
DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018



Postlethwaite & Netterville

A Professional Accounting Corporation

www.pncpa.com

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

CONTENTS

	<u>Page</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1 - 2
 <u>CONSOLIDATED FINANCIAL STATEMENTS</u>	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities and Changes in Net Assets	4
Consolidated Statements of Functional Expenses	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 21
 <u>SUPPLEMENTARY INFORMATION</u>	
Schedule of Compensation, Benefits, and Other Payments to Agency Head	22
Consolidating Statements of Financial Position	23 - 24
Consolidating Statements of Activities and Changes in Net Assets	25 - 26
 <u>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 <i>GOVERNMENT AUDITING STANDARDS</i></u>	
	27 - 28

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) and its subsidiaries (DCSNO), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated 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 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 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.

Opinion

In our opinion, the consolidated financial statements referred to on the previous page present fairly, in all material respects, the consolidated financial position of the Daughters of Charity Services of New Orleans and its subsidiaries as of June 30, 2018 and 2017, 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 supplementary information on pages 22 through 26 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 10, 2018 on our consideration of DCSNO's internal control over financial reporting and on our tests of its 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' and its subsidiaries internal control over financial reporting and compliance.

Postlethwaite & Netterville

Metairie, Louisiana
September 10, 2018

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

<u>ASSETS</u>		
	2018	2017
<u>CURRENT ASSETS</u>		
Cash	\$ 1,835,565	\$ 3,256,301
Restricted cash	154,765	187,949
Investments	5,259,324	1,610,253
Patient receivables, net	76,283	37,536
Grants receivable	83,497	265,585
Due from affiliate, net	1,629,257	1,367,884
Prepaid expenses, inventory and other assets	90,696	85,817
Total current assets	9,129,387	6,811,325
<u>NON-CURRENT ASSETS</u>		
New market tax credit receivables	5,284,800	5,284,800
Property, equipment, and improvements, net	17,401,780	19,039,246
<u>TOTAL ASSETS</u>	\$ 31,815,967	\$ 31,135,371
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 440,791	\$ 324,090
Accrued pension, salaries and vacation pay	1,166,125	1,207,414
Self insurance liability	277,757	246,249
Interest payable	14,997	16,026
Deferred revenue, current portion	78,024	78,024
Total current liabilities	1,977,694	1,871,803
<u>NON-CURRENT LIABILITIES</u>		
Deferred revenue, long-term portion	429,133	505,856
New market tax credit loans payable, net	6,908,103	6,846,838
Total non-current liabilities	7,337,236	7,352,694
<u>TOTAL LIABILITIES</u>	9,314,930	9,224,497
<u>NET ASSETS</u>		
Unrestricted	22,406,810	21,741,849
Temporarily restricted	94,227	169,025
<u>TOTAL NET ASSETS</u>	22,501,037	21,910,874
<u>TOTAL LIABILITIES AND NET ASSETS</u>	\$ 31,815,967	\$ 31,135,371

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

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
<u>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</u>		
Clinical service fees and reimbursements, net of contractual discounts of \$504,284 and \$679,025, respectively	\$ 910,257	\$ 697,749
Provision for doubtful accounts	(406,433)	(259,244)
Net clinical service fees and reimbursements	503,824	438,505
Grants:		
Daughters of Charity Foundation	1,687,248	1,776,060
Other	674,830	771,591
Special event income, net of expenses of \$120,862 and \$101,711, respectively	29,148	65,094
Rental income	110,068	7,500
Lease and other income from affiliate	23,980,599	22,040,706
Net assets released from restrictions	181,249	609,576
<u>TOTAL UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT</u>	27,166,966	25,709,032
<u>EXPENSES</u>		
Program services	21,181,467	20,533,203
Management and general	5,339,705	8,772,757
<u>TOTAL EXPENSES</u>	26,521,172	29,305,960
<u>OPERATING INCOME (LOSS)</u>	645,794	(3,596,928)
<u>OTHER INCOME (EXPENSE)</u>		
Contribution to affiliate	(247,229)	(900,381)
Investment income, net	217,927	482,484
Pension related changes other than net periodic pension cost	48,469	56,072
<u>CHANGE IN UNRESTRICTED NET ASSETS</u>	664,961	(3,958,753)
<u>TEMPORARILY RESTRICTED NET ASSETS</u>		
Operating grants	29,728	195,442
Construction grant	76,723	79,324
Net assets released from restrictions	(181,249)	(609,576)
<u>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</u>	(74,798)	(334,810)
<u>CHANGE IN NET ASSETS</u>	590,163	(4,293,563)
<u>NET ASSETS</u>		
Beginning of year	21,910,874	26,204,437
End of year	\$ 22,501,037	\$ 21,910,874

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, 2018 AND 2017

	<u>2018</u>			<u>2017</u>		
	<u>Program Services</u>	<u>Supporting Services- Management and General</u>	<u>Totals</u>	<u>Program Services</u>	<u>Supporting Services- Management and General</u>	<u>Totals</u>
Salaries and wages	\$ 11,792,907	\$ 3,187,843	\$ 14,980,750	\$ 10,763,331	\$ 2,856,110	\$ 13,619,441
Provision on Due from Affiliate	-	(700,000)	(700,000)	-	3,200,000	3,200,000
Employee benefits	1,601,557	857,142	2,458,699	1,478,873	784,924	2,263,797
Supplies	1,460,398	179,781	1,640,179	1,799,541	117,008	1,916,549
Purchased services	1,074,269	298,671	1,372,940	1,053,741	331,806	1,385,547
Bank charges	5,241	20,794	26,035	4,673	40,732	45,405
Depreciation	1,654,076	74,810	1,728,886	1,700,560	86,763	1,787,323
Insurance	418,740	156,471	575,211	437,064	135,586	572,650
Interest and fees	152,697	-	152,697	262,059	39,443	301,502
Janitorial services	290,069	1,790	291,859	263,781	2,592	266,373
Professional fees	1,192,343	477,880	1,670,223	1,309,297	448,359	1,757,656
Miscellaneous	8,019	36,888	44,907	6,043	29,581	35,624
Office expenses	88,210	87,761	175,971	76,374	76,268	152,642
Consumer awareness	(4,030)	287,679	283,649	48,761	199,819	248,580
Rent	485,499	10,619	496,118	427,662	64,946	492,608
Repairs and maintenance	48,848	1,704	50,552	30,625	333	30,958
Security	272,196	3,668	275,864	252,301	1,683	253,984
Temporary employees / internships	130,141	210,475	340,616	59,406	204,417	263,823
Travel, meetings, and conferences	23,602	82,304	105,906	27,274	96,403	123,677
Utilities	476,561	52,688	529,249	516,403	46,403	562,806
Vehicle maintenance	10,124	10,737	20,861	15,434	9,581	25,015
TOTAL EXPENSES	<u>\$ 21,181,467</u>	<u>\$ 5,339,705</u>	<u>\$ 26,521,172</u>	<u>\$ 20,533,203</u>	<u>\$ 8,772,757</u>	<u>\$ 29,305,960</u>

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, 2018 AND 2017

	2018	2017
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 590,163	\$ (4,293,563)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,728,886	1,787,323
Amortization of financing fees	61,265	116,166
Loss on disposal of property and equipment	-	9,767
Bad debt expense	406,433	259,244
Unrealized (gain) loss on investments	17,032	(38,947)
Provision on Due from Affiliate	(700,000)	3,200,000
Changes in assets and liabilities:		
(Increase) decrease in operating assets:		
Patient receivables	(445,180)	(176,937)
Grants receivable	182,088	59,554
Interest receivable	-	(184,477)
Due from affiliate	438,627	703,523
Prepaid expenses, inventory and other assets	(4,879)	23,466
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	116,701	114,958
Accrued pension, salaries and vacation pay	(41,289)	(184,699)
Self insurance liability	31,508	63,452
Interest payable	(1,029)	-
Deferred revenue	(76,723)	(79,324)
Net cash provided by operating activities	2,303,603	1,379,506
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Sales of investments, net of (purchases)	(3,666,103)	160,895
Property and equipment purchases	(91,420)	(158,221)
Net cash provided by (used in) investing activities	(3,757,523)	2,674
<u>NET INCREASE (DECREASE) IN CASH</u>	(1,453,920)	1,382,180
<u>CASH</u>		
Beginning of year	3,444,250	2,062,070
End of year	\$ 1,990,330	\$ 3,444,250
<u>RECONCILIATION OF CASH:</u>		
Cash	\$ 1,835,565	\$ 3,256,301
Restricted cash	154,765	187,949
	\$ 1,990,330	\$ 3,444,250
<u>SUPPLEMENTAL DISCLOSURE</u>		
Cash paid for interest	\$ 91,433	\$ 136,750
Settlement of new market tax credit receivables (Note 5)	\$ -	\$ 13,500,000
Settlement of new market tax credit loans payable (Note 5)	\$ -	\$ 13,500,000

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

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Mission

Organizational Structure

Daughters of Charity Services of 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. 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 of 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 victims of substance abuse, the homeless, victims of child abuse, and persons with acquired immune deficiency syndrome.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Mission (continued)

Mission (continued)

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.

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.

2. Summary of Significant Accounting Policies

Description of Business and Basis of Presentation

The consolidated financial statements include 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. 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, 2018, DCFNO has not incurred any activity.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Organization and Income Taxes (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 more than a 50% likelihood of being sustained upon examination by the taxing authorities.

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 the subsidiaries in which DCSNO has a controlling interest and economic benefit: 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 placed 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, 2018 or 2017.

Cash

For the purposes of the consolidated statements of cash flows, the Organization considers cash to be all cash deposits in local financial institutions.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. **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 property and equipment 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 and Changes in Net Assets 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. Grants receivable are reflected on the consolidated statements of financial position based on the expected timing of payment from the grantor.

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 payors. 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 payor-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.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Clinic Service Fees and Revenue Recognition (continued)

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 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 payors and the uninsured for the years ended June 30, 2018 and 2017 are summarized as follows:

	2018	2017
Medicare	\$ 52,310	\$ 69,495
Medicaid	898,351	772,633
Managed care and other insurers	336,487	410,144
Self-pay	127,393	124,502
Gross patient revenues	<u>1,414,541</u>	<u>1,376,774</u>
Contractual adjustments	<u>(504,284)</u>	<u>(679,025)</u>
Revenues before provision for doubtful accounts	<u>\$ 910,257</u>	<u>\$ 697,749</u>

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 a month following the date of visit and every month thereafter. Receivables are recorded at estimated net realizable value.

The collection of outstanding receivables from Medicare, managed care payors, other third-party payors and patients is the primary source of cash and is critical to 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. Accounts are written off when all reasonable internal and external collection efforts have been performed or when the accounts reach 365 days old.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Allowance for Uncollectible Accounts (continued)

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.

The allowance for contractual adjustments was \$70,223 and \$125,424, respectively, at June 30, 2018 and 2017. The allowance for uncollectible accounts was \$43,908 and \$51,762, respectively, at June 30, 2018 and 2017. The Organization has not changed its charity care or uninsured discount policies during fiscal years 2018 or 2017. The Organization maintains an 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 \$336,955 and \$275,690 respectively, at June 30, 2018 and 2017.

Operating Income

The consolidated statements of activities and changes in net assets include the line item entitled “operating income (loss).” Operating income includes, but is not limited to, patient revenues, unrestricted contributions and grants, and rental income, and other unrestricted income. Changes in unrestricted net assets which are excluded from operating income include certain contributions to affiliates, investment income, and other non-operating activities.

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, less any outstanding checks. The Organization’s investment in the HSD investment pool was \$5,259,324 and \$1,610,253, respectively, at June 30, 2018 and 2017.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Investments (continued)

As of June 30, 2018 and 2017, investment income (excluding approximately \$73,168 and \$314,543 related to New Market Tax Credits in 2018 and 2017, respectively) consisted of earnings from the HSD pool as well as interest earned on bank accounts totaling:

	<u>2018</u>		<u>2017</u>
Interest and dividends	\$ 127,727	\$	128,994
Unrealized gain (loss)	17,032		38,947
Total investment income (loss)	\$ <u>144,759</u>	\$	<u>167,941</u>

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.

Realized gains and losses, and declines in value judged to be other than temporary, are included in net investment income. 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

Inventories include freight-in and materials, and are stated at the lower of cost (on a first-in, first-out basis) or net realizable value. Provision is made for slow-moving, obsolete or unusable inventory.

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, 2018 or 2017.

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 and changes in net assets.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (continued)

Leases

The Organization leases various operating facilities under operating leases which are cancelable. Total rental expense is included in the Consolidated Statements of Activities and Changes in Net Assets and the Consolidated Statements of Functional Expenses.

Allocated Expenses

The costs of providing the various programs and other activities are summarized in the Consolidated Statements of Activities and Changes in Net Assets and 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

In preparing the June 30, 2018 consolidated financial statements, some amounts reported in the June 30, 2017 consolidated financial statements were reclassified to be consistent with the 2018 presentation.

New Accounting Pronouncements Issued But Not Yet Adopted

FASB has issued ASU No. 2016-14, "Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities." Under the ASU, the number of net asset classes is decreased from three to two; enhanced disclosures of underwater endowments are required; reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature is required; and qualitative information in the notes to the financial statements on how an entity manages its liquid available resources and liquidity risks is required. This standard is effective for fiscal years beginning after December 15, 2017. Early application of the standard is permitted.

FASB has issued ASU No. 2014-09, "Revenue from Contracts with Customers," to update its revenue recognition standard to clarify the principles of recognizing revenue and eliminate industry-specific guidance as well as help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. This standard will be effective for periods beginning after December 15, 2018.

In June 2018, the FASB issued ASU No. 2018-08 Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This ASU will be effective for the Foundation for annual periods beginning after December 15, 2018.

In February 2016, the FASB issued ASU No. 2016-02, "Leases." This accounting standard requires lessees to recognize assets and liabilities related to lease arrangements longer than 12 months on the statement of financial position as well as additional disclosures. The updated guidance is effective for annual periods beginning after December 15, 2019.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

New Accounting Pronouncements Issued But Not Yet Adopted (continued)

The Organization is currently assessing the impact of these pronouncements on its consolidated financial statements.

Accounting Changes

In July 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-11, *Inventory (Topic 330), Simplifying the Measurement of Inventory*. This update requires an entity that determines the cost of inventory by methods other than last-in, first-out and the retail inventory method to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Organization adopted this ASU prospectively effective July 1, 2017. The adoption of this guidance did not have a material impact on the Organization's financial statements.

3. **Restricted Net Assets**

Temporarily restricted net assets are restricted by grantors and donors for specific programs, purposes, or for use in subsequent periods. These restrictions are considered to expire when payments are made. A portion of temporary restricted net assets are shown in the Consolidated Statements of Financial Position as restricted cash. Additionally, restricted cash in the Consolidated Statements of Financial Position includes \$60,538 and \$68,924 at June 30, 2018 and 2017, 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 are as follows:

	<u>2018</u>	<u>2017</u>
Formation	\$ 37,805	\$ 45,094
Providence EAP funds	11,433	11,433
Thriving readers	11,160	18,878
Diabetes program	-	50,000
Dental grant	-	28,448
Other grants received	33,829	15,172
	<u>\$ 94,227</u>	<u>\$ 169,025</u>

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Property, Equipment and Improvements

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

	<u>2018</u>	<u>2017</u>	<u>Useful lives</u>
Land	\$ 1,622,516	\$ 1,622,516	
Building	21,138,950	21,114,190	5 - 20 years
Leasehold improvements	330,995	330,995	15 - 20 years
Furniture and equipment	5,303,011	5,236,354	5 - 20 years
Vehicles	367,829	367,829	5 years
	<u>28,763,301</u>	<u>28,671,884</u>	
Less accumulated depreciation	<u>(11,361,521)</u>	<u>(9,632,638)</u>	
Total	<u>\$ 17,401,780</u>	<u>\$ 19,039,246</u>	

5. Notes Payable and New Market Tax Credit Receivables

Notes payable consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
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.	<u>1,715,200</u>	<u>1,715,200</u>
Total new market tax credit loans payable	7,000,000	7,000,000
Less new market tax credits loans payable, current	-	-
New market tax credit loans payable, non-current	<u>\$ 7,000,000</u>	<u>\$ 7,000,000</u>

The above loans payable are presented net of deferred financing costs on the Consolidated Statements of Financial Position. Deferred financing costs are \$91,897 and \$153,162 at June 30, 2018 and 2017, respectively.

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ -	\$ 80,500	\$ 80,500
2020	200,303	79,925	280,228
2021	269,769	77,036	346,805
2022	272,885	73,921	346,806
2023	276,037	70,768	346,805
Thereafter	<u>5,981,006</u>	<u>694,985</u>	<u>6,675,991</u>
	<u>\$ 7,000,000</u>	<u>\$ 1,077,135</u>	<u>\$ 8,077,135</u>

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The DCSNO and the DCSNO Foundation are parties to new market tax credits (NMTC) at June 30, 2018 and 2017. The 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 second NMTC financing, DCSNO Foundation has a note receivable from the FNBC Investment Fund of \$5,284,800 at June 30, 2018 and 2017. 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 at June 30, 2018 and 2017 and is included in investment income on the Consolidated Statements of Activities and Changes in Net Assets. Additionally, DCSNOE has agreed to a multiple indebtedness mortgage and assignment of leases and rents through the period of indebtedness to FNBC.

As part of the NMTC financing, DCSNO will take out a day loan to pay off the \$5,284,000 loan payable balance at the end of the seven year NMTC compliance period during the year ended June 30, 2020. DCSNO will repay the day loan with proceeds of the \$5,284,000 note receivable discussed in the previous paragraph. In addition, the \$1,715,000 loan payable has a \$1,000 put option. The put option cannot be exercised before the end of the seven year compliance period. If the put option is not exercised, DCSNO will be required to pay the entire \$1,715,000 loan balance. The Organization has the option to call the interest in the qualified entity investment held by FNBC Investment Fund from FNBC beginning two months after the end of the put option period and continuing for a six month period as a call price equal to the fair market value of FNBC's interest in the FNBC Investment Fund.

On April 28, 2017, FNBC was placed into receivership by the FDIC. The tax credits described in this note were purchased by Advantage Capital. Advantage has represented to the Organization that the transactions will operate as agreed-upon previously between FNBC and the Organization. See additional information regarding this NMTC in Note 10.

6. Transactions with Affiliates

The Organization participates in the Ascension Health Retirement Plan. During the years ended June 30, 2018 and 2017, respectively, the Organization was allocated part of the Plan's net periodic pension costs as described in Note 8 – 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, malpractice, 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, 2018 and 2017, the Organization had no amounts due from DCF included in grants receivable in the Consolidated Statements of Financial Position.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Transactions with Affiliates (continued)

The Organization entered into an affiliation 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 affiliation 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 affiliation 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 6% and 8% of net revenue collections remitted to the Organization during the years ended June 30, 2018 and 2017, respectively. During the years ended June 30, 2018 and 2017, pharmacy administrative services were charged at a rate of \$21.75 and \$12 per prescription, respectively. All other services are based on internal allocation assessments.

During the years ended June 30, 2018 and 2017, total billings from the agreement to MCHC were \$23,980,599 and \$22,040,706, respectively, of which \$2,654,957 and \$1,419,324 relate to pharmacy administrative services, respectively. The Organization donated \$247,229 and \$900,381, respectively, to MCHC for the years ended June 30, 2018 and 2017. At June 30, 2018, the Organization has a net receivable of \$4,672,857 which offsets the payable of \$543,600. Additionally, during 2018 DCSNO has booked a provision on this balance in the amount of \$2,500,000 due to timing of payments from MCHC being delayed. Thus, the due from affiliate balance is \$1,629,257 at June 30, 2018 as presented in the Consolidated Statements of Financial Position. At June 30, 2017, the Organization has a receivable of \$4,980,534 which offsets the payable of \$412,650. The provision on this balance is \$3,200,000 at June 30, 2017. Thus, the due from affiliate balance at June 30, 2017 is \$1,367,884 as presented in the Consolidated Statements of Financial Position.

If MCHC's operations in fiscal year 2018 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 years ended June 30, 2018 and 2017, the Organization received approximately 68% and 63%, respectively, of its grant revenue from one source. The ability of the Organization to continue functioning at its current level of operations is dependent upon its ability to generate similar future support.

The Organization has an affiliation agreement with MCHC, as described in Note 6. During the years ended June 30, 2018 and 2017, the amount due from MCHC was 5.1% and 4.4%, respectively, of total assets of the Organization. Lease and other income from MCHC totaled 88.3% and 85.7%, respectively, of total unrestricted revenues, gains, and other support during the years ended June 30, 2018 and 2017, respectively.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Concentrations of Risk (continued)

Funds on deposits in financial institutions exceeded Federal Deposit Insurance Corporation (FDIC) insurance limits by \$1,399,979 and \$3,116,981 at June 30, 2018 and 2017, respectively.

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 \$97,542 and \$107,508, respectively, for the years ended June 30, 2018 and 2017.

Net periodic pension expense was \$48,469 and \$56,072 for the years ended June 30, 2018 and 2017, 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 pension liability was \$140,781 and \$235,886 at June 30, 2018 and June 30, 2017, respectively. These amounts are included as components of accrued pension, salaries and vacation pay on the Consolidated Statements of Financial Position.

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 \$461,618 and \$411,920, respectively, for the years ended June 30, 2018 and 2017.

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.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Fair Value Measurements (continued)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 Measurements) and the lowest priority to 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.

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 (also referred to as the "Alpha Fund") managed by Ascension Health for its member institutions. The values of the Organization's investments in this pool are based on information provided by Ascension Health. These investments are measured at fair value using the net asset value per share (or its equivalent) practical expedient and have not been categorized in the fair value hierarchy. There have been no changes in the methodology used as of June 30, 2018 and 2017.

The method described above may produce fair value calculations that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Contingencies (continued)

DCSNO participated in a number of state and federally-assisted grant programs in fiscal years 2018 and 2017. 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.

Note 5 discusses a new market tax credit transaction between the Organization and its subsidiary, as well as FNBC and its subsidiaries. On April 28, 2017, FNBC was placed into receivership by the FDIC. The tax credits described in this note were purchased by Advantage Capital. Advantage has represented to the Organization that the transactions will operate as agreed-upon previously between FNBC and the Organization. Management estimates that there is no impact to the valuation of the new market tax credit receivable or payables at this time.

11. Agreements

In July 2016, the Organization entered into a three-year agreement with Children's Clinic of New Orleans, L.L.C. (CCNO) and MCHC to assume operations of a clinic operated by CCNO. Under the terms of the agreement, the Organization has assumed responsibility for operations at the clinic, including items such as employees and assets, and MCHC has assumed responsibility for the lease agreements effective September 2016.

12. 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 \$2.39 million and \$2.75 million for the years ended June 30, 2018 and 2017, respectively, from public foundations, corporations, and private individuals and government contracts for services.

The Organization provides access to essential health and social services in 10 federally-designated Health Professions Shortage Areas, in the neighborhoods of Jefferson and Orleans Parish. Total service provided was 125,356 and 121,943 encounters for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, respectively, these fee reductions amounted to \$66,411 and \$131,567.

13. Subsequent Events

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, September 10, 2018, and determined that there were no subsequent events requiring disclosure. No events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

SUPPLEMENTARY INFORMATION

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
SCHEDULE OF COMPENSATION, BENEFITS AND
OTHER PAYMENTS TO AGENCY HEAD
FOR THE YEAR ENDED JUNE 30, 2018

Agency Head: Michael Griffin, President and Chief Executive Officer

<u>Purpose</u>	<u>Amount</u>
Salary	\$ 70,338
Benefits-insurance	7,046
Benefits-retirement	2,028
Reimbursements	1,512
Travel	9,698
Registration fees	2,600
Special meals	654
	<u>\$ 93,876</u>

See accompanying independent auditors' report.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

	<u>DCSNO (1)</u>	<u>DCSNOF</u>	<u>Consolidated Total</u>
<u>CURRENT ASSETS</u>			
Cash	\$ 1,835,565	\$ -	\$ 1,835,565
Restricted cash	154,765	-	154,765
Investments	5,259,324	-	5,259,324
Patient receivables, net	76,283	-	76,283
Grants receivable	83,497	-	83,497
Due from affiliate, net	1,629,257	-	1,629,257
Prepaid expenses, inventory and other assets	90,696	-	90,696
Total current assets	<u>9,129,387</u>	<u>-</u>	<u>9,129,387</u>
<u>NON-CURRENT ASSETS</u>			
New market tax credit receivables	-	5,284,800	5,284,800
Property, equipment and improvements, net	17,401,780	-	17,401,780
<u>TOTAL ASSETS</u>	<u>\$ 26,531,167</u>	<u>\$ 5,284,800</u>	<u>\$ 31,815,967</u>
<u>LIABILITIES AND NET ASSETS</u>			
<u>CURRENT LIABILITIES</u>			
Accounts payable and accrued expenses	\$ 440,791	\$ -	\$ 440,791
Accrued pension, salaries and vacation pay	1,166,125	-	1,166,125
Self insurance liability	277,757	-	277,757
Interest payable	14,997	-	14,997
Deferred revenue, current portion	78,024	-	78,024
Total current liabilities	<u>1,977,694</u>	<u>-</u>	<u>1,977,694</u>
<u>NON-CURRENT LIABILITIES</u>			
Deferred revenue, long-term portion	429,133	-	429,133
New market tax credit loans payable, net	6,908,103	-	6,908,103
Total non-current liabilities	<u>7,337,236</u>	<u>-</u>	<u>7,337,236</u>
<u>TOTAL LIABILITIES</u>	<u>9,314,930</u>	<u>-</u>	<u>9,314,930</u>
<u>NET ASSETS</u>			
Unrestricted	17,122,010	5,284,800	22,406,810
Temporarily restricted	94,227	-	94,227
<u>TOTAL NET ASSETS</u>	<u>17,216,237</u>	<u>5,284,800</u>	<u>22,501,037</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 26,531,167</u>	<u>\$ 5,284,800</u>	<u>\$ 31,815,967</u>

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

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017

ASSETS

	<u>DCSNO (1)</u>	<u>DCSNOF</u>	<u>Consolidated Total</u>
<u>CURRENT ASSETS</u>			
Cash	\$ 3,256,301	\$ -	\$ 3,256,301
Restricted cash	187,949	-	187,949
Investments	1,610,253	-	1,610,253
Patient receivables, net	37,536	-	37,536
Grants receivable	265,585	-	265,585
Due from affiliate, net	1,367,884	-	1,367,884
Prepaid expenses, inventory and other assets	85,817	-	85,817
Total current assets	<u>6,811,325</u>	<u>-</u>	<u>6,811,325</u>
<u>NON-CURRENT ASSETS</u>			
New market tax credit receivables	-	5,284,800	5,284,800
Property, equipment and improvements, net	19,039,246	-	19,039,246
Total non-current assets	<u>-</u>	<u>5,284,800</u>	<u>5,284,800</u>
<u>TOTAL ASSETS</u>	<u>\$ 25,850,571</u>	<u>\$ 5,284,800</u>	<u>\$ 31,135,371</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>			
Accounts payable and accrued expenses	\$ 324,090	\$ -	\$ 324,090
Accrued pension, salaries and vacation pay	1,207,414	-	1,207,414
Self insurance liability	246,249	-	246,249
Interest payable	16,026	-	16,026
Deferred revenue, current portion	78,024	-	78,024
Total current liabilities	<u>1,871,803</u>	<u>-</u>	<u>1,871,803</u>
<u>NON-CURRENT LIABILITIES</u>			
Deferred revenue, long-term portion	505,856	-	505,856
New market tax credit loans payable, net	6,846,838	-	6,846,838
Total non-current liabilities	<u>7,352,694</u>	<u>-</u>	<u>7,352,694</u>
<u>TOTAL LIABILITIES</u>	<u>9,224,497</u>	<u>-</u>	<u>9,224,497</u>
<u>NET ASSETS</u>			
Unrestricted	16,457,049	5,284,800	21,741,849
Temporarily restricted	169,025	-	169,025
Total net assets	<u>16,626,074</u>	<u>5,284,800</u>	<u>21,910,874</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 25,850,571</u>	<u>\$ 5,284,800</u>	<u>\$ 31,135,371</u>

See accompanying independent auditors' report.

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018

	<u>DCSNO (1)</u>	<u>DCSNOF</u>	<u>Consolidated Total</u>
<u>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</u>			
Clinical service fees and reimbursements			
net of contractual discounts of \$504,284	\$ 910,257	\$ -	\$ 910,257
Less: provision for doubtful accounts	(406,433)	-	(406,433)
Net clinical service fees and reimbursements	<u>503,824</u>	<u>-</u>	<u>503,824</u>
Grants:			
Daughters of Charity Foundation	1,687,248	-	1,687,248
Other	674,830	-	674,830
Special event income, net of expenses of \$120,862	29,148	-	29,148
Rental income	110,068	-	110,068
Lease and other income from affiliate	23,980,599	-	23,980,599
Net assets released from restrictions	<u>181,249</u>	<u>-</u>	<u>181,249</u>
<u>TOTAL UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT</u>	<u>27,166,966</u>	<u>-</u>	<u>27,166,966</u>
<u>EXPENSES</u>			
Program services	21,181,467	-	21,181,467
Management and general	<u>5,339,705</u>	<u>-</u>	<u>5,339,705</u>
<u>TOTAL EXPENSES</u>	<u>26,521,172</u>	<u>-</u>	<u>26,521,172</u>
<u>OPERATING INCOME (LOSS)</u>	<u>645,794</u>	<u>-</u>	<u>645,794</u>
<u>OTHER INCOME (EXPENSE)</u>			
Contribution to affiliate	(247,229)	-	(247,229)
Investment income, net	144,759	73,168	217,927
Donated funds from DCSNOF to DCSNO	73,168	(73,168)	-
Pension related changes other than net periodic pension cost	<u>48,469</u>	<u>-</u>	<u>48,469</u>
<u>CHANGE IN UNRESTRICTED NET ASSETS</u>	<u>664,961</u>	<u>-</u>	<u>664,961</u>
<u>TEMPORARILY RESTRICTED NET ASSETS</u>			
Operating grants	29,728	-	29,728
Construction grant	76,723	-	76,723
Net assets released from restrictions	<u>(181,249)</u>	<u>-</u>	<u>(181,249)</u>
<u>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</u>	<u>(74,798)</u>	<u>-</u>	<u>(74,798)</u>
<u>CHANGE IN NET ASSETS</u>	<u>590,163</u>	<u>-</u>	<u>590,163</u>
<u>NET ASSETS</u>			
Beginning of year	<u>16,626,074</u>	<u>5,284,800</u>	<u>21,910,874</u>
End of year	<u>\$ 17,216,237</u>	<u>\$ 5,284,800</u>	<u>\$ 22,501,037</u>

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

DAUGHTERS OF CHARITY SERVICES OF NEW ORLEANS
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>DCSNO (1)</u>	<u>DCSNOF</u>	<u>Consolidated Total</u>
<u>UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT</u>			
Clinical service fees and reimbursements			
net of contractual discounts of \$679,025	\$ 697,749	\$ -	\$ 697,749
Less: provision for doubtful accounts	(259,244)	-	(259,244)
Net clinical service fees and reimbursements	<u>438,505</u>	<u>-</u>	<u>438,505</u>
Grants:			
Daughters of Charity Foundation	1,776,060	-	1,776,060
Other	771,591	-	771,591
Special event income, net of expenses of \$101,711	65,094	-	65,094
Rental income	7,500	-	7,500
Lease and other income from affiliate	22,040,706	-	22,040,706
Net assets released from restrictions	<u>609,576</u>	<u>-</u>	<u>609,576</u>
<u>TOTAL UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT</u>	<u>25,709,032</u>	<u>-</u>	<u>25,709,032</u>
<u>EXPENSES</u>			
Program services	20,533,203	-	20,533,203
Management and general	<u>8,772,757</u>	<u>-</u>	<u>8,772,757</u>
<u>TOTAL EXPENSES</u>	<u>29,305,960</u>	<u>-</u>	<u>29,305,960</u>
<u>OPERATING INCOME (LOSS)</u>	<u>(3,596,928)</u>	<u>-</u>	<u>(3,596,928)</u>
<u>OTHER INCOME (EXPENSE)</u>			
Contribution to affiliate	(900,381)	-	(900,381)
Investment income, net	167,941	314,543	482,484
Donated funds from DCSNOF to DCSNO	13,766,185	(13,766,185)	-
Pension related changes other than net periodic pension cost	<u>56,072</u>	<u>-</u>	<u>56,072</u>
<u>CHANGE IN UNRESTRICTED NET ASSETS</u>	<u>9,492,889</u>	<u>(13,451,642)</u>	<u>(3,958,753)</u>
<u>TEMPORARILY RESTRICTED NET ASSETS</u>			
Operating grants	195,442	-	195,442
Construction grant	79,324	-	79,324
Net assets released from restrictions	<u>(609,576)</u>	<u>-</u>	<u>(609,576)</u>
<u>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</u>	<u>(334,810)</u>	<u>-</u>	<u>(334,810)</u>
<u>CHANGE IN NET ASSETS</u>	<u>9,158,079</u>	<u>(13,451,642)</u>	<u>(4,293,563)</u>
<u>NET ASSETS</u>			
Beginning of year	<u>7,467,995</u>	<u>18,736,442</u>	<u>26,204,437</u>
End of year	<u>\$ 16,626,074</u>	<u>\$ 5,284,800</u>	<u>\$ 21,910,874</u>

See accompanying independent auditors' report.

**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 Daughters of Charity Services of New Orleans (a nonprofit organization) (DCSNO) which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and changes in net assets, 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 10, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, 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 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 weakness. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DCSNO's consolidated 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 and 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

Metairie, Louisiana
September 10, 2018



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 and subsidiaries (a nonprofit organization) (the Organization) as of and for the year ended June 30, 2018, 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.

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.

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. We reported on the Organization's internal control in our report dated September 10, 2018. This letter does not affect our report dated September 10, 2018 on the financial statements of the Organization.

The appendix to this letter contains the status of prior year recommendations.

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 10, 2018

STATUS OF PRIOR YEAR RECOMMENDATIONS

2017-001 User Access Reviews

In reviewing the Organization's information technology systems, opportunities for improvement were identified with regard to user access. In a test of access for terminated employees, 1 of the 7 terminated employees selected for testing still had access to the active directory, general ledger, and patient revenue systems.

Additionally, we identified several users having administrative access in the general ledger or patient revenue systems. It is recommended that user access be reviewed at all levels of the Organization, including a review of job duties versus the level of access granted in each of the Organization's systems.

Status

Resolved