in arrears on June 30 and December 31 of each year commencing December 31, 2012, and continuing until December 31, 2018. Principal and interest on this Note shall be due and payable in consecutive semi-annual installments on June 30 and December 31 of each year commencing June 30, 2019. The Foundation may not prepay this Note in full or in part any time prior to the expiration of the NMTC compliance period.

For the year ended December 31, 2013, the Foundation paid the CDE a total of $200,000 for ongoing management services related to the NMTCs as required per the agreement. The Foundation is required to pay a total of S137,500 in asset management fees to the CDE from 2014 through 2018.

In association with Facility Notes A and B, the District, for the benefit of the Foundation, unconditionally and irrevocably guarantees the full, complete, and timely payment and, to the extent legally permissible, performance of all obligations owed to the Lender under all of the loan documents.

NOTE F – UNCERTAIN TAX POSITIONS

The Foundation accounts for uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) ASC 740, *Income Taxes,* prescribes recognition threshold and measurement process for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. The interpretation also provides guidance on recognition, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

Management evaluated the Foundation's tax positions for the year ending December 31, 2013, and concluded that the organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The Foundation's tax filings are subjected to audit by various taxing authorities.

The Foundation has received a tax-exempt ruling under section 501(c)(3) from the Internal Revenue Service and, accordingly, is not subject to federal income tax unless the Foundation has unrelated trade or business income. Management believes there are no uncertain tax positions included in the financial statements. As of December 31, 2013, the Foundation has three years of tax returns open for review by the IRS. Years open include 2011, 2012, and 2013 and are included within the 3 year statute of limitations for IRS review.

NOTE G – DEFINED CONTRIBUTION 403(B) PLAN

All new full-time employees are immediately eligible to join the defined contribution 403(b) plan, St. Bernard Parish Hospital Retirement Savings Plan (Plan) establish on November 1, 2012. Participants make pre-tax contributions to the Plan and receive employer matching contributions equal to 50% of each participant's contribution up to 1% of the participant's annual compensation. Employer contributions to the 403(b) plan totaled $43,731 for the year 2013 and $1,551 for the period November 1, 2012 (date of inception) through December 31, 2012. To vest in the employer annual non-discretionary contribution, employees must complete at least 3 years of service.

NOTE H – LIQUIDITY

Current liabilities of $3,006,255 exceed current assets of $1,515,744 by $1,490,511. As discussed in Note C to the financial statements, the Foundation has a Joint Venture Cooperative Endeavor Agreement (Agreement) with the District related to the construction and operation of a hospital facility and to provide related health care services to the citizens of St. Bernard Parish. This Agreement includes certain revenue and expense sharing provisions between the District and the Foundation that may not necessarily be indicative of the conditions that would have existed or the results of operations if the Foundation had been operated as an entity unaffiliated with the District. The District has committed to the Foundation to provide or maintain the necessary financial support to the Foundation, either through member contributions or the continuation of financing, to the enable the Foundation to meet and discharge its liabilities in the normal course of business through October 31, 2015.

NOTE I – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the basic financial statements were available to be issued, October 31, 2014, and determined that no events occurred that required disclosure. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

OTHER INDEPENDENT AUDITORS' REPORTS

Gurtner · Zuniga · Abney

Certified Public Accountants & Consultants

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 of
St. Bernard Hospital Foundation, Inc.
Chalmette, 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 St. Bernard Hospital Foundation, Inc. (the Foundation) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 Foundation'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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gurtner Zuniga Abney, LLC

New Orleans, Louisiana
October 31, 2014

ST. BERNARD HOSPITAL FOUNDATION, INC.
SCHEDULE OF CURRENT YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

Section II – Findings related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*

No current year findings or questioned costs.

ST. BERNARD HOSPITAL FOUNDATION, INC.
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

Section II – Findings related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*

No prior year findings or questioned costs.

Section III – Findings and questioned costs for federal awards under OMB Circular A-133 §510(a)

No prior year findings or questioned costs.

Gurtner · Zuniga · Abney

Certified Public Accountants & Consultants

To the Board of Commissioners and Management
St. Bernard Hospital Foundation, Inc.
Chalmette, Louisiana

In planning and performing our audit of the financial statements of St. Bernard Hospital Foundation, Inc. (the Foundation) as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Foundation's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

However, during our audit we identified and included in the attached Appendix, a deficiency related to the Foundation's internal control over financial reporting and other matters as of December 31, 2013, that we wish to bring to your attention. This letter does not affect our report dated October 31, 2014, on the financial statements of the Foundation.

The definition of a deficiency is also set forth in the attached Appendix.

Although we have included management's written response to our comments in the attached Appendix, such responses have not been subjected to the auditing procedures applied in our audit and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Foundation personnel, and we will be pleased to discuss them in further detail at your convenience, to perform an additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

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October 31, 2014

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APPENDIX

SECTION I - DEFICIENCIES IDENTIFIED DURING THE AUDIT (CURRENT YEAR)

2013-01 – Compliance with Lender Reporting Requirements (Repeat Finding)

Observation: The Foundation failed to comply with certain quarterly and annual lender reporting requirements as set forth in the Facility A and B Credit and Loan Agreements with St. Bernard Redevelopment II, LLC and the New Market Tax Credit Agreement.

Risk: Failure to comply with the New Market Tax Credit Agreement and the Facility A and B Credit and Loan Agreements could result in an event of default, as defined in the loan agreement.

Recommendation: The Foundation should implement formal processes and procedures to ensure compliance with all debt covenants, inclusive of the accurate and timely reporting of financial information, in accordance with the reporting requirements of these loan agreements.

Management Response: The Accounting office experienced turnover in the controller position during 2014 which was responsible for compliance with lender reporting requirements. Management plans to implement formal policies and procedures to ensure compliance with debt covenants, inclusive of lender reporting requirements going-forward.

SECTION II - DEFICIENCIES IDENTIFIED DURING THE PRIOR YEAR AUDIT (UPDATE)

2012-01 – Independent Review of Bank Reconciliations

Observation: Bank reconciliations prepared by the Controller are not independently reviewed.

Risk: Lack of an independent review of reconciliation of cash accounts may preclude the detection of a potential misstatement, misappropriation of assets and/or potential fraudulent activity. The reconciliation of the operating cash account is an essential internal control that would address multiple potential errors that could occur.

Recommendation: We recommend that either a member of the accounting staff prepare the bank reconciliations and the Controller review them; or if the Controller prepares them, then the Chief Financial Officer reviews them. This review should ensure that bank reconciliations are prepared and unusual items are investigated on a timely basis.

Management Response: The Staff Accountant who was hired in April 2013 has been tasked with completing the bank reconciliations. Since that time, the Controller is reviewing the reconciliations for accuracy and completeness. The review includes follow-up on unusual items and resolution thereof.

Status: Resolved.

2012-02 – Physical Inventory of Fixed Assets

Observation: We noted during our audit procedures that the hospital building and related fixed assets are the property of the Foundation and the medical office building and related fixed assets are the property of the Hospital District. Although the amount is not believed to be material at December 31, 2012 given the medical office building was still under construction as of December 31, 2012, the furniture and equipment that was purchased related to the medical office building was not recorded on the Hospital District's general ledger; rather it was inadvertently included in furniture and equipment on the Foundation. Management has not yet performed a physical inventory of furniture and equipment, including tagging the property and equipment and maintaining detailed records of tag number and location of each fixed asset, and therefore, they were not able to segregate these assets for accounting purposes.

Risk: Lack of sufficient detailed property and equipment records limits the organization's ability to properly account for property disposals, depreciation expense, the substantiation of insurance claims, and the ability to safeguard assets.

Recommendation: We recommend that the Foundation perform a physical inventory of property and equipment and include location of property and equipment within the Foundation's detailed property records. Tags should be placed on each asset with numbers that are recorded in the detailed property records. In addition the detailed property records should include the location of the assets, specifically identifying whether the asset is located in the hospital or in the medical office building.

Management Response: The accounting office is developing a plan for the performance of a physical inventory of property and equipment to take place in mid-October/ early November 2013. The plan will include the numbering and tagging of equipment and property as applicable. In conjunction with department leaders, the accounting office will identify and assign assets to the appropriate departments and area of the hospital and medical office building.

Status: Resolved.

2012-03 – Review of Edit Reports to Payroll Master File

Observation: During 2012 and through our fieldwork date, there was no independent review being performed on a regular basis of edits to the payroll master file (e.g. changes to employee pay rates, addition of new employees and removal of employees, etc.). The internal control policy that was in place during this time did not specifically designate an individual(s) responsible for this oversight.

In addition, both the Payroll Clerk and the Human Resources Director currently have the ability to access and make changes to the payroll master file.

Risk: Employee payroll represents the most significant expense of the Foundation. Lack of segregation of duties and clearly defined responsibility over the payroll master file and lack of oversight and review of edits to the payroll master file increases the risk that an error or irregularity could occur and go undetected.

Recommendation: The Separation of Payroll and Personnel Policy should be more specific in assigning responsibility for edits to the payroll master file and ensure proper restrictions are in place to prevent unauthorized changes to the payroll master file. Access to the payroll master file should be limited to one department. For example, an authorized payroll status change form should be initiated by Human Resources and sent to Payroll as the source document to initiate changes to the payroll master file. These changes should be input into the system by the payroll clerk. An edit report should be provided by the IT department and printed on a weekly basis or prior to the release of each payroll detailing any changes made to the payroll master file. This report should be independently reviewed by both the HR department Director and Chief Financial Officer for accuracy. This review would include comparing the edit report against the payroll status change forms to determine whether changes were authorized and properly made.

Management Response: Effective 6/14/13, HR Policy HR-114 Separation of Payroll & Personnel has been revised. The revised policy states the following:

"A. There will be a total separation of the functions. Payroll will process all time keeping records as well as perform other related payroll duties. Human Resources will initiate and process Personnel Change Notices (PCN) or equivalent, and those forms will be for any changes necessary to payroll. Changes to payroll cannot occur without a signed validated PCN or equivalent.

B. The departments must be physically separated, and employees may not "float" between Human Resources and Payroll.

C. Human Resources will audit information that Payroll has input based on PCNs or equivalent change notifications submitted to Payroll.

D. Human Resources Director and the CFO will audit the payroll reports and any change reports prior to each pay period."

Status: Resolved.

SECTION III - OTHER MATTERS IDENTIFIED DURING THE AUDIT

2013-02 – Timely Submission of Report

Observation: The Foundation did not file the December 31, 2013 audited financial statements within six months of the close of the fiscal year. Therefore, the Foundation is not in compliance with LSA-R.S.24.513.

Management Response: In June of 2014, the Foundation requested a 90 day extension from the Louisiana Legislative Auditor from the original filing deadline of June 30, 2014 relating to the December 31, 2013 audit. The Foundation obtained approval from the Louisiana Legislative Auditor's office to submit the audit report no later than September 30, 2014.

Due to turnover in the Controller position in March 2014, management re-reviewed and updated its analysis of the revenue and expense sharing provisions of the Cooperative Endeavor Agreement between the District and the Foundation in late September of 2014 which resulted in several post-close client proposed adjustments to the December 31, 2013 financial statements. As a result, the auditor was required to extend their testing in these areas which delayed the issuance of the audited financial statements. We do not anticipate this will be an issue going-forward as a process is now in place to ensure the timely preparation of this analysis.

SECTION II – DEFINITION

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit,* is as follows:

A *deficiency* 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 deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.