FRIENDS OF FAMILIES/BATON ROUGE, INC.
Baton Rouge, Louisiana

FINANCIAL REPORT

December 31, 2002

FRIENDS OF FAMILIES/BATON ROUGE, INC.
Baton Rouge, Louisiana

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Faulk & Winkler LLC
Certified Public Accountants • Business Advisors

INDEPENDENT AUDITORS' REPORT

Board of Directors
Friends of Families/Baton Rouge, Inc.
Baton Rouge, Louisiana

We have audited the accompanying statement of assets, liabilities and net assets – modified cash basis of **FRIENDS OF FAMILIES/BATON ROUGE, INC.** (a non-profit organization), as of December 31, 2002, and the related statement of support, expenses and changes in net assets – modified cash basis for the year then ended. These financial statements are the responsibility of the Friends of Families' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized information has been derived from the Organizations' 2001 financial statements and, in our report dated June 18, 2002, we expressed an unqualified opinion on these financial statements.

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. These 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.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, except that the statements include a provision for depreciation of equipment. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets resulting from cash transactions of **FRIENDS OF FAMILIES/BATON ROUGE, INC.**, as of December 31, 2002, and its support and expenses and the changes in net assets for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 30, 2003, on our consideration of the **FRIENDS OF FAMILIES/BATON ROUGE, INC.**'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Faulk & Winkler, LLC

Certified Public Accountants

Baton Rouge, Louisiana
May 30, 2003

FRIENDS OF FAMILIES/BATON ROUGE, INC.

Baton Rouge, Louisiana

STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS

December 31, 2002
(with comparative amounts for 2001)

ASSETS

	2002	2001
CASH	$ 4,126	$ -
INVESTMENT	53,898	64,704
PROPERTY AND EQUIPMENT, net	18,377	28,150
Total assets	$ 76,401	$ 92,854

LIABILITIES AND NET ASSETS

	2002	2001
LIABILITIES		
Cash overdraft	$ -	$ 3,356
Payroll taxes payable and other accrued liabilities	758	723
Due to United Methodist Foundation of LA	8,000	-
Due to related parties	200	200
Total liabilities	8,958	4,279
NET ASSETS		
Temporarily restricted	-	24,377
Unrestricted	67,443	64,198
Total net assets	67,443	88,575
Total liabilities and net assets	$ 76,401	$ 92,854

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

FRIENDS OF FAMILIES/BATON ROUGE, INC.

Baton Rouge, Louisiana

STATEMENT OF SUPPORT, EXPENSES AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS

For the year ended December 31, 2002
(with comparative amounts for 2001)

		Temporarily	Totals	
SUPPORT AND RECLASSIFICATIONS	**Unrestricted**	**Restricted**	**2002**	**2001**
Grant:				
HUD grant	$ -	$ -	$ -	$ 4,575
Contributions:				
Community	67,860	-	67,860	59,874
Individual	12,550	-	12,550	12,134
Program services	24,928	-	24,928	13,933
Miscellaneous:				
Recovery of funds	-	-	-	185
Investment (loss) income	(4,790)	-	(4,790)	(1,775)
Other	-	-	-	1,525
Net assets released from restrictions	24,377	(24,377)	-	-
Total support	124,925	(24,377)	100,548	90,451
EXPENSES				
Salaries	52,820	-	52,820	60,165
Payroll taxes	4,041	-	4,041	4,975
Insurance	16,762	-	16,762	13,203
Outside services	20,115	-	20,115	23,238
Telephone	3,716	-	3,716	3,500
Office	2,168	-	2,168	590
Rental	2,035	-	2,035	2,287
Family assistance	2,450	-	2,450	5,245
Legal and accounting	3,168	-	3,168	3,457
Depreciation	9,773	-	9,773	9,832
Miscellaneous	4,632	-	4,632	8,032
Total expenses	121,680	-	121,680	134,524
Change in net assets	3,245	(24,377)	(21,132)	(44,073)
NET ASSETS				
Beginning of year	64,198	24,377	88,575	132,648
End of year	$ 67,443	$ -	$ 67,443	$ 88,575

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

FRIENDS OF FAMILIES/BATON ROUGE, INC.

Baton Rouge, Louisiana

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities

The Friends of Families/Baton Rouge, Inc. (Friends of Families) is a church affiliated non-profit organization working with homeless families in south Louisiana, unemployed youth and adults to enhance work possibilities and develop new job opportunities. The Organization funds its program through contributions from various organizations, from donations from the Baton Rouge Area Foundation, and grants.

Basis of presentation

Friends of Families prepares its financial statements on the modified cash basis of accounting but includes depreciation of capitalized assets. Under this basis, revenues are recognized when received rather than when earned, and expenses are recognized when cash is disbursed rather than when the obligation is incurred. All expenses of the Organization are classified as program services.

Friends of Families reports information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Friends of Families does not have any permanently restricted net assets.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with the principles described above. Accordingly, such information should be read in conjunction with the Friends of Families' financial statements for the year ended December 31, 2001, from which the summarized information was derived.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Estimates relate primarily to recording of depreciation expense.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments have been recorded at market value, with the amount of unrealized gain or loss recorded in the statement of activities.

Fair value of financial instruments

The carrying value of cash and accrued liabilities approximate fair value due to the short-term maturity of these instruments.

Grant revenue

Friends of Families received one grant to support their activities. The program is funded through an agreement with the City of Baton Rouge/Parish of East Baton Rouge that is funded by the U.S. Department of Housing and Urban Development. Friends of Families received $4,575 for the year ended December 31, 2001.

Temporarily restricted net assets

Friends of Families received funding from the Department of Social Services, State of Louisiana in the prior year to support operations. The surplus from the funding has been classified as temporarily restricted net assets.

Fixed assets and depreciation

Purchased fixed assets are recorded at cost. Fixed assets are depreciated over their estimated useful lives.

Vacation and sick leave

Unused vacation and sick leave lapse at year-end, except that vacation may be awarded subsequently at the discretion of the Executive Director.

Volunteer services

During the year ended December 31, 2002, the value of volunteer services meeting the requirement for recognition in the financial statements was not reflected in these statements since no objective basis for measurement or valuation is available.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax status

Friends of Families qualifies as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code; therefore, the financial statements have no provision for federal and state income tax.

NOTE 2 - INVESTMENTS

At December 31, 2002, investments are as follows:

	Cost	Fair Value	Carrying Value
LUMF Fixed Rate Fund	$ 16,682	$ 16,682	$ 16,682
LUMF Balanced Fund	51,510	37,216	37,216
	$ 68,192	$ 53,898	$ 53,898

Investment loss is comprised of the following:

	Total
Interest	$ 16
Dividends	2,801
Unrealized losses	(7,607)
	$ (4,790)

NOTE 3 - FIXED ASSETS

At December 31, 2002, fixed assets are as follows:

Description	Estimated Service Life	Amount
Furniture and fixtures	5-7 years	$ 29,804
Auto	5 years	22,025
		51,829
Less accumulated depreciation		(33,452)
		$ 18,377

Depreciation expense was $9,773 for the year ended December 31, 2002.

NOTE 4 - SIGNIFICANT SOURCES OF REVENUE

Approximately 48% of the 2002 community contributions were from Capital Area United Way and 24% from Volunteers of America.

NOTE 5 - RELATED PARTY TRANSACTIONS

During 1997, Friends of Families received a non-interest bearing advance from a board member and his relative. At December 31, 2002, the balance of these advances was $200.

NOTE 6 - RECOVERY OF FUNDS

The recovery of funds results from restitution of funds misappropriated by a former treasurer of Friends of Families in a prior period. No collections were made in 2002. At December 31, 2002, a balance of approximately $17,348, excluding accrued interest, remained unpaid. The balance bears interest at 9.75% and has not been recorded in these financial statements.

NOTE 7 - DONATED FACILITIES

Friends of Families utilizes, without charge, facilities of the First United Methodist Church of Baton Rouge. This item is not reflected as support and expense in the financial statements. The Church also made a contribution of $15,829 during 2002.

NOTE 8 - EMPLOYEE BENEFIT PLAN

Friends of Families has a 401(k) retirement plan covering substantially all of its employees. Retirement benefit expense is funded through periodic contributions to the plan and was $805 for the year ended December 31, 2002.

NOTE 9 - CONCENTRATIONS OF CREDIT RISK

Financial instruments which subject Friends of Families to concentrations of credit risk consist primarily of investments in money market funds and mutual funds. Friends of Families typically maintains cash and cash equivalents, and temporary investments in local banks that may, at times, exceed the FDIC limits. Management believes the risk is limited.

NOTE 10 - PAYABLE TO UNITED METHODIST FOUNDATION

Friends of Families has an $8,000, 6% interest bearing loan from the United Methodist Foundation of Louisiana. The loan is payable on April 15, 2003.

NOTE 11 - SUBSEQUENT EVENTS

In November 2002, the Board agreed to a merger with the United Methodist Mission Center. The existing boards of Friends of Families and United Methodist Mission Center will dissolve on July 1, 2003.

Friends of Families was approved for a $15,000 grant from the City of Baton Rouge/Parish of East Baton Rouge that is funded by the U.S. Department of Housing and Urban Development. The grant reimburses allowable expenses that are submitted by Friends of Families. In 2003, $11,557 of 2002 expenses were reimbursed consisting of salaries, van insurance and office supplies. Since the reimbursements occurred in 2003, the grant revenue will be recorded on the 2003 financial statements.

Special Independent Auditors' Report

FRIENDS OF FAMILIES/BATON ROUGE, INC.

Baton Rouge, Louisiana

December 31, 2002

FAULK & WINKLER LLC
Certified Public Accountants • Business Advisors

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

Board of Directors
Friends of Families/Baton Rouge, Inc.
Baton Rouge, Louisiana

We have audited the accompanying financial statements of **FRIENDS OF FAMILIES/BATON ROUGE, INC.** (Friends of Families) as of and for the year ended December 31, 2002, and have issued our report thereon dated May 30, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether Friends of Families' 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.*

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Friends of Families' internal control over financial reporting 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Friends of Families' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

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However, we noted the following matter involving internal control over financial reporting that we consider to be a material weakness as defined above.

Segregation of Duties

Observation: There is not sufficient segregation of duties to have effective internal control over financial reporting. The finding results from the small size of the organization. These limitations allow no opportunity for meaningful segregation of duties.

Recommendation: No action recommended.

Management's corrective action plan: We concur with the finding.

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

Faulk & Winkler, LLC

Certified Public Accountants

Baton Rouge, Louisiana
May 30, 2003