

NEW ORLEANS MEDICAL COMPLEX, INC.

**FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

December 31, 2018

**CASCIO & SCHMIDT, LLC
Certified Public Accountants**

NEW ORLEANS MEDICAL COMPLEX, INC.

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CASCIO & SCHMIDT, LLC

CERTIFIED PUBLIC ACCOUNTANTS

FRANCIS J. CASCIO, CPA
STEVEN A. SCHMIDT, CPA

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS
SOCIETY OF LOUISIANA CERTIFIED
PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
New Orleans Medical Complex, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of New Orleans Medical Complex, Inc. (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and cash flows for the year 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 New Orleans Medical Complex, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited New Orleans Medical Complex, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 31, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2019, on our consideration of New Orleans Medical Complex, Inc.'s internal control over financial reporting and 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 New Orleans Medical Complex, Inc.'s internal control over financial reporting and compliance.

Cascio & Schmidt, LLC.

Metairie, Louisiana
June 8, 2019

NEW ORLEANS MEDICAL COMPLEX, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2018

		<u>Summarized Comparative Information December 31, 2017</u>
ASSETS		
Cash	\$ 128,373	\$ 109,300
Prepaid expenses	<u>5,818</u>	<u>5,803</u>
Total current assets	134,191	115,103
Property and equipment - At cost (Note A6)		
Building	16,036,441	16,036,441
Less accumulated depreciation	<u>9,621,865</u>	<u>9,087,317</u>
	<u>6,414,576</u>	<u>6,949,124</u>
Total assets	\$ <u>6,548,767</u>	\$ <u>7,064,227</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 9,000	\$ 4,500
Deferred revenue, current portion (Note B)	<u>560,649</u>	<u>558,868</u>
Total current liabilities	569,649	563,368
Deferred revenue, non-current portion (Note B)	<u>5,900,047</u>	<u>6,436,415</u>
Total liabilities	6,469,696	6,999,783
COMMITMENTS (Note D)	-	-
 NET ASSETS (Notes A2 and A3)		
Without donor restrictions	<u>79,071</u>	<u>64,444</u>
Total net assets	<u>79,071</u>	<u>64,444</u>
Total liabilities and net assets	\$ <u>6,548,767</u>	\$ <u>7,064,227</u>

The accompanying notes are an integral part of this financial Statement.

NEW ORLEANS MEDICAL COMPLEX, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Summarized Comparative Information Year ended December 31, 2017</u>
REVENUE				
Rental income				
Thermal Project (Notes B and D)	\$ 536,368	\$ -	\$ 536,368	\$ 536,368
Other	<u>30,594</u>	<u>-</u>	<u>30,597</u>	<u>30,000</u>
Total Revenue	<u>566,962</u>	<u>-</u>	<u>566,962</u>	<u>566,368</u>
EXPENSES				
Insurance	8,287	-	8,287	6,515
Management services	5,000	-	5,000	5,000
Professional services	4,500	-	4,500	9,000
Miscellaneous expenses	-	-	-	10
Depreciation	<u>534,548</u>	<u>-</u>	<u>534,548</u>	<u>534,548</u>
Total Expenses	<u>552,335</u>	<u>-</u>	<u>552,335</u>	<u>555,073</u>
INCREASE IN NET ASSETS				
	14,627	-	14,627	11,295
Net assets, beginning of year	<u>64,444</u>	<u>-</u>	<u>64,444</u>	<u>53,149</u>
Net assets, end of year	\$ <u>79,071</u>	\$ <u>-</u>	\$ <u>79,071</u>	\$ <u>64,444</u>

The accompanying notes are an integral part of this financial Statement .

NEW ORLEANS MEDICAL COMPLEX, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2018

	<u>Summarized Comparative Information Year ended December 31, 2017</u>	
Increase in cash and cash equivalents		
Cash flows from operating activities:		
Increase in net assets	\$ 14,627	\$ 11,295
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	534,548	534,548
Changes in assets and liabilities:		
Increase (decrease) in accounts payable	4,500	-
(Increase) in prepaid expenses	(15)	(1,757)
Increase (decrease) in deferred revenue	<u>(534,587)</u>	<u>(536,368)</u>
Net cash provided by operating activities	19,073	7,718
Cash flows from investing activities:	-	-
Cash flows from financing activities	<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents	19,073	7,718
Cash and cash equivalents, beginning of year	<u>109,300</u>	<u>101,582</u>
Cash and cash equivalents, end of year	\$ <u>128,373</u>	\$ <u>109,300</u>

The accompanying notes are an integral part of this financial Statement .

NEW ORLEANS MEDICAL COMPLEX, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

NOTE A - SUMMARY OF ACCOUNTING POLICIES

A summary of the Corporation's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. Nature of Activities

The New Orleans Medical Complex, Inc. (the "Complex") was organized as a nonprofit organization for the purpose of contributing to the development of a regional medical center located in New Orleans, Louisiana. Through reciprocal leases, a thermal facility was constructed and provides chilled water, hot water and steam to certain buildings located in the complex area.

New Orleans Medical Complex, Inc. is a nonprofit corporation exempt from income taxation under, and in accordance with the provisions of Section 501(c)(3) of the Internal Revenue Code and the Nonprofit Corporation Law of the State of Louisiana. Therefore, no provision for income taxes have been made in the accompanying financial statements.

2. Financial Statement Presentation

The Corporation's financial statements are presented on the accrual basis in accordance with the requirements established by the Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) as set forth in FASB ASC 958. Accounting Standards Update 2016-14.

Under the provisions of FASB ASC 958, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions, and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Non-Profit Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

3. Revenue Recognition

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

NEW ORLEANS MEDICAL COMPLEX, INC.
NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2018

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

3. Revenue Recognition - Continued

When a restriction expires, that is, when a stipulated time restrictions ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restriction support. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

4. New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied to the Summarized Comparative Information for the year 2017.

5. Cash equivalents

For purposes of the statement of cash flows, the corporation considers all investments with original maturities of three months or less to be cash equivalents.

6. Property and Equipment

The building is stated at cost. Additions, renewals, and betterments that add materially to productive capacity or extend the life of an asset are capitalized. Expenditures for maintenance and repairs which do not extend the life of the applicable assets are charged to expense as incurred.

Upon retirement or disposal of an asset, the asset and accumulated depreciation accounts are adjusted accordingly. Any resulting gain or loss is included in the statement of activities.

Depreciation of the building is provided over the estimated useful life of the building, thirty years, on a straight-line basis. Depreciation expense amounted to \$534,548 for the year 2018.

7. Statement of Cash Flows

For the purpose of the statement of cash flows, the Complex considers all highly liquid instruments purchased with maturities of three months or less to be cash equivalents.

NEW ORLEANS MEDICAL COMPLEX, INC.
NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2018

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

8. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly actual results could differ from those estimates.

9. Subsequent Events

The subsequent events of the organization were evaluated through the date the financial statements were available to be issued (June 8, 2019).

10. Summarized Comparative Information

Summarized comparative information is presented only to assist with financial analysis. Data in these columns do not present financial position or changes in net assets in conformity with generally accepted accounting principles.

NOTE B - DEFERRED REVENUE

Deferred revenue consists of the following at December 31, 2018 (See Note D):

	<u>Current</u>	<u>Non-Current</u>	<u>Total</u>
Prepayment of base rent obligations of Entergy Thermal related to the leases with the Complex.	\$ 536,368	\$ 5,900,047	\$ 6,436,415
Prepayment of the office space lease.	<u>24,281</u>	<u>-</u>	<u>24,281</u>
	<u>\$ 560,649</u>	<u>\$ 5,900,047</u>	<u>\$ 6,460,696</u>

NOTE C - INCOME TAXES

The corporation is exempt from corporate income taxes under Section 501(c)(3) of the Internal Revenue Code.

New Orleans Medical Complex, Inc. has adopted the provisions of FASB ASC 740-10-25, which requires a tax position be recognized or derecognized based on a “more likely than not” threshold. This applies to positions taken or expected to be taken or expected to be taken in a tax return. New Orleans Medical Complex, Inc. does not believe its financial statements include any uncertain tax positions.

NEW ORLEANS MEDICAL COMPLEX, INC.
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 2018

NOTE D - COMMITMENTS

Thermal Facility

The Complex constructed a building that is a parking facility, which includes space for the thermal services facility. The building's land is leased from the Board of Supervisors of Louisiana State University and Agricultural and Mechanical College (Board of Supervisors). The Complex leases a portion of the building facility to Louisiana State University Medical Center (LSUMC) and subleases space to Entergy Thermal for the operation and production of centralized thermal services.

Entergy Thermal, a division of Entergy Business Solutions, Inc., has constructed, developed, operates and provides a district energy system of thermal services. The district energy system is a system that produces and distributes centralized chilled water, hot water, and steam to buildings or other facilities located in the Complex area.

Ground Lease

Effective as of November 1, 1998, the Complex entered into an agreement to lease land from the Board of Supervisors for an initial term ending September 30, 2005, with three (3) options for additional periods of five (5) years each. The Board of Supervisors, Entergy Thermal and NORMC have entered into a First Amendment to Cooperative Endeavor Agreement on October 30, 2013, herewith (the "CEA First Amendment") that provides for the extension of the term of the Cooperative Endeavor Agreement to September 30, 2050 (the "Extended Expiration Date"), with a further option to extend for a renewal term of ten (10) years. On this land, the Complex completed the construction of a building containing a parking garage. During the term of the ground lease, title for the building will vest with the Complex. Beginning in 2003 and throughout the term of this lease, Entergy Thermal will pay the required lease payments as agreed to with the Board of Supervisors.

Reciprocal Lease

Pursuant to the first amendment, mentioned in the paragraph above, the Complex leases to the Board of Supervisors that portion of the building containing the parking garage for an initial term ending September 30, 2050, with one (1) option to renew the lease for an additional ten (10) years. The Complex leases from the Board of Supervisors the Central Plants of LSU and Charity under the same terms. Rent will not be received by, or paid on, these reciprocal lease agreements. Instead, consideration to be received by the parties will be the right of occupancy, in and to the property of the other party, and obligations of each party to the other for the maintenance and rehabilitation of the occupied premises.

Thermal Facility Lease

The Complex leases the thermal facility to Entergy Thermal, also under the same terms as above.

Central Plants Sublease

The Complex leases to Entergy Thermal, also under the same terms as above.

NEW ORLEANS MEDICAL COMPLEX, INC.
NOTES TO FINANCIAL STATEMENTS - Continued
December 31, 2018

NOTE D - COMMITMENTS - Continued

Annual Rent

Entergy Thermal shall pay rent to NORMC, annually on October 1st until September 30, 2050. Said amount may be adjusted on each Adjustment Date as set forth in the following paragraph.

At five (5) year intervals commencing October 1, 2018, and thereafter on October 1st of each successive fifth year during the Initial Term (each an "Adjustment Date"), the annual rent paid by Entergy Thermal to NORMC shall be adjusted upward to a new annual amount (but not downward), effective as of such Adjustment Date until the next Adjustment Date (or the end of the Initial Term, as applicable), in accordance with the percentage increase in the consumer price index.

Addendums to the central plant and the thermal facility leases permit Entergy Thermal to prepay certain base rent obligations under the leases. Rental income is reported in the financial statements of the Complex on a straight-line basis of the total prepayment amount over the estimated thirty (30) year term of the related lease.

NOTE E - TITLE/TERMINATION

Central Plants

During the term of the lease, title to all improvements, replacements, additions, alterations, repairs, furniture, fixtures or equipment, whether considered movable or immovable, erected upon, attached to or located in the premises by the tenant (collectively, "Thermal Equipment") shall be vested in the tenant. All improvements, replacements, additions, alterations or repairs, now or hereafter erected upon or attached to the premises, including but not limited to the Thermal Equipment, replacement parts or portions in or additions to the Central Plants, refrigeration systems, air conditioning and heating systems, and duct work attached to the premises, with the sole exception of movable trade fixtures which may be removed from the premises without any material damage whatsoever, shall, at no cost to the Board of Supervisors, become the property and possession of the Board of Supervisors, with no reimbursement or payment to the tenant, effective upon the expiration or earlier termination of the lease.

Entergy Thermal's Heating and Cooling Plants

Entergy Thermal's heating and cooling plants are not included in New Orleans Medical Complex, Inc.'s assets in the Statement of Financial Condition. Entergy Thermal grants to the Board of Supervisors the option to purchase the heating and cooling plants (less and except the Central Plants) and the Purchase Assets upon the expiration or earlier termination of the lease. In the termination notice, the Board of Supervisors may exercise its option to purchase at fair market value all of the following (collectively, the "Purchase Assets"): the heating and cooling plants (excluding the Central Plants or any portion thereof, but including, without limitation, the entirety of Entergy Thermal's pipeline and distribution system and any rights of way ancillary thereto), and all contracts with other customers serviced by the heating and cooling plants (the "Other Contracts"). Said purchase shall occur on the termination date.

NEW ORLEANS MEDICAL COMPLEX, INC.
NOTES TO FINANCIAL STATEMENTS - Continued

December 31, 2018

NOTE F - BOARD OF DIRECTORS' COMPENSATION

The Board of Directors is a voluntary board. Accordingly, no compensation was paid to any board member during the year ended December 31, 2018.

NOTE G - FUNCTIONAL EXPENSES

Functional expenses for the year ended December 31, 2018 are as follows:

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Total</u>
Management services	\$ -	\$ 5,000	\$ 5,000
Professional services	-	4,500	4,500
Insurance	-	8,287	8,287
Miscellaneous expenses	-	-	-
Depreciation	<u>534,548</u>	<u>-</u>	<u>534,548</u>
Total functional expenses	<u>\$ 534,548</u>	<u>\$ 17,787</u>	<u>\$ 552,335</u>

NOTE H - LIQUIDITY

As part of New Orleans Medical Complex, Inc.'s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. New Orleans Medical Complex, Inc.'s financial assets available within one year of the balance sheet date for general expenditures are as follow:

Cash	\$ 128,373
Prepaid expenses	<u>5,818</u>
	<u>\$ 134,191</u>

REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS

CASCIO & SCHMIDT, LLC

CERTIFIED PUBLIC ACCOUNTANTS

FRANCIS J. CASCIO, CPA
STEVEN A. SCHMIDT, CPA

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

To the Board of Directors
New Orleans Medical Complex, Inc.

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 New Orleans Medical Complex, Inc. (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, and cash flows and for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 8, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered New Orleans Medical Complex, Inc.'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 New Orleans Medical Complex, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of New Orleans Medical Complex, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of New Orleans Medical Complex, Inc.'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 the internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Orleans Medical Complex, Inc.'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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Standards Auditing* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for an other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Cassio & Schmidt, LLC.

Metairie, Louisiana
June 8, 2019

NEW ORLEANS MEDICAL COMPLEX, INC.
SCHEDULE OF FINDINGS AND RESPONSES
Year ended December 31, 2018

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified on the financial statements.
2. No significant deficiencies relating to the audit of the financial statements are reported in the *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*.
3. No instances of noncompliance material to the financial statements were noted.

B. Findings - Financial Statement Audit

There were no findings for the current year.

C. Management Letter

A management letter was not issued for the current year.

D. Questioned Costs

There were no questioned costs for the year ended December 31, 2018.

E. Status of Prior Year Audit Findings

There were no prior year audit findings.