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***Financial Report***  
***PHILMAT, Inc.***

***June 30, 2003***

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 3-17-04

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June 30, 2003

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**FINANCIAL SECTION**



Bourgeois Bennett

## **INDEPENDENT AUDITOR'S REPORT**

Most Reverend Alfred C. Hughes, D.D., President,  
PHILMAT, Inc.  
New Orleans, Louisiana.

We have audited the accompanying statement of financial position of PHILMAT, Inc. (a non-profit organization) ("PHILMAT") as of June 30, 2003, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the management of PHILMAT. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from PHILMAT's 2002 financial statements, which were audited by other auditors whose report dated December 10, 2002, expressed an unqualified opinion on those 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. 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 PHILMAT, Inc. as of June 30, 2003, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2003, on our consideration of PHILMAT, 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements of PHILMAT, Inc. taken as a whole. The schedule of activities by program services (Schedule 1) is presented for purposes of additional analysis and is not a required part of the basic financial statements of PHILMAT. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Bourgeois Bennett, L.L.C.*

Certified Public Accountants.

New Orleans, Louisiana,  
December 15, 2003.

**STATEMENT OF FINANCIAL POSITION****PHILMAT, Inc.**

June 30, 2003  
(with comparative totals for 2002)

	<u>2003</u>	<u>2002 (Restated)</u>
<b><u>ASSETS</u></b>		
Cash	\$ 155,369	\$ 251,444
Money market accounts:		
General account	134,865	35,994
Archbishop's Community Appeal	21,030	21,043
	<u>311,264</u>	<u>308,481</u>
Grants receivable	1,062,427	1,304,548
Contributions receivable, net of allowance of \$6,921 in 2003 and 2002	200,402	266,562
Investments	3,612,667	3,598,850
Property and equipment - net	3,337,183	3,437,333
Prepaid expense	9,600	-
Due from affiliates	-	18,681
	<u>\$ 8,533,543</u>	<u>\$ 8,934,455</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 494,947	\$ 264,834
<b>Net assets:</b>		
Unrestricted	8,038,596	8,393,055
Temporarily restricted	-	276,566
	<u>8,038,596</u>	<u>8,669,621</u>
Total net assets	<u>\$ 8,533,543</u>	<u>\$ 8,934,455</u>

See notes to financial statements.

**STATEMENT OF ACTIVITIES****PHILMAT, Inc.**

For the year ended June 30, 2003  
(with comparative totals for 2002)

	Unrestricted	Temporarily Restricted	2003 Totals	2002 (Restated) Totals
<b>Revenues</b>				
Grant Revenue:				
Commodity supplemental food and warehouse program	\$ 3,869,063	\$ -	\$ 3,869,063	\$ 3,936,733
Head Start program	990,233	-	990,233	1,227,943
Other programs	1,438,550	-	1,438,550	1,386,836
<b>Total grant revenue</b>	<b>6,297,846</b>	<b>-</b>	<b>6,297,846</b>	<b>6,551,512</b>
Contributions	1,420,076	-	1,420,076	1,717,432
Investment income	98,562	-	98,562	93,288
Net unrealized loss on investments	(80,654)	-	(80,654)	(275,491)
Rent	78,210	-	78,210	74,546
Program generated	78,389	-	78,389	-
Other	348,800	-	348,800	299,569
Net assets released from restrictions	276,566	(276,566)	-	-
<b>Total revenue</b>	<b>8,517,795</b>	<b>(276,566)</b>	<b>8,241,229</b>	<b>8,460,856</b>
<b>Expenses</b>				
Program services	7,903,109	-	7,903,109	8,317,355
Management and general	661,876	-	661,876	562,643
Fund raising	307,269	-	307,269	312,237
<b>Total expenses</b>	<b>8,872,254</b>	<b>-</b>	<b>8,872,254</b>	<b>9,192,235</b>
<b>Changes in Net Assets</b>	<b>(354,459)</b>	<b>(276,566)</b>	<b>(631,025)</b>	<b>(731,379)</b>
<b>Net Assets</b>				
Beginning of year, as previously reported	8,393,055	276,566	8,669,621	8,161,090
Restatements (Note 3)	-	-	-	1,239,910
Beginning of year, as restated	8,393,055	276,566	8,669,621	9,401,000
End of year	<u>\$ 8,038,596</u>	<u>\$ -</u>	<u>\$ 8,038,596</u>	<u>\$ 8,669,621</u>

See notes to the financial statements.

**STATEMENT OF CASH FLOWS****PHILMAT, Inc.**

For the year ended June 30, 2003  
(with comparative totals for 2002)

	<u>2003</u>	<u>2002</u> (Restated)
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ (631,025)	\$ (731,379)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	350,409	340,305
Loss on disposition of property	35,349	-
Net unrealized loss on investments	80,654	275,491
Change in assets and liabilities:		
Grants receivable	242,121	217,522
Contributions receivable	66,160	(107,044)
Prepaid expense	(9,600)	-
Due from affiliates	18,681	93,768
Accounts payable and accrued expenses	230,113	18,028
	<u>382,862</u>	<u>106,691</u>
Net cash provided by operating activities		
<b>Cash Flows From Investing Activities</b>		
Increase in investments	(94,471)	(62,072)
Acquisitions of property and equipment	(285,608)	(136,591)
	<u>(380,079)</u>	<u>(198,663)</u>
Net cash used in investing activities		
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	2,783	(91,972)
<b>Cash and Cash Equivalents</b>		
Beginning of year	<u>308,481</u>	<u>400,453</u>
End of year	<u>\$ 311,264</u>	<u>\$ 308,481</u>

See notes to financial statements.



**STATEMENT OF FUNCTIONAL EXPENSES****PHILMAT, Inc.**

For the year ended June 30, 2003  
(with comparative totals for 2002)

	Program Services	Management and General	Fund Raising	2003 Totals	2002 (Restated) Totals
Salaries	\$ 3,995,342	\$ 381,487	\$ 153,168	\$ 4,529,997	\$ 4,537,009
Benefits	729,888	63,246	20,407	813,541	934,972
Other	34,423	8,386	5,118	47,927	71,867
Total salaries and related expenses	4,759,653	453,119	178,693	5,391,465	5,543,848
Professional services	577,192	76,123	16,157	669,472	506,592
Transportation expenses	332,822	1,225	184	334,231	285,057
Space expenses	683,891	42,711	10,956	737,558	765,793
Supply expenses	183,260	11,664	14,489	209,413	332,720
Equipment expenses	81,878	6,453	150	88,481	206,291
Program expenses	674,916	57,282	82,259	814,457	1,032,068
Other expenses	268,221	4,166	4,381	276,768	179,561
Depreciation	341,276	9,133	-	350,409	340,305
Total expenses	\$ 7,903,109	\$ 661,876	\$ 307,269	\$ 8,872,254	\$ 9,192,235

See notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS****PHILMAT, Inc.**

June 30, 2003

**Note 1 - NATURE OF ACTIVITIES**

PHILMAT, Inc. ("PHILMAT") is the corporate title for the Office of the Social Apostolate, an organization operated and controlled by the Roman Catholic Church of the Archdiocese of New Orleans ("Archdiocese") and organized to provide non-sectarian community services to individuals within 56 civil parishes in Louisiana.

The commodity supplemental food and warehouse program, Food for Families/Food for Seniors, distributes food provided by the United States Department of Agriculture to eligible women, infants, children, and senior citizens, who are classified as low income families and vulnerable to malnutrition. This service is provided under a contract between PHILMAT and the Louisiana Department of Health and Hospitals, with PHILMAT acting as the local agent.

In September 2002, Food for Families, Inc. was legally dissolved. Beginning in fiscal year 2003, the commodity supplemental food and warehouse program, previously accounted for by Food for Families, Inc., is included in the books of PHILMAT, Inc.

The Department of Health and Human Services provides funds to PHILMAT for the Head Start Program, which provides a full range of services to 221 children in three sites and appropriate support services to participants' families. The services provided include educational, social services, parent involvement, medical, dental, nutrition, and mental health.

**Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****a. Organization and Income Taxes**

PHILMAT is a nonprofit corporation organized under the laws of the State of Louisiana. It is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, and qualifies as an organization that is not a private foundation as defined in Section 509(a) of the code.

**Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**b. Basis of Accounting**

The financial statements of PHILMAT are prepared on the accrual basis of accounting.

**c. Financial Statement Presentation**

Statement of Financial Standards No. 117, "Financial Statements of Not-For-Profit Organizations", requires reporting of information regarding financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets based on donor stipulations and restrictions placed on contributions, if any.

Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets - Contracts for services, contributions, and other revenues and expenditures of funds for the general operation of its programs.

Temporarily restricted net assets - Contributions and other revenues specifically stipulated by the donor or grantor to be used for specific purposes or to benefit specific accounting periods.

Permanently restricted net assets - Contributions with donor-imposed restrictions that stipulate that the principal be maintained permanently, but permit the use of all or part of the income derived. PHILMAT does not have any permanently restricted net assets.

**d. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**e. Contributions**

Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Support that is restricted by a donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

**f. Promises to Give**

Contributions are recognized when the donor makes a promise to give to PHILMAT that is in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

All promises to give are recognized as assets and revenues.

**g. Functional Expenses**

PHILMAT allocates its expenses on a functional basis among its various programs, management and general, and fundraising.

The costs of administrative support that relate to more than one program have been allocated to the separate programs based on units of service, volume of activity or other equitable basis.

**h. Investments**

Investments are stated at market value based on quoted market prices. Realized and unrealized gains and losses, are included in the change in net assets in the accompanying statement of activities.

**Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**i. Grants and Contributions Receivable**

Receivables are stated at the amount management expects to collect from outstanding balances. Management considered subsequent collection results and wrote off all year-end balances that were not collected by the time the financial statements were issued. Accordingly, a valuation allowance was determined to be unnecessary for grants receivable. A valuation allowance was recorded as an offset to contributions receivable as of each of the years ended June 30, 2003 and 2002.

**j. Property and Equipment**

Property and equipment are carried at purchase cost or appraised values when acquired by donation or gift, with subsequent additions at cost. Depreciation is provided using the straight-line basis over the estimated useful lives of the depreciable assets. Leasehold improvements are amortized over the estimated useful lives of the improvements.

The estimated useful lives used in determining depreciation and amortization follows:

<u>Classification</u>	<u>Lives in Years</u>
Buildings and improvements	40
Leasehold improvements	40
Equipment and furnishings	5
Vehicles	5

**k. Statement of Cash Flows**

PHILMAT considers all cash and money market accounts, to be cash equivalents.

**Note 3 - NET ASSET RESTATEMENTS**

In prior years, PHILMAT expensed a portion of its property and equipment when acquired. Capitalization of property and equipment previously expensed resulted in an increase in property and equipment and unrestricted net assets as of July 1, 2001 (the earliest year presented) of \$1,194,409. In addition, the change in net assets for the year ended June 30, 2002 as reported in prior financial statements was reduced by additional depreciation of \$155,238.

Additionally, certain "Edict Fund" liabilities totaling \$45,501, which arose approximately 15 years ago, were determined to be no longer payable upon revocation of Edict, Inc.'s charter in 1997. Elimination of this payable resulted in an increase in unrestricted net assets of \$45,501 as of July 1, 2001 (the earliest year presented).

**Note 4 - CONTRIBUTIONS RECEIVABLE**

Unconditional promises to give are included in the financial statements as contributions receivable and revenue of the appropriate net asset category.

Unconditional promises to give as of June 30, 2003 and 2002 are expected to be realized in the following periods:

	<u>2003</u>	<u>2002</u>
In one year or less	\$207,323	\$273,483
Less allowance	<u>(6,921)</u>	<u>(6,921)</u>
Totals	<u>\$200,402</u>	<u>\$266,562</u>

**Note 5 - INVESTMENTS**

Investments of the various agencies of the Archdiocese have been pooled to maximize the return on the investments. The amount recorded in the statement of financial position represents PHILMAT's share of the pool.

	<u>Cost</u>	<u>Market Value</u>	<u>Market Over (Under) Cost</u>
Balance at June 30, 2003	<u>\$3,651,805</u>	<u>\$3,612,667</u>	\$(39,138)
Balance at June 30, 2002	<u>\$3,557,334</u>	<u>\$3,598,850</u>	<u>41,516</u>
Unrealized loss on investments			(80,654)
Interest and dividend income			<u>98,562</u>
 Total investment income - June 30, 2003			 <u>\$ 17,908</u>

**Note 6 - PROPERTY AND EQUIPMENT - NET**

A summary of property and equipment at June 30, 2003 and 2002 is as follows:

	<u>2003</u>	<u>2002 (Restated)</u>
Buildings and improvements	\$1,596,890	\$1,496,629
Leasehold improvements	1,505,096	1,475,563
Equipment and furnishings	1,106,782	1,063,370
Vehicles	<u>1,796,357</u>	<u>1,724,358</u>
	6,005,125	5,759,920
Less accumulated depreciation and amortization	<u>2,894,380</u>	<u>2,549,025</u>
	3,110,745	3,210,895
Land	<u>226,438</u>	<u>226,438</u>
 Total property and equipment - net	 <u>\$ 3,337,183</u>	 <u>\$3,437,333</u>

**Note 7 - RETIREMENT PLAN**

Substantially all employees are covered by a defined contribution plan, administered by the Archdiocese of New Orleans. Contribution expense to the Plan on behalf of the employees for the years ended June 30, 2003 and 2002 approximated \$143,000 and \$165,000, respectively.

**Note 8 - PROGRAM SERVICE EXPENSES**

Details of program service expenses for the years ended June 30, 2003 and 2002 were as follows:

Program services	\$ 162,880	\$ 233,694
Commodity Supplemental Food Program	3,907,553	4,138,016
Head Start Program	1,165,897	1,211,620
Child and Adult Care Food Program	170,916	164,174
PACE	270,419	227,484
Unity for the Homeless	419,275	262,973
Community Centers	1,394,952	1,586,921
Witness Program	<u>411,217</u>	<u>492,473</u>
 Totals	 <u>\$7,903,109</u>	 <u>\$8,317,355</u>

**Note 9 - RELATED PARTY TRANSACTIONS**

The Archbishop of New Orleans serves as president of PHILMAT, Inc. He also serves as president of all other corporations, boards of trustees, and separate organizations sponsored by or operated under the auspices of the Archdiocese of New Orleans.

In the normal course of operations, the Archdiocese of New Orleans has made and, when necessary, would consider making available to PHILMAT and its affiliated agencies specific assistance in the form of operating subsidies, loans, use of facilities, and administrative support.



**Note 10 - OPERATING LEASE OBLIGATIONS**

PHILMAT operates a portion of its community social service programs in leased facilities under operating leases expiring at various dates through the fiscal year 2005. The leases are subject to cancellation under certain circumstances, including substantial changes in funding in PHILMAT'S programs. The following is a schedule by years of future minimum rental payments required under those leases and equipment leases that have initial or remaining lease terms in excess of one year as of June 30, 2003.

Year Ending <u>June 30,</u>	
2004	\$ 95,000
2005	<u>12,000</u>
Total	<u>\$107,000</u>

The rental expense for all operating leases for the year ended June 30, 2003 and 2002 approximated \$198,000 and \$170,000, respectively.

**Note 11 - SIGNIFICANT CONTRACTS AND GRANTS**

The Food for Families/Food for Seniors program receives a substantial amount of its support from a contract with Louisiana Department of Health and Hospitals (LDHH). A significant reduction in the level of this support, if this were to occur, may have a material adverse effect on the program. The Food for Families/Food for Seniors program is required to submit reports to substantiate the support received. These reports are subject to audit and/or approval by LDHH.

**Note 12 - RISK MANAGEMENT**

PHILMAT is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. There were no settled claims that exceeded this commercial coverage during the year ended June 30, 2003.

**Note 13 - CONTINGENCIES**

PHILMAT is a party to various litigations and other claims, the outcome of which cannot be presently determined. Management's opinion is that the outcome of such matters would not have a significant effect on PHILMAT's financial position.

**SUPPLEMENTARY FINANCIAL INFORMATION**

**SCHEDULE OF ACTIVITIES BY PROGRAM SERVICES**

**PHILMAT, Inc.**

For the year ended June 30, 2003  
(with comparative totals for 2002)

	Programs										Plant and Property	Fundraising	2003 Totals	2002 (Restated) Totals	
	Program Services	Commodity Supplemental Food Program	Head Start Program	Child and Adult Care Food Program	PACE	Unity For The Homeless	Community Centers	Witness Program	Totals	Management and General					Endowment
<b>Revenues:</b>															
Grant revenue	\$ 101,121	\$ 3,869,063	\$ 990,233	\$ 147,088	\$ 338,972	\$ 201,737	\$ 513,031	\$ 136,601	\$ 6,297,846	\$ -	\$ -	\$ -	\$ -	\$ 6,297,846	\$ 6,551,512
Contributions	45,452	-	255	-	730	-	33,088	29,117	108,642	-	-	-	-	1,420,076	1,717,432
Program Generated	2,739	-	2,479	8,142	-	-	6,019	59,010	78,389	-	-	-	-	78,389	-
Rent	-	-	-	-	-	-	58,335	-	58,335	19,875	-	-	-	78,210	74,546
Investment income	-	-	-	-	-	-	-	-	0	5,451	12,457	-	-	17,908	(182,203)
Other	-	263	-	-	-	214,383	22,173	1,600	238,419	110,381	-	-	-	348,800	299,569
<b>Total revenues</b>	<b>149,312</b>	<b>3,869,326</b>	<b>992,967</b>	<b>155,230</b>	<b>339,702</b>	<b>416,120</b>	<b>632,646</b>	<b>226,328</b>	<b>6,781,631</b>	<b>135,707</b>	<b>12,457</b>	<b>1,285,495</b>	<b>25,939</b>	<b>8,241,229</b>	<b>8,460,856</b>
<b>Expenses:</b>															
Salaries	69,595	1,978,601	748,704	53,994	111,731	65,534	685,616	281,567	3,995,342	381,487	-	153,168	-	4,529,997	4,537,009
Benefits	11,597	383,822	157,439	13,488	12,563	10,976	119,925	20,078	729,888	63,246	-	20,407	-	813,541	934,972
Other	1,074	8,404	16,987	965	2,569	-	4,130	294	34,423	8,386	-	5,118	-	47,927	71,867
<b>Total salaries and related expenses</b>	<b>82,266</b>	<b>2,370,827</b>	<b>923,130</b>	<b>68,447</b>	<b>126,863</b>	<b>76,510</b>	<b>809,671</b>	<b>301,939</b>	<b>4,759,653</b>	<b>453,119</b>	<b>-</b>	<b>178,693</b>	<b>-</b>	<b>5,391,465</b>	<b>5,543,848</b>
Professional services	12,952	370,859	25,156	-	78,581	22,640	65,884	1,120	577,192	76,123	-	16,157	-	669,472	506,592
Transportation expenses	162	263,816	6,609	914	17,415	464	41,217	2,225	332,822	1,225	-	184	-	334,231	285,057
Space expenses	4,688	446,306	64,113	2,230	15,942	1,566	144,701	4,345	683,891	42,711	-	10,956	-	737,558	765,793
Supply expenses	3,389	95,130	56,530	55	11,292	807	13,428	2,629	183,260	11,664	-	14,489	-	209,413	332,720
Equipment expenses	-	49,612	3,655	8,618	2,426	-	17,567	-	81,878	6,453	-	150	-	88,481	206,291
Program expenses	59,131	100,673	22,230	88,059	17,900	102,906	185,930	98,087	674,916	57,282	-	82,259	-	814,457	1,032,068
Other expenses	292	12,330	-	2,593	-	214,382	37,752	872	268,221	4,166	-	4,381	-	276,768	179,561
Depreciation expenses	-	198,000	64,474	-	-	-	78,802	-	341,276	9,133	-	-	-	350,409	340,305
<b>Total expenses</b>	<b>162,880</b>	<b>3,907,553</b>	<b>1,165,897</b>	<b>170,916</b>	<b>270,419</b>	<b>419,275</b>	<b>1,394,952</b>	<b>411,217</b>	<b>7,903,109</b>	<b>661,876</b>	<b>-</b>	<b>307,269</b>	<b>-</b>	<b>8,872,254</b>	<b>9,192,235</b>
<b>Changes in net assets</b>	<b>\$ (13,568)</b>	<b>\$ (38,227)</b>	<b>\$ (172,930)</b>	<b>\$ (15,686)</b>	<b>\$ 69,283</b>	<b>\$ (3,155)</b>	<b>\$ (762,306)</b>	<b>\$ (184,889)</b>	<b>\$ (1,121,478)</b>	<b>\$ (526,169)</b>	<b>\$ 12,457</b>	<b>\$ 978,226</b>	<b>\$ 25,939</b>	<b>\$ (631,025)</b>	<b>\$ (731,379)</b>

**SPECIAL REPORTS OF CERTIFIED PUBLIC ACCOUNTANTS**



Bourgeois Bennett

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

Most Reverend Alfred C. Hughes, D.D., President,  
PHILMAT, Inc.  
New Orleans, Louisiana.

We have audited the financial statements of PHILMAT, Inc. (a non-profit organization) ("PHILMAT"), as of and for the year ended June 30, 2003, and have issued our report thereon dated December 15, 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 PHILMAT'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 one instance of noncompliance (item 03-1) that is required to be reported under Government Auditing Standards.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered PHILMAT'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. 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 judgement, could adversely affect PHILMAT's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. One reportable condition is described in the accompanying schedule of findings and questioned costs as item 03-2.

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 condition that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

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

*Bourgeois Bennett, L.L.C.*

Certified Public Accountants.

New Orleans, Louisiana,  
December 15, 2003.



Bourgeois Bennett

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Most Reverend Alfred C. Hughes, D.D., President,  
PHILMAT, Inc.  
New Orleans, Louisiana.

**Compliance**

We have audited the compliance of PHILMAT, Inc., ("PHILMAT") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. PHILMAT's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal program is the responsibility of PHILMAT's management. Our responsibility is to express an opinion on PHILMAT's compliance based on our audit.

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



In our opinion, PHILMAT compiled, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 03-3 and 03-4.

### **Internal Control Over Compliance**

The management of PHILMAT is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered PHILMAT's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance 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, the Legislative Auditor for the State of Louisiana, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Bourgeois Bennett, L.L.C.*

Certified Public Accountants.

New Orleans, Louisiana,  
December 15, 2003.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**PHILMAT, Inc.**

For the year ended June 30, 2003

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Identifiable Federal Expenditures
<b>U.S. Department of Agriculture</b>		
<u>Pass-through programs from:</u>		
<u>State of Louisiana Department of Health and Hospitals - Commodity Supplemental Food Program</u>	10.565	\$ 3,869,063
<u>State of Louisiana Department of Education - Child and Adult Care Food Program</u>	10.558	<u>147,088</u>
Total U.S. Department of Agriculture		<u>4,016,151</u>
<b>U.S. Department of Health and Human Services</b>		
<u>Pass-through programs from:</u>		
<u>Total Community Action, Inc - Head Start Program</u>	93.600	1,069,375
<u>State of Louisiana Department of Social Services, Office of Family Support - Family Independence Work Program (TANF)</u>	93.558	124,211
<u>Unity for the Homeless, Inc. Community Response Initiative (TANF)</u>	93.558	<u>84,615</u>
Total U.S. Department of Health and Human Services		<u>1,278,201</u>

(Continued)

<u>Federal Grantor/ Pass Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Identifiable Federal Expenditures</u>
<b>U.S. Department of Housing and Urban Development</b>		
<u>Pass-through programs from:</u>		
<u>City of New Orleans -</u>		
<u>Community Development Block Grants -</u>		
Summer Witness program	14.218	103,303
Adult literacy program	14.218	21,294
Senior enrichment program	14.218	24,097
Emergency shelter grant	14.231	58,596
<u>City of Kenner - Community Development Block Grant -</u>		
Summer Witness program	14.218	48,282
<u>Unity for the Homeless, Inc. -</u>		
Supportive Housing Program	14.235	<u>205,792</u>
Total U.S. Department of Housing and Urban Development		<u>461,364</u>
<b>U.S. Department of Education</b>		
<u>Pass-through program from:</u>		
<u>State of Louisiana Department of Education -</u>		
Adult / Youth education program	84.002	<u>20,586</u>
<b>Federal Emergency Management Agency</b>		
<u>Pass-through program from:</u>		
<u>United Way Emergency Food and Shelter</u>		
<u>National Board Program -</u>		
Emergency food and shelter program	83.523	<u>9,589</u>
Total expenditures of federal awards		<u>\$ 5,785,891</u>

**NOTES TO SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS**

**PHILMAT, Inc.**

For the year ended June 30, 2003

**Note 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**Note 2 - FINDINGS OF NONCOMPLIANCE**

The findings of noncompliance are disclosed in the Schedule of Findings and Questioned Costs. The potential reimbursement effects of the findings are not ascertainable.



**Section I - Summary of Auditor's Results (Continued)**

c) Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
10.565	Commodity Supplemental Food Program
93.600	Head Start Program
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
Auditee qualified as a low-risk auditee?	<u>X</u> yes    ___ no

**Section II - Financial Statement Findings**

**Compliance**

**03-1 Submission of Audit Report to Louisiana Legislative Auditor within six months of the close of PHILMAT's Fiscal Year**

**Criteria** – Louisiana State law requires certain quasi-governmental entities to have audit engagements completed within six months from the close of the entity's year end.

**Condition** – PHILMAT did not submit an audit report to the Legislative Auditor within six months of its year end.

**Effect** – PHILMAT submitted its audit report to the Legislative Auditor late.

**Cause** – Management was unable to finalize reconciliation of certain accounts in order to submit its audit report to the Legislative Auditor within six months of its year end.

**Recommendation** – Accounts must be reconciled timely in order to submit an audit report to the Legislative Auditor within six months of its year end.

**Management's Response** – Controls have been put into place to prevent accounts from not being reconciled in a timely manner. Future audits reports will be submitted to the Legislative Auditor within six months of our year end.

**Section II - Financial Statement Findings (Continued)**

**Internal Control**

**03-2 Reconcile the bank statement to cash accounting records in a timely and accurate manner.**

**Criteria** – There should be an accurate reconciliation of the monthly bank statements to the accounting records.

**Condition** – Cash accounts were not accurately reconciled between the monthly bank statements and the accounting records.

**Effect** – The accounting records were not in a condition to be audited until the bank account was reconciled.

**Cause** – The monthly attempt to reconcile the bank statement to the accounting records was unsuccessful.

**Recommendation** – PHILMAT should reconcile the bank account to the accounting records monthly.

**Management's Response** – Management engaged the consulting services of a certified public accountant serving on the audit committee of the Archdiocese of New Orleans to oversee the reconciliation of bank account balances for the period July 1, 2003 through December 31, 2003. Based on reconciled balances for this six month period, the ending balance for June 30, 2003 was adjusted by approximately \$3,600.

Several factors contributed to problems in bank account reconciliations:

1. Zero Balance Account transaction volume with small dollar amounts.
2. Delay in monthly closing (soft close) of general ledger, which allowed posting to prior periods.
3. Interface postings from Raiser's Edge software with multiple cash postings for a deposit amount.
4. Clerical position responsible for general ledger posting routinely posted deposits to incorrect fiscal periods.
5. Excessive number of adjusting journal entries.
6. Manager responsible for supervision of clerical staff failed to identify and address performance issues.

**Section II - Financial Statement Findings (Continued)**

**Internal Control**

**03-2 (Continued)**

**Corrective Action**

1. Zero Balance Account activity was eliminated.
2. General ledger is closed monthly, preventing posting to prior periods.
3. Director of General Accounting edits interface posting from Raiser's Edge and modifies cash posting to general ledger – cash posting matches deposit amount.
4. Clerical position has been eliminated – bank reconciliation being performed by staff member of Catholic Charities.
5. Manager responsible for supervision of clerical staff member is no longer employed by PHILMAT, Inc.
6. Bank reconciliation's are reviewed and approved monthly by Director of General Accounting and Chief Financial Officer of Catholic Charities Archdiocese of New Orleans.

Presently, bank statements have been reconciled through December 31, 2003.

**Section III - Federal Award Findings and Questioned Costs**

**Compliance**

**03-3 Recertification Process, U.S. Department of Agriculture passed through the State of Louisiana Department of Health and Hospitals – Commodity Supplemental Food Program (CFDA #10.565)**

**Criteria** – PHILMAT is required by the grant document to maintain accurate and complete records with respect to, among other items, certification and recertification of participants.

**Condition** – Of the fifteen participants selected for recertification testing at the Incarnate Word distribution site, three participants did not have evidence of recertification.

**Effect** – PHILMAT did not have evidence of recertification of certain participants.

**Cause** – Incorrect or non-existent data entered into the computer program designed to alert clerical personnel when the recertification date was imminent.



**Section III - Federal Award Findings and Questioned Costs (Continued)**

**Compliance (Continued)**

**03-3 (Continued)**

**Recommendation** – We recommend PHILMAT adhere to the procedures and policies related to recertification of participants.

**Management's Response** – Mothers, infants and children are recertified annually on the anniversary date of their start in the program. Seniors are recertified annually on their birth date or group date. The computer software is programmed to notify the clerk of participant's need to recertify on month prior to certification date. The clerk gives the participant a notice describing documentation that is needed for recertification. When the participant returns the next month the recertification documentation is updated in the computer. A one month recertification box of food may be given if correct documentation is not presented or an alternate comes to pick up food. The staff at Incarnate Word Distribution site has been informed of the importance of following the recertification procedure.

**03-4 Delivery/Receiving Process, U.S. Department of Agriculture passed through the State of Louisiana Department of Health and Hospitals – Commodity Supplemental Food Program (CFDA #10.565)**

**Criteria** – PHILMAT is required by the grant document to maintain accurate and complete records regarding distribution and receipt of all commodities.

**Condition** – Of the six delivery documents examined, four did not have proper signatures acknowledging content of the commodities listed on the document.

**Effect** – PHILMAT did not have evidence of distribution and receipt of certain commodities.

**Cause** – Personnel were not aware of the responsibility of signing delivery documents.

**Recommendation** – Instruct the responsible warehouse and delivery personnel of the requirements to account for the distribution and receipt of all commodities.

**Management's Response** - Complete records regarding receipt of all commodities are kept according to the grant requirements. The delivery documents referred to in the finding do not relate to the receipt of commodities from USDA. These documents are internal reference points for the movement of food within the system.

(Continued)

**Section III - Federal Award Findings and Questioned Costs (Continued)**

**Compliance (Continued)**

**03-4 (Continued)**

**Management's Response – Continued**

Internal procedures require that the delivery ticket be signed. The personnel in Baton Rouge serve as warehouse staff and distribution staff for the Baton Rouge tailgate sites. They load the truck from the warehouse and distribute the food from the tailgate site. They sign the initial load being put into the truck. They were not aware they needed to sign the delivery ticket. They have been informed that delivery tickets must be signed.

**Internal Control**

No material weaknesses were noted during the audit for the year ended June 30, 2003.

**REPORTS BY MANAGEMENT**

**SCHEDULE OF PRIOR YEAR FINDINGS AND  
QUESTIONED COSTS**

**PHILMAT, Inc.**

For the year ended June 30, 2003

**Section I - Internal Control and Compliance Material to the Financial Statements**

**Compliance**

No compliance findings material to the financial statements were noted during the audit for the year ended June 30, 2002.

**Internal Control**

No material weaknesses were noted during the audit for the year ended June 30, 2002.

No reportable conditions were reported during the audit for the year ended June 30, 2002.

**Section II - Internal Control and Compliance Material To Federal Awards**

**02-1 Recommendation** - PHILMAT should adhere to its procedures and policies related to recertification of participants.

**Management's Response** - The finding was caused by human error and the transition of staff at this location. Additional staff training in the proper documentation procedures is on going. Unresolved. (See 03-3)

**02-2 Recommendation** - PHILMAT should adhere to its procedures and policies related to disbursing food allotments.

**Management's Response** - This finding was caused by human error and the transition of staff at this location. Additional staff training in the proper documentation procedures is on-going. Resolved.

**Section III - Management Letter**

A management letter was not issued in connection with the audit of the financial statements for the year ended June 30, 2002.

# MANAGEMENT'S CORRECTIVE ACTION PLAN

## PHILMAT, Inc.

For the year ended June 30, 2003

### Section I - Internal Control and Compliance Material to the Financial Statements

#### Compliance

**03-1 Recommendation** - Accounts must be reconciled timely in order to submit an audit report to the Legislative Auditor within six months of its year end.

**Management's Corrective Action** - Monthly and quarterly account reconciliation is performed and verified. Year end reconciliation is performed and verified prior to the audit firm coming to PHILMAT.

#### Internal Control

**03-2 Recommendation** - PHILMAT should reconcile the bank account to the accounting records monthly.

**Management's Corrective Action** - Monthly reconciliation of the bank account is performed. The reconciliation is verified by Director of General Accounting and the Chief Financial Officer. The period reconciled is soft closed to prevent posting in the accounting software.

No material weaknesses were noted during the audit for the year ended June 30, 2003.

### Section II - Internal Control and Compliance Material To Federal Awards

**03-3 Recommendation** - We recommend PHILMAT adhere to the procedures and policies related to recertification of participants.

**Management's Corrective Action** - We conduct periodic "hands-on-sessions" for distribution supervisors and clerks at least eight months out of the year. These sessions involve written agendas, minutes, recording topics covered and sign-in sheets to show attendance. We will put the topic on the agenda for the next supervisor session scheduled for March to ensure everyone is fully aware of the recertification procedure.

**Section II - Internal Control and Compliance Material To Federal Awards (Continued)**

**03-3 (Continued)**

**Management's Corrective Action (Continued)**

A quality assurance process is being put into place. The programmer will modify the software to generate a listing by location of one-month recertifications. The listing is the control document. A sample will be tested monthly and results will be trended over time to insure compliance within acceptable limits.

- 03-4 Recommendation** - Instruct the responsible warehouse and delivery personnel of the requirement to account for the distribution and receipt of all commodities.

**Management's Corrective Action** - Copies of the delivery tickets are provided to the administration office monthly. The staff person in administration will verify signature on delivery tickets from Baton Rouge, which is the only location with a combined warehousing and distribution staff.

**Section III - Management Letter**

A management letter was not issued in connection with the audit of the financial statements for the year ended June 30, 2003.