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STARY CORPORATION AND SUBSIDIARY

Consolidated Financial Reports

June 30, 1957

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Release Date 2-25-98

START CORPORATION AND SUBSIDIARY

Consolidated Financial Reports

June 30, 1997

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Bergeron & Lanoux

— CERTIFIED PUBLIC ACCOUNTANTS —
A PROFESSIONAL CORPORATION

CLARENCE E. BERGERON, CPA
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MICHAEL D. BERGERON, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
START Corporation and Subsidiary
Houma, Louisiana

We have audited the accompanying consolidated statement of financial position of START Corporation and Subsidiary (non-profit organizations) as of June 30, 1997, and the related consolidated statements of activities, cash flows and functional revenues and expenses for the year then ended. These consolidated 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 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. An audit involves 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 consolidated financial statements referred to above present fairly in all material respects, the consolidated financial position of START Corporation and Subsidiary as of June 30, 1997, and the results of their operations for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 2 to the financial statements, START adopted the provisions of Statements of Financial Accounting Standards No. 116, "Accounting for Contributions Received and Contributions Made" and No. 117, "Financial Statements of Not-for-Profit Organizations," effective July 1, 1996.

In accordance with Government Auditing Standards, we have also issued a report dated October 8, 1997 on our consideration of START Corporation and Subsidiary's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations.

October 8, 1997

STARR CORPORATION AND SUBSIDIARY

Consolidated Statement of Financial Position

June 30, 1997

ASSETS

Current assets:

Cash	\$	17,668	
Grant and contract receivables		34,373	
Accounts receivable		5,758	
Investments		8,608	
Other prepaid expenses and deposits			
Total current assets		<u>66,407</u>	\$ 66,407

Land, buildings, and equipment at cost:

Land		24,811	
Buildings and renovations		88,328	
Leasehold improvements		21,878	
Furniture, fixtures & equipment		76,808	
Vehicles		<u>18,852</u>	
			230,677
Less accumulated depreciation			<u>(68,073)</u>
Net land, buildings, and equipment			<u>162,604</u>
Total assets	\$		<u>215,480</u>

LIABILITIES AND FUND BALANCES

Current liabilities:

Current maturities of long-term debt	\$	3,488	
Notes payable		128,828	
Payroll taxes payable		<u>2,788</u>	
Total current liabilities			\$ 135,104
Long-term debt, net of current maturities			<u>340</u>
Total liabilities			<u>135,444</u>

Net assets:

Unrestricted net assets		74,732	
Temporarily restricted net assets		<u>4,058</u>	
Total net assets			<u>78,790</u>
Total liabilities and net assets	\$		<u>215,480</u>

START CORPORATION AND SUBSIDIARY

Consolidated Statement of Activities

Year Ended June 30, 1987

Changes in unrestricted net assets:

Revenues and gains:

Fees, grants, and contracts from
governmental agencies

\$ 482,015

Contributions

12,381

Total public support

\$ 494,396

Other revenues:

Program service fees

37,828

Fees and sales to public

48,197

Miscellaneous

3,691

Total other revenues

89,716

Total unrestricted revenues and gains

584,112

Expenses:

Program Services:

New Hires

285,518

Supportive Housing

41,384

Housing Assistance

84,127

Vocational Services

75,669

Yes We Can

28,223

Food and Care

115,553

The Line

24,844

Total program services

678,128

Supporting Services:

Management and general

72,955

Total supporting services

72,955

Total Expenses

751,083

Decrease in unrestricted net assets

(166,971)

Changes in temporarily restricted net assets:

Contributions

4,258

Increase in temporarily restricted net assets

4,258

Decrease in net assets

(162,713)

Net assets at beginning of year

110,825

Net assets at end of year

\$ 48,112

START CORPORATION AND SUBSIDIARY

Consolidated Statement of Cash Flows

Year Ended June 30, 1997

Cash flows from operating activities:	
Change in net assets	\$ (31,943)
Noncash adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation	17,548
Loss on sale of asset	6
Changes in:	
Grants & contracts receivable	2,914
Accounts receivable	5,109
Prepaid expenses	(2,515)
Payroll taxes payable	363
Net cash used by operating activities	<u>(8,528)</u>
Cash flows from investing activities:	
Purchase of investment	(9,000)
Purchase of furniture and building renovations	(8,151)
Proceeds from the sale of an asset	150
Net cash used by investing activities	<u>(16,991)</u>
Cash flows from financing activities:	
Gross borrowings	140,857
Payments on notes payable	(128,732)
Net cash provided by financing activities	<u>12,125</u>
Net increase in cash and cash equivalents	8,543
Cash and cash equivalents at beginning of year	<u>9,155</u>
Cash and cash equivalents at end of year	<u>\$ 17,698</u>
Supplemental data:	
Interest paid	\$ 10,256

START CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

1) Description

START Corporation and Subsidiary (START) operate as a voluntary non-profit organization which provides rehabilitation services, training, placement, and employment for mentally and physically handicapped individuals in Terrebonne, Lafourche, St. John, St. James and St. Charles Parishes.

2) Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies:

- a) Principle of Consolidation. The consolidated financial statements of START Corporation include the accounts of START and its wholly-owned subsidiary, Housing Assistance for Defined Disabilities, Inc. (HADD). All significant intercompany transactions have been eliminated in consolidation.
- b) Basis of Accounting & Presentation. Funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The presentation of the organization's financial statements has changed from prior years to comply with Statement of Financial Accounting Standards (SFAS) No. 117, 'Financial Statements of Not-for-Profit Organizations.' Under SFAS No. 117, the organization is required to report information regarding its financial position and activities according to three classes of net assets: Unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Furthermore, information is required to segregate program service expenses from support expenses. Support expenses include costs for services such as public relations, accounting, human resources, office services, computer systems and other administrative expenses.

The organization also adopted SFAS No. 116, 'Accounting for Contributions Received and Contributions Made,' during the current year. In conformity with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support in the accompanying statement of activities. Contributions received for the purchase of long-lived assets without donor stipulations about how long the assets must be used are reported as unrestricted support.

START CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

The adoption of these two statements had no material effect on net assets for the year ended June 30, 1997.

- c) **Investments.** Investments are carried at market value, and realized and unrealized gains and losses are reflected in the statement of activities.
- d) **Property and Equipment.** Property and equipment are recorded at historical cost or, if donated, at the fair market value on the date donated and are depreciated on straight-line and accelerated methods over their estimated useful lives as follows:

Buildings and renovations	30 years
Leasehold improvements	8 years
Vehicles	3-5 years
Furniture, fixtures and equipment	5-7 years

Expenditures for renewals and betterments are capitalized and expenditures for ordinary maintenance and repairs are expensed as incurred. The cost and accumulated depreciation applicable to assets retired or sold, if any, are removed from the respective accounts and gains or losses thereon are included in operations.

- e) **Functional Expenses.** START allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by management. Principal programs are as follows:

i) **New Horizons** - A psychosocial rehabilitation club to provide enhanced employability and community adaptation for individuals with a history of serious mental illness. Additionally, the Program provides opportunities for vocational and personal development and training for individuals with handicaps.

ii) **Supportive Housing** - Program provides temporary and long-term safe, secure, affordable and community based housing for adult individuals with severe mental illness.

START CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

- ii) Housing Assistance - Program provides flexible assistance funds to assist persons with serious mental illness or children with serious emotional disturbance.
- iv) Vocational Services - Program provides opportunities for pre-vocational and direct vocational training and placement of individuals with severe mental or physical disabilities.
- v) Yes We Can - Program provides vocational and personal development opportunities and training for individuals with handicaps. Individuals in this program provide small commercial janitorial services in the Houma, Louisiana area.
- vi) Board and Care - Program to provide emergency respite, system respite, and board and care for adults with major mental illness.
- vii) The Line - Program provides 24-hour a day telephone counseling service for people in crisis, especially suicide crisis. Information and referral is available through this program.
- f) Advertising Costs - Advertising costs are charged to operators when incurred, except for direct-response advertising. The costs of direct-response advertising are capitalized and amortized over the period which future benefits are expected to be received. There were no direct-response advertising costs incurred during the year. Advertising costs incurred and charged to operators was \$1,051 for the year ended June 30, 1997.
- g) Accumulated Vacation and Sick Leave - Vacation and sick leave do not vest to the employee and, accordingly, have not been accrued. Employees accumulate 1 day of vacation per month to a maximum of 62 days. Employees accumulate 1 day of sick leave per month to a maximum of 60 days. Unused sick leave carries over into the next year. Upon termination, any unused vacation or sick leave is forfeited.
- h) Income Taxes - START is a non-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986. HAHN, its wholly-owned subsidiary, is a life holding corporation exempt from income taxes under Section 501(c)(2) of the Internal Revenue Code of 1986. Accordingly, no provisions for income taxes have been made in the financial statements.

START CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

- 0) Cash Equivalents. For purposes of the statement of cash flows, START considers all highly liquid investments with a maturity of three months or less to be cash equivalents.
- 8) Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

9) Investment

Investment activity is reflected in the following table:

	<u>Unrestricted</u>
Investment at beginning of year	\$ -
Contribution of equity security during the year	<u>6,000</u>
Investment at end of year	<u>\$ 6,000</u>

The investment represents 230 shares of Freeport-McMoran, Inc. common stock.

START CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

4) Notes Payable

Notes payable at June 30, 1997 follow:

8.50% note payable to Hibernia National Bank. The note is payable on demand, and if no demand is made, in monthly installments of \$913, including interest with an approximate remaining principle balance of \$94,000 due March 26, 2004 collateralized by building and land.	\$	91,211
11% unsecured line of credit at Hibernia National Bank. The total line is for \$35,000 of which \$15,000 was available to be drawn on as of June 30, 1997.		24,000
12.75% insurance notes payable in monthly installments of principal and interest of \$2,455, maturing December, 1997.		<u>54,217</u>
Total notes payable	\$	<u>169,428</u>

Total interest incurred on both short-term and long-term debt was \$10,296 which was charged to interest expense for the year ended June 30, 1997.

5) Long-Term Debt

Long-term debt at June 30, 1997 follows:

11.9% discounted note payable to GMAC in monthly installments of \$313, including interest, due July, 1999, collateralized by a vehicle.	\$	<u>4,064</u>
Total long-term debt		4,064
Less imputed interest included above		(766)
Less current maturities		<u>(3,485)</u>
Total long-term debt, net of current maturities	\$	<u>310</u>

START CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

Future maturities of long-term debt are as follows:

Year Ending <u>June 30,</u> 1997		<u>\$ 310</u>
		<u>\$ 310</u>

6) Temporarily Restricted Net Assets

START received temporarily restricted contributions to provide facilities for safe and affordable housing for persons with mental illness.

7) Funding

START receives its principal funding through grants and contracts from the following governmental agencies:

State of Louisiana Department of Health and Hospitals:		
Mental Health Rehabilitation Program	\$	181,148
Supportive Housing		30,888
Housing Assistance		52,000
Board and Care		29,868
The Line		26,118
State of Louisiana Division of Rehabilitation Services:		
Work Adjustment and Supported Work Program		91,438
	\$	<u>462,516</u>

8) Operating Leases

START entered into a two year lease agreement with South Louisiana Electric Cooperative Association beginning August 1, 1997. This lease is a renewal of its lease on its main office facility located at 420 Magnolia Street, Houma, Louisiana.

START entered into a one year lease agreement beginning July, 1997 to lease four apartments for a period of one year. The apartments are used to provide temporary housing for individuals qualifying for its Supportive Housing Program.

START CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

Minimum future rental payments under the non-cancelable operating lease as of June 30, 1997 for each of the next three years and in the aggregate follow:

Year ending June 30,	
1998	\$ 13,950
1999	4,700
2000	400
	<u>\$ 19,050</u>

9) Deferred Compensation Plans

Employees of START have the option to participate in a deferred compensation program as defined by Internal Revenue Code Section 403 (b) (tax sheltered annuities). START has the responsibility for withholding and remitting contributions from participants to the plan. An insurance company serves as administrator and has the responsibility for maintaining a deferred account with respect to each participant, investing the participant's account in accordance with the participant's investment specifications and reporting annually to the participant and the Company on the status of the plan.

10) Commitments, Contingencies and Economic Dependence

START receives a substantial portion of its revenues from state grants and contracts which are subject to audit by state government. The ultimate determination of amounts received under these programs generally is based on units of service provided or allowable costs reported to and audited by the applicable state agency. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable cost and receive reimbursement. Management is of the opinion that no material liability will result from such audits.

START receives a significant portion of its revenues from state contracts. If these funding sources are significantly reduced, START will not be able to continue operations as it is presently structured.

SUPPLEMENTARY FINANCIAL REPORT

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

To the Board of Directors
START Corporation and Subsidiary
Houma, Louisiana

We have audited the financial statements of START Corporation and Subsidiary (non-profit organization) as of and for the year ended June 30, 1997, and have issued our report thereon dated October 8, 1997. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether START Corporation and Subsidiary's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered START Corporation and Subsidiary's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in

which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Bergson + Savage

October 8, 1997