

**DOMINICAN SISTERS FAMILY
HEALTH SERVICE, INC.**

**Financial Statements
December 31, 2012**

Dominican Sisters Family Health Service, Inc.

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December 31, 2012**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Dominican Sisters Family
Health Service, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Dominican Sisters Family Health Service, Inc., which comprise the statement of financial position as of December 31, 2012, 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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 Dominican Sisters Family Health Service, Inc. as of December 31, 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script, appearing to read "Kenneth E. De...". The signature is written in dark ink and is positioned above a horizontal line that extends across the width of the signature.

Melville, New York

DOMINICAN SISTERS FAMILY HEALTH SERVICE, INC.

**Balance Sheet
December 31, 2012**

Assets

| | |
|---|----------------------------|
| Current assets | |
| Cash and cash equivalents | \$ 236,187 |
| Investments | 160,181 |
| Accounts receivable, net | 3,920,464 |
| Grants receivable | 168,696 |
| Promises to give | 13,400 |
| Due from Elizabeth Seton Pediatric Center | 5,633 |
| Other receivables | 214,105 |
| Prepays | <u>170,937</u> |
| Total current assets | <u>4,889,603</u> |
| Assets whose use is limited | <u>1,934,846</u> |
| Fixed assets, net | <u>574,275</u> |
| Intangible assets | |
| Goodwill | <u>515,000</u> |
| Other assets | |
| Deposits | <u>53,777</u> |
| Total assets | <u><u>\$ 7,967,501</u></u> |

See accompanying notes to financial statements.

Liabilities and Net Assets

| | |
|---|----------------------------|
| Current liabilities | |
| Accounts payable | \$ 2,937,420 |
| Accrued salaries and expenses | 1,973,704 |
| Due third party payors | 713,338 |
| Current portion of loan payable | 404,150 |
| Loan payable - others | 199,855 |
| Current portion of obligation under capital lease | <u>25,211</u> |
| Total current liabilities | <u>6,253,678</u> |
| Long-term liabilities | <u>-</u> |
| Total liabilities | <u>6,253,678</u> |
| Net assets | |
| Unrestricted | 1,608,718 |
| Temporarily restricted | <u>105,105</u> |
| Total net assets | <u>1,713,823</u> |
| Total liabilities and net assets | <u><u>\$ 7,967,501</u></u> |

DOMINICAN SISTERS FAMILY HEALTH SERVICE, INC.

**Statement of Activity
for the year ended December 31, 2012**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|--|-------------------------|-----------------------------------|-------------------------|
| Revenue, gains and other support | | | |
| Net patient service revenue before provision | | | |
| for bad debt | \$ 34,440,685 | \$ - | \$ 34,440,685 |
| Provision for bad debt | <u>192,748</u> | <u>-</u> | <u>192,748</u> |
| Net patient service revenue | 34,247,937 | - | 34,247,937 |
| Income from Elizabeth Seton Pediatric Center | 123,610 | - | 123,610 |
| Contributions | 382,848 | 324,090 | 706,938 |
| Net assets released from restrictions | 327,984 | (327,984) | - |
| Investment income | 55,017 | - | 55,017 |
| Other revenues | <u>62,294</u> | <u>-</u> | <u>62,294</u> |
| Total revenue, gains and other support | <u>35,199,690</u> | <u>(3,894)</u> | <u>35,195,796</u> |
| Expenses and nonrecurring item | | | |
| Professional care of patients | 29,687,385 | - | 29,687,385 |
| Administrative and general | 5,472,223 | - | 5,472,223 |
| Occupancy | 715,450 | - | 715,450 |
| Depreciation | <u>179,337</u> | <u>-</u> | <u>179,337</u> |
| Total expenses | <u>36,054,395</u> | <u>-</u> | <u>36,054,395</u> |
| Excess (deficiency) of revenue over expenses | (854,705) | (3,894) | (858,599) |
| Other changes | | | |
| Change in net unrealized (losses) on securities | <u>(11,668)</u> | <u>-</u> | <u>(11,668)</u> |
| Change in net assets | (866,373) | (3,894) | (870,267) |
| Net assets, beginning of year | <u>2,475,091</u> | <u>108,999</u> | <u>2,584,090</u> |
| Net assets, end of year | <u>\$ 1,608,718</u> | <u>\$ 105,105</u> | <u>\$ 1,713,823</u> |

See accompanying notes to financial statements.

DOMINICAN SISTERS FAMILY HEALTH SERVICE, INC.

**Statement of Cash Flows
for the year ended December 31, 2012**

| | |
|---|---------------------|
| Cash flows from operating activities | |
| Change in net assets | <u>\$ (870,267)</u> |
| Adjustments to reconcile change in net assets to cash provided by (used in) operating activities | |
| Depreciation | 179,337 |
| Net realized and unrealized losses on investments | 44,058 |
| Changes in assets and liabilities | |
| Accounts receivable | (763,151) |
| Other current assets | 281,470 |
| Accounts payable and accrued expenses | 784,585 |
| Due third party payors | <u>(98,465)</u> |
| | <u>427,834</u> |
| Net cash (used in) operating activities | <u>(442,433)</u> |
| Cash flows from investing activities | |
| Sale of investments | 2,317,414 |
| Purchases of investments | (1,590,194) |
| Payments to acquire fixed assets | (118,997) |
| Advances receivable | 227,393 |
| Goodwill | (515,000) |
| Deposits | <u>239,737</u> |
| Net cash provided by investing activities | <u>560,353</u> |
| Cash flows from financing activities | |
| Repayment of / proceeds from loan payable | 53,988 |
| Principal payments under capital lease obligation | <u>(94,755)</u> |
| Net cash (used in) financing activities | <u>(40,767)</u> |
| Net (decrease) in cash and cash equivalents | 77,153 |
| Cash and cash equivalents, beginning of year | <u>159,505</u> |
| Cash and cash equivalents, end of year | <u>\$ 236,658</u> |
| Reconciliation of cash and cash equivalents to the statement of net assets: | |
| Cash and cash equivalents in current assets | \$ 236,187 |
| Cash and cash equivalents in assets whose use is limited | <u>471</u> |
| Total cash and cash equivalents | <u>\$ 236,658</u> |

See accompanying notes to financial statements.

DOMINICAN SISTERS FAMILY HEALTH SERVICE, INC.

Notes to Financial Statements

December 31, 2012

Note 1 - Description of Organization and Summary of Significant Accounting Policies

Description of Organization

The Dominican Sisters Family Health Service, Inc., (the "Agency") is a nonprofit organization which provides skilled nursing and other health related services to the general public.

The Agency is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code (the "Code") and comparable state law, and contributions to it are tax deductible within the limitations prescribed by the Code. The Agency has been classified as a publicly-supported organization which is not a private foundation under section 509(a) of the Code.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Flows

For purposes of reporting cash flows, the Agency considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents. The Agency paid \$33,998 in interest for the year ending December 31, 2012. The Agency did not pay income taxes applicable to unrelated business income in the year ending December 31, 2012. A capital lease obligation totaling \$142,887 was incurred when the Agency entered into a lease for a computer hardware in 2011.

Accounts Receivable

Accounts receivable on the Balance Sheet is net of an allowance for doubtful accounts. For those receivables associated with services provided to patients who have third party coverage, the Agency analyzes the contractually due amounts and provides an allowance for doubtful accounts and related provision for bad debt if necessary. For those receivables associated with self-pay patients, the Agency records a significant provision for bad debt 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. The difference between the standard or discounted rates and the amounts actually collected is charged off against the allowance for doubtful accounts.

The following table sets forth the components of the change in the allowance for doubtful accounts for the period ending December 31, 2012:

| | Balance as of <u>01/01/2012</u> | Provision for <u>Bad Debt</u> | <u>Write-offs</u> | Balance as of <u>12/31/2012</u> |
|-------------------|------------------------------------|----------------------------------|---------------------|------------------------------------|
| Third-Party Payor | \$ 185,427 | \$ 129,689 | \$ (71,909) | \$ 243,207 |
| Self Pay | <u>17,038</u> | <u>63,059</u> | <u>(66,382)</u> | <u>13,715</u> |
| TOTAL | <u>\$ 202,465</u> | <u>\$ 192,748</u> | <u>\$ (138,291)</u> | <u>\$ 256,922</u> |

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met and the promises become unconditional. All promises to give are due in the next year.

Investments

The Agency carries investments in marketable equity securities with readily determinable fair values and all investments in debt securities at their fair values in the balance sheet. The investment with the Institutional Investors Income Fund is carried at cost which approximates fair value. Investment income (including realized gains and losses on investments, interest and dividends) is included in deficiency of revenues over expenses. Unrealized gains and losses on investments are excluded from deficiency of revenues over expenses.

Fixed Assets

The Agency capitalizes all expenditures for property and equipment in excess of \$500. Purchased fixed assets are recorded at cost and contributed fixed assets are recorded at fair market value at the date of contribution. Depreciation of fixed assets is provided on the straight-line method based upon the estimated useful lives as contained in the Medicare and Medicaid Guide, revision July, 1993.

Goodwill

The agency adopted the qualitative assessment method to determine whether it is necessary to perform the two-step goodwill impairment test. After assessing the qualitative factors management concluded that it is not likely that the fair value of goodwill is less than its carrying amount and such test is not necessary. The value of the goodwill remains at \$515,000.

Donor Restrictions

The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. When long-lived assets are placed in service, thus satisfying purpose restrictions, the amount is included as a change in net assets, restricted and unrestricted. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

The Agency reports gifts of equipment (or other long-lived assets) as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Net Patient Service Revenue and Estimated Amounts Due to Third-Party Payors

The Agency recognizes net patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Agency recognizes net patient service revenue on the basis of its standard or discounted rates for services provided. Net patient service revenue before provision for bad debt recognized in the period from these major payor sources, is as follows:

| | <u>2012</u> |
|-------------------|---------------------|
| Third-Party Payor | \$34,264,599 |
| Self-Pay | <u>176,086</u> |
| TOTAL | <u>\$34,440,685</u> |

Charity Care

The Agency provides charity care to patients who are unable to pay. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Since the Agency does not expect payment, charges for charity care are not included in net patient service revenue. Charity Care Cost calculated by applying the ratio between cost and charges.

Charity care, at cost, totaled \$68,704 for the year ended December 31, 2012.

Excess Deficiency of Revenue Over Expenses

The statement of activities includes excess deficiency of revenues over expenses. Changes in unrestricted net assets which are excluded from excess deficiency of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments.

Leases of Real Property

The Agency accounts for its leases of real property as operating leases. Rent expense for the years ended December 31, 2012, is \$587,593.

Note 2 - Fixed Assets

The composition of fixed assets is as follows:

| | <u>2012</u> |
|-------------------------------|-------------------|
| Leasehold improvements | \$591,943 |
| Furniture and fixtures | 334,832 |
| Computerization | 2,642,548 |
| Building | <u>251,255</u> |
| | 3,820,578 |
| Less accumulated depreciation | <u>3,273,607</u> |
| | 546,971 |
| Land | <u>27,304</u> |
| Fixed assets, net | <u>\$ 574,275</u> |

Note 3 - Investments

Fair values of investments measured on a recurring basis at December 31, 2012 are as follows:

| | <u>Fair Value</u> | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|---|--------------------|---|--|--|
| U.S. Government and agency debt securities | 628,033 | 628,033 | | |
| Corporate debt securities | 1,132,831 | 1,132,831 | | |
| Short-term investments | 173,511 | 173,511 | | |
| Institutional investors income fund | 110,181 | | 110,181 | |
| Cardinal Health Partners IPA, LLC | <u>50,000</u> | <u>-</u> | <u>-</u> | <u>50,000</u> |
| | <u>\$2,094,556</u> | <u>\$1,934,375</u> | <u>\$110,181</u> | <u>\$ 50,000</u> |

Investments are classified on the balance sheet as follows:

| | <u>2012</u> |
|----------------------------------|--------------------|
| Investments whose use is limited | \$1,934,375 |
| Investments | <u>160,181</u> |
| | <u>\$2,094,556</u> |

Fair value for Level 1 investments is determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for Level 2 investments is determined by reference to quoted prices in markets that are not active. Investment fees included in administrative and general expense for the year ended December 31, 2012, are \$8,030. Investment income and gains for assets limited as to use and cash equivalents are comprised of the following for the year ending December 31, 2012.

| | <u>2012</u> |
|---|-------------------|
| Income | |
| Interest and dividends | \$ 87,407 |
| Realized gains (losses) on sales of securities | <u>(32,390)</u> |
| | <u>\$ 55,017</u> |
| Other changes in unrestricted net assets | |
| Unrealized gains (losses) on securities | <u>\$(11,668)</u> |

Note 4 - Related Party Transactions

The Agency leases, on an annual basis, real property from Dominican Sisters of Hope, Inc. Rent expense related to these leases is \$171,816 for the year ended December 31, 2012. At December 31, 2012, there were no amounts payable related to these leases.

Three of the eighteen board members of the Agency are also officers and board members of Family Home Health Care, Inc. ("F.H.H.C."), a nonprofit organization. During 1998 the board of directors of the Agency authorized cash advances to F.H.H.C. up to \$385,000 of which \$0 was advanced and outstanding at December 31, 2012. No interest was charged on the advance receivable. The Agency charged F.H.H.C. management fees of \$39,600 for the year ended December 31, 2012. Agency purchases, at cost, from F.H.H.C., totaled \$1,358,862 for the year ended December 31, 2012. Payables related to the purchases from F.H.H.C. amounted to \$339,347 at December 31, 2012.

A combined financial statement has been prepared for this entity and F.H.H.C. The effects of the combined financial statement on net assets and changes in net assets, if they were included in this financial statement, are as follows:

| | |
|---|--------------------|
| | <u>2012</u> |
| Increase (decrease) in net assets | <u>\$1,018,658</u> |
| Increase (decrease) in change in net assets | <u>\$ 205,058</u> |

Note 5 - Internally-Designated Assets

Assets set aside for board-designated purposes are classified as assets whose use is limited. The composition of the assets whose use is limited is as follows:

| | |
|--------------------------|----------------|
| | <u>2012</u> |
| Development Program Fund | |
| Cash | |
| Investments | <u>692,045</u> |
| | <u>692,045</u> |
| Dominican Memorial Fund | |
| Cash | 471 |
| Investments | <u>173,798</u> |
| | <u>174,269</u> |
| Family 2000 | |
| Cash | |
| Investments | <u>408,024</u> |
| | <u>408,024</u> |

| | <u>2012</u> |
|-----------------------------------|--------------------|
| Mary Walsh Fund | |
| Cash | |
| Investment | <u>11,138</u> |
| | <u>11,138</u> |
| Plant Replacement Fund | |
| Cash | |
| Investments | <u>649,370</u> |
| | <u>649,370</u> |
| Total cash | <u>471</u> |
| Total investments | <u>1,934,375</u> |
| Total assets whose use is limited | <u>\$1,934,846</u> |

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Agency has been limited by donors as to a specific time period or purpose restriction. All temporarily restricted net assets are released from time and purpose restrictions in the following year.

Note 7 - Third-Party Rate Adjustments and Revenue

The Agency derives a significant amount of net patient service revenue under federal and state third-party reimbursement programs. These revenues are based, in part, on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediaries. In the opinion of management, retroactive adjustments, if any, would not be material to the financial position or results of operations of the Agency. Effective October 1, 2000, Medicare switched to a prospective payment system which is not subject to retroactive adjustments.

Note 8 - Income from Elizabeth Seton Pediatric Center

Dominican Sisters Family Health Services, Inc. ("DSFHS") entered into a Management Agreement with Elizabeth Seton Pediatric Center ("ESPC") pursuant to which DSFHS will manage the ESPC pediatric Long Term Home Health Care Program ("LTHHCP"). This management agreement has been approved by the New York State Department of Health. Effective September 1, 2011, DSFHS will manage the day-to-day operation of the LTHHCP on behalf of ESPC in accordance with the management agreement. ESPC shall retain on-going responsibility for statutory and regulatory compliance. DSFHS will pay all expenses to operate and maintain the LTHHCP from the effective date. DSFHS

will be responsible for all losses or profits incurred by the LTHHCP during the term of the agreement. For the period of September, 2011 to December, 2011, ESPC made a profit of \$278,345. For the period of January 2012 to May 2012, ESPC made a profit of \$123,610. ESPC shall pay to DSFHS a management fee of \$4,000 per month. DSFHS sole source of payment shall be the LTHHCP's accounts receivable from September 1, 2012 up to and including the date of the termination of this agreement. The term of the management agreement shall begin September 1, 2011 and end on May 18, 2012 when the LTHHCP was transferred to DSFHS.

Note 9 - Statement of Activities

Contributions

The composition of contributions is as follows:

| | |
|-----------------------------------|------------------|
| | <u>2012</u> |
| Special event revenue | \$408,965 |
| Cost of direct benefits to donors | <u>186,796</u> |
| Net revenue from special events | 222,169 |
| Contributions from: | |
| Dominican Sisters of Hope, Inc. | |
| Ministry Trust | 15,000 |
| Other contributors | <u>469,769</u> |
| | <u>\$706,938</u> |

Fund raising expenditures included as administrative and general expenses amounted to \$315,459 for the year ended December 31, 2012.

Note 10 - Commitments and Contingencies

The Agency is committed to leases, the latest of which expires on April 30, 2022. Minimum lease payments for the years ended December 31st are scheduled as follows:

| | |
|------------|--------------------|
| 2013 | 531,655 |
| 2014 | 232,133 |
| 2015 | 192,801 |
| 2016 | 148,632 |
| 2017 | 148,632 |
| Thereafter | <u>698,120</u> |
| Total | <u>\$1,951,973</u> |

During 2000, the Agency obtained a line of credit in the amount of \$300,000. This line of credit was increased to \$600,000 as of April 1, 2005 and subsequently reduced to \$500,000 as of November 9, 2012.

The outstanding balance as of December 31, 2012 is \$199,055.

Note 11 - Pension Plan

Effective January 1, 2009, Dominican Sisters Family Health Service, Inc., established a 401(k) profit sharing plan. The plan is a defined contribution plan and is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). Participants may elect to contribute to the plan, up to the maximum allowable under the Internal Revenue Code (\$17,000 in 2012). Under the plan, the employer has the option of making either a safe harbor or discretionary matching contribution. An employer safe harbor contribution is 3% of each eligible participant's compensation while a discretionary contribution can be any percent that the employer approves. For the year ended December 31, 2012, the employer made a 3% discretionary contribution of \$422,339. Prior to 2009, the Agency was part of the multi-employer plan sponsored by the Archdiocese of New York. The Agency terminated its participation in that Plan on December 31, 2008.

Note 12 - Concentration of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors for 2012 is as follows:

| | |
|--------------------------|---------------|
| | <u>2012</u> |
| Medicare | 36.2% |
| Medicaid | 47.4 |
| Blue Cross | 3.2 |
| Other third-party payors | 12.5 |
| Patients | <u>.7</u> |
| | <u>100.0%</u> |

Cash and cash equivalents exceeding federally insured limits totaled \$2,072, at December 31, 2012.

Note 13 - Nonrecurring Item

Pension Plan Termination

As of December 31, 2008, the Agency terminated its participation in the Pension Plan. The Agency incurred a one time pension withdrawal expense of \$1,267,474 for unfunded present value of accrued pension benefits and employer administrative charges in 2008. The Archdiocese of New York has accepted a loan agreement from the Agency to repay the liability in sixty payments of \$24,285, including interest at 5.6% per annum.

Super Storm Sandy

In October 2012, the Agency incurred a loss of net patient service revenue due to the inability to service patients because of the effects of Super Storm Sandy.

Note 14 - Obligations Under Capital Leases

The Agency is the lessee of a network cable system under a capital lease expiring in 2012. The interest rate on the capitalized lease is 11.10% and is imputed based on the lessor's implicit rate of return. The Agency also is the lessee of computer hardware under a capital lease expiring in 2013. The interest rate on the new lease is 4.63% and is imputed based on the lessor's implicit rate of return. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments. The assets are depreciated over their estimated productive lives. Depreciation of assets under capital leases is included in depreciation expense.

Minimum future lease payments under the capital lease as of December 31, 2012, for the next two year are:

| | |
|------|------------------|
| 2013 | <u>\$ 25,211</u> |
|------|------------------|

Note 15 - Retroactive Adjustment

During the year 2012, Medicaid reduced its 2011 reimbursement in the amount of \$251,709. This prior year rate adjustment was recorded in 2012 by a reduction to net patient service revenue.

Note 16 - Subsequent Events

Date of Management Evaluation

Management has evaluated subsequent events through April 22, 2013, the date on which the financial statements were available to be issued.

Dominican Sisters Family Health Service, Inc.

**Schedule of Expenditures of Federal Awards
for the year ended December 31, 2012**

| <u>Federal Grantor/Pass-Through Grantor/ Program Title</u> | <u>Federal CFDA Number</u> | <u>Total Federal Expenditures</u> |
|---|--------------------------------|---|
| <u>U.S. Department of Health and Human Services:</u> | | |
| Social Service Block Grant - FY 2012 | 93-667 | \$ 647,124 |
| Ryan White, Title V Part D | 93-153 | 728,763 |
| Office of Minority Health (OMH) for Linkage to Life Title XVII | 93-137 | <u>472,457</u> |
| Total expenditures of federal awards | | <u>\$1,848,344</u> |

Dominican Sisters Family Health Service, Inc.

**Schedule of Prior Year Audit Findings
for the year ended December 31, 2012**

There were no questioned costs in the Dominican Sisters Family Health Service, Inc., federal programs for the year ended December 31, 2012.

Dominican Sisters Family Health Service, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *unqualified*

Internal control over financial reporting:

Material weakness(es) identified: yes no

Reportable condition(s) identified not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? yes no

Reportable condition(s) identified not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs: *unqualified*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? yes no

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 93-667 | Social Service Block Grant - FY 2012 |
| 93-153 | Ryan White, Title V Part D |

Dollar threshold used to distinguish between Type A and Type B programs: \$500,000

Auditee qualified as low-risk auditee: yes no

Section II - Financial Statement Findings

No matters were reported

**Section III - Federal Award Findings and
Questioned Costs**

No matters were reported

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

Board of Directors

Dominican Sisters Family

Health Service, Inc.

We have audited the financial statements of Dominican Sisters Family Health Service, Inc. as of and for the year ended December 31, 2012, and have issued our report thereon dated August 19, 2013. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dominican Sisters Family Health Service, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Dominican Sisters Family Health Service, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

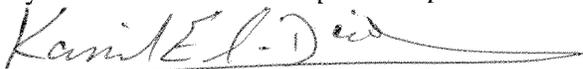
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the board of directors, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Kamel E. Deid", written over a horizontal line.

Melville, New York

August 19, 2013

KAMIL EL-DEIRY & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS

KAMIL R. EL-DEIRY, CPA

126 OLD EAST NECK ROAD
MELVILLE, NY 11747
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors

Dominican Sisters Family

Health Service, Inc.

Compliance

We have audited Dominican Sisters Family Health Service, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Dominican Sisters Family Health Service, Inc.'s major federal programs for the year ended December 31, 2012. Dominican Sisters Family Health Service, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Dominican Sisters Family Health Service, Inc.'s management. Our responsibility is to express an opinion on Dominican Sisters Family Health Service, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Dominican Sisters Family Health Service, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Dominican Sisters Family Health Service, Inc.'s compliance with those requirements.

In our opinion, Dominican Sisters Family Health Service, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Internal Control Over Compliance

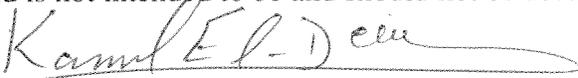
Management of Dominican Sisters Family Health Service, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Dominican Sisters Family Health Service, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Dominican Sisters Family Health Service, Inc.'s internal control over compliance.

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

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

Dominican Sisters Family Health Service, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Dominican Sisters Family Health Service, Inc.'s response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, Dominican Sisters Family Health Service, Inc., others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Melville, NY

August 19, 2013

DOMINICAN SISTERS FAMILY HEALTH SERVICE
 FAMILY LIFE PROGRAM I (FLP I)
 PROGRAM BUDGET IDENTIFICATION # 12 - GP-DOMSIS-BX
 STATEMENT OF REVENUES AND EXPENDITURES
 FOR THE YEAR ENDED 06/30/12

07-721 (07/01/11 - 06/30/12)

| | <u>CAPS APPROVED BUDGET</u> | <u>CAPS ACTUAL AMOUNTS</u> | <u>CAPS VARIANCE</u> | <u>QUESTIONED COSTS</u> |
|---|-------------------------------------|------------------------------------|--------------------------|-----------------------------|
| <u>REVENUES:</u> | | | | |
| ACS | 635,160 | 635,160 | - | - |
| TOTAL REVENUES | <u>635,160</u> | <u>635,160</u> | <u>-</u> | <u>-</u> |
| <u>EXPENDITURES:</u> | | | | |
| TOTAL EXPENDITURES | 635,160 | 635,160 | - | - |
| (Less) Questioned Costs | - | - | - | - |
| TOTAL ALLOWABLE COSTS | <u>635,160</u> | <u>635,160</u> | <u>-</u> | <u>-</u> |
| (Deficiency)/Excess of Revenue Over Expense | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Private Share | <u>28,000</u> | <u>28,000</u> | <u>-</u> | <u>-</u> |

FAMILY LIFE PROGRAM I (FLP I)
PROGRAM BUDGET IDENTIFICATION # 12 - GP-DOMSIS-BX
STATEMENT OF REVENUES AND EXPENDITURES
FOR THE PERIOD 01/01/12 - 06/30/12

07-721 (01/01/12 - 06/30/12)

| | CAPS APPROVED BUDGET | CAPS ACTUAL AMOUNTS | CAPS VARIANCE | QUESTIONED COSTS |
|---|----------------------------|---------------------------|------------------|---------------------|
| <u>REVENUES:</u> | | | | |
| ACS | 307,239 | 307,239 | - | - |
| TOTAL REVENUES | 307,239 | 307,239 | - | - |
| <u>EXPENDITURES:</u> | | | | |
| TOTAL EXPENDITURES | 307,239 | 307,239 | - | - |
| (Less) Questioned Costs | - | - | - | - |
| TOTAL ALLOWABLE COSTS | 307,239 | 307,239 | - | - |
| (Deficiency)/Excess of Revenue Over Expense | - | - | - | - |
| Private Share | 14,000 | 14,000 | - | - |

DOMINICAN SISTERS FAMILY HEALTH SERVICE
FAMILY LIFE PROGRAM I (FLP I)
PROGRAM BUDGET IDENTIFICATION # 13 - GP-DOMSIS-BX
STATEMENT OF REVENUES AND EXPENDITURES
FOR THE PERIOD 07/01/12 - 12/31/12

07-711 (07/01/12 -12/31/12)

| | <u>CAPS APPROVED BUDGET</u> | <u>CAPS ACTUAL AMOUNTS</u> | <u>CAPS VARIANCE</u> | <u>QUESTIONED COSTS</u> |
|---|-------------------------------------|------------------------------------|--------------------------|-----------------------------|
| <u>REVENUES:</u> | | | | |
| ACS | 339,885 | 339,885 | - | - |
| TOTAL REVENUES | 339,885 | 339,885 | - | - |
| <u>EXPENDITURES:</u> | | | | |
| TOTAL EXPENDITURES | 339,885 | 339,885 | - | - |
| (Less) Questioned Costs | | | - | - |
| TOTAL ALLOWABLE COSTS | 339,885 | 339,885 | - | - |
| (Deficiency)/Excess of Revenue Over Expense | - | - | - | - |
| Private Share | 14,000 | 14,000 | - | - |

DOMINICAN SISTERS FAMILY HEALTH SERVICE
 FAMILY LIFE PROGRAM I (FLP I)
 PROGRAM BUDGET IDENTIFICATION # 12 - GP-DOMMSIS-BX
 SCHEDULE OF SALARIES
 FOR THE YEAR ENDED 06/30/12

07-721 (07/01/11 - 06/30/12)

| <u>Employee Identification Code</u> | <u>Title</u> | <u>Salary Paid</u> |
|---|--------------------------|------------------------|
| | Program Director | 72,211 |
| | Asst Director/Supervisor | 61,331 |
| | Case Planners | 212,071 |
| | Administrative Assistant | 34,503 |
| | Therapist / LCSW | - |
| TOTAL | | <u><u>380,115</u></u> |

DOMINICAN SISTERS FAMILY HEALTH SERVICE
 FAMILY LIFE PROGRAM I (FLP I)
 PROGRAM BUDGET IDENTIFICATION # 12 - GP-DOMMSIS-BX
 SCHEDULE OF SALARIES
 FOR THE PERIOD 01/01/12 - 06/30/12

07-721 (01/01/12 - 06/30/12)

| <u>Employee Identification Code</u> | <u>Title</u> | <u>Salary Paid</u> |
|---|--------------------------|------------------------|
| | Program Director | 30,756 |
| | Asst Director/Supervisor | 28,483 |
| | Case Planners | 89,333 |
| | Administrative Assistant | 17,469 |
| | Office Clean/Maint. | 5,387 |
| TOTAL | | <u><u>171,428</u></u> |

DOMINICAN SISTERS FAMILY HEALTH SERVICE
FAMILY LIFE PROGRAM I (FLP I)
PROGRAM BUDGET IDENTIFICATION # 13 - GP-DOMMSIS-BX
SCHEDULE OF SALARIES
FOR THE PERIOD 07/01/12 -12/31/12

07-711 (07/01/12 - 12/31/12)

| <u>Employee Identification Code</u> | <u>Title</u> | <u>Salary Paid</u> |
|---|--------------------------|------------------------|
| | Program Director | 41,394 |
| | Asst Director/Supervisor | 36,648 |
| | Case Planners | 113,829 |
| | Administrative Assistant | 17,728 |
| | Office Clean/Maint. | 4,206 |
| TOTAL | | <u><u>213,804</u></u> |

DOMINICAN SISTERS FAMILY HEALTH SERVICE
FAMILY LIFE PROGRAM I (FLP I)
PROGRAM BUDGET IDENTIFICATION # 12 - GP-DOMSIS-BX
SCHEDULE OF FRINGE BENEFITS
FOR THE YEAR ENDED 06/30/12

07-721 (07/01/11 - 06/30/12)

| <u>Description</u> | <u>Actual</u> | <u>Actual Fringe % of PS Total Cost</u> |
|-----------------------|-------------------|---|
| FICA | \$ 28,255 | 7.43% |
| Health | \$ 48,996 | 12.89% |
| Worker's Compensation | \$ 5,515 | 1.45% |
| Unemployment | \$ 2,514 | 0.66% |
| MTA Tax | \$ 1,266 | 0.33% |
| Disability | \$ 290 | 0.08% |
| Other: | | |
| Pension | \$ 11,174 | 2.94% |
| Group Term Life | \$ 788 | 0.21% |
| Dental | \$ 2,433 | 0.64% |
| TOTAL | <u>\$ 101,232</u> | <u>26.63%</u> |

DOMINICAN SISTERS FAMILY HEALTH SERVICE
FAMILY LIFE PROGRAM I (FLP I)
PROGRAM BUDGET IDENTIFICATION # 12 - GP-DOMSIS-BX
SCHEDULE OF FRINGE BENEFITS
FOR THE PERIOD 01/01/12 - 06/30/12

07-721 (01/01/12 - 06/30/12)

| <u>Description</u> | <u>Actual</u> | <u>Actual Fringe % of PS Total Cost</u> |
|-----------------------|------------------|---|
| FICA | \$ 14,067 | 8.21% |
| Health | \$ 27,243 | 15.89% |
| Worker's Compensation | \$ 2,539 | 1.48% |
| Unemployment | \$ 684 | 0.40% |
| MTA Tax | \$ 625 | 0.36% |
| Disability | \$ 140 | 0.08% |
| Other: | | |
| Pension | \$ 5,700 | 3.32% |
| Group Term Life | \$ 393 | 0.23% |
| Dental | \$ 992 | 0.58% |
| TOTAL | <u>\$ 52,384</u> | <u>30.56%</u> |

DOMINICAN SISTERS FAMILY HEALTH SERVICE
FAMILY LIFE PROGRAM I (FLP I)
PROGRAM BUDGET IDENTIFICATION # 13 - GP-DOMSIS-BX
SCHEDULE OF FRINGE BENEFITS
FOR THE PERIOD 07/01/12 -12/31/12

07-711 (07/01/12 - 12/31/12)

| <u>Description</u> | <u>Actual</u> | <u>Actual Fringe % of PS Total Cost</u> |
|-----------------------|------------------|---|
| FICA | \$ 14,080 | 6.59% |
| Health | \$ 30,280 | 14.16% |
| Worker's Compensation | \$ 2,752 | 1.29% |
| Unemployment | \$ 485 | 0.23% |
| Disability | \$ 143 | 0.07% |
| MTA | \$ 626 | 0.29% |
| Other | | |
| Pension | \$ 5,306 | 2.48% |
| Group Term Life | \$ 390 | 0.18% |
| Dental | \$ 1,365 | 0.64% |
| TOTAL | <u>\$ 55,426</u> | <u>25.92%</u> |

DOMINICAN SISTERS FAMILY HEALTH SERVICE
FAMILY LIFE PROGRAM I (FLP I)
PROGRAM BUDGET IDENTIFICATION # 13 - GP-DOMSIS-BX
SCHEDULE OF FIXED ASSETS INVENTORY
FOR THE YEAR ENDED 07/01/12 - 12/31/12

07-711 (07/01/12 - 12/31/12)

| <u>Description</u> | <u>Serial Number</u> | <u>Date Purchased with ACS Funds</u> | <u>Cost</u> |
|--------------------|----------------------|--|-------------|
| TOTAL COST | | | - |

DOMINICAN SISTERS FAMILY HEALTH SERVICE
FAMILY LIFE PROGRAM I (FLP I)
PROGRAM BUDGET IDENTIFICATION # 12 - GP-DOMISIS-BX
SCHEDULE OF QUESTIONED COSTS
FOR THE YEAR ENDED 06/30/12

07-721 (07/01/11 - 06/30/12)

Questioned
Costs

Detailed Explanation of Questioned Costs

Budget Line Category

Please provide a detailed explanation of the questioned costs. Include such items as vendor name, why costs are being questioned and how the questioned costs were determined.

N/A

Budget Line Category

TOTAL QUESTIONED COSTS

=====

DOMINICAN SISTERS FAMILY HEALTH SERVICE
FAMILY LIFE PROGRAM I (FLP I)
PROGRAM BUDGET IDENTIFICATION # 12 - GP-DOMSIS-BX
SCHEDULE OF QUESTIONED COSTS
FOR THE PERIOD 01/01/12 - 06/30/12

07-721 (01/01/12 - 06/30/12)

Questioned
Costs

Detailed Explanation of Questioned Costs

Budget Line Category

Please provide a detailed explanation of the questioned costs. Include such items as vendor name, why costs are being questioned and how the questioned costs were determined.

N/A

Budget Line Category

TOTAL QUESTIONED COSTS

0

DOMINICAN SISTERS FAMILY HEALTH SERVICE
FAMILY LIFE PROGRAM I (FLP I)
PROGRAM BUDGET IDENTIFICATION # 13 - GP-DOMSIS-BX
SCHEDULE OF QUESTIONED COSTS
FOR THE PERIOD 07/01/12 - 12/31/12

07-711 (07/01/12 - 12/31/12)

Questioned
Costs

Detailed Explanation of Questioned Costs

Budget Line Category

Please provide a detailed explanation of the questioned costs. Include such items as vendor name, why costs are being questioned and how the questioned costs were determined.

N/A

Budget Line Category

TOTAL QUESTIONED COSTS
0

DOMINICAN SISTERS FAMILY HEALTH SERVICE
FAMILY LIFE PROGRAM I (FLP I)
PROGRAM BUDGET IDENTIFICATION # 12 - GP-DOMSIS-BX
SCHEDULE OF QUANTITATIVE PROGRAM RESULTS
FOR THE YEAR ENDED 06/30/12

07-721 (07/01/11 - 06/30/12)

QUANTIFIABLE INDICATORS

| | |
|--|----------|
| Number of open cases at beginning of period | 56 |
| Number of new cases during audit period | 46 |
| Number of cases serviced during audit period | 102 |
| Cases terminated | 46 |
| Cases open at June 30, 2012 | 56 |
| Cost per family | \$ 6,227 |

DOMINICAN SISTERS FAMILY HEALTH SERVICE
FAMILY LIFE PROGRAM I (FLP I)
PROGRAM BUDGET IDENTIFICATION # 12 - GP-DOMSIS-BX
SCHEDULE OF QUANTITATIVE PROGRAM RESULTS
FOR THE PERIOD 01/01/12 - 06/30/12

07-721 (01/01/12 - 06/30/12)

QUANTIFIABLE INDICATORS

| | |
|--|----------|
| Number of open cases at beginning of period | 55 |
| Number of new cases during audit period | 27 |
| Number of cases serviced during audit period | 82 |
| Cases terminated | 26 |
| Cases open at June 30, 2012 | 56 |
| Cost per family | \$ 3,747 |

DOMINICAN SISTERS FAMILY HEALTH SERVICE
FAMILY LIFE PROGRAM I (FLP I)
PROGRAM BUDGET IDENTIFICATION # 13 - GP-DOMSIS-BX
SCHEDULE OF QUANTITATIVE PROGRAM RESULTS
FOR THE PERIOD 07/01/12 - 12/31/12

07-711 (07/01/12 -12/31/12)

QUANTIFIABLE INDICATORS

| | |
|--|----------|
| Number of open cases at beginning of period | 56 |
| Number of new cases during audit period | 24 |
| Number of cases serviced during audit period | 80 |
| Cases terminated | 27 |
| Cases open at December 31, 2012 | 53 |
| Cost per family | \$ 4,249 |