

REPORT

ST. MARGARET'S DAUGHTERS HOME

MARCH 31, 2013

ST. MARGARET'S DAUGHTERS' HOME

REPORT INDEX

MARCH 31, 2013

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WILLIAM G. STAMM, C.P.A.
LINDSAY J. CALUB, C.P.A., L.L.C.
GUY L. DUPLANTIER, C.P.A.
MICHELLE H. CUNNINGHAM, C.P.A.
DENNIS W. DILLON, C.P.A.
GRADY C. LLOYD, III, C.P.A.

HEATHER M. JOVANOVIICH, C.P.A.
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INDEPENDENT AUDITOR'S REPORT

June 23, 2014

Board of Directors
St. Margaret's Daughters' Home
New Orleans, Louisiana

We have audited the accompanying financial statements (as listed in the report index) of the St. Margaret's Daughters Home (the Organization), as of and for the year ended March 31, 2013, and the related notes to the financial statements which collectively comprise the Organization's 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 of material misstatement.

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

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

Basis for Qualified Opinion

We were unable to substantiate the beginning accounts receivable, stated at \$1,882,426 at March 31, 2012 and the ending accounts receivable stated at \$2,412,921 at March 31, 2013, and we were unable to satisfy ourselves as to these balances by various additional audit procedures. Any misstatement of these balances would affect the results of operations for the year ended March 31, 2013.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of St. Margaret's Daughters Home as of March 31, 2013, and the results of its operations and its cash flows for the years 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 that collectively comprise the St. Margaret's Daughters Home's basic financial statements. The schedule of expenditures of federal awards, as required by U.S. 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 basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic 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 June 23, 2014 on our consideration of St. Margaret's Daughters Home's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 St. Margaret's Daughters Home's internal control over financial reporting and compliance.

Duplantier, Chapman, Hogan & Mosher LLP

ST. MARGARET'S DAUGHTERS HOME
STATEMENT OF FINANCIAL POSITION
MARCH 31, 2013

ASSETS

CURRENT ASSETS:

Cash (Notes 1 and 2)	\$ 400,248
Restricted cash - resident trust funds (Note 1)	38,898
Restricted cash - parking lot project (Note 1)	32,041
Accounts receivable (Note 1)	2,412,921
Employee advances	29,837
Interest receivable (Note 7)	29,333
Total current assets	<u>2,943,278</u>

PROPERTY AND EQUIPMENT -

(Notes 1 and 3) (net of accumulated depreciation of \$2,638,933)	10,577,775
Mercy Property (Note 3)	34,466,491
Total property and equipment	<u>45,044,266</u>

OTHER ASSETS:

Deposits	10,199
Due from related party (Note 7)	754,551
Investment in limited liability company (Note 7)	26,943
Total other assets	<u>791,693</u>
TOTAL ASSETS	<u>\$ 48,779,237</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 2,018,727
Accrued interest payable	176,802
Accrued wages and other expenses	121,983
Developer fee payable (Note 7)	5,084,963
Due to residents	38,898
Current portion of note payables (Note 4)	184,306
Line of credit (Note 5)	415,000
Total current liabilities	<u>8,040,679</u>

LONG-TERM LIABILITIES:

Non-current portion of note payables (Note 4)	24,563,590
Investment in limited liability company (Note 7)	971,389
Total long-term liabilities	<u>25,534,979</u>
Total liabilities	33,575,658

NET ASSETS:

Unrestricted	15,171,579
Temporarily restricted (Note 8)	32,000
Total net assets	<u>15,203,579</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 48,779,237</u>

The notes to the financial statements are an integral part of this statement.

ST. MARGARET'S DAUGHTERS HOME
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2013

UNRESTRICTED NET ASSETS:	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	Total
Revenue and other support:				
Medicaid program	\$ 3,867,289	\$ -	\$ -	\$ 3,867,289
Private patients	1,688,553	-	-	1,688,553
Medicare program	817,682	-	-	817,682
Hospice board	292,362	-	-	292,362
Donations	404,576	-	-	404,576
FEMA disaster assistance	10,038,214	-	-	10,038,214
Other income	162,461	-	-	162,461
Management fees	31,851	-	-	31,851
Loss on investment in limited liability companies (Note 7)	(29,418)	-	-	(29,418)
Interest	32,737	-	-	32,737
Bad debt recovery	50,885	-	-	50,885
Total unrestricted revenues and (losses)	<u>17,357,192</u>	<u>-</u>	<u>-</u>	<u>17,357,192</u>
EXPENSES:				
Program services (Page 6)	14,026,269	-	-	14,026,269
General and administrative (Page 6)	989,896	-	-	989,896
Total expenses	<u>15,016,165</u>	<u>-</u>	<u>-</u>	<u>15,016,165</u>
Change in net assets	2,341,027	-	-	2,341,027
NET ASSETS - beginning of year	<u>12,830,552</u>	<u>32,000</u>	<u>-</u>	<u>12,862,552</u>
NET ASSETS - end of year	<u>\$ 15,171,579</u>	<u>\$ 32,000</u>	<u>\$ -</u>	<u>\$ 15,203,579</u>

The notes to the financial statements are an integral part of this statement.

ST. MARGARET'S DAUGHTERS HOME
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED MARCH 31, 2013

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total</u>
Activities	\$ 13,174	\$ -	\$ 13,174
Advertising (Note 1)	-	66,186	66,186
Automobile	24,130	-	24,130
Bank charges	-	2,791	2,791
Consultants	39,507	-	39,507
Depreciation and amortization	408,438	102,109	510,547
Donations (Note 7)	8,580,591	-	8,580,591
Dues and subscriptions	14,907	-	14,907
Food	339,369	-	339,369
Gifts	-	2,680	2,680
Health insurance	78,555	19,639	98,194
Interest	-	8,792	8,792
Licenses and permits	2,567	-	2,567
Maintenance	152,324	-	152,324
Materials and supplies	79,299	8,811	88,110
Meals	44,671	633	45,304
Miscellaneous	10,454	10,453	20,907
Medicare	474,618	-	474,618
Nursing supplies	238,413	-	238,413
Office supplies, postage and printing	-	32,726	32,726
Patient bed fees	325,632	-	325,632
Payroll taxes	197,904	49,476	247,380
401(k) expense (Note 6)	1,994	499	2,493
Professional fees	90,521	22,630	113,151
Property and casualty insurance	159,558	39,890	199,448
Salaries and wages	2,400,505	600,126	3,000,631
Seminars and workshops	40,366	-	40,366
Telephone	21,188	2,354	23,542
Transportation	68,335	-	68,335
Travel	38,340	-	38,340
Utilities	180,909	20,101	201,010
	<u>180,909</u>	<u>20,101</u>	<u>201,010</u>
Total Expenses	<u>\$ 14,026,269</u>	<u>\$ 989,896</u>	<u>\$ 15,016,165</u>

The notes to the financial statements are an integral part of this statement.

ST. MARGARET'S DAUGHTERS HOME
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 2,341,027
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	510,547
Loss on investment in limited liability companies	29,418
(Increase) decrease in operating assets:	
Accounts receivable	(530,495)
Due from FEMA	4,170,077
Employee advances	2,726
Interest receivable	18,984
Deposits	(10,199)
Increase (decrease) in operating liabilities:	
Accounts payable	(2,886,786)
Accrued wages and other expenses	(25,564)
Due to residents	2,047
Net cash provided by operating activities	<u>3,621,782</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Loans to related parties	(41,852)
Additions to Mercy Property	(15,820,175)
Purchase of property and equipment	(81,431)
Net cash used in investing activities	<u>(15,943,458)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from line of credit	765,000
Payments on line of credit	(528,787)
Proceeds from notes payable	3,370,359
Principal payments on notes payable	(36,486)
Net cash provided by financing activities	<u>3,570,086</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS

(8,751,590)

Cash and cash equivalents - beginning of year

9,222,777

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 471,187

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for interest

\$ 549,081

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES:

Mercy Property capitalization of accrued interest payable

\$ 176,802

Mercy Property capitalization of developer fee payable

\$ 5,084,963

The notes to the financial statements are an integral part of this statement.

ST. MARGARET'S DAUGHTERS HOME
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013

ORGANIZATION:

St. Margaret's Daughters Home (the Organization) was established to provide quality nursing services, and daily living necessities for residents in a household environment, with a non-profit mission to serve the indigent and elderly poor residents. Program revenue sources are derived from board income and skilled nursing services income, grants, donations, and investment income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A summary of the Organization's significant accounting policies applied in the preparation of the accompanying financial statements follows:

Basis of Accounting and Financial Statement Presentation:

The financial statements are prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

The Organization's financial statements comply with Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements*. Under ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a Statement of Cash Flows.

The statement of activities presents expenses of the Organization's operations functionally between program services and general and administrative. Those expenses which cannot be functionally categorized are allocated between functions based upon management's estimate of usage applicable to conducting those functions.

Accounts Receivable:

Accounts receivable are carried at net realizable value and represent amounts due from residents of St. Margaret's Daughters' Home and other entities that have an obligation to St. Margaret's Daughters' Home in exchange for services. Management has elected to charge the write-offs of accounts receivable directly to bad debt expense in the year such accounts are determined to be uncollectible. Use of this method does not result in a material difference from the valuation method required by accounting principles generally accepted in the United States of America, as management expects accounts receivable to be fully collectible. Receivable balances are unsecured.

Contributions:

The Organization accounts for contributions in accordance with Accounting Standards Codification (ASC) 958-605. Contributions received are recorded as unrestricted, temporarily restricted, and permanently restricted support depending on the existence and/or nature of any donor restrictions.

ST. MARGARET'S DAUGHTERS HOME
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Income Taxes:

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

Cash and Cash Equivalents:

For purposes of the Statement of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Restricted Cash:

Restricted cash consists of cash held in trust for the Organization's residents and cash available for a parking lot project.

Property and Equipment:

Acquisitions of property and equipment in excess of \$2,000 are capitalized. Property and equipment are stated at acquisition cost, or estimated historical cost if acquisition cost is not available. Depreciation is provided for in amounts sufficient to relate the cost of depreciable property and equipment to operations over their estimated useful lives using accelerated methods. Routine repairs and maintenance are expensed as incurred. Estimated useful lives of property and equipment are as follows:

Automobiles	5 years
Furniture and fixtures	5 - 7 years
Machinery and equipment	7 years
Buildings and improvements	39 years

Advertising:

The cost of advertising is charged to expense as incurred. The total advertising expense incurred was \$66,186 for the year ended March 31, 2013.

2. CASH:

At March 31, 2013, the company maintained cash balances in several local banks. The bank balances and book balances as of March 31, 2013 were as follows:

	<u>Book</u> <u>Balances</u>	<u>Bank</u> <u>Balances</u>
Checking and saving accounts	\$ 470,837	\$ 610,856
Petty cash	<u>350</u>	<u>-</u>
Total cash	<u>\$ 471,187</u>	<u>\$ 610,856</u>

ST. MARGARET'S DAUGHTERS HOME
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013

2. CASH: (Continued)

Funds deposited by the Organization are insured by the Federal Deposit Corporation up to a maximum of \$250,000 per institution for interest bearing and non-interest bearing accounts. For the year ended March 31, 2013, the Organization had cash on deposit (bank balances) in excess of FDIC insurance limits of \$338,796 as of March 31, 2013.

3. PROPERTY AND EQUIPMENT

Below is a summary of activity in the St. Margaret's Daughters' Home property and equipment accounts for the year ended March 31, 2013:

	Balance April 1, <u>2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance March 31, <u>2013</u>
Automobiles	\$ 184,350	\$ 39,927	\$ --	\$ 224,277
Buildings	11,438,139	3,500	--	11,441,639
Furniture and fixtures	663,604	38,004	--	701,608
Machinery and equipment	<u>849,184</u>	<u>--</u>	<u>--</u>	<u>849,184</u>
	13,135,277	81,431	--	13,216,708
Accumulated depreciation	<u>(2,128,386)</u>	<u>(510,547)</u>	<u>--</u>	<u>(2,638,933)</u>
Net property and equipment	<u>\$ 11,006,891</u>	<u>\$ (429,116)</u>	<u>\$ --</u>	<u>\$ 10,577,775</u>

Depreciation expense totaled \$510,547 during the year ended March 31, 2013.

For the year ended March 31, 2011, the Organization purchased the Lindy Boggs Medical Center which was formerly known as Mercy Hospital (the Hospital). The Hospital sustained significant flooding and wind damage from Hurricane Katrina, and was subsequently shut down. The Organization created a condominium regime for the Hospital. The Hospital consisted of three separate dilapidated shell structures. The structures are denoted as Building A, Building B, and Building C, which combined have a total of 380,700 square feet. The Organization renovated Building A and placed it in service on May 28, 2013. Building A houses the nursing home and health services provider. Building B and Building C were donated to St. Margaret's Foundation (a related party). As of March 31, 2013, the cost basis of Building A of the Hospital, which includes the purchase price and capitalized costs, is \$34,466,491.

The Organization capitalized interest expense as a component of the construction costs of Building A of the Hospital. For the year ended March 31, 2013, capitalized interest expense was \$717,091.

ST. MARGARET'S DAUGHTERS HOME
 NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013

4. NOTES PAYABLE:

A summary of notes payable consist of the following as of March 31, 2013:

Note payable dated July 13, 2010 used to purchase a vehicle; the interest rate is 6.60% and the term is sixty months. The vehicle is pledged as collateral on the note. \$ 18,067

Note payable dated September 14, 2011 used to purchase a vehicle; the interest rate is 6.34% and the term is sixty months. The vehicle is pledged as collateral on the note. 31,495

Note payable dated March 11, 2013 used to purchase a vehicle; the interest rate is 4.00% and the term is forty-eight months. The vehicle is pledged as collateral on the note. 39,926

Note payable dated April 29, 2010 to Enhanced Capital New Market Development Fund III, LLC; the interest rate is 83.015% of the sum of LIBOR plus 2.0%, from the date of each advance, currently 3.32%. Interest is paid quarterly with the outstanding principal due on April 29, 2017. The note is secured by the mortgage, assignment of construction documents, guaranty, deposit account security agreements by the Organization in favor of the Lenders, together with Control Agreement-Deposit Account, executed by the Bank and Lenders, and mortgage, security agreement and assignment of leases and rents bearing against the existing facility. 11,300,000

Note payable dated April 29, 2010 to Community Development Fund III, L.L.C.; the interest rate is 83.015% of the sum of LIBOR plus 2.0%, from the date of each principal advance under this note, currently 3.32%. Interest is paid quarterly with the outstanding principal due on April 29, 2017. The note is secured by the mortgage, assignment of construction documents, guaranty, deposit account security agreements by the Organization in favor of the Lenders, together with Control Agreement-Deposit Account, executed by Bank and Lenders, and mortgage, security agreement and assignment of leases and rents bearing against the existing facility. Terms of the agreement require the Organization to maintain certain financial covenants. 10,000,000

ST. MARGARET'S DAUGHTERS HOME
 NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013

4. NOTES PAYABLE: (Continued)

Note payable to Becker Professional Education dated November 7, 2011. Principal payments are \$245.50 per month, beginning on December 15, 2011 and ending on May 15, 2013. The interest rate on the note is 0%. 491

Note payable to Newcorp Business Assistance Center dated April 24, 2010. Principal only payments are \$1,481 per month, beginning on April 24, 2010 and ending on September 24, 2011. The interest rate is 0% from April 24, 2010 to September 24, 2011 and 4% thereafter. Beginning on September 24, 2011, the Organization began paying monthly principal and interest, ending September 24, 2014. The note is unsecured. 27,485

Note payable dated June 24, 2011 to St. Margaret's Foundation (a related party) with an annual interest rate of 1%. The Organization can borrow up to \$3,500,000 on the note payable. Principal and interest payments on the note payable begin in June 2013 and end in June 2031. The note payable is unsecured. Subsequent to March 31, 2013, the Organization borrowed the remaining \$168,568 available on the note payable. 3,330,432

Less Current Portion (184,306)
 Total long-term debt \$ 24,563,590

Maturities of long term debt for the next five years are as follows:

2014	\$ 184,306
2015	206,166
2016	194,341
2017	189,255
2018	21,475,466
Thereafter	<u>2,498,362</u>
	<u>\$ 24,747,896</u>

ST. MARGARET'S DAUGHTERS HOME
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013

5. LINE OF CREDIT:

The Organization may draw up to \$850,000 from an unsecured revolving line of credit (the line). As of March 31, 2013, the Organization had outstanding borrowings under the line of credit of \$415,000. The Organization will pay the line in full immediately upon lender's demand. If no demand is made, the Organization will pay the line in one payment of all outstanding principal plus all accrued unpaid interest on April 29, 2014. In addition, the Organization will make regular monthly interest payments until the line is paid in full. The line carries a variable interest rate. At March 31, 2013, the interest rate was 3.75%. St. Margaret's Foundation (a related party) is the guarantor on the line of credit. During 2014, the maturity date of the line was subsequently extended until July 29, 2014.

6. RETIREMENT PLAN:

St. Margaret's Daughters' Home has a 401(k) plan covering all paid employees with at least six months of service. St. Margaret's Daughters' Home contributes 1.5% of participating employees' annual salaries. There is no minimum contribution required by eligible employees to receive organization match. For the year ended March 31, 2013, the retirement expense for the plan was \$2,493.

7. RELATED PARTY TRANSACTIONS:

St. Margaret's Daughters Home engaged in transactions with related parties as follows:

St. Margaret's Foundation:

St. Margaret's Daughters Home created St. Margaret's Foundation, a special purpose entity wholly controlled by St. Margaret's Daughters Home with the same board of directors. St. Margaret's Daughters Home acquired the Lindy Boggs Medical Center, formerly known as Mercy Hospital, with the proceeds of a new market tax credit equity investment and loan proceeds. St. Margaret's Daughters Home donated Condo B and C of the former Mercy Property to St. Margaret's Foundation and has also donated cash to St. Margaret's Foundation. The donations are required as the tax credit requires the flow of funds to go a certain qualified active low income community business. Tax credit eligibility is based on the project, such as community need, therefore, the type of project and location of property play a part in eligibility. The tax credit requires a qualified community agency to steward the project. For the year ended March 31, 2013, donations received from St. Margaret's Foundation amounted to \$49,959. For the year ended March 31, 2013, the Organization donated \$8,576,391 to St. Margaret's Foundation.

For the year ended March 31, 2013, a development services agreement (the agreement) was signed between the Organization and St. Margaret's Foundation for certain services related to the development and rehabilitation of the Mercy Property. \$5,084,963 was accrued and capitalized during the year related to the agreement.

ST. MARGARET'S DAUGHTERS HOME
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013

7. RELATED PARTY TRANSACTIONS: (Continued)

St. Luke's Pharmacy Services, LLC:

In December 2009, the Organization acquired a 50% interest in St. Luke's Pharmacy Services, LLC. and made an initial contribution of \$50,000 at that time. This investment is accounted for using the equity method of accounting for investments. At March 31, 2013, the balance of the investment was \$26,943. For the year ended March 31, 2013, a loss in the amount of \$2,528 has been reported as a loss on investments in limited liability companies. The Organization has not made any additional contributions or commitments.

St. Margaret's Home Health & Hospice, LLC:

In April 2008, the Organization acquired a 50% interest in St. Margaret's Home Health and Hospice, LLC and made an initial capital contribution of \$250,000. This investment is accounted for using the equity method of accounting for investments. At March 31, 2013, the balance of the investment was (\$971,389). For the year ended March 31, 2013, a loss in the amount of \$26,890 has been reported as a loss on investments in limited liability companies.

The Organization has not made any additional contributions or commitments.

St. Margaret's Home Health & Hospice has borrowed various amounts from the Organization. At March 31, 2013, the loan balance due to the Organization was \$754,551. The loan bears interest at a floating rate equal to the lesser of two percentage points, in excess of the prime rate. Interest receivable on the loan at March 31, 2013 was \$29,333. The loan is due on demand.

St. Margaret's Pharmacy Services:

Mr. Larry Stansberry, President of St. Margaret's Daughters Home, is a board member of St. Margaret's Pharmacy Services. At March 31, 2013, St. Margaret's Pharmacy Services owed the Organization \$-0-.

St. Luke's Medical Center:

Mr. Larry Stansberry, President of St. Margaret's Daughters Home, serves as Manager Member of St. Luke's Medical Center. At March 31, 2013, St. Luke's Medical Center owed the Organization \$-0-.

Notes 3, 4 and 5 also contain information concerning related party transactions.

ST. MARGARET'S DAUGHTERS HOME
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2013

8. NET ASSETS:

Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for a parking lot project. At March 31, 2013, temporarily restricted net assets amounted to \$32,000. Temporarily restricted net assets are released from temporary donor restrictions by incurring expenses satisfying the restricted purpose.

9. USE OF ESTIMATES:

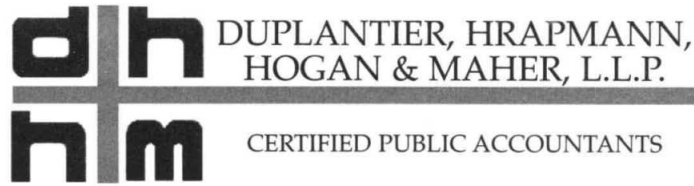
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

10. SUBSEQUENT EVENT:

On May 28, 2013, Building A of the Hospital property (as discussed in Note 3) was placed in service.

11. DATE OF MANAGEMENT'S REVIEW:

Subsequent events have been evaluated by the Company's management through June 23, 2014, which is the date the financial statements were available to be issued.



DUPLANTIER, HRAPMANN,
HOGAN & MAHER, L.L.P.

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

June 23, 2014

To the Board of Directors
St. Margaret's Daughters Home
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 financial statements of St. Margaret's Daughters Home, which comprise the statement of financial position as of March 31, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 23, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered St. Margaret's Daughters Home'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 St. Margaret's Daughters Home's internal control. Accordingly, we do not express an opinion on the effectiveness of St. Margaret's Daughters Home's internal control.

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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings 2013-01 and 2013-2 to be material weaknesses.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether St. Margaret's Daughters Home'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 an instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as finding 2013-3.

St. Margaret's Daughters Home's Response to Findings

St. Margaret's Daughters Home's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. St. Margaret's Daughters Home's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Duplantier, Hopmann, Hogan & Noto LLP

WILLIAM G. STAMM, C.P.A.
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133

June 23, 2014

Board of Directors
St. Margaret's Daughters' Home
New Orleans, Louisiana

Report on Compliance for Each Major Federal Program

We have audited St. Margaret's Daughters Home'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 St. Margaret's Daughters Home's major federal programs for the year ended March 31, 2013. St. Margaret's Daughters Home's major federal program is 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 program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for St. Margaret's Daughters Home's major federal program 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 St. Margaret's Daughters Home'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 the major federal program. However, our audit does not provide a legal determination of St. Margaret's Daughters Home's compliance.

Opinion on Major Federal Program

In our opinion, St. Margaret's Daughters Home complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended March 31, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as finding 2013-04. Our opinion on the major federal program is not modified with respect to these matters.

St. Margaret's Daughters Home's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. St. Margaret's Daughters Home's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of St. Margaret's Daughters Home 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 St. Margaret's Daughters Home's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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 St. Margaret's Daughters Home's internal control over compliance.

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.

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.

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. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Deudantier, Hropmann, Hogan & Nabe LLP

ST. MARGARET'S DAUGHTERS HOME
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2013

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Homeland Security pass-through program from:		
Federal Emergency Management Agency: Public Assistance Grants	97.036	\$ <u>10,038,214</u>
Total Expenditures of Federal Awards		\$ <u>10,038,214</u>

See accompanying notes to schedule of expenditures of federal awards.

ST. MARGARET'S DAUGHTERS HOME
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2013

1. BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the grant activity of St. Margaret's Daughters Home under programs of the federal government for the year ended March 31, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of St. Margaret's Daughters Home, it is not intended to and does not present the financial position, changes in net assets, or cash flows of St. Margaret's Daughters Home.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which complies with the accounting practices of the Federal Emergency Management Agency's (FEMA) Public Assistance (PA) Grant Program administered by the Louisiana Office of Homeland Security and Emergency Preparedness.

ST. MARGARET'S DAUGHTERS HOME
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2013

SECTION I - SUMMARY OF AUDITOR'S RESULTS:

Financial Statements:

Type of auditor's report issued: Qualified

Internal control over financial reporting:

* Material weakness(es) identified? X yes ___ no

* Significant deficiencies identified that are not considered to be material weaknesses? ___ yes X no

Noncompliance material to financial statements noted? ___ yes X no

Compliance and other matters:

Any audit findings disclosed that are required to be reported in accordance with Government Auditing Standards: X yes ___ no

Federal Awards:

Internal control over major program:

* Material weakness(es) identified? ___ yes X no

* Significant deficiencies identified that are not considered to be material weaknesses? ___ yes X no

Type of auditor's report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133: X yes ___ no

<u>Name of Program</u>	<u>CFDA No.</u>	<u>Expenditures</u>
FEMA – Public Assistance Grant	97.036	<u>\$ 10,038,214</u>
		<u>\$ 10,038,214</u>

The threshold used to distinguish between Type A and Type B programs was \$300,000.

Auditee qualified as low-risk auditee? ___ yes X no

ST. MARGARET'S DAUGHTERS HOME
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2013

SECTION II - FINDINGS REQUIRED TO BE REPORTED UNDER GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS:

2013-01: ACCOUNTS RECEIVABLE

Condition

Our audit procedures disclosed inadequate details and support of the accounts receivable balance as of the balance sheet date.

Criteria

Accounts receivable balances should be reconciled between the general ledger and the subsidiary on a consistent and timely basis.

Cause

We feel that the following factors contribute to this deficiency: lack of reconciliation procedures, inadequate documentation, and inadequate procedures for tracking individual resident balances.

Effect

This lack of control led to the inability to determine accurate accounts receivable balances, to assess account aging, to adequately substantiate and test accounts receivable, and to easily track amounts owed to St. Margaret's Daughters Home, and subsequently led to a qualified audit opinion.

Recommendation

We strongly suggest that the accounts receivable subsidiary system be improved to track invoices billed and collected. Procedures should also be established to ensure that accounts receivable balances are reconciled between the general ledger and the subsidiary on a consistent and timely basis. Differences should be investigated and resolved as soon as possible. These procedures will assist St. Margaret's Daughters Home in establishing reliable internal control for the billing and collections of accounts receivable and revenues.

Management's Corrective Action Plan

Management will create and maintain a subsidiary ledger for accounts receivable balances.

2013-02: SEGREGATION OF DUTIES

Condition

A lack of proper segregation of duties exists for accounting functions over cash receipts, cash disbursements, payroll and the general ledger.

Criteria

Proper segregation of duties is needed for adequate internal controls over financial reporting and compliance.

Cause

The controller performs all accounting functions for cash receipts, disbursements, payroll, general ledger entries, bank reconciliations, check writing, etc.

ST. MARGARET'S DAUGHTERS HOME
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2013

SECTION II - FINDINGS REQUIRED TO BE REPORTED UNDER GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS: (Continued)

2013-02: SEGREGATION OF DUTIES (Continued)

Effect

The effect of not having proper segregation of duties results in lack of internal controls, which could result in misappropriation of assets or material misstatements to the financial statements.

Recommendation

We recommend, whenever possible, duties be segregated to improve internal controls.

Management's Corrective Action Plan

Management will review current accounting procedures and consider having other staff members assume roles that will allow for better separation of duties.

2013-03: FILING OF AUDIT REPORT

Condition

State law requires that the audit report must be completed and submitted to the Louisiana Legislative Auditor within six months of the close of the fiscal year.

Criteria

The Organization did not submit the audit report for the year ended March 31, 2013 by the date authorized by the State of Louisiana Legislative Auditor.

Cause

Due to the increase in contract and grant activity, management had difficulties ensuring all transactions were accounted for properly and more time was needed to ensure all transactions were recorded and accounted for.

Effect

St. Margaret's Daughters Home is not in compliance with State laws. Additionally, receiving information that is not timely or current can significantly impact management's ability to guide an organization.

Recommendation

We recommend that the Organization complete financial information in a timely and accurate manner in order to be in compliance with State filing requirements.

Management's Corrective Action Plan

Management will prepare financial information timely and accurately in order to submit the audit report in accordance with State law.

ST. MARGARET'S DAUGHTERS HOME
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2013

SECTION III - FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT:

2013-04: FILING OF SINGLE AUDIT SUBMISSION PACKAGE

Condition

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires the Organization to submit its Single Audit Reporting Package to the federal clearinghouse no later than nine months after fiscal year-end, unless the Organization's federal oversight agency approves an extension of this deadline.

Criteria

The federal reporting deadline for the Organization's Single Audit Reporting Package was December 31, 2013. The Organization did not issue its Single Audit Reporting Package within the time frame required. There was no extension request made to the U.S. Department of Homeland Security.

Cause

The March 31, 2012 audit was not completed on a timely basis; therefore, the March 31, 2013 audit could not begin and be completed as scheduled which lead to the late submission of the Single Audit Reporting Package.

Effect

St. Margaret's Daughters Home is not in compliance with Federal single audit submission package requirements. Additionally, future grant revenue could be impacted if the Organization continues to be out of compliance with Federal law.

Recommendation

We recommend that the Organization complete financial information in a timely and accurate manner in order to be in compliance with Federal single audit submission package requirements.

Management's Corrective Action Plan

Management will prepare financial information timely and accurately in order to submit the audit report in accordance with Federal law.

SECTION IV – STATUS OF PRIOR YEAR FINDINGS:

2012-01: FILING OF AUDIT REPORT

In the prior year, we noted that St. Margaret's Daughters Home did not complete and submit its audit report to the Louisiana Legislative Auditor within six months of the close of the fiscal year as required by Louisiana state law.

This finding was repeated in the current year as finding 2013-03.

ST. MARGARET'S DAUGHTERS HOME
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MARCH 31, 2013

SECTION IV – STATUS OF PRIOR YEAR FINDINGS: (Continued)

2012-02: SEGREGATION OF DUTIES

In the prior year, we noted a lack of proper segregation of duties exists for accounting functions over cash receipts, cash disbursements, payroll and the general ledger.

This finding was repeated in the current year as finding 2013-02.

2012-03: ACCOUNTS RECEIVABLE

In the prior year, our audit procedures disclosed inadequate details and support of the accounts receivable balance as of the statement of financial position date.

This finding was repeated in the current year as finding 2013-01.

2012-04: FILING OF SINGLE AUDIT SUBMISSION PACKAGE

In the prior year, we noted that St. Margaret's Daughters Home did not complete and submit its single audit reporting package to the federal clearinghouse within nine months of the close of the fiscal year as required by Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Additionally, there was no extension request made to the U.S. Department of Homeland Security related to the late filing.

This finding was repeated in the current year as finding 2013-04.