



**THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.**

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The St. Bernard Project, Inc.
d/b/a SBP, Inc.
New Orleans, Louisiana

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The St. Bernard Project, Inc. d/b/a SBP, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 SBP, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2018, on our consideration of SBP, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of 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 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 SBP, Inc.'s internal control over financial reporting and compliance.

June 12, 2018

Wegmann Daxet + Company

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2017 and 2016

| | 2017 | 2016 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 10,865,670 | \$ 3,782,707 |
| Investments | 5,956,464 | 26,192 |
| Accounts receivable | 2,345,137 | 2,527,260 |
| Other receivables | 143,196 | 144,394 |
| Grants receivable | 1,177,511 | 1,092,624 |
| Construction in process | 365,914 | 92,905 |
| Real estate held for sale | 879,351 | 1,842,292 |
| Other current assets | 447,384 | 427,237 |
| Total current assets | <u>22,180,627</u> | <u>9,935,611</u> |
| Property and equipment, at cost less accumulated depreciation | 6,450,832 | 6,502,875 |
| Notes receivable - promissory notes | 274,383 | 458,914 |
| Notes receivable | 6,946,000 | 6,946,000 |
| Deposits | 7,175 | 7,575 |
| Total assets | <u>\$ 35,859,017</u> | <u>\$ 23,850,975</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Line of credit | \$ 40,000 | \$ 100,000 |
| Accounts payable and accrued expenses | 625,742 | 653,359 |
| Accrued payroll and related liabilities | 117,653 | 137,045 |
| Deferred revenue | 75,000 | 193,750 |
| Due to related party | 702,350 | 635,899 |
| Current portion of long-term debt | 86,853 | 1,625,000 |
| Total current liabilities | <u>1,647,598</u> | <u>3,345,053</u> |
| Long-term debt, less current portion and unamortized issuance costs | 9,162,100 | 7,725,844 |
| Total liabilities | <u>10,809,698</u> | <u>11,070,897</u> |
| NET ASSETS | | |
| Unrestricted | 10,433,527 | 9,996,378 |
| Temporarily restricted | 14,615,792 | 2,783,700 |
| Total net assets | <u>25,049,319</u> | <u>12,780,078</u> |
| Total liabilities and net assets | <u>\$ 35,859,017</u> | <u>\$ 23,850,975</u> |

See accompanying Notes to Consolidated Financial Statements.

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|----------------------|-----------------------------------|----------------------|
| Revenues | | | |
| Contributions | \$ 4,129,828 | \$ 16,185,581 | \$ 20,315,409 |
| Grants | 2,393,501 | 7,053,961 | 9,447,462 |
| Property management fees | 490,707 | 88,605 | 579,312 |
| Homeowner funding | - | 1,585,480 | 1,585,480 |
| Sale of properties | 978,800 | 22,500 | 1,001,300 |
| Vendor incentives | 106,572 | - | 106,572 |
| Other income | 210,871 | 45,682 | 256,553 |
| Net assets released from restrictions | <u>13,149,717</u> | <u>(13,149,717)</u> | <u>-</u> |
| Total revenues | <u>21,459,996</u> | <u>11,832,092</u> | <u>33,292,088</u> |
| Expenses | | | |
| Program services | | | |
| Rebuilding | 16,462,263 | - | 16,462,263 |
| Opportunity housing | 1,774,680 | - | 1,774,680 |
| Disaster resilience and recovery lab | 622,731 | - | 622,731 |
| Supporting services | | | |
| General and administrative | 1,725,095 | - | 1,725,095 |
| Fundraising | <u>438,078</u> | <u>-</u> | <u>438,078</u> |
| Total expenses | <u>21,022,847</u> | <u>-</u> | <u>21,022,847</u> |
| Change in net assets | 437,149 | 11,832,092 | 12,269,241 |
| Net assets | | | |
| Beginning of year | <u>9,996,378</u> | <u>2,783,700</u> | <u>12,780,078</u> |
| End of year | <u>\$ 10,433,527</u> | <u>\$ 14,615,792</u> | <u>\$ 25,049,319</u> |

See accompanying Notes to Consolidated Financial Statements.

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------------------|----------------------|
| Revenues | | | |
| Contributions | \$ 5,259,110 | \$ 4,607,993 | \$ 9,867,103 |
| Grants | 4,907,013 | 3,152,498 | 8,059,511 |
| Property management fees | 982,825 | - | 982,825 |
| Homeowner funding | - | 1,845,841 | 1,845,841 |
| Sale of properties | 1,616,400 | - | 1,616,400 |
| Vendor incentives | 107,725 | 18 | 107,743 |
| Other income | 402,108 | 148 | 402,256 |
| Net assets released from restrictions | <u>9,155,998</u> | <u>(9,155,998)</u> | <u>-</u> |
| Total revenues | <u>22,431,179</u> | <u>450,500</u> | <u>22,881,679</u> |
| Expenses | | | |
| Program services | | | |
| Rebuilding | 15,672,453 | - | 15,672,453 |
| Opportunity housing | 2,695,729 | - | 2,695,729 |
| Veteran good work good pay | 5,172 | - | 5,172 |
| Disaster resilience and recovery lab | 810,319 | - | 810,319 |
| Supporting services | | | |
| General and administrative | 1,307,540 | - | 1,307,540 |
| Fundraising | <u>373,689</u> | <u>-</u> | <u>373,689</u> |
| Total expenses | <u>20,864,902</u> | <u>-</u> | <u>20,864,902</u> |
| Change in net assets | 1,566,277 | 450,500 | 2,016,777 |
| Net assets | | | |
| Beginning of year | <u>8,430,101</u> | <u>2,333,200</u> | <u>10,763,301</u> |
| End of year | <u>\$ 9,996,378</u> | <u>\$ 2,783,700</u> | <u>\$ 12,780,078</u> |

See accompanying Notes to Consolidated Financial Statements.

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017

| | Program Services | | | | | Total Expenses |
|-------------------------|----------------------|------------------------|--|-------------------|-----------------------------|----------------------|
| | Rebuilding | Opportunity Housing | Disaster Resilience and Recovery Lab | Fundraising | General & Administrative | |
| Auto | \$ 7,206 | \$ - | \$ - | \$ - | \$ 413 | \$ 7,619 |
| Bad debt expense | 61,667 | 172,231 | - | - | - | 233,898 |
| Bank service charges | 15,479 | 75 | 750 | 5,410 | 2,358 | 24,072 |
| Construction | 6,179,215 | 1,471,143 | - | - | 79,464 | 7,729,822 |
| Depreciation | 135,785 | 22,182 | 1,232 | - | 126,934 | 286,133 |
| 401k administration fee | - | - | - | - | 8,444 | 8,444 |
| Fundraising | - | - | - | 29,960 | - | 29,960 |
| Hardware rental | 456,220 | - | 4,559 | 45,400 | - | 506,179 |
| Information technology | 8,039 | - | - | - | 5,674 | 13,713 |
| Insurance | 1,231,946 | 27,965 | 20,129 | (4,530) | 67,856 | 1,343,366 |
| Interest expense | 93,375 | 10,644 | - | - | 142,926 | 246,945 |
| In-kind labor | 4,279,339 | - | - | - | - | 4,279,339 |
| Licenses and permits | 69,326 | 23,915 | 2,519 | 17,283 | 2,172 | 115,215 |
| Marketing | 75,137 | 100 | 50,194 | 217 | 90 | 125,738 |
| Office supplies | 37,241 | 560 | 7,877 | 3,013 | 3,408 | 52,099 |
| Other expense | 237,317 | 7,562 | 3,675 | 2,563 | 1,054 | 252,171 |
| Occupancy | 163,985 | - | - | - | 30,712 | 194,697 |
| Payroll taxes | 233,332 | 2,915 | 32,814 | 14,394 | 77,874 | 361,329 |
| Postage and delivery | 18,152 | 7 | - | 2,269 | 729 | 21,157 |
| Program expense | - | - | 4,807 | - | - | 4,807 |
| Professional services | 225,684 | 1,029 | 7,057 | 61,737 | 164,913 | 460,420 |
| Repairs and maintenance | 7,127 | - | - | - | 15,486 | 22,613 |
| Salaries | 2,498,853 | 33,477 | 439,742 | 238,100 | 930,484 | 4,140,656 |
| Seminars | 36,624 | - | - | 21 | 568 | 37,213 |
| Travel | 261,185 | 116 | 45,681 | 21,507 | 38,651 | 367,140 |
| Workers comp insurance | 130,029 | 759 | 1,695 | 734 | 24,885 | 158,102 |
| Total expenses | \$ 16,462,263 | \$ 1,774,680 | \$ 622,731 | \$ 438,078 | \$ 1,725,095 | \$ 21,022,847 |

See accompanying Notes to Consolidated Financial Statements.

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016

| | Program Services | | | | | | Total Expenses |
|-------------------------|----------------------|------------------------|-----------------|--|-------------------|-----------------------------|----------------------|
| | Rebuilding | Opportunity Housing | Veteran | Disaster Resilience and Recovery Lab | Fundraising | General & Administrative | |
| Auto | \$ 32,603 | \$ - | \$ - | \$ - | \$ - | \$ 950 | \$ 33,553 |
| Bad debt expense | - | 76,285 | - | - | 1,000 | - | 77,285 |
| Bank service charges | 2,679 | - | - | 77 | 737 | 3,669 | 7,162 |
| Construction | 5,606,557 | 2,364,816 | 4,784 | - | - | 50,873 | 8,027,030 |
| Depreciation | 107,447 | 22,182 | - | 1,232 | - | 84,623 | 215,484 |
| Dues and subscriptions | 570 | - | - | - | - | 15 | 585 |
| Fundraising | - | - | - | - | 43,331 | - | 43,331 |
| Hardware rental | 311,228 | - | - | - | - | - | 311,228 |
| Information technology | 3,462 | - | - | - | - | 19,976 | 23,438 |
| Insurance | 838,610 | 61,494 | - | 34,420 | 8,864 | 185,859 | 1,129,247 |
| Interest expense | 14,828 | 10,147 | - | - | - | 128,120 | 153,095 |
| In-kind labor | 5,515,652 | - | - | - | - | - | 5,515,652 |
| Licenses and permits | 157,123 | 61,775 | - | 946 | 10,114 | 3,726 | 233,684 |
| Marketing | - | - | - | - | 3,105 | 435 | 3,540 |
| Office supplies | 989 | 77 | - | 12,943 | 828 | 4,894 | 19,731 |
| Other expense | 53,077 | - | - | 5,285 | 323 | 43,067 | 101,752 |
| Occupancy | 78,255 | - | - | 8,423 | 101 | 39,980 | 126,759 |
| Payroll taxes | 235,572 | 8,673 | 388 | 36,750 | 13,662 | 6,026 | 301,071 |
| Postage and delivery | 13,873 | 68 | - | - | 673 | 1,642 | 16,256 |
| Program expense | - | - | - | 1,450 | - | - | 1,450 |
| Professional services | 245,656 | 6,268 | - | 22,443 | 70,879 | 134,076 | 479,322 |
| Property tax | 5,778 | - | - | - | - | 23,193 | 28,971 |
| Repairs and maintenance | 1,799 | - | - | - | - | 948 | 2,747 |
| Salaries | 2,143,655 | 83,692 | - | 530,830 | 204,250 | 566,658 | 3,529,085 |
| Seminars | 8,196 | 50 | - | - | - | 66 | 8,312 |
| Travel | 111,968 | 202 | - | 155,238 | 15,641 | 8,115 | 291,164 |
| Workers comp insurance | 182,876 | - | - | 282 | 181 | 629 | 183,968 |
| Total expenses | \$ 15,672,453 | \$ 2,695,729 | \$ 5,172 | \$ 810,319 | \$ 373,689 | \$ 1,307,540 | \$ 20,864,902 |

See accompanying Notes to Consolidated Financial Statements.

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|--|----------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 12,269,241 | \$ 2,016,777 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 286,134 | 215,483 |
| Deferred loan costs | 23,109 | 23,109 |
| Donated vehicles included in contributions | (144,594) | - |
| Forgiveness of debt | (125,000) | - |
| (Gain) loss on disposal of assets | - | (1,900) |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | 182,123 | (1,572,956) |
| Other receivables | 1,198 | 33,971 |
| Grants receivable | (84,887) | (146,597) |
| Construction in process | 1,164,820 | 1,164,820 |
| Real estate held for rental | (226,915) | (226,915) |
| Real estate held for sale | (247,973) | (1,331,912) |
| Other current assets | (20,147) | (130,963) |
| Deposits | 400 | (5,600) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and accrued expenses | (27,617) | (526,167) |
| Accrued payroll and related liabilities | (19,392) | 12,943 |
| Deferred revenue | (118,750) | 193,750 |
| Due to related party | 66,451 | 164,507 |
| Net cash provided (used) by operating activities | <u>12,978,201</u> | <u>(117,650)</u> |
| Cash flows from investing activities: | | |
| Advances on notes receivable - promissory notes | 184,531 | 72,835 |
| Proceeds from disposal of assets | - | 1,900 |
| Purchase of property and equipment | (89,497) | (1,801,259) |
| Proceeds from sale of investments, net | 69,728 | 1,529 |
| Net cash used by investing activities | <u>(5,835,238)</u> | <u>(1,724,995)</u> |
| Cash flows from financing activities: | | |
| Repayments of line of credit | (60,000) | (151,088) |
| Borrowings under long-term debt | - | 738,106 |
| Repayments of long-term debt | - | (1,073,585) |
| Net cash used by financing activities | <u>(60,000)</u> | <u>(486,567)</u> |
| Net increase (decrease) in cash | 7,082,963 | (2,329,212) |
| Cash and cash equivalents at beginning of year | <u>3,782,707</u> | <u>6,111,919</u> |
| Cash and cash equivalents at end of year | <u>\$ 10,865,670</u> | <u>\$ 3,782,707</u> |

See accompanying Notes to Consolidated Financial Statements.

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

1) Nature of activities

The St. Bernard Project, Inc. d/b/a SBP, Inc. (SBP, Inc.) is a non-profit organization established to shrink the time between disaster and recovery. The St. Bernard Project, Inc. is a community based organization that carries out its mission through three primary programs: Rebuilding Programs, Disaster Resilience and Recovery Lab, and Opportunity Housing Program.

Toulouse Commercial, Inc. is a non-profit organization established on March 27, 2015 to operate exclusively for the benefit of, to perform the functions of, and to carry out the purposes of The St. Bernard Project, Inc.

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.

The accompanying consolidated financial statements present the consolidated statements of financial position and changes in net assets and cash flows of The St. Bernard Project, Inc. and Toulouse Commercial, Inc. (together referred to as the "Organization"). Toulouse Commercial, Inc. is a supporting organization of SBP, Inc. All significant inter-company accounts and transactions have been eliminated.

(b) Basis of presentation

Financial Accounting Standards Board (FASB), 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) Revenue recognition

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 grantors. Real estate sales are recognized at the time the sale is complete and title has transferred to the buyer.

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

2) Summary of significant accounting policies (continued)

- (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) Investments
Investments in equity securities with readily determinable fair values are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investments with a maturity of one year or less are classified as current.
- (f) 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.

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 \$123,634 and \$23,858 as of December 31, 2017 and 2016, respectively.

- (g) 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> |
|-----------------------------|---------------------|
| Building | 39 years |
| Real Estate Held for Rental | 39 years |
| Equipment | 5 years |
| Vehicles | 5 years |

- (h) Construction in process
Construction in process includes houses owned by the Organization that are in the process of being rehabilitated and are carried at cost plus construction costs and an overhead allocation. The property is transferred to real estate held for sale once it is completed and ready to be put on the market for sale.
- (i) Real estate held for sale
Real estate held for sale is carried at cost plus construction costs and an overhead allocation. The real estate has been acquired to be rehabilitated and sold to qualified homeowners.
- (j) Real estate held for rental
Real estate held for rental is carried at cost plus construction costs and an overhead allocation. The real estate has been acquired to be rehabilitated and rented to qualified homeowners.

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

2) Summary of significant accounting policies (continued)

(k) Income taxes

SBP, Inc. is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. SBP, Inc.'s determination letter is as of May 30, 2008.

Toulouse Commercial, Inc. is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. Toulouse Commercial, Inc.'s determination letter is as of March 27, 2015.

The Organization adopted the provisions of ASC 740, *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 not subject to U.S. federal and state income tax examinations by tax authorities beyond three years from the filing of those returns.

(l) Functional expenses

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

(m) Fundraising

All expenses associated with fundraising events are expensed as incurred.

(n) Use of estimates

The preparation of financial statements in conformity with U.S. 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.

(o) 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.

The Organization generally requires a deed of trust to support its notes receivable.

(p) 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 natural disasters. The estimated value of the contributed services for the years ended December 31, 2017 and 2016 was \$4,673,000 and \$5,516,000, respectively.

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

2) Summary of significant accounting policies (continued)

(q) 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.

(r) Financing and loan acquisition costs

Certain costs related to the New Market Tax Credit Financing Commitment have been capitalized and are being amortized over the estimated life of the related note payable. Financing and loan acquisition costs totaled \$808,820 as of December 31, 2017 and 2016. Accumulated amortization totaled \$57,773 and \$34,664 as of December 31, 2017 and 2016, respectively.

(s) New accounting standard

In 2017, the Organization adopted new Financial Accounting Standards Board (FASB) guidance regarding the presentation on the statement of financial position of the costs of issuance of debt and related amortization expense in the statement of activities. The new guidance requires presenting such unamortized costs as a direct deduction from the face amount of the debt (See Note 12, Long-term debt). Amortization is required to be included with interest expense in the statement of activities. Previously, the Organization reflected unamortized debt issuance costs as deferred loan costs in the statements of financial position, and has retroactively reclassified 2016 amounts to accord with the new debt deduction presentation. The reclassification reduced total assets and debt at December 31, 2016 by \$774,156 with no effect on net assets.

(t) Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

3) Property and equipment

Property and equipment is summarized as follows:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------|---------------------|---------------------|
| Land | \$ 1,080,000 | \$ 1,080,000 |
| Building | 4,187,464 | 4,097,967 |
| Equipment | 32,232 | 32,232 |
| Real estate held for rental | 950,503 | 950,503 |
| Vehicles | 818,417 | 675,423 |
| Total costs | <u>7,068,616</u> | <u>6,836,125</u> |
| Less: accumulated depreciation | 617,784 | 333,250 |
| Property and equipment | <u>\$ 6,450,832</u> | <u>\$ 6,502,875</u> |

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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4) Notes receivable - promissory notes

The Organization has various notes receivable totaling \$274,383 and \$458,914 in connection with the sale of various properties as of December 31, 2017 and 2016, respectively. The promissory notes become due and payable if the borrower fails to occupy the residence for a five or ten year period after initial purchase date, fails to maintain homeowner's and flood insurance during the five or ten years or fails to pay property taxes when they become due during the five or ten year period. There has been no breach of the promissory notes as of December 31, 2017.

The Organization will reduce the balance on the notes over the next ten years as outlined in the notes based on compliance with the terms of the agreement. A total of \$184,531 and \$72,835 was written off in 2017 and 2016, respectively.

5) Notes receivable

SBP, Inc. entered into an agreement on January 16, 2014, as part of a New Markets Tax Credit Transaction, to lend FNBC NMTC Hybrid Fund, LLC, \$2,122,500 in the form of a subordinate loan note. The outstanding principal as of December 31, 2017 and 2016 totaled \$2,122,500. The note accrues interest at a rate of 1.41% and interest is paid quarterly. Interest earned and received on the loan as of December 31, 2017 and 2016 was \$30,000 and \$30,000, respectively.

SBP, Inc. entered into an agreement on June 30, 2015, as part of a New Markets Tax Credit Transaction, to lend GSNMF SUB-CDE 13, LLC, \$4,823,500 in the form of a subordinate loan note. The outstanding principal as of December 31, 2017 and 2016 totaled \$4,823,500. The note accrues interest at a rate of 2.02% and interest is paid quarterly. Interest earned and received on the loan as of December 31, 2017 and 2016 was \$97,500 and \$97,500, respectively.

6) Commitments and contingencies

SBP, Inc. is the guarantor in a New Markets Tax Credit Indemnity Agreement between SBP Real Estate, Inc. and a bank. Should a recapture event occur, SBP, Inc. could be obligated to pay the recapture amount according to the agreement. Management believes there are no breaches of the agreement as of December 31, 2017.

SBP, Inc. is a guarantor in a credit agreement between SBP Real Estate, Inc. and a lender. The note payable balance at December 31, 2017 and 2016 was \$3,000,000.

SBP, Inc. is the guarantor in a New Markets Tax Credit Indemnity Agreement between Toulouse Commercial, Inc. and a bank. Should a recapture event occur, SBP, Inc. could be obligated to pay the recapture amount according to the agreement. Management believes there are no breaches of the agreement as of December 31, 2017.

SBP, Inc. is a guarantor in a credit agreement between Toulouse Commercial, Inc. and a lender. The note payable balance at December 31, 2017 and 2016 was \$7,000,000.

Any breach of the loan agreement between Toulouse Commercial, Inc. and GSNMF SUB-CDE 13, LLC may require the Organization to pay a recapture amount according to the agreement. Management believes there are no breaches of the agreement as of December 31, 2017.

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7) New markets tax credit

Toulouse Commercial, Inc. acquired land and started the development of a commercial facility located in New Orleans. In order to obtain the land and start development of the building a credit agreement was executed on June 30, 2015 by and among Toulouse Commercial, Inc. and GSNMF SUB-CDE 13, LLC, a Delaware limited liability company (“Lender”). The loans qualify as a “quality low income community investment” and generate certain tax credits called New Markets Tax Credits (“NMTC”) under Section 45D of the Internal Revenue Code. To qualify, Toulouse Commercial must comply with certain representations, warranties, and covenants, including but not limited to, maintaining its’ non-profit status and will continue to qualify as a qualified low-income community business. Toulouse Commercial, Inc. will potentially realize benefits from the New Markets Tax Credit Program of the Community Development Financial Institution Fund (“CDFI”), a branch of the U.S. Department of Treasury.

8) Investments

Investments are carried at fair value and consist of the following at December 31, 2017 and 2016:

| | <u>2017</u> <u>Fair Value</u> | <u>2016</u> <u>Fair Value</u> |
|--------------------------|----------------------------------|----------------------------------|
| Equity securities | \$ 16,106 | \$ 26,192 |
| U.S. treasury securities | 1,297,432 | - |
| U.S. government bonds | 878,821 | - |
| Corporate bonds | <u>3,764,105</u> | <u>-</u> |
| Total investments | <u>\$ 5,956,464</u> | <u>\$ 26,192</u> |

A summary of return on investments consists of the following for the years ended December 31, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|------------------------|-----------------|--------------|
| Interest and dividends | \$ 380 | \$ 45 |
| Net unrealized loss | <u>(1,227)</u> | <u>-</u> |
| Total return | <u>\$ (847)</u> | <u>\$ 45</u> |

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9) Grants receivable

SBP, Inc. was awarded various grants through federal, state and other 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, 2017 consists of the following:

| | Due from grant at beginning <u>of year</u> | Grant <u>Receipts</u> | Grant <u>Expenditures</u> | Due from grant at end <u>of year</u> |
|--|--|--------------------------|------------------------------|--|
| <u>Federal financial assistance</u> | | | | |
| AmeriCorp national grant from | | | | |
| Corporation for National and Community Service | \$ 219,216 | \$ 1,122,880 | \$ 1,468,569 | \$ 564,905 |
| U.S. Dept. of Housing and Urban | | | | |
| Development - City of New Orleans | 9,467 | 539,036 | 833,337 | 303,768 |
| U.S. Dept. of Housing and Urban | | | | |
| Development - City of New Orleans | 61,738 | 61,738 | - | - |
| U.S. Dept. of Housing and Urban | | | | |
| Development - New York | 305,753 | 808,786 | 756,605 | 253,572 |
| U.S. Dept. of Housing and Urban | | | | |
| Development - City of New Orleans | 366,450 | 366,450 | - | - |
| U.S. Dept. of Housing and Urban | | | | |
| Development - County of Lexington | - | - | 18,550 | 18,550 |
| U.S. Dept. of Housing and Urban | | | | |
| Development - City of San Marcos | - | 157,717 | 194,433 | 36,716 |
| Total federal financial assistance | <u>962,624</u> | <u>3,056,607</u> | <u>3,271,494</u> | <u>1,177,511</u> |
| <u>Other Grants</u> | | | | |
| The American National Red Cross | 60,000 | 60,000 | - | - |
| Louisiana Housing Corporation / HRP | 70,000 | 70,000 | - | - |
| Total | <u>\$ 1,092,624</u> | <u>\$ 3,186,607</u> | <u>\$ 3,271,494</u> | <u>\$ 1,177,511</u> |

THE ST. BERNARD PROJECT, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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9) Grants receivable (continued)

Grants receivable for the year ended December 31, 2016 consists of the following:

| | Due from grant at beginning of year | Grant Receipts | Grant Expenditures | Due from grant at end of year |
|--|---|---------------------|-----------------------|-------------------------------------|
| <u>Federal financial assistance</u> | | | | |
| AmeriCorp national grant from | | | | |
| Corporation for National and Community Service | \$ 301,506 | \$ 2,809,840 | \$ 2,727,550 | \$ 219,216 |
| U.S. Dept. of Housing and Urban | | | | |
| Development - Louisiana Housing Finance | 35,785 | 35,785 | - | - |
| U.S. Dept. of Housing and Urban | | | | |
| Development - City of New Orleans | 51,121 | 203,749 | 162,095 | 9,467 |
| U.S. Dept. of Housing and Urban | | | | |
| Development - City of New Orleans | 56,098 | 204,527 | 210,167 | 61,738 |
| U.S. Dept. of Housing and Urban | | | | |
| Development - New York | - | - | 305,753 | 305,753 |
| U.S. Dept. of Housing and Urban | | | | |
| Development - City of New Orleans | 356,250 | 356,250 | 366,450 | 366,450 |
| U.S. Dept. of Housing and Urban | | | | |
| Development - City of New Orleans | 17,199 | 17,199 | - | - |
| U.S. Dept. of Housing and Urban | | | | |
| Development - City of New Orleans | 13,058 | 13,058 | - | - |
| Total federal financial assistance | <u>831,017</u> | <u>3,640,408</u> | <u>3,772,015</u> | <u>962,624</u> |
| <u>Other Grants</u> | | | | |
| The American National Red Cross | - | - | 60,000 | 60,000 |
| Louisiana Housing Corporation / HRP | 85,000 | 15,000 | - | 70,000 |
| Greater New Orleans Housing Alliance | 29,960 | 29,960 | - | - |
| Neighborhood Revitalization NYC, LLC | 50 | 50 | - | - |
| Total | <u>\$ 946,027</u> | <u>\$ 3,685,418</u> | <u>\$ 3,832,015</u> | <u>\$ 1,092,624</u> |

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10) Line of credit

The Organization has a \$850,000 unsecured line of credit with a bank for its working capital needs with a maturity date of September 30, 2018. The interest rate on the line is determined based on the LIBOR base rate. The balance at December 31, 2017 and 2016 was \$40,000 and \$100,000, respectively.

11) Grant note payable

SBP, Inc. was awarded a grant from the New Orleans Redevelopment Authority (“NORA”) to assist with the development of single family housing for low income families. The grant awarded up to \$75,000 of assistance per property and of this total \$50,000 per property is payable back to NORA. As of December 31, 2017 and 2016, SBP, Inc. had a \$143,256 and \$293,256 payable to NORA, respectively, recorded in accrued expenses.

12) Long-term debt

Long-term debt of the Organization at December 31, 2017 and 2016 consists of the following:

| | <u>2017</u> | <u>2016</u> |
|---|-------------|-------------|
| Note payable to grantor with interest at a rate of 2%, secured by the assets of the Organization. The note matured in February 2015. The note was forgiven in 2017. | \$ - | \$ 125,000 |
| Notes payable to a bank with interest at a rate of 5.5%, payable in quarterly interest only payments through the maturity date and full principal balance due at maturity, secured by the assets of the Organization. The note matures July 29, 2022. | 1,500,000 | 1,500,000 |
| Notes payable to a lender with interest at a rate of 1%, payable in monthly principal and interest payments of \$10,855 starting April 10, 2018, secured by the assets of the Organization. The notes mature June 10, 2030. | 1,500,000 | - |
| Note payable to a bank with interest at a rate of LIBOR plus 2.8%, payable in monthly interest only payments through the maturity date and full principal balance due at maturity, secured by the assets of the Organization. The note matured February 28, 2017. | - | 1,500,000 |

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
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12) Long-term debt (continued)

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Note payable to GSNMF SUB-CDE 13, LLC with interest at a rate of 1.50%, payable in quarterly interest only payments through June 2022 and remaining principal and interest due on maturity date of the loan, secured by the assets of the Organization. The notes mature in July 2022. | \$ 1,500,000 | \$ 1,500,000 |
| Note payable to GSNMF SUB-CDE 13, LLC with interest at a rate of 1.50%, payable in quarterly interest only payments through June 2022 and quarterly principal and interest payments commencing in September 2022, secured by the assets of the Organization. The notes mature in June 2050. | 1,500,000 | 1,500,000 |
| Note payable to GSNMF SUB-CDE 13, LLC with interest at a rate of 1.50%, payable in quarterly interest only payments through June 2022 and quarterly principal and interest payments commencing in September 2022, secured by the assets of the Organization. The notes mature in June 2050. | 1,823,500 | 1,823,500 |
| Note payable to GSNMF SUB-CDE 13, LLC with interest at a rate of 1.50%, payable in quarterly interest only payments through June 2022 and quarterly principal and interest payments commencing in September 2022, secured by the assets of the Organization. The notes mature in June 2050. | <u>2,176,500</u> | <u>2,176,500</u> |
| Total long-term debt | 10,000,000 | 10,125,000 |
| Less current portion | 86,853 | 1,625,000 |
| Less unamortized issuance costs | 751,047 | 774,156 |
| Long-term debt, less current portion | <u>\$ 9,162,100</u> | <u>\$ 7,725,844</u> |

The maturities of long-term debt are as follows:

| | | |
|------------|----|-----------|
| 2018 | \$ | 86,853 |
| 2019 | | 116,472 |
| 2020 | | 117,658 |
| 2021 | | 118,857 |
| 2022 | | 3,120,068 |
| Thereafter | | 6,440,092 |

THE ST. BERNARD PROJECT, INC.
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13) Restrictions on net assets

Temporarily restricted net assets are available for the following programs:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------------|----------------------|---------------------|
| AmeriCorp Grant | \$ 856,062 | \$ 700,728 |
| Disaster Resilience & Recovery Lab | 976,721 | 512,327 |
| Capital Campaign | 82,604 | - |
| Rebuild New York | - | 72,163 |
| Rebuild West Virginia | 50,000 | 266,779 |
| Rebuild South Carolina | - | 302,366 |
| Rebuild Baton Rouge | 659,027 | 628,815 |
| Rebuild Texas | 11,694,551 | - |
| Rebuild New Orleans | 296,827 | - |
| Rebuild New Jersey | - | 300,522 |
| Total temporarily restricted assets | <u>\$ 14,615,792</u> | <u>\$ 2,783,700</u> |

14) Operating leases

SBP, Inc. leases office space for its headquarters and warehouse space from Toulouse Commercial, Inc. The lease runs through 2050. Total rent expense, which is included in occupancy expense under the lease was \$249,097 and \$201,276 for the years ended December 31, 2017 and 2016, respectively. The rent expense associated with this lease agreement has been eliminated on the consolidated statements of activities.

Future minimum rental payments under the leases are as follows:

| | |
|------------|------------|
| 2018 | \$ 271,056 |
| 2019 | 279,188 |
| 2020 | 287,564 |
| 2021 | 296,191 |
| 2022 | 305,076 |
| Thereafter | 12,966,661 |

The Organization leases office space for its New York, South Carolina, Baton Rouge, Louisiana and New Jersey locations. The leases expire at various dates through September 2018. Total rent expense, which is included in occupancy expense; under the leases was \$58,120 and \$47,710 for the years ended December 31, 2017 and 2016, respectively.

Future minimum rental payments under the leases are as follows:

| | |
|------|------------|
| 2018 | \$ 111,015 |
| 2019 | 81,103 |

THE ST. BERNARD PROJECT, INC.
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14) Operating leases (continued)

SBP, Inc. subleases office space to various other non-profit organizations. The leases expire at various dates through December 2022.

Future minimum rental income under the leases are as follows:

| | | |
|------|----|--------|
| 2018 | \$ | 74,796 |
| 2019 | | 67,500 |
| 2020 | | 68,864 |
| 2021 | | 70,229 |
| 2022 | | 71,636 |

15) Fair value measurement

Financial Accounting Standards Board Accounting Standards Codification 820, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

15) Fair value measurement (continued)

Equity securities and U.S. treasury securities: Valued at net asset value, which approximates fair value.

U.S. government bonds and Corporate bonds: Valued at net asset value, which approximates fair value.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2017:

| | <u>Total Fair Value Assets</u> | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|--------------------------|------------------------------------|---|--|--|
| Equity securities | \$ 16,106 | \$ 16,106 | \$ - | \$ - |
| U.S. treasury securities | 1,297,432 | 1,297,432 | - | - |
| U.S. government bonds | 878,821 | 878,821 | - | - |
| Corporate bonds | 3,764,105 | 3,764,105 | - | - |
| Total | <u>\$5,956,464</u> | <u>\$ 5,956,464</u> | <u>\$ -</u> | <u>\$ -</u> |

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2016:

| | <u>Total Fair Value Assets</u> | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|-------------------|------------------------------------|---|--|--|
| Equity securities | \$ 26,192 | \$ 26,192 | \$ - | \$ - |
| Total | <u>\$ 26,192</u> | <u>\$ 26,192</u> | <u>\$ -</u> | <u>\$ -</u> |

16) Economic dependence

In 2017, the Organization received approximately 28% of its revenue from federal, state and other grants and 47% from contributions. Another 14% of the Organization's revenue was volunteer labor that was contributed in 2017.

In 2016, the Organization received approximately 34% of its revenue from federal, state and other grants and 19% from contributions. Another 23% of the Organization's revenue was volunteer labor that was contributed in 2016.

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

17) Supplementary disclosures of cash flows information

Cash paid during the year for:

| | <u>2017</u> | <u>2016</u> |
|----------|-------------------|-------------------|
| Interest | <u>\$ 216,153</u> | <u>\$ 245,712</u> |

The Organization had noncash financing transactions of \$1,500,000 relating to the refinancing of a loan in 2017.

18) Related party transactions

SBP, Inc. has an economic interest in SBP Real Estate, Inc., it does not have control. Therefore, its operations of SBP Real Estate, Inc. are not consolidated in the financial statements of the Organization.

SBP, Inc. and SBP Real Estate, Inc. share a common focus on providing assistance to disaster-impacted communities through the construction, renovation and promotion of affordable housing.

SBP, Inc. received property management fees from SBP Real Estate, Inc. in the amount of \$38,226 for the year ended December 31, 2017.

SBP, Inc. received property management fees from SBP Real Estate, Inc. in the amount of \$119,403, and paid \$98,878 for the purchase of properties from SBP Real Estate, Inc. for the year December 31, 2016.

SBP, Inc. had a balance of \$702,350 due to SBP Real Estate, Inc. and a \$1,040,242 balance due from SBP Real Estate, included in accounts receivable, at December 31, 2017. SBP, Inc. had a balance of \$635,899 due to SBP Real Estate, Inc. and a \$956,939 balance due from SBP Real Estate, included in accounts receivable, at December 31, 2016.

19) Employee benefit plan

The Organization maintains a 401(k) retirement plan for the benefit of all eligible employees, whereby the employees may elect to defer compensation pursuant to a salary reduction agreement. The Organization contributes a match as described in the plan documents. For the year ended December 31, 2017, the Organization contributed \$8,444.

20) Subsequent events

Management has evaluated subsequent events through the date of the auditors' report, the date which the financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosures in these financial statements.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
The St. Bernard Project, Inc.
d/b/a SBP, Inc.
New Orleans, Louisiana

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and consolidating statements of activities is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Wegmann Dazet & Company

June 12, 2018

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
SUPPLEMENTARY INFORMATION - CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2017

| | SBP, Inc. | Toulouse Commercial, Inc. | Totals Before Consolidating Entries | Consolidating Entries | Consolidated Totals |
|---|----------------------|---------------------------------|---|--------------------------|------------------------|
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 10,786,776 | \$ 78,894 | \$ 10,865,670 | \$ - | \$ 10,865,670 |
| Investments | 5,956,464 | - | 5,956,464 | - | 5,956,464 |
| Accounts receivable | 2,345,137 | 52,645 | 2,397,782 | (52,645) | 2,345,137 |
| Other receivables | 143,196 | - | 143,196 | - | 143,196 |
| Grants receivable | 1,177,511 | - | 1,177,511 | - | 1,177,511 |
| Construction in process | 365,914 | - | 365,914 | - | 365,914 |
| Real estate held for sale | 879,351 | - | 879,351 | - | 879,351 |
| Due from relaty party | - | 32,851 | 32,851 | (32,851) | - |
| Other current assets | 413,335 | 34,049 | 447,384 | - | 447,384 |
| Total current assets | 22,067,684 | 198,439 | 22,266,123 | (85,496) | 22,180,627 |
| Property and equipment, at cost less accumulated depreciation | 1,394,925 | 5,908,364 | 7,303,289 | (852,457) | 6,450,832 |
| Notes receivable - promissory notes | 274,383 | - | 274,383 | - | 274,383 |
| Notes receivable | 6,946,000 | - | 6,946,000 | - | 6,946,000 |
| Deposits | 1,075 | 6,100 | 7,175 | - | 7,175 |
| Total assets | \$ 30,684,067 | \$ 6,112,903 | \$ 36,796,970 | \$ (937,953) | \$ 35,859,017 |
| LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Line of credit | \$ 40,000 | \$ - | \$ 40,000 | \$ - | \$ 40,000 |
| Accounts payable and accrued expenses | 678,387 | - | 678,387 | (52,645) | 625,742 |
| Accrued payroll and related liabilities | 117,653 | - | 117,653 | - | 117,653 |
| Deferred revenue | 75,000 | - | 75,000 | - | 75,000 |
| Due to related party | 735,201 | - | 735,201 | (32,851) | 702,350 |
| Current portion of long-term debt | 86,853 | - | 86,853 | - | 86,853 |
| Total current liabilities | 1,733,094 | - | 1,733,094 | (85,496) | 1,647,598 |
| Long-term debt, less current portion | 2,913,147 | 6,248,953 | 9,162,100 | - | 9,162,100 |
| Total liabilities | 4,646,241 | 6,248,953 | 10,895,194 | (85,496) | 10,809,698 |
| NET ASSETS | | | | | |
| Unrestricted | 11,422,034 | (136,050) | 11,285,984 | (852,457) | 10,433,527 |
| Temporarily restricted | 14,615,792 | - | 14,615,792 | - | 14,615,792 |
| Total net assets | 26,037,826 | (136,050) | 25,901,776 | (852,457) | 25,049,319 |
| Total liabilities and net assets | \$ 30,684,067 | \$ 6,112,903 | \$ 36,796,970 | \$ (937,953) | \$ 35,859,017 |

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
SUPPLEMENTARY INFORMATION - CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2016

| | SBP, Inc. | Toulouse Commercial, Inc. | Totals Before Consolidating Entries | Consolidating Entries | Consolidated Totals |
|---|----------------------|---------------------------------|---|--------------------------|------------------------|
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 3,594,853 | \$ 187,854 | \$ 3,782,707 | \$ - | \$ 3,782,707 |
| Investments | 26,192 | - | 26,192 | - | 26,192 |
| Accounts receivable | 2,527,260 | 93,180 | 2,620,440 | (93,180) | 2,527,260 |
| Other receivables | 144,394 | - | 144,394 | - | 144,394 |
| Grants receivable | 1,092,624 | - | 1,092,624 | - | 1,092,624 |
| Construction in process | 92,905 | - | 92,905 | - | 92,905 |
| Accrued revenue | - | 40,819 | 40,819 | (40,819) | - |
| Real estate held for sale | 1,842,292 | - | 1,842,292 | - | 1,842,292 |
| Due from relaty party | - | 23,139 | 23,139 | (23,139) | - |
| Other current assets | 414,298 | 12,939 | 427,237 | - | 427,237 |
| Total current assets | 9,734,818 | 357,931 | 10,092,749 | (157,138) | 9,935,611 |
| Property and equipment, at cost less accumulated depreciation | 1,409,531 | 5,945,801 | 7,355,332 | (852,457) | 6,502,875 |
| Notes receivable - promissory notes | 458,914 | - | 458,914 | - | 458,914 |
| Notes receivable | 6,946,000 | - | 6,946,000 | - | 6,946,000 |
| Deposits | 1,475 | 6,100 | 7,575 | - | 7,575 |
| Total assets | \$ 18,550,738 | \$ 6,309,832 | \$ 24,860,570 | \$ (1,009,595) | \$ 23,850,975 |
| LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Line of credit | \$ 100,000 | \$ - | \$ 100,000 | \$ - | \$ 100,000 |
| Accounts payable and accrued expenses | 784,608 | 2,750 | 787,358 | (133,999) | 653,359 |
| Accrued payroll and related liabilities | 137,045 | - | 137,045 | - | 137,045 |
| Deferred revenue | 193,750 | - | 193,750 | - | 193,750 |
| Due to related party | 659,038 | - | 659,038 | (23,139) | 635,899 |
| Current portion of long-term debt | 1,625,000 | - | 1,625,000 | - | 1,625,000 |
| Total current liabilities | 3,499,441 | 2,750 | 3,502,191 | (157,138) | 3,345,053 |
| Long-term debt, less current portion | 1,500,000 | 6,225,844 | 7,725,844 | - | 7,725,844 |
| Total liabilities | 4,999,441 | 6,228,594 | 11,228,035 | (157,138) | 11,070,897 |
| NET ASSETS | | | | | |
| Unrestricted | 10,767,597 | 81,238 | 10,848,835 | (852,457) | 9,996,378 |
| Temporarily restricted | 2,783,700 | - | 2,783,700 | - | 2,783,700 |
| Total net assets | 13,551,297 | 81,238 | 13,632,535 | (852,457) | 12,780,078 |
| Total liabilities and net assets | \$ 18,550,738 | \$ 6,309,832 | \$ 24,860,570 | \$ (1,009,595) | \$ 23,850,975 |

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
SUPPLEMENTARY INFORMATION - CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

| | SBP, Inc. Unrestricted | SBP, Inc. Restricted | Toulouse Commercial, Inc. Unrestricted | Totals Before Consolidating Entries | Consolidating Entries | Consolidated Totals |
|---------------------------------------|---------------------------|-------------------------|---|---|--------------------------|------------------------|
| Revenues | | | | | | |
| Contributions | \$ 4,279,828 | \$ 16,185,581 | \$ - | \$ 20,465,409 | \$ (150,000) | \$ 20,315,409 |
| Grants | 2,393,501 | 7,053,961 | - | 9,447,462 | - | 9,447,462 |
| Property management fees | 490,707 | 88,605 | - | 579,312 | - | 579,312 |
| Homeowner funding | - | 1,585,480 | - | 1,585,480 | - | 1,585,480 |
| Sale of properties | 978,800 | 22,500 | - | 1,001,300 | - | 1,001,300 |
| Vendor incentives | 106,572 | - | - | 106,572 | - | 106,572 |
| Rental income | - | - | 249,097 | 249,097 | (249,097) | - |
| Other income | 210,871 | 45,682 | - | 256,553 | - | 256,553 |
| Net assets released from restrictions | 13,149,717 | (13,149,717) | - | - | - | - |
| Total revenues | 21,609,996 | 11,832,092 | 249,097 | 33,691,185 | (399,097) | 33,292,088 |
| Expenses | | | | | | |
| Program services | | | | | | |
| Rebuilding | 16,462,263 | - | - | 16,462,263 | - | 16,462,263 |
| Opportunity housing | 1,774,680 | - | - | 1,774,680 | - | 1,774,680 |
| Disaster resilience and recovery lab | 622,731 | - | - | 622,731 | - | 622,731 |
| Supporting services | | | | | | |
| General and administrative | 1,657,807 | - | 466,385 | 2,124,192 | (399,097) | 1,725,095 |
| Fundraising | 438,078 | - | - | 438,078 | - | 438,078 |
| Total expenses | 20,955,559 | - | 466,385 | 21,421,944 | (399,097) | 21,022,847 |
| Change in net assets | 654,437 | 11,832,092 | (217,288) | 12,269,241 | - | 12,269,241 |
| Net assets | | | | | | |
| Beginning of year | 10,767,597 | 2,783,700 | 81,238 | 13,632,535 | (852,457) | 12,780,078 |
| End of year | \$ 11,422,034 | \$ 14,615,792 | \$ (136,050) | \$ 25,901,776 | \$ (852,457) | \$ 25,049,319 |

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
SUPPLEMENTARY INFORMATION - CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016

| | SBP, Inc. Unrestricted | SBP, Inc. Restricted | Toulouse Commercial, Inc. Unrestricted | Totals Before Consolidating Entries | Consolidating Entries | Consolidated Totals |
|---------------------------------------|---------------------------|-------------------------|---|---|--------------------------|------------------------|
| Revenues | | | | | | |
| Contributions | \$ 5,259,110 | \$ 4,607,993 | \$ - | \$ 9,867,103 | \$ - | \$ 9,867,103 |
| Grants | 4,907,013 | 3,152,498 | - | 8,059,511 | - | 8,059,511 |
| Property management fees | 982,825 | - | - | 982,825 | - | 982,825 |
| Homeowner funding | - | 1,845,841 | - | 1,845,841 | - | 1,845,841 |
| Sale of properties | 1,616,400 | - | - | 1,616,400 | - | 1,616,400 |
| Vendor incentives | 107,725 | 18 | - | 107,743 | - | 107,743 |
| Rental income | - | - | 201,276 | 201,276 | (201,276) | - |
| Other income | 1,041,451 | 148 | - | 1,041,599 | (639,343) | 402,256 |
| Net assets released from restrictions | 9,155,998 | (9,155,998) | - | - | - | - |
| Total revenues | 23,070,522 | 450,500 | 201,276 | 23,722,298 | (840,619) | 22,881,679 |
| Expenses | | | | | | |
| Program services | | | | | | |
| Rebuilding | 15,796,487 | - | - | 15,796,487 | (124,034) | 15,672,453 |
| Opportunity housing | 2,695,729 | - | - | 2,695,729 | - | 2,695,729 |
| Veteran good work good pay | 5,172 | - | - | 5,172 | - | 5,172 |
| Disaster resilience and recovery lab | 810,319 | - | - | 810,319 | - | 810,319 |
| Supporting services | | | | | | |
| General and administrative | 1,121,494 | - | 263,288 | 1,384,782 | (77,242) | 1,307,540 |
| Fundraising | 373,689 | - | - | 373,689 | - | 373,689 |
| Total expenses | 20,802,890 | - | 263,288 | 21,066,178 | (201,276) | 20,864,902 |
| Change in net assets | 2,267,632 | 450,500 | (62,012) | 2,656,120 | (639,343) | 2,016,777 |
| Net assets | | | | | | |
| Beginning of year | 8,499,965 | 2,333,200 | 143,250 | 10,976,415 | (213,114) | 10,763,301 |
| End of year | <u>\$ 10,767,597</u> | <u>\$ 2,783,700</u> | <u>\$ 81,238</u> | <u>\$ 13,632,535</u> | <u>\$ (852,457)</u> | <u>\$ 12,780,078</u> |

THE ST. BERNARD PROJECT, INC.
SUPPLEMENTARY INFORMATION - CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017

| | SBP, Inc. | | | | | Toulouse Commercial, Inc. | | | |
|-------------------------|----------------------|------------------------|--|-------------------|-----------------------------|---------------------------------|--------------------------------|---------------------|----------------------|
| | Program Services | | | | | | Totals Before Consolidating | Consolidating | Consolidated |
| | Rebuilding | Opportunity Housing | Disaster Resilience and Recovery Lab | Fundraising | General & Administrative | General & Administrative | Entries | Entries | Totals |
| Auto | \$ 7,206 | \$ - | \$ - | \$ - | \$ 413 | \$ - | \$ 7,619 | \$ - | \$ 7,619 |
| Bad debt expense | 61,667 | 172,231 | - | - | - | - | 233,898 | - | 233,898 |
| Bank service charges | 15,479 | 75 | 750 | 5,410 | 2,358 | - | 24,072 | - | 24,072 |
| Construction | 6,179,215 | 1,471,143 | - | - | 79,461 | - | 7,729,822 | - | 7,729,822 |
| Depreciation | 135,785 | 22,182 | 1,232 | - | - | 126,934 | 286,133 | - | 286,133 |
| Donations | - | - | - | - | - | 150,000 | 150,000 | (150,000) | - |
| Employee benefits | - | - | - | - | 8,444 | - | 8,444 | - | 8,444 |
| Fundraising | - | - | - | 29,960 | - | - | 29,960 | - | 29,960 |
| Grants awarded | 456,220 | - | 4,559 | 45,400 | - | - | 506,179 | - | 506,179 |
| Information technology | 8,039 | - | - | - | 5,674 | - | 13,713 | - | 13,713 |
| Insurance | 1,231,946 | 27,965 | 20,129 | (4,530) | 21,588 | 46,268 | 1,343,366 | - | 1,343,366 |
| Interest expense | 93,375 | 10,644 | - | - | 14,806 | 128,120 | 246,945 | - | 246,945 |
| In-kind labor | 4,279,339 | - | - | - | - | - | 4,279,339 | - | 4,279,339 |
| Licenses and permits | 69,326 | 23,915 | 2,519 | 17,283 | 2,172 | - | 115,215 | - | 115,215 |
| Marketing | 75,137 | 100 | 50,194 | 217 | 90 | - | 125,738 | - | 125,738 |
| Office supplies | 37,241 | 560 | 7,877 | 3,013 | 3,408 | - | 52,099 | - | 52,099 |
| Other expense | 237,317 | 7,562 | 3,675 | 2,563 | 1,054 | - | 252,171 | - | 252,171 |
| Occupancy | 163,985 | - | - | - | 266,739 | 13,070 | 443,794 | (249,097) | 194,697 |
| Payroll taxes | 233,332 | 2,915 | 32,814 | 14,394 | 77,874 | - | 361,329 | - | 361,329 |
| Postage and delivery | 18,152 | 7 | - | 2,269 | 729 | - | 21,157 | - | 21,157 |
| Program expense | - | - | 4,807 | - | - | - | 4,807 | - | 4,807 |
| Professional services | 225,684 | 1,029 | 7,057 | 61,737 | 164,913 | - | 460,420 | - | 460,420 |
| Repairs and maintenance | 7,127 | - | - | - | 13,493 | 1,993 | 22,613 | - | 22,613 |
| Salaries | 2,498,853 | 33,477 | 439,742 | 238,100 | 930,484 | - | 4,140,656 | - | 4,140,656 |
| Seminars | 36,624 | - | - | 21 | 568 | - | 37,213 | - | 37,213 |
| Travel | 261,185 | 116 | 45,681 | 21,507 | 38,651 | - | 367,140 | - | 367,140 |
| Workers comp insurance | 130,029 | 759 | 1,695 | 734 | 24,885 | - | 158,102 | - | 158,102 |
| Total expenses | \$ 16,462,263 | \$ 1,774,680 | \$ 622,731 | \$ 438,078 | \$ 1,657,807 | \$ 466,385 | \$ 21,421,944 | \$ (399,097) | \$ 21,022,847 |

THE ST. BERNARD PROJECT, INC.
SUPPLEMENTARY INFORMATION - CONSOLIDATING STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2016

| | SBP, Inc. | | | | | | Toulouse Commercial, Inc. | Totals Before Consolidating Entries | Consolidating Entries | Consolidated Totals |
|-------------------------|----------------------|------------------------|-----------------|--|-------------------|-----------------------------|---------------------------------|---|--------------------------|------------------------|
| | Program Services | | | | | | General & Administrative | | | |
| | Rebuilding | Opportunity Housing | Veteran | Disaster Resilience and Recovery Lab | Fundraising | General & Administrative | | | | |
| Auto | \$ 32,603 | \$ - | \$ - | \$ - | \$ - | \$ 925 | 25 | \$ 33,553 | \$ - | \$ 33,553 |
| Bad debt expense | - | 76,285 | - | - | 1,000 | - | - | 77,285 | - | 77,285 |
| Bank service charges | 2,679 | - | - | 77 | 737 | 3,649 | 20 | 7,162 | - | 7,162 |
| Construction | 5,615,947 | 2,364,816 | 4,784 | - | - | 50,873 | - | 8,036,420 | (9,390) | 8,027,030 |
| Depreciation | 107,447 | 22,182 | - | 1,232 | - | - | 84,623 | 215,484 | - | 215,484 |
| Dues and subscriptions | 570 | - | - | - | - | - | 15 | 585 | - | 585 |
| Fundraising | - | - | - | - | 43,331 | - | - | 43,331 | - | 43,331 |
| Grants awarded | 311,228 | - | - | - | - | - | - | 311,228 | - | 311,228 |
| Information technology | 3,462 | - | - | - | - | 19,976 | - | 23,438 | - | 23,438 |
| Insurance | 838,610 | 61,494 | - | 34,420 | 8,864 | 163,705 | 22,154 | 1,129,247 | - | 1,129,247 |
| Interest expense | 14,828 | 10,147 | - | - | - | - | 128,120 | 153,095 | - | 153,095 |
| In-kind labor | 5,515,652 | - | - | - | - | - | - | 5,515,652 | - | 5,515,652 |
| Licenses and permits | 157,123 | 61,775 | - | 946 | 10,114 | 3,726 | - | 233,684 | - | 233,684 |
| Marketing | - | - | - | - | 3,105 | 435 | - | 3,540 | - | 3,540 |
| Office supplies | 989 | 77 | - | 12,943 | 828 | 4,894 | - | 19,731 | - | 19,731 |
| Other expense | 53,077 | - | - | 5,285 | 323 | 43,068 | (9,390) | 92,363 | 9,390 | 101,753 |
| Occupancy | 192,899 | - | - | 8,423 | 101 | 115,012 | 11,600 | 328,035 | (201,276) | 126,759 |
| Payroll taxes | 235,572 | 8,673 | 388 | 36,750 | 13,662 | 6,026 | - | 301,071 | - | 301,071 |
| Postage and delivery | 13,873 | 68 | - | - | 673 | 1,642 | - | 16,256 | - | 16,256 |
| Program expense | - | - | - | 1,450 | - | - | - | 1,450 | - | 1,450 |
| Professional services | 245,656 | 6,268 | - | 22,443 | 70,879 | 131,321 | 2,755 | 479,322 | - | 479,322 |
| Property tax | 5,778 | - | - | - | - | - | 23,193 | 28,971 | - | 28,971 |
| Repairs and maintenance | 1,799 | - | - | - | - | 775 | 173 | 2,747 | - | 2,747 |
| Salaries | 2,143,655 | 83,692 | - | 530,830 | 204,250 | 566,658 | - | 3,529,085 | - | 3,529,085 |
| Seminars | 8,196 | 50 | - | - | - | 66 | - | 8,312 | - | 8,312 |
| Travel | 111,968 | 202 | - | 155,238 | 15,641 | 8,114 | - | 291,163 | - | 291,163 |
| Workers comp insurance | 182,876 | - | - | 282 | 181 | 629 | - | 183,968 | - | 183,968 |
| Total expenses | \$ 15,796,487 | \$ 2,695,729 | \$ 5,172 | \$ 810,319 | \$ 373,689 | \$ 1,121,494 | \$ 263,288 | \$ 21,066,178 | \$ (201,276) | \$ 20,864,902 |

UNIFORM GUIDANCE COMPLIANCE AND
GOVERNMENT AUDITING STANDARD REPORTS



WEGMANN DAZET & COMPANY

INDEPENDENT AUDITORS' 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

To the Board of Directors
The St. Bernard Project, Inc.
d/b/a SBP, Inc.
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 consolidated financial statements of SBP, Inc. (the Organization), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 12, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered SBP, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SBP, Inc.'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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SBP, Inc.'s consolidated 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 entity'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 entity'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.

A handwritten signature in black ink that reads "Wegmann Daxet + Company". The signature is written in a cursive, flowing style.

Metairie, Louisiana
June 12, 2018



WEGMANN DAZET & COMPANY

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

To the Board of Directors
The St. Bernard Project, Inc.
d/b/a SBP, Inc.
New Orleans, Louisiana

Report on Compliance for Each Major Federal Program

We have audited SBP, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of SBP, Inc.'s major federal programs for the year ended December 31, 2017. SBP, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of SBP, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 SBP, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of SBP, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, SBP, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of SBP, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SBP, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 SBP, Inc.'s internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. 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.

Metairie, Louisiana
June 12, 2018

Wegmann Dayet + Company

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2017

| <u>Federal Grantor/Program Title</u> | <u>CFDA Number</u> | <u>Federal Expenditures</u> |
|--|------------------------|---------------------------------|
| Corporation for National and Community Service ARRA – AmeriCorp Grant | 94.006 | \$1,468,569 |
| U.S. Department of Housing and Urban Development | | |
| Passed through the City of San Marcos Community Development Block Grant | 14.218 | 194,433 |
| Passed through the County of Lexington Community Development Block Grant | 14.218 | 18,550 |
| Passed through the Housing Trust Fund Corporation Community Development Block Grant | 14.239 | 756,605 |
| Passed through the City of New Orleans HOME Investment Partnerships Act | 14.239 | <u>833,337</u> |
| Total Expenditures of Federal Awards | | <u>\$3,271,494</u> |

See accompanying notes to Schedule of Expenditures of Federal Awards.

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2017

Note 1 General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of SBP, Inc. The reporting entity is defined in Note 1 to SBP, Inc.'s consolidated 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 *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance.)* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. SBP, Inc. has not applied for its own indirect cost rate.

Note 3 Risk-based audit approach

The dollar threshold used to distinguish between Type A and Type B programs is \$750,000. The Organization does qualify as a low-risk auditee.

Note 4 Possible ineligible, disallowed and questioned costs

SBP, 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 SBP, Inc. The determination of whether any instances of noncompliance that will ultimately result in remittance by SBP, Inc. of any ineligible or disallowed costs cannot be presently determined.

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2017

We have audited the basic consolidated financial statements of SBP, Inc. as of and for the year ended December 31, 2017, and have issued our report thereon dated June 12, 2018. 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. Our audit of the consolidated financial statements as of December 31, 2017 resulted in an unmodified opinion.

SUMMARY OF THE AUDITORS' RESULTS

1. Type of report issued on the consolidated financial statements: **Unmodified Opinion.**
2. Significant deficiencies in internal control were disclosed by the audit of the financial statements: **No.** Material weaknesses: **No.**
3. Noncompliance which is material to the consolidated financial statements: **No.**
4. Significant deficiencies in internal control over major programs: **No.** Material weaknesses: **No.**
5. Type of report issued on compliance for major programs: **Unmodified Opinion.**
6. Any audit findings which are required to be reported under Section 501(a) of Circular A-133 or in accordance with 2CFR 200.516(a): **No.**
7. Major programs for the fiscal year ended December 31, 2017 were:

| | |
|--|----------------|
| U.S. Department of Housing and Urban Development | |
| Community Development Block Grant | (CFDA #14.239) |
| HOME Investment Partnership Act | (CFDA #14.239) |

8. Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000.**
9. Auditee qualified as a low-risk auditee under Uniform Guidance: **Yes.**
10. A management letter was issued: **No.**

SCHEDULE OF FINDINGS RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS

There were no findings related to the consolidated financial statements for the year ended December 31, 2017.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

There were no items identified in the course of our testing during the current year required to be reported.

THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.
SUMMARY OF COMPENSATION, BENEFITS, AND OTHER
PAYMENTS TO AGENCY HEADS
For the Year Ended December 31, 2017

SUMMARY OF COMPENSATION

Zack Rosenberg
CEO & Co-Founder

*No agency head expenses were derived from state and/or local assistance.



THE ST. BERNARD PROJECT, INC.
D/B/A SBP, INC.

STATEWIDE AGREED-UPON PROCEDURES
FOR THE YEAR ENDED DECEMBER 31, 2017



WEGMANN DAZET & COMPANY

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

To the Board of Directors of The St. Bernard Project, Inc.
d/b/a SBP, Inc.
and the Louisiana Legislative Auditor:

We have performed the procedures enumerated below, which were agreed to by The St. Bernard Project, Inc. d/b/a SBP, Inc. (Entity) and the Louisiana Legislative Auditor (LLA) on the control and compliance (C/C) areas identified in the LLA's Statewide Agreed-Upon Procedures (SAUPs) for the fiscal period January 1, 2017 through December 31, 2017. The Entity's management is responsible for those C/C areas identified in the SAUPs.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and applicable standards of *Government Auditing Standards*. The sufficiency of these procedures is solely the responsibility of the specified users of this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

Written Policies and Procedures

1. Obtain the entity's written policies and procedures and report whether those written policies and procedures address each of the following financial/business functions (or report that the entity does not have any written policies and procedures), as applicable:

a) ***Budgeting***, including preparing, adopting, monitoring, and amending the budget

We performed the procedures noted above and noted no exceptions.

b) ***Purchasing***, including (1) how purchases are initiated; (2) how vendors are added to the vendor list; (3) the preparation and approval process of purchase requisitions and purchase orders; (4) controls to ensure compliance with the public bid law; and (5) documentation required to be maintained for all bids and price quotes.

We performed the procedures noted above and noted no exceptions.

c) ***Disbursements***, including processing, reviewing, and approving

We performed the procedures noted above and noted no exceptions.

d) ***Receipts***, including receiving, recording, and preparing deposits

We performed the procedures noted above and noted no exceptions.

- e) ***Payroll/Personnel***, including (1) payroll processing, and (2) reviewing and approving time and attendance records, including leave and overtime worked.

We performed the procedures noted above and noted no exceptions.

- f) ***Contracting***, including (1) types of services requiring written contracts, (2) standard terms and conditions, (3) legal review, (4) approval process, and (5) monitoring process

We performed the procedures noted above and noted no exceptions.

- g) ***Credit Cards (and debit cards, fuel cards, P-Cards, if applicable)***, including (1) how cards are to be controlled, (2) allowable business uses, (3) documentation requirements, (4) required approvers, and (5) monitoring card usage

We performed the procedures noted above and noted no exceptions.

- h) ***Travel and expense reimbursement***, including (1) allowable expenses, (2) dollar thresholds by category of expense, (3) documentation requirements, and (4) required approvers

We performed the procedures noted above and noted no exceptions.

Board (or Finance Committee, if applicable)

2. Obtain and review the board/committee minutes for the fiscal period, and:

- a) Report whether the managing board met (with a quorum) at least monthly, or on a frequency in accordance with the board's enabling legislation, charter, or other equivalent document.

We performed the procedures noted above and noted meetings are held three times a year and not monthly.

- b) Report whether the minutes referenced or included monthly budget-to-actual comparisons on the General Fund and any additional funds identified as major funds in the entity's prior audit (GAAP-basis).

➤ If the budget-to-actual comparisons show that management was deficit spending during the fiscal period, report whether there is a formal/written plan to eliminate the deficit spending for those entities with a fund balance deficit. If there is a formal/written plan, report whether the meeting minutes for at least one board meeting during the fiscal period reflect that the board is monitoring the plan.

We performed the procedures noted above and noted that the budget to actuals reports were reviewed by the finance committee and not the board and the finance committee reports to the board.

- c) Report whether the minutes referenced or included non-budgetary financial information (e.g. approval of contracts and disbursements) for at least one meeting during the fiscal period.

We performed the procedures noted above and noted no exceptions.

Management Response:

2 a) Board Meetings: Per the Organizations Bylaws, regular meetings may be held at such place and time as may be fixed by the Board of Directors. The Organization is in compliance with bylaws and is currently meeting three times a year.

The Organization also has a Finance Committee that meets every other month and reports to the board.

2 b) Budget to Actuals: Budget to actuals are reviewed by the finance committee and the finance committee reports to the board.

Bank Reconciliations

3. Obtain a listing of client bank accounts from management and management's representation that the listing is complete.

We performed the procedures noted above and noted no exceptions.

4. Using the listing provided by management, select all of the entity's bank accounts (if five accounts or less) or one-third of the bank accounts on a three year rotating basis (if more than 5 accounts). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. *Note: School student activity fund accounts may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement.* For each of the bank accounts selected, obtain bank statements and reconciliations for all months in the fiscal period and report whether:

- a) Bank reconciliations have been prepared;

We performed the procedures noted above and noted no exceptions.

- b) Bank reconciliations include evidence that a member of management or a board member (with no involvement in the transactions associated with the bank account) has reviewed each bank reconciliation; and

We performed the procedures noted above and noted no exceptions.

- c) If applicable, management has documentation reflecting that it has researched reconciling items that have been outstanding for more than 6 months as of the end of the fiscal period.

We performed the procedures noted above and noted no exceptions.

Collections

5. Obtain a listing of cash/check/money order (cash) collection locations and management's representation that the listing is complete.

We performed the procedures noted above and noted no exceptions.

6. Using the listing provided by management, select all of the entity's cash collection locations (if five locations or less) or one-third of the collection locations on a three year rotating basis (if more than 5 locations). If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner. *Note: School student activity funds may be excluded from selection if they are otherwise addressed in a separate audit or AUP engagement.* **For each cash collection location selected:**

a) Obtain existing written documentation (e.g. insurance policy, policy manual, job description) and report whether each person responsible for collecting cash is (1) bonded, (2) not responsible for depositing the cash in the bank, recording the related transaction, or reconciling the related bank account (report if there are compensating controls performed by an outside party), and (3) not required to share the same cash register or drawer with another employee.

We performed procedures noted above and noted that individual employees are not bonded however the company has a dishonesty policy in place.

b) Obtain existing written documentation (e.g. sequentially numbered receipts, system report, reconciliation worksheets, policy manual) and report whether the entity has a formal process to reconcile cash collections to the general ledger and/or subsidiary ledgers, by revenue source and/or agency fund additions, by a person who is not responsible for cash collections in the cash collection location selected.

We performed the procedures noted above and noted no exceptions.

c) Select the highest (dollar) week of cash collections from the general ledger or other accounting records during the fiscal period and:

➤ Using entity collection documentation, deposit slips, and bank statements, trace daily collections to the deposit date on the corresponding bank statement and report whether the deposits were made within one day of collection. If deposits were not made within one day of collection, report the number of days from receipt to deposit for each day at each collection location.

We performed the procedures noted above and noted in some cases we were unable to determine the timing of the deposits.

➤ Using sequentially numbered receipts, system reports, or other related collection documentation, verify that daily cash collections are completely supported by documentation and report any exceptions.

We performed the procedures noted above and noted no exceptions.

7. Obtain existing written documentation (e.g. policy manual, written procedure) and report whether the entity has a process specifically defined (identified as such by the entity) to determine completeness of all collections, including electronic transfers, for each revenue source and agency fund additions (e.g. periodic confirmation with outside parties, reconciliation to utility billing after cutoff procedures, reconciliation of traffic ticket number sequences, agency fund forfeiture monies confirmation) by a person who is not responsible for collections.

We performed the procedures noted above and noted no exceptions.

Management Response:

6 a) Cash Collections: SBP, Inc. employees are not individually bonded, but the Organization does have an employee theft policy with a limit of \$1,000,000.

6 c) Cash Collections: For the period tested, the Organization did not have a policy in place to determine if deposits were made within one day of collection. Processes are now in place where checks will be stamped with the date they were received in order to determine the timing of deposits. Check deposits are deposited to the bank using the automated check scanners. Any checks that are not scanned and deposited the day received are kept in a locked safe where only the controller and CFO have access to the safe. The organization very rarely receives cash for deposit.

Disbursements – General (excluding credit card/debit card/fuel card/P-Card purchases or payments)

8. Obtain a listing of entity disbursements from management or, alternately, obtain the general ledger and sort/filter for entity disbursements. Obtain management's representation that the listing or general ledger population is complete.

We performed the procedures noted above and noted no exceptions.

9. Using the disbursement population from #8 above, randomly select 25 disbursements (or randomly select disbursements constituting at least one-third of the dollar disbursement population if the entity had less than 25 transactions during the fiscal period), excluding credit card/debit card/fuel card/P-card purchases or payments. Obtain supporting documentation (e.g. purchase requisitions, system screens/logs) for each transaction and report whether the supporting documentation for each transaction demonstrated that:
 - a) Purchases were initiated using a requisition/purchase order system or an equivalent electronic system that separates initiation from approval functions in the same manner as a requisition/purchase order system.

We performed the procedures noted above and noted the following:

None of the items tested were initiated using a requisition/purchase order system or an equivalent electronic system and written policies and procedures do not require such documentation.

- b) Purchase orders, or an electronic equivalent, were approved by a person who did not initiate the purchase.

We performed the procedures noted above and noted the following:

None of the items tested were initiated using a requisition/purchase order system or an equivalent electronic system and written policies and procedures do not require such documentation.

- c) Payments for purchases were not processed without (1) an approved requisition and/or purchase order, or electronic equivalent; a receiving report showing receipt of goods purchased, or electronic equivalent; and an approved invoice.

We performed the procedures noted above and noted the following:

None of the items tested had a receiving report. None of the items tested were initiated using a requisition/purchase order system or obtain receiving reports and procedures do not require such documentation.

- 10. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the person responsible for processing payments is prohibited from adding vendors to the entity's purchasing/disbursement system.

We performed the procedures noted above and noted no exceptions.

- 11. Using entity documentation (e.g. electronic system control documentation, policy manual, written procedure), report whether the persons with signatory authority or who make the final authorization for disbursements have no responsibility for initiating or recording purchases.

We performed the procedures noted above and noted no exceptions.

- 12. Inquire of management and observe whether the supply of unused checks is maintained in a locked location, with access restricted to those persons that do not have signatory authority, and report any exceptions. Alternately, if the checks are electronically printed on blank check stock, review entity documentation (electronic system control documentation) and report whether the persons with signatory authority have system access to print checks.

We performed the procedures noted above and noted no exceptions.

- 13. If a signature stamp or signature machine is used, inquire of the signer whether his or her signature is maintained under his or her control or is used only with the knowledge and consent of the signer. Inquire of the signer whether signed checks are likewise maintained under the control of the signer or authorized user until mailed. Report any exceptions.

We performed the procedures noted above and noted no exceptions.

Management Response:

- 9 a) Disbursements: None of the items tested were initiated using a requisition/purchase order system or an equivalent electronic system and written policies and procedures do not require such documentation. Procedures are in place where purchases are approved as follows:

Managers approve disbursements based on budgets created for the operation or the department within the operation. Managers create the budget and as expenses are realized, Managers compare the expenditure against budget and approve the expense. Purchase orders are used in some aspects of construction. Pre-approval is required on costs such as equipment purchases, travel costs and some operational costs over a certain threshold.

9 b) Disbursements: None of the items tested were initiated using a requisition/purchase order system or an equivalent electronic system and written policies and procedures do not require such documentation. Procedures are in place where purchases are approved as follows:

Managers approve disbursements based on budgets created for the operation or the department within the operation. Managers create the budget and as expenses are realized, Managers compare the expenditure against budget and approve the expense. Purchase orders are used in some aspects of construction. Pre-approval is required on costs such as equipment purchases, travel costs and some operational costs over a certain threshold.

9 c) Disbursements: Purchase orders and receiving reports are currently not used and procedures do not require such documentation. Procedures are in place where purchases are approved as follows:

All invoices are approved by Managers prior to entering invoices into the accounting system. The Accounting Administrator ensures proper approval and pre-approval, if applicable, is obtained and enters invoices into the accounting system.

Credit Cards/Debit Cards/Fuel Cards/P-Cards

14. Obtain from management a listing of all active credit cards, bank debit cards, fuel cards, and P-cards (cards), including the card numbers and the names of the persons who maintained possession of the cards. Obtain management's representation that the listing is complete.

We performed the procedures noted above and noted no exceptions.

15. Using the listing prepared by management, randomly select 10 cards (or at least one-third of the cards if the entity has less than 10 cards) that were used during the fiscal period, rotating cards each year. If there is a change in practitioners, the new practitioner is not bound to follow the rotation established by the previous practitioner.

We performed the procedures noted above and noted no exceptions.

Obtain the monthly statements, or combined statements if multiple cards are on one statement, for the selected cards. Select the monthly statement or combined statement with the largest dollar activity for each card (for a debit card, select the monthly bank statement with the largest dollar amount of debit card purchases) and:

a) Report whether there is evidence that the monthly statement or combined statement and supporting documentation was reviewed and approved, in writing, by someone other than the authorized card holder. [Note: Requiring such approval may constrain the legal authority of certain public officials (e.g., mayor of a Lawrason Act municipality); these instances should not be reported.)]

We performed the procedures noted above and noted no evidence of review and approval was noted on the credit card statements selected for testing.

- b) Report whether finance charges and/or late fees were assessed on the selected statements.

We performed the procedures noted above and noted no finance charges or late fees assessed on the selected statement.

16. Using the monthly statements or combined statements selected under #15 above, obtain supporting documentation for all transactions for each of the 10 cards selected (i.e. each of the 10 cards should have one month of transactions subject to testing).

- a) For each transaction, report whether the transaction is supported by:

- An original itemized receipt (i.e., identifies precisely what was purchased)

We performed the procedures noted above and noted no exceptions.

- Documentation of the business/public purpose. For meal charges, there should also be documentation of the individuals participating.

We performed the procedures noted above and noted no exceptions.

- Other documentation that may be required by written policy (e.g., purchase order, written authorization.)

We performed the procedures noted above and noted no exceptions.

- b) For each transaction, compare the transaction's detail (nature of purchase, dollar amount of purchase, supporting documentation) to the entity's written purchasing/disbursement policies and the Louisiana Public Bid Law (i.e. transaction is a large or recurring purchase requiring the solicitation of bids or quotes) and report any exceptions.

We performed the procedures noted above and noted no exceptions.

- c) For each transaction, compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. cash advances or non-business purchases, regardless whether they are reimbursed). If the nature of the transaction precludes or obscures a comparison to the requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

We performed the procedures noted above and noted no exceptions.

Management Response:

15 a) Credit Cards: No evidence of review and approval was noted on the credit card statements selected for testing. The Organization reviews and approves the credit card statements during the check signing process. The signing of the check is the approval of the statement. Procedures will be implemented by the Organization that require the actual approval to be noted on the credit card statement

Travel and Expense Reimbursement

17. Obtain from management a listing of all travel and related expense reimbursements, by person, during the fiscal period or, alternately, obtain the general ledger and sort/filter for travel reimbursements. Obtain management's representation that the listing or general ledger is complete.

We performed the procedures noted above and noted no exceptions.

18. Obtain the entity's written policies related to travel and expense reimbursements. Compare the amounts in the policies to the per diem and mileage rates established by the U.S. General Services Administration (www.gsa.gov) and report any amounts that exceed GSA rates.

We performed the procedures noted above and noted no exceptions.

19. Using the listing or general ledger from #17 above, select the three persons who incurred the most travel costs during the fiscal period. Obtain the expense reimbursement reports or prepaid expense documentation of each selected person, including the supporting documentation, and choose the largest travel expense for each person to review in detail. For each of the three travel expenses selected:

- a) Compare expense documentation to written policies and report whether each expense was reimbursed or prepaid in accordance with written policy (e.g., rates established for meals, mileage, lodging). If the entity does not have written policies, compare to the GSA rates (#18 above) and report each reimbursement that exceeded those rates.

We performed the procedures noted above and noted no exceptions.

- b) Report whether each expense is supported by:

- An original itemized receipt that identifies precisely what was purchased. [Note: An expense that is reimbursed based on an established per diem amount (e.g., meals) does not require a receipt.]
- Documentation of the business/public purpose (Note: For meal charges, there should also be documentation of the individuals participating).
- Other documentation as may be required by written policy (e.g., authorization for travel, conference brochure, certificate of attendance)

We performed the procedures noted above and noted no exceptions.

- c) Compare the entity's documentation of the business/public purpose to the requirements of Article 7, Section 14 of the Louisiana Constitution, which prohibits the loan, pledge, or donation of funds, credit, property, or things of value, and report any exceptions (e.g. hotel stays that extend beyond conference periods or payment for the travel expenses of a spouse). If the nature of the transaction precludes or obscures a comparison to the

requirements of Article 7, Section 14, the practitioner should report the transaction as an exception.

We performed the procedures noted above and noted no exceptions.

- d) Report whether each expense and related documentation was reviewed and approved, in writing, by someone other than the person receiving reimbursement.

We performed the procedures noted above and noted no exceptions.

Contracts

20. Obtain a listing of all contracts in effect during the fiscal period or, alternately, obtain the general ledger and sort/filter for contract payments. Obtain management's representation that the listing or general ledger is complete.

We performed the procedures noted above and noted no exceptions.

21. Using the listing above, select the five contract "vendors" that were paid the most money during the fiscal period (excluding purchases on state contract and excluding payments to the practitioner). Obtain the related contracts and paid invoices and:

- a) Report whether there is a formal/written contract that supports the services arrangement and the amount paid.

We performed the procedures noted above and noted no exceptions.

- b) Compare each contract's detail to the Louisiana Public Bid Law or Procurement Code. Report whether each contract is subject to the Louisiana Public Bid Law or Procurement Code and:

- If yes, obtain/compare supporting contract documentation to legal requirements and report whether the entity complied with all legal requirements (e.g., solicited quotes or bids, advertisement, selected lowest bidder)
- If no, obtain supporting contract documentation and report whether the entity solicited quotes as a best practice.

We performed the procedures noted above and noted no exceptions.

- c) Report whether the contract was amended. If so, report the scope and dollar amount of the amendment and whether the original contract terms contemplated or provided for such an amendment.

We performed the procedures noted above and noted no exceptions.

- d) Select the largest payment from each of the five contracts, obtain the supporting invoice, compare the invoice to the contract terms, and report whether the invoice and related payment complied with the terms and conditions of the contract.

We performed the procedures noted above and noted no exceptions.

- e) Obtain/review contract documentation and board minutes and report whether there is documentation of board approval, if required by policy or law (e.g. Lawrason Act or IHome Rule Charter).

We performed the procedures noted above and noted no exceptions.

Payroll and Personnel

- 22. Obtain a listing of employees (and elected officials, if applicable) with their related salaries, and obtain management's representation that the listing is complete. Randomly select five employees/officials, obtain their personnel files, and:

- a) Review compensation paid to each employee during the fiscal period and report whether payments were made in strict accordance with the terms and conditions of the employment contract or pay rate structure.

We performed the procedures noted above and noted no exceptions.

- b) Review changes made to hourly pay rates/salaries during the fiscal period and report whether those changes were approved in writing and in accordance with written policy.

We performed the procedures noted above and noted no exceptions.

- 23. Obtain attendance and leave records and randomly select one pay period in which leave has been taken by at least one employee. Within that pay period, randomly select 25 employees/officials (or randomly select one-third of employees/officials if the entity had less than 25 employees during the fiscal period), and:

- a) Report whether all selected employees/officials documented their daily attendance and leave (e.g., vacation, sick, compensatory). (Note: Generally, an elected official is not eligible to earn leave and does not document his/her attendance and leave. However, if the elected official is earning leave according to policy and/or contract, the official should document his/her daily attendance and leave.)

We performed the procedures noted above and noted no exceptions.

- b) Report whether there is written documentation that supervisors approved, electronically or in writing, the attendance and leave of the selected employees/officials.

We performed the procedures noted above and noted no exceptions.

- c) Report whether there is written documentation that the entity maintained written leave records (e.g., hours earned, hours used, and balance available) on those selected employees/officials that earn leave.

We performed the procedures noted above and noted no exceptions.

24. Obtain from management a list of those employees/officials that terminated during the fiscal period and management's representation that the list is complete. If applicable, select the two largest termination payments (e.g., vacation, sick, compensatory time) made during the fiscal period and obtain the personnel files for the two employees/officials. Report whether the termination payments were made in strict accordance with policy and/or contract and approved by management.

We performed the procedures noted above and noted no exceptions.

25. Obtain supporting documentation (e.g. cancelled checks, EFT documentation) relating to payroll taxes and retirement contributions during the fiscal period. Report whether the employee and employer portions of payroll taxes and retirement contributions, as well as the required reporting forms, were submitted to the applicable agencies by the required deadlines.

We performed the procedures noted above and noted no exceptions.

Other

26. Inquire of management whether the entity had any misappropriations of public funds or assets. If so, obtain/review supporting documentation and report whether the entity reported the misappropriation to the legislative auditor and the district attorney of the parish in which the entity is domiciled.

No misappropriations of public funds or assets

27. Observe and report whether the entity has posted on its premises and website, the notice required by R.S. 24:523.1. This notice (available for download or print at www.la.gov/hotline) concerns the reporting of misappropriation, fraud, waste, or abuse of public funds.

We performed the procedures above and exceptions were noted.

Management Response:

Notice required by R.S. 24:523.1 was posted on the Organization's premises and the notice was not posted on the Organization's website. As of the date of this report, Management has added the notice to the Organization's website.

28. If the practitioner observes or otherwise identifies any exceptions regarding management's representations in the procedures above, report the nature of each exception.

We performed the procedures and noted no exceptions.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on those C/C areas identified in the SAUPs. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is solely to describe the scope of testing performed on those C/C areas identified in the SAUPs, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the LLA as a public document.

June 12, 2018

Wegmann Daxet + Company