

DOMINICAN SISTERS FAMILY
HEALTH SERVICE, INC.

Financial Statements
December 31, 2014

Dominican Sisters Family Health Service, Inc.

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December 31, 2014**

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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, 2014, and the related statements of activities, functional expenses, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 May 5, 2014, on our consideration of Dominican Sisters Family Health Service, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Dominican Sisters Family Health Service, Inc.'s internal control over financial reporting and compliance.

Kamil Edeiry

Melville, New York
May 5, 2014

DOMINICAN SISTERS FAMILY HEALTH SERVICE, INC.

**Balance Sheet
December 31, 2014**

Assets

Current assets	
Cash and cash equivalents	\$ 174,217
Investments	202,698
Accounts receivable, net	4,227,186
Grants receivable	135,727
Promises to give	7,000
Other receivables	350,966
Prepays	237,917
 Total current assets	 5,335,711
 Assets whose use is limited	
Cash	134,030
Investments	1,933,449
	<hr/>
Total assets whose use is limited	2,067,479
	<hr/>
Fixed assets, net	756,174
 Intangible assets	
Goodwill	515,000
 Other assets	
Deposits	56,307
	<hr/>
	56,307
	<hr/>
 Total assets	 \$ 8,730,671

See accompanying notes to financial statements.

Liabilities and Net Assets

Current liabilities	
Accounts payable	\$ 4,549,782
Accrued salaries and expenses	2,171,868
Due third party payors	267,652
Current portion of loan payable	69,653
Loan payable -others	<u>925,000</u>
 Total current liabilities	 <u>7,983,955</u>
 Long-term liabilities	
Loan payable, net of current portion	154,438
 Total liabilities	 8,138,393
 Net assets	
Unrestricted	406,428
Temporarily restricted	185,850
Total net assets	592,278
 Total liabilities and net assets	 \$ 8,730,671

DOMINICAN SISTERS FAMILY HEALTH SERVICE, INC.

**Statements of Activities
for the year ended December 31, 2014**

	Unrestricted	Temporarily Restricted	2014 <u>Total</u>
Revenue, gains and other support			
Patient revenue, net of contractual allowances	\$ 37,414,827	\$	\$ 37,414,827
Provision for bad debt	{447,261}		{447,261}
Net patient revenue	36,967,566		36,967,566
Net assets released from restrictions	337,667	(337,667)	
Other operating revenue	960,904		960,904
Contributions	<u>373,945</u>	<u>423,628</u>	<u>797,573</u>
 Total revenue, gains and other support	 <u>38,640,082</u>	 <u>85,961</u>	 <u>38,726,043</u>
Expenses:			
Salaries and benefits	27,878,261		27,878,261
Purchase service	7,049,725		7,049,725
Medical supplies	219,420		219,420
Waiver services	97,810		97,810
Travel expenses	590,554		590,554
Repair and maintenance	537,244		537,244
Office supplies and expenses	826,027		826,027
Professional fees	1,119,984		1,119,984
Communication expenses	398,117		398,117
Other administrative expenses	86,028		86,028
Training, seminars and tuition expenses	79,721		79,721
Assessment tax	143,717		143,717
Interest expenses	30,699		30,699
Occupancy	789,215		789,215
Depreciation expenses	<u>237,233</u>		<u>237,233</u>
 Total expenses	 <u>40,083,755</u>		 <u>40,083,755</u>
Operating income (loss)	(1,443,673)	85,961	(1,357,712)
Other income			
Investment income	28,133		28,107
Unrealized (losses) on securities	<u>0,785</u>		<u>0,785</u>
Change in net assets	(1,423,325)	85,961	(1,337,364)
Net assets, beginning of year	<u>1,829,753</u>	<u>99,889</u>	<u>1,929,642</u>
Net assets, end of year	<u>\$ 406,428</u>	<u>\$ 185,850</u>	<u>\$ 592,278</u>

See accompanying notes to financial statements.

DOMINICAN SISTERS FAMILY HEALTH SERVICE, INC.

**Statements of Cash Flows
for the year ended December 31, 2014**

Cash flows from operating activities	
Change in net assets	<u>\$(1,337,363)</u>
Adjustments to reconcile change in net assets to cash provided by (used in) operating activities	
Depreciation	237,233
Allowance for Doubtful Accounts	155,176
Net realized and unrealized (gains) losses on investments	48,803
Changes in assets and liabilities	
Accounts receivable	142,236
Other current assets	(147,863)
Accounts payable and accrued expenses	1,014,106
Due third party payors	<u>(579,495)</u>
	870,196
Net cash provided by (used in) operating activities	<u>(467,167)</u>
Cash flows from investing activities	
Sale of investments	946,348
Purchases of investments	(1,011,601)
Payments to acquire fixed assets	(102,580)
Deposits	
Net cash (used in) provided by investing activities	<u>(167,833)</u>
Cash flows from financing activities	
Proceeds from loan payable	858,096
Repayment of loan payable	(194,278)
Principal payments under capital lease obligation	
Net cash (used in) financing activities	<u>663,818</u>
Net decrease in cash and cash equivalents	28,818
Cash and cash equivalents, beginning of year	<u>279,429</u>
Cash and cash equivalents, end of year	<u>\$ 308,247</u>
Reconciliation of cash and cash equivalents to the statement of net assets:	
Cash and cash equivalents in current assets	\$ 174,217
Cash and cash equivalents in assets whose use is limited	134,030
Total cash and cash equivalents	\$ 308,247
See accompanying notes to financial statements.	

DOMINICAN SISTERS FAMILY HEALTH SERVICE, INC.

Notes to Financial Statements

December 31, 2014

Note I - 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 \$30,669 in interest in the year ended December 31, 2014. The Agency did not pay income taxes applicable to unrelated business income in the year ended December 31, 2014. An equipment loan obligation totaling \$350,000 was incurred when the Agency entered into equipment loan agreement with Key Bank in January 2013 which expires in January 2018. The loan is bearing interest of 4.03331 % and monthly installment is \$6,451.05.

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, 2014:

	<u>Balance as of</u> <u>01/01/2014</u>	<u>Provision for</u> <u>Bad Debt</u>	<u>Write-offs</u>	<u>Balance as of</u> <u>12/31/2014</u>
Third-Party Payor	\$324,455	423,598	(273,895}	\$474,158
Self Pay	<u>11,859</u>	<u>23,663</u>	<u>(18,191)</u>	<u>17,331</u>
TOTAL	<u>\$336,314</u>	<u>\$447,261</u>	<u>\$(292,086)</u>	<u>\$491,489</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 before Provision for Bad Debt

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:

Third-Party Payor	\$37,399,170
Self-Pay	<u>15,657</u>
TOTAL	<u>\$37,414,827</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 \$36,530 for the year ended December 31, 2014.

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, 2014, is \$642,675.

Note 2-Fixed Assets

The composition of fixed assets is as follows:

Leasehold improvements	\$596,843
Furniture and fixtures	341,232
Computerization	3,188,799
Building	<u>321,174</u>
	4,448,048
Less accumulated depreciation	<u>3,719,178</u>
	728,870
Land	<u>27,304</u>
Fixed assets, net	<u>\$756,174</u>

Note 3-Investments

Fair values of investments measured on a recurring basis at December 31, 2014 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government and agency debt securities	\$ 610,689	\$ 610,689		
Corporate debt securities	1,176,741	1,176,741		
Short-term investments	147,597	147,597		
Institutional investors income fund	152,698		152,698	
Cardinal Health Partners IPA, LLC	50,000			50,000
Equity	4A22	4,422		
	\$2,136,147	\$1,933,449	\$ 152,698	\$50,000

Investments are classified on the balance sheet as follows:

Investments whose use is limited	\$1,933,449
Investments	<u>202,698</u>
	<u>\$2,136,147</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. Fair value for Level 3 investments cannot be determined by reference to market prices and can only be determined by using management's estimates or risk adjuster value ranges.

Investment fees included in administrative and general expense for the year ended December 31, 2014, are \$4,819. Investment income and gains for assets limited as to use and cash equivalents are comprised of the following for the year ending December 31, 2014.

Investment Income	
Interest and dividends	\$ 58,337
Realized gains (losses) on sales of securities	<u>{30.204}</u>
	<u>\$ 28.133</u>
Other changes in unrestricted net assets	
Unrealized gains (losses) on securities	<u>\$(7.785)</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 \$ 190,608 for the year ended December 31, 2014. At December 31, 2014, 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. The Agency charged F.H.H.C. management fees of \$52,272 for the year ended December 31, 2014. Agency purchases, at cost, from F.H.H.C., totaled \$1,289,026 for the year ended December 31, 2014. Payables related to the purchases from F.H.H.C. amounted to \$39,104 at December 31, 2014.

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>2014</u>
Increase (decrease) in net assets	<u>\$1,757,616</u>
Increase (decrease) in change in net assets	<u>\$</u>
	<u>212,880</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>2014</u>
Development Program Fund	
Investments	<u>691,830</u>
	<u>691,830</u>
Dominican Memorial Fund	
Cash	134,030
Investments	<u>173,613</u>
	<u>307,643</u>

Family 2000	
Investments	<u>407,765</u>
	<u>407,765</u>
Mary Walsh Fund	
Investment	<u>11,138</u>
	<u>11,138</u>
Plant Replacement Fund	
Investments	<u>649,103</u>
	<u>649,103</u>
Total cash	134,030
Total investments	<u>1,933,449</u>
Total assets whose use is limited	<u>\$2,067,479</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-Statement of Activities

Contributions

The composition of contributions is as follows:

	<u>2014</u>
Special event revenue	\$529,871
Cost of direct benefits to donors	<u>217,956</u>

	<u>2014</u>
Net revenue from special events	311,915
Contributions from:	
Dominican Sisters of Hope, Inc.	
Ministry Trust	16,698
Other contributors	<u>468,960</u>
	<u>\$797,573</u>

Fund raising expenditures included as administrative and general expenses amounted to \$366,884 for the year ended December 31, 2014.

Note 9-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:

2015	222,321
2016	153,552
2017	148,632
2018	157,640
2019	162,144
Thereafter	<u>379,236</u>
Total	<u>\$1,223,525</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, reduced to \$500,000 as of November 9, 2012 and subsequently increased to \$1,000,000 as of February 28, 2014.

The outstanding balance as of December 31, 2014 is \$925,000.

Note IO-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 (\$17,500 in 2014). 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, 2014, the employer made a 3% discretionary contribution of \$ 436,479. 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 II -Concentration of Credit Risk

The Agency 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 2014 is as follows:

	<u>2014</u>
Medicare	40.1%
Medicaid	12.5
Blue Cross	3.3
Other third-party payors	43.8
Patients	<u>.3</u>
	<u>100.0%</u>

Cash and cash equivalents exceeding federally insured limits totaled \$ 0 , at December 31, 2014.

Note 12-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 i

nterest at 5.6% per annum.

Note 13-Subsequent Events

Date of Management Evaluation

Management has evaluated subsequent events through May 5, 2014, 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, 2014**

<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>		
Family Life Program 1 (FLP1) Social Service Block Grant - FY 2014	93-667	641,510
Ryan White, Title V Program, Part D	93-153	495,752
Office of Minority Health (OMH) for Linkage to Life Title XVII	93-137	<u>304,422</u>
Total expenditures of federal awards		1,441,684

Dominican Sisters Family Health Service, Inc.

Schedule of Prior Year Audit Findings
for the year ended December 31, 2014

There were no questioned costs and/or prior year audit findings to be disclosed in the Dominican Sisters Family Health Service, Inc., federal programs for the year ended December 31, 2014.

Dominican Sisten Family Health Service, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2014

Section I Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *unmodified*

Internal control over financial reporting:

Material weakness(es) identified: _____yes x no

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

Noncompliance material to financial statements noted? _____yes x no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____yes x no

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

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

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

Identification of major programs:

CFDA Number(s)

93-667

93-137

Name of Federal Program or
Cluster Family Life Program 1
(FLPI)

Social Service Block Grant - FY 2013

Office of Minority Health (OMH) for
Linkage to Life Title XVII

Dollar threshold used to distinguish between

Type A and Type B programs:

\$500,000

Auditee qualified as low-risk auditee:

 x yes

no

Section II - Financial Statement Findings

No matters were reported

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

No matters were reported

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133**

Board of Directors

Dominican Sisters Family

Health Service, Inc.

Report on Compliance for Each Major Federal Program

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, 2014. 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.

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Dominican Sisters Family Health Service, Inc. complied, in all material respects, with the types of 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, 2014.

Report on 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 types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Dominican Sisters Family Health Service, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Kamil Eldeiry

Melville, NY
October 14, 2015

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

Board of Directors
Dominican Sisters Family
Health Service, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Dominican Sisters Family Health Service, Inc. (A non profit organization), which comprise the statement of financial position as of and for the year ended December 31, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 14, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Dominican Sisters Family Health Service, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Dominican Sisters Family Health Service, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Dominican Sisters Family Health Service, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dominican Sisters Family Health Service, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kamil Eldeiry

Melville, New York
October 14, 2015