

REPORT  
ST. MARGARET'S FOUNDATION  
JUNE 30, 2014

ST. MARGARET'S FOUNDATION

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JUNE 30, 2014

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

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## INDEPENDENT AUDITOR'S REPORT

September 30, 2014

To The Board of Directors  
St. Margaret's Foundation  
New Orleans, Louisiana

### **Report on the Financial Statements**

We have audited the accompanying financial statements of St. Margaret's Foundation (a Louisiana nonprofit organization), which comprise the statement of financial position as of June 30, 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Margaret's Foundation as of June 30, 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.

**Emphasis-of-Matter**

As discussed in Note 9 to the financial statements, the Company is a defendant in a dispute as to ownership in the Mercy property. Our opinion is not modified with respect to this matter.

As mentioned in Note 6 to the financial statements, the Company is involved in significant commercial transactions with a related party.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2014, on our consideration of St. Margaret's Foundation'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 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 Foundation's internal control over financial reporting and compliance.

***Duplantier, Hrapmann, Hogan & Maher, LLP***

ST. MARGARET'S FOUNDATION  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2014

ASSETS

CURRENT ASSETS:	
Cash (Notes 1 and 2)	\$ 17,384
Accounts receivable	2,250
Accrued interest receivable (Note 4)	1,465,828
Due from related party (Note 6)	5,189,380
Prepaid expenses	3,187
Total current assets	<u>6,678,029</u>
PROPERTY AND EQUIPMENT:	
(Notes 1 and 3) (net of accumulated depreciation of \$4,416)	2,727,810
OTHER ASSETS:	
Notes receivable (Note 4)	7,926,071
Due from related party (Note 6)	<u>3,127,510</u>
TOTAL ASSETS	<u>\$ 20,459,420</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	\$ 107,902
Accrued expenses	7,992
Current portion of note payable (Note 5)	179,671
Total current liabilities	<u>295,565</u>
LONG-TERM LIABILITIES:	
Note payable (Note 5)	<u>3,127,577</u>
Total long-term liabilities	<u>3,127,577</u>
TOTAL LIABILITIES	<u>3,423,142</u>
NET ASSETS:	
Unrestricted	<u>17,036,278</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 20,459,420</u>

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

ST. MARGARET'S FOUNDATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014

## UNRESTRICTED NET ASSETS:

REVENUE AND SUPPORT: (Note 1)	
Contributions	\$ 35,930
Special events income	5,540
Miscellaneous income	81
Interest income	<u>762,921</u>
Total unrestricted revenue and support	<u>804,472</u>
EXPENSES:	
Program services (Page 5)	283,304
Supporting services:	
General and administrative (Page 5)	229,051
Fundraising	<u>995</u>
Total expenses	<u>513,350</u>
Change in net assets	291,122
NET ASSETS - beginning of year	<u>16,745,156</u>
NET ASSETS - end of year	<u>\$ 17,036,278</u>

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

ST. MARGARET'S FOUNDATION  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Program</u> <u>Services</u>	<u>General and</u> <u>Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Accounting fees	\$ -	\$ 33,941	\$ -	\$ 33,941
Bank charges	-	177	-	177
Contract services	1,367	-	-	1,367
Depreciation	3,444	-	-	3,444
Donations	22,056	-	-	22,056
Equipment repairs and maintenance	4,525	-	-	4,525
Employees relations	-	3,940	-	3,940
Facilities maintenance and repairs	3,183	-	-	3,183
Fundraising	-	-	995	995
Insurance	7,488	832	-	8,320
Interest	-	34,642	-	34,642
Meals	-	164	-	164
Miscellaneous	3,438	-	-	3,438
Pastoral care	3,552	-	-	3,552
Property taxes	1,593	-	-	1,593
Payroll taxes	14,597	1,622	-	16,219
Professional fees	23,767	125,791	-	149,558
Salaries and wages	191,914	21,324	-	213,238
Travel and meetings	1,716	-	-	1,716
Vehicle	664	-	-	664
Website development	-	6,618	-	6,618
Total Expenses	<u>\$ 283,304</u>	<u>\$ 229,051</u>	<u>\$ 995</u>	<u>\$ 513,350</u>

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

ST. MARGARET'S FOUNDATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2014

## CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 291,122
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	3,444
(Increase) decrease in operating assets:	
Accounts receivable	(2,250)
Due from related party	271,865
Interest receivable	(728,125)
Prepaid expenses	(769)
Increase (decrease) in operating liabilities:	
Accounts payable	107,902
Interest payable	1,709
Accrued expenses	1,903
Net cash used in operating activities	<u>(53,199)</u>

## CASH FLOWS FROM INVESTING ACTIVITIES:

Additions to construction in progress	<u>(12,117)</u>
Net cash used in investing activities	<u>(12,117)</u>

## CASH FLOWS FROM FINANCING ACTIVITIES:

Principal payments on notes payable	<u>(179,176)</u>
Net cash used in financing activities	<u>(179,176)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (244,492)

Cash and cash equivalents - beginning of year 261,876

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 17,384

SUPPLEMENTAL DISCLOSURES OF  
CASH FLOW INFORMATION:

Cash paid during the year for interest \$ 32,739

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

ST. MARGARET'S FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

ORGANIZATIONAL PURPOSE:

St. Margaret's Foundation (the Organization) is a Louisiana nonprofit organization established to provide comprehensive healthcare services, nursing facilities, charitable, research, rendering of other services related to health care, rendering rehabilitation services, including purchasing, acquiring, maintaining, operating, developing and leasing real property, and receiving and administering donation of money and services, property, or other things of value along with scientific, literary and educational purposes, for the benefit of the underserved and vulnerable populations.

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 have been 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, Presentation of Financial Statements for Not-for-Profit Entities. Under ASC 958, 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 administrative and general. Those expenses which cannot be functionally categorized are allocated between functions based upon management's estimate of usage applicable to conducting those functions.

Notes and Accounts Receivable:

Accounts receivable are carried at net realizable value. Loans receivable are stated at unpaid principal balances. 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. No bad debt expense was incurred for the year ended June 30, 2014.

Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amount outstanding.

ST. MARGARET'S FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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.

Concentration of Income Sources:

The Organization received approximately 95% of its total revenue from interest generated on notes receivable.

Income Taxes:

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the financial statements.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Organization considers petty cash, cash in banks and investments with an initial maturity of three months or less to be cash equivalents.

Property and Equipment:

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment are stated at acquisition cost, or estimated historical cost if acquisition cost is not available. Contributed property and equipment is recorded at fair value at the date of donation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable property and equipment to operations over their estimated useful lives using the straight-line method. Routine repairs and maintenance are expensed as incurred. Estimated useful lives of property and equipment are as follows:

Furniture and fixtures	5 years
Buildings	39 years

Functional Expenses:

The expenses of providing the programs and other activities have been summarized on a functional basis between program and supporting services in the statement of functional expenses. Certain of those expenses have been allocated among the program and supporting services based on estimates by management of the costs involved.

ST. MARGARET'S FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Advertising Cost:

Advertising costs are expensed as incurred and totaled \$6,618 for the year ended June 30, 2014.

2. CASH AND CASH EQUIVALENTS:

At June 30, 2014, the Organization maintained cash balances at several local banks. These balances were fully insured by the Federal Deposit Insurance Corporation as of June 30, 2014.

3. PROPERTY AND EQUIPMENT:

Below is a summary of activity in the St. Margaret's Foundation property and equipment accounts during the year ended June 30, 2014:

	Balance July 1, <u>2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2014</u>
Buildings	\$ 2,562,812	\$	\$ --	\$ 2,562,812
Furniture and fixtures	17,220	-	--	17,220
Construction in progress	<u>140,077</u>	<u>12,117</u>	<u>--</u>	<u>152,194</u>
	2,720,109	12,117	--	2,732,226
Accumulated depreciation	<u>(972)</u>	<u>(3,444)</u>	<u>--</u>	<u>(4,416)</u>
Net property and equipment	<u>\$ 2,719,137</u>	<u>\$ 8,673</u>	<u>\$ --</u>	<u>\$ 2,727,810</u>

Depreciation expense totaled \$3,444 during the year ended June 30, 2014.

Buildings are pledged as collateral for notes payable. See Note 5.

During the year ended March 31, 2011, St. Margaret's Daughters Home purchased the Lindy Boggs Medical Center, formerly known as Mercy Hospital. The entire medical facility sustained significant flooding and wind damage from Hurricane Katrina and was subsequently shut down. St. Margaret's Daughters Home created a condominium regime for the Mercy Hospital property. The property consists of structures. The structures are denoted as Building A, Building B, and Building C, which have a combined total of 380,700 square feet. St. Margaret's Daughters Home renovated Building A into a nursing home and health services provider using federal grant funds and subsequently donated Buildings B and C to St. Margaret's Foundation (a related organization).

ST. MARGARET'S FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

3. PROPERTY AND EQUIPMENT: (Continued)

The Buildings A and B will not be put into operation until rehabilitation of these buildings is completed which cannot be estimated at this time. Therefore, no depreciation expense has been recorded for those assets for the year ended June 30, 2014.

4. NOTES RECEIVABLE:

Notes receivable were generated in connection with the new markets tax credit financing of construction of a nursing home facility for the elderly (the Project) located at 3525 Bienville Street, New Orleans, LA. St. Margaret's Foundation agreed to make loans to the NMTC Investment Fund in the aggregate amount of \$17,128,700 ("Subordinate leverage loan A") and to extend additional credit on an annually scheduled basis to the NMTC Investment Fund in the aggregate principal amount of \$4,206,321 (collectively, "Subordinate leverage loan B"). The notes receivable accrue interest at a rate of 5.209% per annum plus a current interest rate equal to the greater of (i) 4% or (ii) LIBOR plus 2% from the date of each advance until paid, currently 4%. The outstanding unpaid principal balance and any unpaid accrued interest is due on the maturity date, December 31, 2017. Interest is paid quarterly. The notes are secured by an equity investment in CDEs acquired by the borrower with the proceeds of the loan and any distribution related. As of June 30, 2014, the balances of notes receivable were as follows:

Subordinated NMTC Loan A	\$ 7,295,651
Subordinated NMTC Loan B	<u>630,420</u>
Total notes receivable	<u>\$ 7,926,071</u>

Accrued interest on the notes receivable was \$1,465,828 at June 30, 2014.

5. NOTE PAYABLE:

On June 24, 2011, the Organization entered into a \$3,500,000 loan agreement with the State of Louisiana, Division of Administration, Office of Community Development; the interest rate is 1% annum. Principal and interest is paid monthly with the outstanding principal due on June 24, 2031. The proceeds of the loan were used by the Organization to make the subordinate construction loan to St. Margaret's Daughters Home, see Note 6. The note is secured by a security agreement, including security interest in deposit accounts of the Organization established at Iberia and the mortgages on Building B and C of the St. Margaret's Foundation Condominium. The balance on the loan was \$3,307,248 as of June 30, 2014.

ST. MARGARET'S FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

5. NOTE PAYABLE: (Continued)

Future principal payments are as follows:

<u>June 30,</u>	
2015	\$ 179,671
2016	181,476
2017	183,299
2018	185,140
2019	187,000
Thereafter	<u>2,390,662</u>
	<u>\$ 3,307,248</u>

6. RELATED PARTY TRANSACTIONS:

St. Margaret's Foundation engaged in the following transactions with related parties:

St. Margaret's Daughters Home:

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, from the proceeds of a new market tax credit equity investment and the proceeds of a loan from Iberia Bank. St. Margaret's Daughters Home donated Condo B and C of the former Mercy Property to St. Margaret's Foundation and also donated cash to St. Margaret's Foundation. The donations are required as the tax credit requires the flow of funds to go to 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. Related party transactions are detailed below:

On June 24, 2011, St. Margaret's Foundation made a subordinated construction loan in the amount of \$3,500,000 to St. Margaret's Daughters Home for the construction of the buildings as required by the State of Louisiana, Division of Administration, Office of Community Development loan. The loan bears an interest rate of 1% annum and matures on June 24, 2031. During the year ended June 30, 2014, loan payments made by the St. Margaret's Daughters Home, amounted to \$148,262. Loan interest earned was \$34,796.

During the year ended June 30, 2013, a development services agreement was signed between the Organization and St. Margaret's Daughters Home for the amount of \$5,094,763, for certain services relating to the development and rehabilitation of the building. Payments received from St. Margaret's Daughter Home, related to this receivable were \$109,000, as of June 30, 2014.

ST. MARGARET'S FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

6. RELATED PARTY TRANSACTIONS: (Continued)

Balance due from St. Margaret's Daughters Home, as of June 30, 2014 was as follows:

Development fee receivable	\$ 4,960,963
Current portion of long-term loan	224,228
Interest receivable	<u>4,189</u>
Total current	5,189,380
Long-term balance of loan	<u>3,127,510</u>
Total	<u>\$ 8,316,890</u>

7. 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.

8. DATE OF MANAGEMENT'S REVIEW:

The Organization has evaluated subsequent events through September 30, 2014, the date which the financial statements were available to be issued.

9. LITIGATION:

In January 2014 a contractor filed a motion seeking a 50% ownership in the Mercy property. Based on preliminary review, the Organization's attorneys feel confident of a favorable outcome for St. Margaret's Foundation.



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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

September 30, 2014

To the Board of Directors  
St. Margaret's Foundation  
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 Foundation (a nonprofit organization), which comprise the statement of financial position as of June 30, 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 and have issued our report thereon dated September 30, 2014.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *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 material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether St. Margaret's Foundation'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 St. Margaret's Foundation'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, Hrapmann, Hogan & Maher, LLP***

ST. MARGARET'S FOUNDATION  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2014

SUMMARY OF AUDITOR'S RESULTS:

1. The opinion issued on the financial statements of St. Margaret's Foundation for the year ended June 30, 2014 was unmodified.
  
2. Internal Control  
Material weaknesses: none  
Significant deficiency: none
  
3. Compliance and Other Matters  
Noncompliance material to financial statements: none

FINDINGS REQUIRED TO BE REPORTED UNDER GOVERNMENTAL AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA:

NONE

ST. MARGARET'S FOUNDATION  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2014

PRIOR YEAR FINDINGS:

**2013-01: FILING OF AUDIT REPORT**

Condition and Criteria

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. The organization did not submit the audit report for the year ended June 30, 2013 by the date authorized by the State of Louisiana Legislative Auditor.

Status

This finding did not occur during the current year.

**2013-02: FILING OF SINGLE AUDIT SUBMISSION PACKAGE**

Condition and Criteria

Office of Management and Budget (OMB) Circular A-133, *Audits of State, 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. The federal reporting deadline for the Organization's Single Audit Reporting Package was March 31, 2014. The Corporation 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 Housing and Urban Development.

Status

This finding did not occur during the current year.