

THE ST. BERNARD PROJECT, INC.

FINANCIAL STATEMENTS

December 31, 2011

THE ST. BERNARD PROJECT, INC.
NEW ORLEANS, LOUISIANA

CONTENTS

	<u>Page(s)</u>
Independent Auditors' Report	1-2
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-12
OMB Circular A-133 Compliance and Government Auditing Standards Reports	
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	13-14
Independent auditors' report on compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133	15-16
Schedule of expenditures of federal awards for the year ended December 31, 2011	17
Notes to the schedule of expenditures of federal awards for the year ended December 31, 2011	18
Schedule of Findings and Questioned Costs	19-20
Management's Corrective Action Plan	21-22
Status of Prior Year Findings	23

CLIFTON W. NEWLIN
ROBERT D. WATKINS
EDWARD G. BERBUESSE, JR.
JON S. FOLSE



WEGMANN DAZET & COMPANY

MARK D. BOHNET
LISA D. ENGLADE
KERNEY F. CRAFT, JR.
JONATHAN P. KOENIG

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The St. Bernard Project, Inc.
Chalmette, Louisiana

We have audited the accompanying statement of financial position of The St. Bernard Project, Inc. (a nonprofit organization) as of December 31, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The St. Bernard Project, Inc. as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2012, on our consideration of The St. Bernard Project, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 the audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic 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 basic financial statements taken as a whole.

September 28, 2012

A handwritten signature in black ink that reads "Weymann Dazet + Campy". The signature is written in a cursive style with a plus sign between the last names.

THE ST. BERNARD PROJECT, INC.
STATEMENT OF FINANCIAL POSITION

December 31, 2011

	2011
ASSETS	
Current assets	
Cash and cash equivalents	\$ 79,217
Accounts receivable	10,473
Grants receivable	1,849,460
Other current assets	650
Total current assets	<u>1,939,800</u>
Real estate held for sale	544,083
Property and equipment, at cost less accumulated depreciation	18,691
Notes receivable	90,849
Deposits	1,575
Total assets	<u>\$ 2,594,998</u>
LIABILITIES	
Current liabilities	
Line of credit	\$ 99,553
Accounts payable and accrued expenses	438,840
Accrued payroll and related liabilities	10,380
Current portion of long-term debt	15,070
Total current liabilities	<u>563,843</u>
Long-term debt, less current portion	<u>125,000</u>
Total liabilities	<u>688,843</u>
NET ASSETS	
Unrestricted	1,800,054
Temporarily restricted	106,101
Total net assets	<u>1,906,155</u>
Total liabilities and net assets	<u>\$ 2,594,998</u>

See accompanying Notes to Financial Statements.

THE ST. BERNARD PROJECT, INC.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues			
Donations	\$ 5,602,867	\$ 175,000	\$ 5,777,867
Grants	3,769,217	638,163	4,407,380
Homeowner funding	329,088	-	329,088
Sale of property	180,919	-	180,919
Vendor incentives	12,805	-	12,805
Other income	20,093	-	20,093
Net assets released from restrictions	780,728	(780,728)	-
	<u>10,695,717</u>	<u>32,435</u>	<u>10,728,152</u>
Total revenues			
Expenses			
Program services			
Rebuilding	7,106,045	-	7,106,045
Rebuild Joplin	18,076	-	18,076
Opportunity housing	234,350	-	234,350
Mental health	965,172	-	965,172
Veteran good work good pay	281,545	-	281,545
Supporting services			
General and administrative	642,114	-	642,114
Fundraising	149,913	-	149,913
	<u>9,397,215</u>	<u>-</u>	<u>9,397,215</u>
Total expenses			
Change in net assets	1,298,502	32,435	1,330,937
Net assets			
Beginning of year as previously reported	530,068	-	530,068
Prior period adjustment	(28,516)	73,666	45,150
	<u>501,552</u>	<u>73,666</u>	<u>575,218</u>
End of year	<u>\$ 1,800,054</u>	<u>\$ 106,101</u>	<u>\$ 1,906,155</u>

See accompanying Notes to Financial Statements.

THE ST. BERNARD PROJECT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2011

	Rebuilding	Rebuild Joplin	Opportunity Housing	Mental Health	Veteran	Fundraising	General & Administrative	Total Expenses
	\$	\$	\$	\$	\$	\$	\$	\$
Auto	-	-	56	2,114	-	277	1,380	3,827
Bad debt expense	(2,168)	-	-	-	-	-	8,932	6,764
Bank service charge	2,303	-	-	-	-	(8)	22,951	25,246
Cost of merchandise	366	-	-	-	-	-	15,257	15,623
Construction	2,456,486	9,246	149,632	1,452	-	761	-	2,617,577
Depreciation	11,518	-	-	-	-	-	-	11,518
Fundraising	-	-	-	-	-	78,105	8,101	86,206
Insurance	216,945	-	20,235	(7,426)	8,207	2,540	136,390	376,891
Interest expense	-	-	-	-	-	-	17,022	17,022
In-kind labor	3,263,847	-	-	-	-	-	-	3,263,847
Licenses and permits	-	-	-	-	-	-	4,869	4,869
Office supplies	16,736	-	44	339	-	1,992	126,389	145,500
Other expense	(20)	-	-	30	-	-	(530)	(520)
Occupancy	4,319	-	16,335	8	-	-	61,585	82,247
Payroll taxes	77,646	-	3,942	16,096	24,118	5,184	54,281	181,267
Program administrative fee	(37,731)	3,198	-	93,128	-	-	(96,326)	(37,731)
Program expense	-	-	-	117,382	-	-	-	117,382
Professional services	-	-	-	159,378	-	-	-	159,378
Rental expense	24,200	-	-	-	-	-	750	24,950
Salaries	1,071,598	5,632	44,106	582,671	249,220	61,062	281,063	2,295,352
Total expenses	\$ 7,106,045	\$ 18,076	\$ 234,350	\$ 965,172	\$ 281,545	\$ 149,913	\$ 642,114	\$ 9,397,215

See accompanying Notes to Financial Statements.

THE ST. BERNARD PROJECT, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2011

	2011
Cash flows from operating activities:	
Change in net assets	\$ 1,330,937
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	11,518
(Increase) decrease in operating assets:	
Accounts receivable	(7,886)
Grants receivable	(1,338,737)
Real estate held for sale	(185,586)
Deposits	14,081
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	311,651
Accrued payroll liabilities	10,380
Net cash provided by operating activities	<u>146,358</u>
 Cash flows from investing activities:	
Advances on notes receivable	(90,849)
Purchase of property and equipment	(2,000)
Net cash used by investing activities	<u>(92,849)</u>
 Cash flows from financing activities:	
Borrowings under line of credit	99,553
Borrowings under long-term debt	15,070
Repayments of long-term debt	(500,032)
Net cash used by financing activities	<u>(385,409)</u>
 Net decrease in cash	(331,900)
 Cash and cash equivalents at beginning of year	<u>411,117</u>
 Cash and cash equivalents at end of year	<u>\$ 79,217</u>

See accompanying Notes to Financial Statements.

THE ST. BERNARD PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

1) Nature of activities

The St. Bernard Project, Inc. (the "Organization") is a non-profit organization established to create housing opportunities so that disaster survivors can return to their homes and communities. The St. Bernard Project, Inc. is a community based organization that carries out its mission through three primary programs: Rebuilding Program, Center for Wellness and Mental Health and Opportunity Housing Program.

The St. Bernard Project, Inc.'s Center for Wellness and Mental Health opened in January 2009 through an innovative partnership with Louisiana State University Health Sciences Center. The Center provides evaluation, treatment and support for residents of St. Bernard Parish and New Orleans suffering from storm, or oil-spill-related mental health problems.

2) Summary of significant accounting policies

The significant accounting policies followed by the Organization are summarized as follows:

(a) Financial statement presentation

The Organization's policy is to prepare its financial statements on the accrual basis of accounting, which recognizes all revenues and the related assets when earned and all expenses and the related obligations when incurred.

(b) Basis of presentation

Financial Accounting Standards Board Accounting Standards Codification "ASC" 958, Financial Statements for Not-for-Profit Entities, requires the net assets and changes in net assets be reported for three classifications – permanently restricted, temporarily restricted and unrestricted based on the existence or absence of donor imposed restrictions.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor imposed restrictions or requirements that limit the use of the donation. A donor restriction ends when a time restriction is met or a purpose restriction is accomplished. As restrictions are met, assets are reclassified to unrestricted net assets.

(c) Public support and revenue

Contributions are recorded as revenue when received and are generally available for unrestricted use unless specifically restricted by the donor. Grant funds are considered to be earned when qualifying expenditures are made and all other grant requirements have been met. Unreimbursed expenses are recorded as revenue and as grants receivable when requests for reimbursement are submitted to the grants. Real estate sales are recognized at the time the sale is complete and title has transferred to the buyer.

(d) Cash and cash equivalents

All cash-related items having a maturity of three months or less from the original maturity date are classified as cash and cash equivalents.

(e) Accounts receivable

Accounts are considered overdue if uncollected within ninety days of original invoice. The Organization considers grant receivables to be fully collectible and when a balance becomes uncollectible they are written off.

THE ST. BERNARD PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

2) Summary of Significant Accounting Policies (continued)

(e) Accounts receivable (continued)

An allowance for uncollectible accounts has been maintained for estimated losses resulting from the inability of its customers to make required payments. The Organization's estimate for the allowance for doubtful accounts is based on a review of the current accounts receivable. Accounts receivable is presented net of an allowance for doubtful accounts of \$59,488 as of December 31, 2011.

(f) Property and equipment

Property and equipment are carried at cost. Depreciation of property is provided over the estimated useful lives of the assets using the straight-line method. Repairs and maintenance are expensed as incurred. Expenditures that increase the value or productive capacity of assets are capitalized. When property and equipment are retired, sold, or otherwise disposed of, the assets carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations. The estimated useful lives of depreciable assets are:

	<u>Useful Lives</u>
Equipment	5 years
Vehicles	5 years

(g) Real estate held for sale

Real estate held for sale is carried at cost plus construction costs and an overhead allocation, not to exceed estimates of net realizable value determined on an individual project basis. The real estate has been acquired to be rehabilitated and sold to qualified homeowners.

(h) Income taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. The Organization has filed for and received income tax exemptions in the various jurisdictions where it is required to do so.

The Organization adopted the provisions of ASC 740, *Accounting for Uncertainty in Income Taxes*. Management of the Organization believes it has no material uncertain tax positions and, accordingly it will not recognize any liability for unrecognized tax benefits. With few exceptions, the Organization is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2008.

(i) Functional expenses

The cost of providing the various programs and activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(j) Fundraising

All expenses associated with fundraising events are expensed as incurred.

(k) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

THE ST. BERNARD PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

2) Summary of Significant Accounting Policies (continued)

(l) Concentrations of credit risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. The Organization has not experienced any losses in such accounts. The Organization has no policy requiring collateral or other security to support its deposits.

(m) Donated services

Donated services are recognized as contributions if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

The Organization received volunteer help to renovate homes destroyed by Hurricane Katrina and Rita. The estimated value of the contributed services for the year ended December 31, 2011 was \$3,444,000.

(n) Donated property and equipment

Noncash donations are recorded as contributions at their fair value at the date of donations. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose.

3) Property and equipment

Property and equipment is summarized as follows:

	<u>2011</u>
Equipment	\$ 15,000
Vehicles	43,425
Total costs	<u>58,425</u>
Less: accumulated depreciation	39,734
Property and equipment	<u><u>\$ 18,691</u></u>

4) Notes receivable

The Organization has two notes receivable totaling \$90,849 in connection with the sale of two properties as of December 31, 2011. The promissory notes become due and payable if the borrower fails to occupy the residence for a five year period after initial purchase date, fails to maintain homeowner's and flood insurance during the five years or fails to pay property taxes when they become due during the five year period.

The Organization will reduce the balance on the notes over the next five years as outlined in the notes based on compliance with the terms of the agreement.

THE ST. BERNARD PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2011

5) Grants receivable

The Organization was awarded various grants through federal and state agencies. Most of the grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred. Balances due from the grants at year end are included in grants receivable. Grants receivable for the year ended December 31, 2011 consists of the following:

	<u>Grant Receipts</u>	<u>Grant Expenditures</u>	<u>Due from grant at end of year</u>
<u>Federal financial assistance</u>			
AmeriCorp state grant from			
Louisiana Service Commission	\$ 584,730	\$ 782,001	\$ 197,271
U.S. Department of Housing and Urban Development - City of New Orleans	490,478	668,260	177,782
U.S. Department of Housing and Urban Development - Louisiana Housing Finance	378,957	1,233,538	854,581
U.S. Department of Housing and Urban Development - City of New Orleans	-	141,495	141,495
U.S. Department of Housing and Urban Development - NORA	-	301,339	301,339
U.S. Department of Housing and Urban Development - Louisiana Housing Finance	-	37,240	37,240
U.S. Department of Health and Human Services	-	46,568	46,568
Total federal financial assistance	1,454,165	3,210,441	1,756,276
<u>Louisiana state grants</u>			
Metropolitan Human Services District for Louisiana Spirit Services	532,748	616,932	84,184
<u>Other grants</u>			
The United Way for the Greater New Orleans Area	-	9,000	9,000
Total	\$ 1,986,913	\$ 3,836,373	\$ 1,849,460

6) Line of credit

The Organization has a \$250,000 unsecured line of credit with a bank for its working capital needs. The interest rate on the line is 4.5%. The balance at December 31, 2011 was \$99,553.

THE ST. BERNARD PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2011

7) Long-term debt

Long-term debt at December 31, 2011 consists of the following:

	<u>2011</u>
Notes payable to two grantors, secured by the assets of the organization. The notes mature at various dates through February 2015.	\$ 140,070
Total long-term debt	<u>140,070</u>
Less current portion	<u>15,070</u>
Long-term debt, less current portion	<u><u>\$ 125,000</u></u>

The maturities of long-term debt are as follows:

2012	\$	15,070
2013		-
2014		-
2015		125,000

8) Restrictions on net assets

Temporarily restricted net assets are available for the following programs:

	<u>2011</u>
Rebuilding Program	\$ 74,177
Rebuild Joplin	<u>31,924</u>
Total temporarily restricted assets	<u><u>\$ 106,101</u></u>

9) Operating leases

The Organization leases office space for its headquarters and warehouse space. The leases expire at various dates through April 2013 and all contain an option to renew for one additional term. Future minimum rental payments under the leases are as follows:

<u>Year Ending</u>	<u>Amount</u>
2012	\$ 17,200
2013	4,400

Total rent expense, which was included in occupancy expense; under the operating leases was \$36,100 for the year ended December 31, 2011.

THE ST. BERNARD PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2011

10) Economic Dependence

In 2011, the Organization received approximately 41% of its revenue from federal, state and other grants. Another 32% of the Organization's revenue was volunteer labor that was contributed in 2011.

11) Major vendors

In 2011, purchases from one vendor accounted for 17% of total expenses.

12) Supplementary disclosures of cash flows information

Cash paid during the year for:

	<u>2011</u>
Interest	<u>\$ 17,022</u>

13) Prior-period adjustment

Unrestricted net assets at the beginning of 2011 have been adjusted for real estate held for sale recorded in error as expense in 2010. The effect of the change is to increase real estate held for sale and to increase the change in net assets by \$45,150.

Temporarily restricted net assets at the beginning of 2011 have been adjusted for temporarily restricted revenue recognized as unrestricted in error in the prior year. The correction has no effect on the results of the current year's activities, however, the cumulative effect increased beginning temporarily restricted net assets for 2011 by \$73,666.

14) Subsequent events

Management has evaluated subsequent events through September 28, 2012, the date which the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

OMB CIRCULAR A-133 COMPLIANCE AND
GOVERNMENT AUDITING STANDARD REPORTS

CLIFTON W. NEWLIN
ROBERT D. WATKINS
EDWARD G. BERBUESSE, JR.
JON S. FOLSE



WEGMANN DAZET & COMPANY

MARK D. BOHNET
LISA D. ENGLADE
KERNEY F. CRAFT, JR.
JONATHAN P. KOENIG

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
The St. Bernard Project, Inc.
Chalmette, Louisiana

We have audited the financial statements of The St. Bernard Project, Inc. (a non profit organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated September 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule findings and questioned costs as items 2011-1 and 2011-2 that we consider to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or 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 The St. Bernard Project, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances 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 item 2011-3.

We noted certain matters that we reported to management of The St. Bernard Project, Inc. in a separate letter dated September 28, 2012.

The St. Bernard Project, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit The St. Bernard Project, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, the Legislative Auditor of the State of Louisiana and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

September 28, 2012

A handwritten signature in black ink that reads "W. Eugene Dupont + Company". The signature is written in a cursive style with a plus sign and the word "Company" following the name.

CLIFTON W. NEWLIN
ROBERT D. WATKINS
EDWARD G. BERBUESSE, JR.
JON S. FOLSE



WEGMANN DAZET & COMPANY

MARK D. BOHNET
LISA D. ENGLADE
KERNEY F. CRAFT, JR.
JONATHAN P. KOENIG

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
The St. Bernard Project, Inc.
Chalmette, Louisiana

COMPLIANCE

We have audited The St. Bernard Project, 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 The St. Bernard Project, Inc.'s major federal programs for the year ended December 31, 2011. The St. Bernard Project, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of The St. Bernard Project, Inc.'s management. Our responsibility is to express an opinion on The St. Bernard Project, Inc.'s compliance based on our audit.

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

In our opinion, The St. Bernard Project, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2011-3.

INTERNAL CONTROL OVER COMPLIANCE

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

expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The St. Bernard Project, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as define above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-3. A *significant deficiency in internal control over compliance* is a deficiency, or 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 St. Bernard Project, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit The St. Bernard Project, Inc.'s responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information of the Board of Directors, management, others within the Organization, the Legislative Auditor of the State of Louisiana, and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties. Under Louisiana Revised Statue 24:513, this report is distributed by the Legislative Auditor as a public document.

September 28, 2012

Wegmann Dept + Campy

THE ST. BERNARD PROJECT, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2011

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Louisiana Service Commission ARRA – AmeriCorp Grant	94.006	\$782,001
U.S. Department of Health and Human Services		
Substance Abuse and Mental Health Services	93.243	\$46,568
U.S. Department of Housing and Urban Development		
Office of Community Planning and Development	14.252	\$22,963
Passed through the Louisiana Housing Finance Agency Community Development Block Grant – Rural Owner Rehab Initiative	14.228	\$37,240
Passed through the Louisiana Housing Finance Agency Nonprofit Rebuilding Pilot Program	14.228	\$1,233,538
Passed through the New Orleans Redevelopment Program ARRA - Neighborhood Stabilization Program 2	14.256	\$301,339
Passed through the City of New Orleans HOME Improvement Partnership Program	14.239	\$141,495
Passed through the City of New Orleans Community Development Block Grant	14.218	<u>\$668,260</u>
Total Expenditures of Federal Awards		<u>\$3,233,404</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

THE ST. BERNARD PROJECT, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2011

Note 1 General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of The St. Bernard Project, Inc. The reporting entity is defined in Note 1 to The St. Bernard Project, Inc.'s financial statements. All federal award programs received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

Note 2 Basis of accounting

The accompanying Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Note 3 Risk-based audit approach

The dollar threshold used to distinguish between Type A and Type B programs is \$300,000. The Organization does not qualify as a low-risk auditee.

Note 4 Possible ineligible, disallowed and questioned costs

The St. Bernard Project, Inc. is subject to audit(s) and investigation(s) by state and federal agencies or their designees for compliance with contractual and programmatic requirements with regard to funding provided to The St. Bernard Project, Inc. The determination of whether any instances of noncompliance that will ultimately result in remittance by The St. Bernard Project, Inc. of any ineligible or disallowed costs cannot be presently determined.

THE ST. BERNARD PROJECT, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2011

SUMMARY OF THE AUDITORS' RESULTS

1. An unqualified opinion was issued on the financial statements of The St. Bernard Project, Inc.
2. Two significant deficiencies disclosed during the audit of the financial statements are reported in the schedule of findings related the financial statements. The deficiencies are not reported as material weakness.
3. The audit disclosed no instances of noncompliance that were material to the financial statements of The St. Bernard Project, Inc.
4. One significant deficiency in internal control over major federal award programs disclosed during the audit is reported in the schedule of findings and question costs related to federal awards. The deficiency is not reported as a material weakness.
5. An unqualified opinion was issued on compliance for major programs.
6. Audit findings that are required to be reported in accordance with Section 501(a) of Circular A-133 are reported in the Schedule.
7. Major programs for the fiscal year ended December 31, 2011 were:

Louisiana Service Commission	
AmeriCorp	(CFDA #94.006)
U.S Department of Housing and Urban Development	
Nonprofit Rebuilding Pilot Program	(CFDA #14.228)
Neighborhood Stabilization Program 2	(CFDA #14.256)
Community Development Block Grant	(CFDA #14.218)
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The St. Bernard Project, Inc. was not determined to be a low-risk auditee.

SCHEDULE OF FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Significant Deficiencies

2011-1

Condition: Lack of consistent written documentation of approval of invoices.

Criteria: Internal controls should be in place that provides reasonable assurance that all expenditures have written documentation of management approval.

Cause: Procedures to require management's written authorization before expenses are processed for payment were not consistently followed.

Effect: Because of the lack of consistent written documentation of approval from the proper level of management, there is increased risk that expenses may be processed for payment that are not approved by management.

Recommendation: Procedures should be implemented requiring that all expenditures have the proper written documentation of management approval before payment.

THE ST. BERNARD PROJECT, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2011

SCHEDULE OF FINDINGS RELATED TO THE FINANCIAL STATEMENTS (CONTINUED)

Views of Responsible Officials and Planned Corrective Actions: The St. Bernard Project, Inc. agrees with the finding and the recommended procedures are in the process of being implemented.

2011-2

Condition: Failure to provide audited financial statements to the State of Louisiana within the required six month time frame

Criteria: Internal controls should be in place that provides reasonable assurance that audit is completed and the report is submitted timely by management.

Recommendation: Procedures should be implemented to ensure that the audit is completed and submitted within the timeframe required by the State of Louisiana's audit law.

Views of Responsible Officials and Planned Corrective Actions: Management of The St. Bernard Project, Inc. agrees with the finding and has addressed the failure by engaging an auditor to perform the audit. Once the audit is completed the audit report will be submitted.

SCHEDULE OF FINDINGS RELATED TO FEDERAL AWARDS

Significant Deficiencies

2011-3

Condition: Lack of consistent written documentation of approval of grant expenditures.

Criteria: Internal controls should be in place that provides reasonable assurance that all expenditures have written documentation of management approval.

Cause: Procedures to require management's written authorization of grant expenditures before they are processed for payment and reimbursed by the grants were not consistently followed.

Effect: Because of the lack of written documentation of approval from the proper level of management, there is increased risk that expenses may be processed for grant reimbursements that are not in line with grant agreements.

Recommendation: Procedures should be implemented requiring that all expenditures have the proper written documentation of management approval before payment.

Views of Responsible Officials and Planned Corrective Actions: The St. Bernard Project, Inc. agrees with the finding and the recommended procedures are in the process of being implemented.

THE ST. BERNARD PROJECT, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended December 31, 2011

Section I Internal Control and Compliance Materials to the General Purpose Financial Statements

SECTION I INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS	
<p>2011-1 Failure in operation of internal controls:</p> <p>Lack of consistent written documentation of approval of invoices.</p>	<p>Management of The St. Bernard Project, Inc. had implemented a bill payment system that required all expenses be approved by the proper level of management before the payment is processed. The St. Bernard Project, Inc. now has consistent written documentation for this invoice approval process.</p>
<p>2011-2 Failure in operation of internal controls:</p> <p>Failure to provide audited financial statements to the State of Louisiana within the required six month time frame.</p>	<p>Management of The St. Bernard Project, Inc. submitted the proper extension request to the State prior to the audit deadline. Management of the The St. Bernard Project, Inc. has addressed this failure by engaging an auditor to perform the audit. Management will have the audited financial statements submitted to the State when the audit is completed.</p> <p>In the future, management will ensure that the audit is completed and submitted within the timeframe as required by the State of Louisiana's audit law.</p>

Section II Internal Control and Compliance Material to Federal Awards

SECTION II INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS	
<p>2011-3 Failure in operation of internal controls:</p> <p>Lack of consistent written documentation of approval of grant expenditures.</p>	<p>Management of The St. Bernard Project, Inc. had implemented a bill payment system that required all expenditures to be approved by the proper level of management before the payment is processed. The St. Bernard Project, Inc. Now has consistent written documentation for this invoice approval process.</p>

Section III Management Letter

SECTION III MANAGEMENT LETTER	
<p>2011-4 Expense Allocations</p> <p>The Organization did not consistently allocate the 2011 expense amounts to some programs and projects</p>	<p>Management of The St. Bernard Project, Inc. has implemented procedures that ensure that all expenses are allocated properly at the end of each month.</p>

THE ST. BERNARD PROJECT, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2011

SECTION III MANAGEMENT LETTER	
2011-5 Accounts Receivable and Accrued Revenue	
The Organization's account receivable and accrued revenue accounts did not accurately reflect all reimbursements due from the grants at the year ended December 31, 2011.	Management of The St. Bernard Project, Inc. has implemented procedures that ensure that all grant reimbursements are included in the appropriate accounting period.

THE ST. BERNARD PROJECT, INC.
STATUS OF PRIOR YEAR FINDINGS
For the Year Ended December 31, 2011

2010-1 Failure to provide audited financial statements to the State of Louisiana within the required time frame – The Organization has submitted the 2010 audit report to the Louisiana Legislative Auditor.