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NEW ORLEANS MEDICAL COMPLEX, INC.

FINANCIAL AND COMPLIANCE AUDIT

TOGETHER WITH

INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED DECEMBER 31, 1999

Bruno
& Tervalon
CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

PAGE

Bruno & Tervalon CERTIFIED PUBLIC ACCOUNTANTS
MICHAEL B. BRUNO, CPA
ALCIDE J. TERVALON, JR., CPA
WALDO J. MORET, JR., CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
New Orleans Medical Complex, Inc.

We have audited the accompanying statement of financial position of the **New Orleans Medical Complex, Inc. (the Complex)** as of December 31, 1999, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of **the Complex's** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **New Orleans Medical Complex, Inc.** as of December 31, 1999, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

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INDEPENDENT AUDITORS' REPORT
(CONTINUED)

To the Board of Directors of
New Orleans Medical Complex, Inc.
Page 2

In accordance with Government Auditing Standards, we have also issued a report dated June 12, 2000 on our consideration of **the Complex's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Bruno & Tervalon

BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 12, 2000

NEW ORLEANS MEDICAL COMPLEX, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 1999

Assets	
Cash	$ 1,810
Accounts receivable	10,877
Due from related organization (NOTE 3)	179,047
Prepaid expenses (NOTE 11)	42,389
Property and equipment, net of accumulated depreciation (NOTES 1 and 5)	14,550,538
Restricted cash and cash equivalents (NOTE 9)	4,886,992
Total assets	$19,671,653
Liabilities	
Accounts payable and accrued expenses	$ 32,549
Accounts payable - District Energy Project	1,391,054
Retainage payable	342,235
Obligation under capital lease - current portion (NOTE 6)	3,156
Deferred revenues (NOTE 10)	16,759,455
Obligation under capital lease-long-term portion (NOTE 6)	6,979
Total liabilities	18,535,428
Unrestricted net assets	1,136,225
Total liabilities and net assets	$19,671,653

See Accompanying Notes to the Financial Statements.

NEW ORLEANS MEDICAL COMPLEX, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 1999

Support and Revenue:	
Memberships	$ 243,000
Rentals (NOTE 2)	25,150
Interest on restricted deposits (NOTE 9)	140,301
Interest on demand deposits	453
Other	300
Total support and revenue	409,204
Expenses:	
Program services	292,598
Supporting services	54,882
Total expenses	347,480
Change in net assets	61,724
Unrestricted net assets, beginning of year	1,074,501
Unrestricted net assets, end of year	$1,136,225

See Accompanying Notes to the Financial Statements.

NEW ORLEANS MEDICAL COMPLEX, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 1999

	Program Services	Supporting Services	Total
Salaries, fringe benefits and payroll taxes	$ 5,226	$ 1,306	$ 6,532
Management services	102,134	25,534	127,668
Telephone	8,182	2,046	10,228
Professional fees	24,070	6,018	30,088
Building expenses (NOTE 8)	54,904	-0-	54,904
Office and equipment leases (NOTE 2)	2,614	10,654	13,268
Ground lease (NOTE 8)	40,000	-0-	40,000
Printing and publications	2,235	559	2,794
Travel	6,185	-0-	6,185
Training	3,939	-0-	3,939
Dues	1,279	1,279	2,558
Meeting expense	7,892	-0-	7,892
Postage	2,743	686	3,429
Office expense	4,593	1,148	5,741
Insurance	3,082	771	3,853
Escrow fees	4,000	-0-	4,000
Miscellaneous expenses	5,238	1,310	6,548
Other operating expenses	2,194	549	2,743
Equipment maintenance	2,090	522	2,612
Total expenses before depreciation	282,600	52,382	334,982
Depreciation	9,998	2,500	12,498
Total expenses	$292,598	$54,882	$347,480

See Accompanying Notes to the Financial Statements.

NEW ORLEANS MEDICAL COMPLEX, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1999

Cash Flows from Operating Activities:	
Changes in net assets	$ 61,724
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	12,498
(Increase) decrease in operating assets:	
Restricted cash and cash equivalents	(4,886,992)
Accounts receivable	69,045
Due from related organization	(179,047)
Prepaid expenses	(38,401)
Deposit	320
Increase in operating liabilities:	
Accounts payable and accrued expenses	1,397,114
Deferred revenue	16,753,978
Retainage payable	342,235
Net cash provided by operating activities	13,532,474
Cash Flows from Investing Activities:	
Purchase of property and equipment	(13,625,964)
Net cash used in investing activities	(13,625,964)
Cash Flows from Financing Activities:	
Increase in obligation under capital lease	10,135
Net cash provided by financing activities	10,135
Net decrease in cash	(83,355)
Cash, beginning of year	85,165
Cash, end of year	$ 1,810
Supplemental Disclosure of Cash Flow Information:	
Interest paid in cash	$ 1,394

See Accompanying Notes to the Financial Statements.

NOTE 1 - Summary of Significant Accounting Policies:

Organization

The **New Orleans Medical Complex, Inc. (the Complex)** was organized in Louisiana in 1991 as a nonprofit corporation for the purpose of the enhancement of the image of, and the development of a regional medical center located for the most part in downtown New Orleans, Louisiana. The objectives of **the Complex** will be achieved through internal means, resources raised from the community at large and attending periodic public hearings, City Council meetings, State Legislative Committee Meetings, and other meetings to gain approval of requested funding.

Basis of Accounting

The financial statements of **the Complex** have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, **the Complex** is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Property and Equipment

Property and equipment are stated at cost. Additions, renewals, and betterments that add materially to productive capacity or extend the life of an asset are capitalized. Expenditures for maintenance and repairs which do not extend the life of the applicable assets are charged to expense as incurred.

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Property and Equipment. Continued

Upon retirement or disposal of an asset, the asset and accumulated depreciation accounts are adjusted accordingly. Any resulting gain or loss is included in the statement of activities.

Depreciation of the equipment is provided over the estimated useful lives of the assets (three to twenty years) on a straight-line basis.

Income Taxes

No provision is made for income taxes, as **the Complex** is exempt from income tax as a not-for-profit organization operated under Code Section 501(c)(3) of the Internal Revenue Code of 1986.

Functional Allocation of Expenses

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

Statement of Cash Flows

For the purpose of the statement of cash flows, **the Complex** considers all highly liquid instruments purchased with maturities of three months or less to be cash equivalents.

NOTE 1 - Summary of Significant Accounting Policies, Continued:

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Contributions and Grants

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Grants from private and governmental agencies are recorded when **the Complex** is entitled to the funds.

Deferred Revenues

The Complex reports as deferred revenue grants received earlier than the time for revenue recognition.

Also, deferred revenue is recognized for the prepayment of certain base rent obligations of Entergy Thermal relating to leases with **the Complex**.

Donated Services

The value of donated services is not reflected in the accompanying financial statements since the volunteers' time does not meet the criteria for recognition.

NOTE 2 - Office, Equipment and Land Leases:

The Complex leases a portion of its land for parking spaces under a memorandum of understanding. The terms of the lease are for a period of twelve months effective September 1, 1997 with a monthly rental of $2,000. The agreement contains two one-year renewal options. At December 31, 1999, rental income was $24,000.

The Complex's operating lease for its office facility expired at the end of 1999. **The Complex** leases certain equipment under operating leases. Office and equipment lease expense for 1999 was $13,268.

NOTE 3 - Related Party Transactions

During the 1999 fiscal year, **the Complex** paid expenses on behalf of Clinical Research Organization of New Orleans, (CRONO) a related organization. Also, for the year ended December 31, 1999, **the Complex** loaned CRONO funds for operating purposes. Such amounts are recorded in the financial statements of **the Complex** at December 31, 1999, as due from related organization.

NOTE 4 - Fair Values of Financial Instruments:

The fair values of financial instruments have been determined utilizing available market information and appropriate valuation methodologies. **The Complex** considers the carrying amounts of cash and cash equivalents, and unconditional promises to give to approximate fair value.

NOTE 5 - Property and Equipment:

Property and equipment are stated at cost as follows:

Land	$ 920,261
Construction in progress	13,601,672
Furniture and equipment	58,225
Less: accumulated depreciation	(29,620)
Net property and equipment	$14,550,538

In 1995, land was purchased through a cooperative endeavor agreement whereby the State of Louisiana provided the funding through the sale of general obligations bonds. **The Complex** may not transfer, convey, sell or assign its ownership rights in the land while any of the bonds are outstanding. In the event the property is no longer used for the purpose for which the project was authorized, full ownership of the property shall revert to the State.

NOTE 6 - Capital Lease:

The Complex leases computer equipment under a capital lease expiring in 2002.

Minimum future lease payments under the capital lease as of December 31, 1999, for the next three (3) years are:

Year Ended	Amount
2000	$ 3,649
2001	5,728
2002	1,909
Total minimum lease payments	11,286
Less: Amount representing interest	(1,151)
Present value of minimum lease payments	$10,135

NOTE 6 - Capital Lease, Continued:

Depreciation in the amount of $1,586 of assets under the capital lease is included in depreciation expense.

NOTE 7 - Thermal Facility:

In 1999, a thermal facility which will produce and distribute thermal services from a central system is being constructed for use in **the Complex** and Louisiana State University Medical Center (LSUMC) facilities.

Entergy Thermal, a division of Entergy Business Solutions, Inc. is constructing and developing, and will operate and provide a district energy system of thermal services. The district energy system is a system that produces and distributes centralized chilled water, hot water and stem to buildings or other facilities located in **the Complex** area.

The Complex is constructing a building on land leased from the Board of Supervisors of Louisiana State University and Agricultural and Medical College (Board of Supervisors) that would contain a parking garage and space for the installation of the thermal services facility. After the building's completion, **the Complex** will lease a portion of the building's garage space to LSUMC and will lease space to Entergy Thermal for the operation and production of centralized thermal services.

Entergy Thermal will lease, operate and modernize the Charity and LSU central plants through the construction of improvements to make them part of the district energy system.

NOTE 8 - District Energy Project Leases:

Leases relating to the development and improvements of physical plants and the construction of parking facilities within **the Complex** are as follows:

Ground Lease

Effective as of November 1, 1998, **the Complex** entered into an agreement to lease land from the Board of Supervisors for an initial term ending September 30, 2020, with two (2) options for additional periods of five (5) year end. Rent under the ground lease $40,000 per year adjusted every five (5) years for inflation. **The Complex** is required to construct on the land a building containing a parking garage and a thermal facility. During the term of the group lease, title for the building will vest with **the Complex**. At December 31, 1999, ground lease expense was $40,000.

Reciprocal Lease

The Complex leases to the Board of Supervisors that portion of the constructed building containing the parking garage for an initial term ending September 30, 2020 with two (2) options to review for additional periods of five (5) years each. **The Complex** leases from the Board of Supervisor the Central Plants of LSU and Charity for a like term. Rent will not be received by or paid to the portion of the reciprocal lease agreement. Instead consideration to be received by the parties will be the right of occupancy in and to the property of the other party and obligations of each party to the other for the maintenance and rehabilitation of the occupied premises.

The commencement date of the central plants lease will be at the date the district energy systems commences operations. The parking garage lease would commence basically upon full completion of the garage.

NOTE 8 - District Energy Project Leases, Continued:

Thermal Facility Lease

The Complex leases to Energy Thermal for like terms of reciprocal lease. Rent under the lease will be determined and paid on a monthly basis and will be equal to the thermal facility percentage share of **the Complex's** constructed building.

Central Plants Sublease

The Complex leases to Entergy Thermal for like terms of the reciprocal lease. Rent under the sublease will be determined and paid on a monthly basis and will be equal to the sum of the building expenses, the ground lease and **the Complex's** financing expense less the thermal facility rent.

Addendums to the central plant and the thermal facility leases permitted Entergy Thermal to prepay certain base rent obligations under the leases.

As provided by the above District Energy Project leases, **the Complex** has and will incur expenses relating to the building that will house the parking garage and the thermal facility; such as taxes, insurance, utilities, repairs and maintenance.

NOTE 9 - Restricted Cash:

Cash and cash equivalents, held in restricted escrow accounts, can only be withdrawn (disbursed) for the purposes of developing and constructing a centralized thermal facility, paying **the Complex's** costs associated with operating the building containing the parking garage and the thermal facility, and constructing a parking garage and walkway in **the Complex** area, in accordance with escrow agreements among **the Complex** , Board of Supervisors of Louisiana State University and Agricultural and Mechanical College, and Entergy Thermal. Interest income earned on the escrow accounts can only be disbursed to pay fees and expenses of the escrow agent.

NOTE 10 - Deferred Revenues:

As of December 31, 1999, deferred revenues consisted of the following:

Prepayment of base rent obligations	$16,753,979
Grant funding	5,476
	$16,759,455

NOTE 11 - Prepaid Expenses

As of December 31, 1999, prepaid expenses were composed of:

Ground lease	$40,000
Office maintenance	2,389
	$42,389

NOTE 12 - Commitments:

The Complex has entered into various construction contracts relating to the construction of a parking garage and walkway, and the construction and development of a thermal facility. These projects are scheduled to be completed prior to the end of the 2000 fiscal year.

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

To the Board of Directors of
New Orleans Medical Complex, Inc.

We have audited the statement of financial position of the **New Orleans Medical Complex, Inc. (the Complex)** as of December 31, 1999, and the related statements of activities, functional expenses and cash flows for the year then ended and have issued our report thereon dated June 12, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether **the Complex's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

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Internal Control Over Financial Reporting

In planning and performing our audit, we considered **the Complex's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

Bruno & Tervalon

BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 12, 2000

NEW ORLEANS MEDICAL COMPLEX, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 1999

I. SUMMARY OF AUDITORS' RESULTS

A. The type of report issued on the financial statements: **unqualified opinion**.

B. Reportable conditions in internal control were disclosed by the audits of the financial statements: **no** material weaknesses: **no**.

C. Noncompliance which is material to the financial statements: **no**.

D. Reportable conditions in internal control over major programs: **not applicable** material weaknesses: **not applicable**.

E. The type of report issued on compliance for major programs: **not applicable**.

F. Any audit findings which are required to be reported under section 510(a) of OMB Circular A-133: **not applicable**.

G. Major programs: **not applicable**.

H. Dollar threshold used to distinguish between Type A and Type B programs: **not applicable**.

I. Auditee qualified as a low-risk auditee under section 530 of OMB Circular A-133: **not applicable**.

J. A management letter was issued: **yes**.

II FINDING RELATING TO THE FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

No matters reported.

III. FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

Not applicable.

NEW ORLEANS MEDICAL COMPLEX, INC.
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 1999

1. **INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS**

   No prior year audit findings reported.

2. **INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS**

   Not applicable.

3. **MANAGEMENT LETTER**

   No prior year comments reported.

New Orleans
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An Association of
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INDEPENDENT AUDITOR'S COMMENTS TO MANAGEMENT: ANNUAL AUDIT OF NEW ORLEANS MEDICAL COMPLEX

MANAGEMENT'S RESPONSE

July 5, 2000

99 – 1 Fidelity Bond Coverage:

The Board of Directors concurs with the auditor's comments and recommendations. In the current fiscal year, the Board is currently pursuing and will obtain adequate fidelity bond coverage for the employees of NOMC who handle cash.

99 – 2 Invoice Support:

The Board has already implemented procedures that require:

1. Review of supporting documents prior to signing any check(s)
2. No checks will be signed if the appropriate supporting documentation does not accompany checks.
3. Signatures of *two* authorized Board Members required to officiate every check.

99 – 3 Fixed Assets capitalization Policy:

In the current year the Finance Committee will submit to the Board of Directors, for their review and approval, a written Capitalization policy as recommended by the auditors.

99 – 4 Segregation of Duties:

Recognizing the lack of segregation of duties as a bi – product of the small size and limited staff of NORMC, the Finance Committee has already assumed responsibility for timely oversight of the financial activities of NOMC. Additionally, to emphasize its commitment to maintaining an infrastructure that is conducive to the appropriate financial and administrative management of NOMC, the Board will continue to closely review the activities of the finance committee at every regularly scheduled meeting.

Respectfully submitted,

Robert O Nugent

Robert O. Nugent
Secretary / Treasurer
New Orleans Medical Complex
July 5, 2000

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cc: R. Marier, MD
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INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

To the Board of Directors of the
New Orleans Medical Complex, Inc.

We have audited the financial statements of **New Orleans Medical Complex, Inc. (the Complex)** for the year ended December 31, 1999 and have issued our report thereon dated June 12, 2000.

In planning and performing our audit of the financial statements of **the Complex** for the year ended December 31, 1999, we considered **the Complex's** internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The comments that accompanies this letter summarizes our findings and recommendations regarding those matters. This letter does not affect our report dated June 12, 2000 on the financial statements of **the Complex**.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with various personnel of **the Complex** and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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99-1 **Fidelity Bond Coverage**

We noted during our audit that employees who handled cash were not covered by a fidelity bond.

To improve internal controls over cash, we recommend that **the Complex** obtain fidelity bond coverage for those employees who handle cash.

99-2 **Invoice Support**

During the course of our audit, we noted that certain cash disbursements lacked proper invoice support. Primarily, credit card charges and expenses of the Association Management, LLC were lacking proper invoice support.

We recommend that **the Complex** implement procedures to ensure that all cash disbursements are supported by original source documentation. These invoices should accompany the check request for the purpose of approving the disbursement for payment.

99-3 **Fixed Assets Capitalization Policy**

We noted during our audit that **the Complex** has not adopted a fixed asset capitalization policy.

We recommend that **the Complex** formally adopt a fixed asset capitalization policy stating that items with more than a one year life and a value greater than $500.00 (at cost) should be capitalized. The asset should be capitalized at the time of purchase rather than at year end.

99-4 **Segregation of Duties**

The Complex is a small nonprofit organization. As such, segregation of duties may not always be achieved.

We recommend that the management of **the Complex** review current duty assignments and segregate, when possible, incompatible functions that tend to weaken internal controls. Also, we recommend that the Board of Director take a more active role in reviewing financial information to improve internal controls due to the lack of adequate segregation of duties.

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This report is intended solely for the use of management and the State of Louisiana, Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Bruno & Tervalon

BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

June 12, 2000