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Report of Independent Auditors on the Internal Control Structure—Based on Audit of Financial Statements Performed in Accordance With Government Auditing Standards

The Audit and Finance Committee
Volunteers of America of Greater New Orleans, Inc.

We have audited the combining financial statements of Volunteers of America of Greater New Orleans, Inc. and Community Living Centers, Inc. (collectively referred to as the Organization) as of and for the year ended June 30, 1996, and have issued our report thereon dated September 25, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *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 combining financial statements are free of material misstatement.

The management of the Organization is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of combining financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the combining financial statements of the Organization for the year ended June 30, 1996, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the combining financial statements and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. 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 errors or irregularities in amounts that would be material in relation to the combining 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 internal control and its operation that we consider to be material weaknesses as defined above.

However, we noted other matters involving internal control and its operation that we have reported to the audit and finance committee of the Organization in a separate letter dated September 25, 1996.

This report is intended for the information of the audit and finance committee, the board of directors, management, and the cognizant and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

September 25, 1996

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, 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.

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The Audit and Finance Committee
Volunteers of America of Greater New Orleans, Inc.

In planning and performing our audit of the combining financial statements of Volunteers of America of Greater New Orleans, Inc. and Community Living Centers, Inc. (collectively referred to as the Organization) for the year ended June 30, 1996, we considered its internal control structure to determine our auditing procedures for the purpose of expressing our opinion on the combining financial statements and not to provide assurance on the internal control structure. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the combining 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. However, we noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

We have the following comments on other matters:

> A number of year-end adjusting entries were recorded after the general ledger was initially closed and the audit was in progress. The majority of these entries (i.e., due to/from accounts, balances with affiliated entities, and payable and expense accruals) were attributable to the Organization not having control procedures in place to ensure that the general ledger accounts were properly reconciled, analyzed and adjusted on a timely basis throughout the year. This resulted in a delayed year-end closing and a delay in issuing the Organization's financial statements.

Volunteers of America of Greater New Orleans, Inc.
and Community Living Centers, Inc.

Combining Statement of Activities

Year ended June 30, 1996

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total VOAGNO	CLC	Combined Total
Revenues from operations						
Public support received directly:						
Contributions	$ 75,045	$ –	$ –	$ 75,045	$ –	$ 75,045
Special events, net of direct benefit costs of $40,416	50,726	–	–	50,726	–	50,726
Public support received indirectly:						
United Way	–	139,814	–	139,814	–	139,814
Total public support	125,771	139,814	–	265,585	–	265,585
Revenue and grants from governmental agencies	6,757,030	1,919,571	–	8,676,601	–	8,676,601
Other revenue:						
Program service fees	766,195	–	–	766,195	89,705	855,900
Rental income	6,563	–	–	6,563	–	6,563
Sales of materials and services, net of direct benefit cost of $38,569	1,514,169	–	–	1,514,169	–	1,514,169
Total other revenue	2,286,927	–	–	2,286,927	89,705	2,376,632
Net assets released from restrictions	2,059,385	(2,059,385)	–	–	–	–
Total revenues from operations	11,229,113	–	–	11,229,113	89,705	11,318,818
Operating expenses						
Program services:						
Sheltered Remunerative Employment	1,393,920	–	–	1,393,920	–	1,393,920
Community Living Services	2,367,519	–	–	2,367,519	99,307	2,466,826
Supported Living Services	1,325,629	–	–	1,325,629	–	1,325,629
Elderly Services	518,375	–	–	518,375	–	518,375
Community Correction Center	792,693	–	–	792,693	–	792,693
Juvenile Services	741,721	–	–	741,721	–	741,721
Children Services	1,028,128	–	–	1,028,128	–	1,028,128
Maternity Services	217,847	–	–	217,847	–	217,847
Case Management	1,346,922	–	–	1,346,922	–	1,346,922
Total program services	9,732,754	–	–	9,732,754	99,307	9,832,061
Support services:						
Management and general	1,100,171	–	–	1,100,171	–	1,100,171
Training and evaluation	80,297	–	–	80,297	–	80,297
Community support	111,636	–	–	111,636	–	111,636
Total support services	1,292,104	–	–	1,292,104	–	1,292,104
Administrative fees	276,409	–	–	276,409	–	276,409
Total operating expenses	11,301,267	–	–	11,301,267	99,307	11,400,574
Deficit from operations	(72,154)	–	–	(72,154)	(9,602)	(81,756)
Nonoperating gains						
Interest and dividend income	69,833	–	–	69,833	–	69,833
Gains on sales of assets	4,000	–	–	4,000	–	4,000
Gains on investments	16,150	–	–	16,150	–	16,150
Other income	82,666	–	–	82,666	–	82,666
Total nonoperating gains	172,649	–	–	172,649	–	172,649
Change in net assets	$ 100,495	$ –	$ –	$ 100,495	$ (9,602)	$ 90,893

See accompanying notes.

The Organization continues to experience delays in collecting its revenues, particularly from various governmental agencies. For example, receivables of $1.5 million as of June 30, 1996 were aged as follows:

	Past Due			
Current	1-30 days	31-60 days	61-90 days	Over 90 days
(% of total receivable balance in aging category)				
52%	25%	8%	5%	10%

We understand that this process is sometimes difficult; however, we recommend that the Organization explore alternatives from the current process that may accelerate collections in order to reduce the Organization's interest expense.

Based on a cursory review of officers' expense reimbursements, we noted several instances of expense filings not in compliance with Organization policy. Noncompliance included business purpose documentation not always being included, the people attending were not always identified, and supporting receipts were not attached in all cases. We recommend that the Organization perform an internal review of its expense reimbursement program and monitor its approval process to ensure that Organization policy is followed.

The Organization is in the process of reviewing and updating its property and equipment subledgers, including physically identifying all items. We concur with their effort and recommend its completion by June 30, 1997.

This report is intended solely for the information and use of the audit and finance committee, board of directors, management, and others within the Organization.

Ernst & Young LLP

September 25, 1996

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The Audit and Finance Committee
Volunteers of America of Greater New Orleans, Inc.

We have audited, in accordance with generally accepted auditing standards, the combining financial statements of Volunteers of America of Greater New Orleans, Inc. (VOAGNO) and Community Living Centers, Inc. (CLC) (collectively referred to as the Organization) for the year ended June 30, 1996, and have issued our report thereon dated September 25, 1996.

The Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) has issued its Statement on Auditing Standards No. 61, *Communication With Audit Committees*. This statement requires the independent auditor to communicate to the audit and finance committee certain information regarding the scope and results of the audit to assist the committee in overseeing the financial reporting and disclosure process for which management is responsible. This letter summarizes the reporting requirements of this statement for our 1996 audit. A similar letter was issued last year.

Auditors' Responsibility Under Generally Accepted Auditing Standards

Our audit, conducted in accordance with generally accepted auditing standards, was designed to provide reasonable, rather than absolute, assurance that the Organization's financial statements are free of material misstatement. These financial statements are the responsibility of management and it is our responsibility to express an opinion on these financial statements based on our audit results.

Significant Accounting Policies

The accounting principles followed by the Organization and the methods of applying these principles conform, in all material respects, with generally accepted accounting principles generally used by voluntary health and welfare organizations. The combining financial statements include a summary of these significant accounting policies.

Changes in Accounting Policies

In June 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 117 (SFAS 117), *Financial Statements of Not-for-Profit Organizations*, which established standards for reporting information in general purpose external financial statements issued by not-for-profit organizations. The Organization adopted the provisions of this standard in its 1996 financial statements, as required by SFAS 117, and has restated its net asset balances as of June 30, 1995 to conform with the presentation requirements of SFAS 117.

In June 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made* (SFAS 116), which established standards of accounting for contributions and applies to all entities that receive or make contributions. SFAS 116 requires contributions received and unconditional promises to give to be recognized as revenue in the period received at their fair values. Conditional promises to give are to be recognized when they become unconditional; that is, when the conditions are substantially met. The Organization adopted the provisions of this standard in its 1996 financial statements, as required by SFAS 116; however, the adoption had no impact on the Organization's financial statements.

Audit Adjustments

The following adjustments were identified in management's final general ledgers during the course of the audit of the combining financial statements and were not recorded by the Organization.

VOAGNO

1. A journal entry of $28,175 was not recorded to reserve for uncollectible accounts receivable. See the Accounting Estimates and Management Judgments discussion below.

2. A journal entry of $26,144 was not recorded to reverse the recognition of miscellaneous income for excess depreciation recorded in prior years. We believe the excess depreciation should be considered a change in accounting estimate and corrected prospectively through a deduction of future depreciation expense.

CLC

1. A journal entry of $1,544 was not recorded to properly amortize prepaid insurance expense.

Accounting Estimates and Management Judgments

Accounts receivable of $1,544,521 at June 30, 1996 is net of an allowance for doubtful accounts of $70,492. It is management's opinion that all June 30, 1996 amounts still outstanding as of September 25, 1996 are fully collectible or appropriately reserved by the allowance. It is uncertain whether the future actual collections will exceed or fall below the net recorded receivable at June 30, 1996.

There were $231,000 of accounts receivable tested by us and had not been collected as of September 1996. In connection with our tests, we proposed to increase the allowance for doubtful accounts by $28,175 as of June 30, 1996 (see VOGANO entry #1 above).

Difficulties Encountered in Performing the Audit

Considerable improvement in the Organization's year-end closing procedures has been noted; however, a number of year-end adjusting entries were recorded after the general ledger was initially closed and the audit was in progress. The Organization recorded 20 journal entries (14 for VOAGNO and 6 for CLC) proposed by us during the course of audit in addition to posting several of their own adjustments while the audit was in progress. This situation resulted in a delayed year-end closing and a delay in issuing the Organization's financial statements.

Other Matters

Statement on Auditing Standards No. 61 also requires communications to the committee in the following areas:

- Other information in documents containing audited financial statements.
- Disagreements with management.
- Consultations with other accountants.
- Major issues discussed with management prior to retention as auditors.

During our audit, we did not encounter any circumstances and we are unaware of any items in any of these areas which require discussion with the audit and finance committee.

* * * * *

This report is intended solely for the information and use of the audit and finance committee.

Ernst & Young LLP

September 25, 1996

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, 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__________

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Combining Financial Statements

Volunteers of America of Greater New Orleans, Inc. and Community Living Centers, Inc.

Year ended June 30, 1996 with Report of Independent Auditors

Volunteers of America of Greater New Orleans, Inc.
and Community Living Centers, Inc.

Combining Financial Statements

Year ended June 30, 1996

Contents

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Report of Independent Auditors

The Boards of Directors
Volunteers of America of Greater New Orleans, Inc.
and Community Living Centers, Inc.

We have audited the accompanying combining balance sheet of Volunteers of America of Greater New Orleans, Inc. and Community Living Centers, Inc. as of June 30, 1996, and the related combining statement of activities, combining statements of net assets, combined statement of functional expenses, and combining statement of cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 individual and combined financial position of Volunteers of America of Greater New Orleans, Inc. and Community Living Centers, Inc. at June 30, 1996, and the individual and combined results of their operations and changes in their net assets and their cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 2 to the combining financial statements, the Organization changed its accounting policies related to financial statement display.

Ernst & Young LLP

September 25, 1996

	VOAGNO	CLC	Combined Total
Liabilities and net assets			
Current liabilities:			
Bank overdraft	$ 90,152	$ –	$ 90,152
Accounts payable	238,253	–	238,253
Accrued expenses	290,017	12	290,029
Other current liabilities	33,340	27,754	61,094
Current portion of debt:			
Note payable	333,626	–	333,626
Mortgages and loans payable	193,093	–	193,093
	526,719	–	526,719
Total current liabilities	1,178,481	27,766	1,206,247
Other liabilities:			
Mortgages and loans payable, less current portion	409,015	427,299	836,314
Other	7,407	–	7,407
Total other liabilities	416,422	427,299	843,721
Total liabilities	1,594,903	455,065	2,049,968
Net assets:			
Unrestricted	3,448,076	(136,182)	3,311,894
Temporarily restricted	–	–	–
Permanently restricted	22,306	–	22,306
Total net assets	3,470,382	(136,182)	3,334,200
Total liabilities and net assets	$ 5,065,285	$ 318,883	$ 5,384,168

See accompanying notes.

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Report of Independent Auditors on Compliance With Laws and Regulations

The Audit and Finance Committee
Volunteers of America of Greater New Orleans, Inc.

We have audited the combining financial statements of Volunteers of America of Greater New Orleans, Inc. and Community Living Centers, Inc. (collectively referred to as the Organization) as of and for the year ended June 30, 1996, and have issued our report thereon dated September 25, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *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.

Compliance with laws, regulations, contracts, and grants applicable to the Organization is the responsibility of the Organization's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Organization's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

This report is intended for the information of the audit and finance committee, the board of directors, management, and the cognizant and other federal agencies. However, this report is a matter of public record and its distribution is not limited.

Ernst & Young LLP

September 25, 1996

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, 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

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2. Significant Accounting Policies (continued)

Income Taxes

VOAGNO is included in the group income tax exemption granted to VOA. Accordingly, the Organization is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as a religious organization described in Section 501(c)(3). The federal tax exemption also extends to state income taxes.

Restrictive Covenants and Agreements

The Federal Housing Administration (FHA) and the U. S. Department of Housing and Urban Development (HUD) exercise control over the apartment complexes operated by CLC through provisions of a regulatory agreement. The provisions of this agreement restrict CLC, without prior written approval from HUD, from encumbering, acquiring, altering or disposing of land, improvements and buildings; using the land, improvements and buildings for any purpose other than the use originally intended; engaging in any other business or activity; and disbursing funds for payment of dividends, compensation to officers or directors, or any purpose other than reasonable operating expenses. The agreement also stipulates that FHA/HUD shall control the rental rates, rate of return on investment and method of operation.

Restricted Fees and Grants

The Organization receives fees and grants from local, state and federal governmental agencies. The programs sponsored by these agencies are subject to discretionary audits by the granting agencies. There have been no audits by granting agencies in fiscal year 1996 and management does not anticipate any adjustment as a result of future audits. Any adjustment from an audit performed by a granting agency would flow through the combining financial statements during the year of the audit as a change in accounting estimate.

Even though grants are restricted, grant agreements and contracts allow the Organization to transfer surpluses to the current unrestricted fund at the end of each fiscal year.

Volunteers of America of Greater New Orleans, Inc.
and Community Living Centers, Inc.

Combining Statement of Cash Flows

Year ended June 30, 1996

	VOAGNO	CLC	Combined Total
Operating activities			
Change in net assets	$ 100,495	$ (9,602)	$ 90,893
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization	217,993	12,214	230,207
Gains on investments	(16,150)	–	(16,150)
Gains on sales of assets	(4,000)	–	(4,000)
Changes in operating assets and liabilities:			
Accounts and notes receivable	(34,436)	–	(34,436)
Prepaid expenses	(1,754)	(1,544)	(3,298)
Other assets	(14,182)	–	(14,182)
Accounts payable	(122,067)	(1,074)	(123,141)
Accrued expenses	5,192	12	5,204
Other current and noncurrent liabilities	(92,984)	–	(92,984)
Net cash provided by operating activities	38,107	6	38,113
Investing activities			
Proceeds from sale of investments	2,114,956	–	2,114,956
Purchase of investments	(2,446,285)	–	(2,446,285)
Proceeds from sale of property and equipment	4,000	–	4,000
Purchases of property and equipment	(104,296)	–	(104,296)
Increase in assets held for sale	(53,984)	–	(53,984)
Amounts due from CLC (due to VOAGNO)	(7,766)	7,766	–
Net cash provided by (used in) investing activities	(493,375)	7,766	(485,609)
Financing activities			
Increase in bank overdraft	90,152	–	90,152
Net increase in note payable	85,000	–	85,000
Payments on mortgages and loans payable	(215,096)	–	(215,096)
Net cash used in financing activities	(39,944)	–	(39,944)
Net increase (decrease) in cash and cash equivalents	(495,212)	7,772	(487,440)
Cash and cash equivalents at beginning of year	536,745	37,934	574,679
Cash and cash equivalents at end of year	$ 41,533	$ 45,706	$ 87,239
Unencumbered cash and cash equivalents at end of year	$ 41,533	$ 34,724	$ 76,257
Encumbered cash and cash equivalents at end of year	–	10,982	10,982
	$ 41,533	$ 45,706	$ 87,239

See accompanying notes.

			Support Services				
Maternity Services	Case Management	Total	Management and General	Training and Evaluation	Community Support	Total	Total Program and Support Services
$ 115,956	$ 696,905	$ 5,266,907	$ 533,166	$ 58,157	$ 40,651	$ 631,974	$ 5,898,881
8,175	58,675	334,280	129,384	3,484	4,960	137,828	472,108
8,863	59,576	457,241	27,549	4,642	2,215	34,406	491,647
6,570	–	19,451	14,733	–	–	14,733	34,184
–	–	2,146	42,770	–	–	42,770	44,916
18,119	8,922	1,042,155	60,808	135	14,487	75,430	1,117,585
8,211	18,353	454,261	44,565	1,091	2,352	48,008	502,269
10,051	23,189	121,280	22,245	15	2,947	25,207	146,487
563	1,901	9,139	8,729	40	1,360	10,129	19,268
20,514	29,973	827,190	109,926	8,393	655	118,974	946,164
–	–	94,719	32,374	–	–	32,374	127,093
95	3,525	37,126	6,210	–	63	6,273	43,399
2,947	2,874	13,738	9,104	797	12,788	22,689	36,427
7,537	57,536	461,976	5,147	433	(288)	5,292	467,268
2,295	2,055	34,755	29,570	2,232	1,752	33,554	68,309
5,450	357,816	407,366	–	–	–	–	407,366
1,956	6,723	64,550	(4,382)	676	9,743	6,037	70,587
545	18,899	183,781	28,273	202	17,951	46,426	230,207
$ 217,847	$ 1,346,922	$ 9,832,061	$ 1,100,171	$ 80,297	$ 111,636	$ 1,292,104	11,124,165
							276,409
							11,400,574
							78,985
							$ 11,479,559

See accompanying notes.

Volunteers of America of Greater New Orleans, Inc.
and Community Living Centers, Inc.

Combining Balance Sheet

June 30, 1996

	VOAGNO	CLC	Combined Total
Assets			
Current assets:			
Cash and cash equivalents	$ 41,533	$ 34,724	$ 76,257
Accounts receivable, (less allowance for doubtful accounts of $70,492)	1,544,521	–	1,544,521
Investments, at fair value	653,609	–	653,609
Prepaid expenses	19,357	1,925	21,282
Other current assets:			
Amounts due from CLC (due to VOAGNO)	90,039	(90,039)	–
Assets held for sale	239,595	–	239,595
	329,634	(90,039)	239,595
Total current assets	2,588,654	(53,390)	2,535,264
Property and equipment:			
Land, buildings and improvements	357,185	–	357,185
Furnishings and equipment	1,605,215	–	1,605,215
	1,962,400	–	1,962,400
Less accumulated depreciation and amortization	1,479,731	–	1,479,731
Total property and equipment	482,669	–	482,669
Other assets:			
Encumbered assets	1,412,083	407,794	1,819,877
Investments, at fair value	405,827	–	405,827
Other:			
Notes receivable	26,606	–	26,606
Amounts due from CLC (due to VOAGNO)	35,763	(35,763)	–
Other	113,683	242	113,925
	176,052	(35,521)	140,531
Total other assets	1,993,962	372,273	2,366,235
Total assets	$ 5,065,285	$ 318,883	$ 5,384,168

Volunteers of America of Greater New Orleans, Inc.
and Community Living Centers, Inc.

Notes to Combining Financial Statements

June 30, 1996

1. Organization

Volunteers of America of Greater New Orleans, Inc. (VOAGNO) is a not-for-profit Christian human services organization which provides social services within the Greater New Orleans and Southeast Louisiana areas. VOAGNO operates under a charter issued by Volunteers of America, Inc. (VOA), a national religious not-for-profit corporation, and is incorporated in the State of Louisiana.

VOAGNO operates and maintains programs to meet a wide variety of needs for individuals in VOAGNO's areas. The programs provide numerous social services including the following:

- Adoption and maternity services
- Case management services for individuals with mental illness
- Cash management services for adults who are homeless with a mental illness
- Community correctional center for federal prisoners
- Family preservation/in-home intervention services for abused and neglected elderly citizens
- Group homes for adolescents who are emotionally disturbed, behaviorally disordered, or who are adjudicated
- Men's rehabilitation center
- Residential services
- Thrift stores
- Meals on wheels
- Repairs on wheels
- Respite crisis intervention for adolescents
- Subsidized housing for families
- Supported employment for individuals with developmental disabilities or mental illness
- Therapeutic Foster Care

Community Living Centers, Inc. (CLC) is a not-for-profit corporation organized under the laws of the State of Louisiana and sponsored by VOAGNO. No capital stock is authorized, issued, or outstanding. CLC was formed to acquire an interest in real property and to construct and operate thereon two six-unit apartment complexes under Section 202 of the National Housing Act in order to provide housing for persons developmentally disabled. CLC operates FHA Project No. 064-EH-036-WHC-L8-NP (see Restrictive Covenants and Agreements below).

2. 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. Encumbered Assets

At June 30, 1996, amounts included in encumbered assets were as follows:

	VOAGNO	CLC	Combined Total
Cash and cash equivalents	$ –	$ 10,982	$ 10,982
Investments, at fair value	22,306	2,136	24,442
Property and equipment:			
Land, buildings and improvements	2,686,177	525,350	3,211,527
Furnishings and equipment	201,700	–	201,700
	2,887,877	525,350	3,413,227
Less accumulated depreciation and amortization	1,498,100	130,674	1,628,774
Total property and equipment	1,389,777	394,676	1,784,453
	$ 1,412,083	$ 407,794	$1,819,877

10. Contingencies

The Organization is a defendant in various lawsuits. However, in the opinion of management, the amount of potential loss, if any, will not materially impact these combining financial statements.

1. Organization (continued)

Throughout the notes to the combining financial statements, VOAGNO and CLC will be collectively referred to as the Organization. The financial statements of VOAGNO and CLC have been combined as they are under common management. All significant inter-organization balances and transactions are eliminated in the combined statements.

2. Significant Accounting Policies

In June 1993, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 117 (SFAS 117), *Financial Statements of Not-for-Profit Organizations*, which established standards for reporting information in general purpose external financial statements issued by not-for-profit organizations. The Organization adopted the provisions of this standard in its 1996 financial statements and has restated its net asset balances as of June 30, 1995 to conform with the presentation requirements of SFAS 117.

In addition to SFAS 117, the Organization follows the accounting and financial reporting guidelines set forth in the *Audits of Voluntary Health and Welfare Organizations*. Significant accounting policies are summarized below.

Basis of Accounting

The Organization prepares its financial statements on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, unless held for reinvestment as part of the investment portfolio, pledged to secure loan agreements or otherwise encumbered. The carrying amount approximates fair value because of the short maturity of those instruments.

Investments

Investments consist primarily of stocks, bonds and mutual funds. They are recorded at fair value based on quoted market prices for those or similar investments.

2. Significant Accounting Policies (continued)

Encumbered Assets

Encumbered assets represent the total of all assets encumbered by legal agreements or are otherwise unavailable for the general use of the organization. This category generally includes assets such as client/custodial funds, escrow/reserve funds, temporarily and permanently restricted assets, and securities which are pledged and held by the lender as collateral for financing.

Net Assets

The Organization classifies net assets into three categories: unrestricted, temporarily restricted and permanently restricted. All net assets are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Temporarily restricted net assets include contributions with temporary, donor-imposed time or purpose restrictions. Temporarily restricted net assets become unrestricted and are reported in the statement of activities as net assets released from restriction when the time restrictions expire or the contributions are used for their restricted purpose. Permanently restricted net assets include contributions with donor-imposed restrictions requiring resources to be maintained in perpetuity, but permitting use of all or part of the investment income earned on the contributions.

The Organization's unencumbered investments are the result of numerous contributions and donations received over many years. The Organization is not aware of any agreements supporting the nature and extent of any restrictions that may be placed on these monies. Accordingly, the Organization designates these monies as part of unrestricted net assets and considers all principal available for its general operations.

Allocation of Functional Expenses

Program and support services expenses are specifically identified with or allocated to the Organization's various functions. Expenses requiring allocation include salaries and rent and are prorated based on time spent or actual usage.

Volunteers of America of Greater New Orleans, Inc.
and Community Living Centers, Inc.

Combining Statement of Net Assets

Year ended June 30, 1996

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total VOAGNO	CLC	Combined Total
Balance at beginning of year *(Note 2)*	$ 3,456,480	$ –	$ 22,306	$3,478,786	$ (126,580)	$ 3,352,206
Prior period adjustment *(Note 9)*	(108,899)	–	–	(108,899)	–	(108,899)
Balance at beginning of year, as restated	3,347,581	–	22,306	3,369,887	(126,580)	3,243,307
Change in net assets	100,495	–	–	100,495	(9,602)	90,893
Balance at end of year	$ 3,448,076	$ –	$ 22,306	$3,470,382	$ (136,182)	$ 3,334,200

See accompanying notes.

4. Investments

At June 30, 1996, the cost and fair value of investments were as follows:

	Cost	Market
Unencumbered:		
Common stocks	$ 538,946	$ 527,675
Bonds	421,350	405,827
Mutual funds	120,000	125,934
	$ 1,080,296	$ 1,059,436
Encumbered:		
Certificates of deposit	$ 24,442	$ 24,442

5. Mortgages, Loans and Note Payable

Mortgages, loans and note payable at June 30, 1996 consisted of the following:

VOAGNO:	
Mortgages payable to banks, prime and prime plus .5% maturing from 1997 to 1999, interest and principal paid in monthly installments	$ 447,126
Loans payable to bank, 11.5% and prime plus .5%, maturing from 1997 to 1999, interest and principal paid in monthly installments	154,982
Advances under a $500,000 line of credit bearing interest at the bank's prime rate and expiring in December 1996.	333,626
	935,734
Less current portion	526,719
	$ 409,015
CLC:	
Mortgage payable to HUD relating to two six-unit apartment complexes operated by CLC. The loan bears interest at 9.25% and is paid monthly. CLC has received permission from HUD to defer principal payment on this mortgage until CLC has repaid its note payable to VOAGNO. (See Note 7.)	$ 427,299

2. Significant Accounting Policies (continued)

Contributions

Contributions are generally recorded only upon receipt, unless an unconditional promise to give has been received and confirmed. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. Conditional promises to give are not included as support until such time as the conditions are substantially met. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Contributed Services

The Organization recognizes contribution revenue for certain services received at the fair value of those services provided those services create or enhance nonfinancial assets or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Donated Merchandise

VOAGNO operates salvage stores where donated merchandise is resold to the public. This merchandise is not assigned a value as there is no objective basis for determining the fair value of these items.

Property and Equipment

Land, buildings and equipment purchased by the Organization are recorded at cost. Donations of property and equipment are recorded at their fair value at the date of gift.

Depreciation and amortization is computed using the straight-line method based upon the following estimated useful lives:

Furniture and equipment	5 - 10 years
Transportation vehicles	3 - 5 years
Buildings and improvements	10 - 40 years

5. Mortgages, Loans and Note Payable (continued)

Mortgages, loans and note payable are collateralized by substantially all property and equipment owned by the Organization. In addition, CLC has assigned, pledged and mortgaged to HUD all of its rights to the income (approximately $89,000 in 1996) and any reimbursable costs which it may receive or be entitled to receive from the operation of its apartment complexes.

The scheduled principal maturities of mortgages and loans payable are: $193,093 in 1997; $139,560 in 1998; $175,661 in 1999; and $93,794 in 2000.

Interest expense related to mortgages, loans and note payable was $84,463 for the year ended June 30, 1996 and is included in occupancy expense. The prime rate at June 30, 1996 relating to the mortgages, loans and note payable above was 9%.

6. Leases

VOAGNO has several operating leases for the rental of office space which are noncancelable over the next year. Rent expense incurred under these and other leases was approximately $430,000 for the year ended June 30, 1996. The future minimum rental payments required on these noncancelable operating leases is $53,767 in fiscal year 1997.

7. Employee Benefit Plans

The Organization offers a Section 403(b) plan to all eligible nonministers. Nonministers are eligible to participate after completing 12 months of service. Under the terms of the plan, the Organization contributes 3% of yearly employee compensation and matches an additional 50% of employee contributions up to a total maximum contribution of 3.25% of yearly employee compensation. The Organization contributed approximately $96,110 to the plan for the year ended June 30, 1996.

8. Related Party Transactions

VOA provides administrative services to VOAGNO for a fee. Administrative fees for the fiscal year ended June 30, 1996 totaled $276,409. Included in accounts payable were amounts due to VOA of $93,202 for unpaid administrative fees at June 30, 1996.

Volunteers of America of Greater New Orleans, Inc.
and Community Living Centers, Inc.

Notes to Combining Financial Statements (continued)

8. Related Party Transactions (continued)

VOAGNO pays the tenants' portion of the monthly CLC rent as determined by HUD in addition to providing the tenants of CLC other human care services. VOAGNO paid $17,624 to CLC which represents its portion of tenants' rent for the year ended June 30, 1996. CLC paid $8,493 to VOAGNO which represents reimbursement of 25% of the salaries and fringe benefits for two VOAGNO employees that managed the CLC apartment complexes for the year ended June 30, 1996.

Amounts due from CLC include the following payable to VOAGNO which is due on demand and bears no interest:

Working capital advance	$ 38,968
Closing costs	40,000
	$ 78,968

Amounts due from CLC also include a note payable to VOAGNO of $46,834 as of June 30, 1996 representing monies borrowed from VOAGNO to make repairs to the two six-unit apartment complexes operated by CLC. The note bears no interest in accordance with HUD requirements. CLC is scheduled to make payments of $5,109 per year through 2004.

VOAGNO has entered into an agreement with HUD to manage the two apartment complexes of CLC. Under the agreement, VOAGNO earns a management fee equal to 5% of the gross collections of CLC. For the year ended June 30, 1996, VOAGNO earned $4,704 under this agreement. Prior to July 1, 1993, VOA Housing Corporation managed the two apartment complexes of CLC and, as of June 30, 1996, $26,456 was included in accounts payable for management fees due to VOA Housing Corporation.

9. Prior Period Adjustment

For the year ended June 30, 1995, VOAGNO incorrectly calculated the administrative fee due to VOA which resulted in an understatement of the previously reported deficiency of public support and revenue under expenses of $108,899. The effect of correcting this prior period error was to increase VOAGNO's liabilities and decrease its net assets as of June 30, 1995 by $108,899.