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PHILMAT, INC.

**Financial Statements for the Year Ended
June 30, 1987 and Independent Auditors' Report
and Information Required by Government Auditing
Standards**

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. This report is available for public inspection at the Baton Rouge office of the Legislative Auditor General, where appropriate, at the office of the parish clerk of court.

Release Date **FEB 11 1988**

PHILMAT, INC.

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**INDEPENDENT AUDITORS' REPORT**

Most Reverend Francis R. Schulte, D.D., President
PHILMAT, Inc.
New Orleans, Louisiana

We have audited the accompanying statements of financial position of PHILMAT, Inc. (PHILMAT) as of June 30, 1997, and the related statements of activities and cash flows for the year then ended. We previously audited and reported upon the financial statements of PHILMAT for the year ended June 30, 1996, which condensed statements are presented for comparative purposes only. 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.

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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PHILMAT as of June 30, 1997, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated August 27, 1997 on our consideration of PHILMAT's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose for forming an opinion on the basic financial statements of PHILMAT taken as a whole. 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, Audit of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Each 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.

August 22, 1997

PHILMAT, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 1987, WITH COMPARATIVE TOTALS FOR JUNE 30, 1986

ASSETS	1987	1986
Cash	\$ 40,200	\$ 6,419
Money market accounts:		
General account	713,762	583,840
Archdiocese - community appeal	<u>24,216</u>	<u>23,457</u>
Total cash and cash equivalents	<u>778,178</u>	<u>613,716</u>
Grants receivable	684,350	898,807
Contributions receivable, net of allowances of \$8,048 and \$1,008	55,539	90,383
Investments	4,092,264	4,601,702
Property - net	<u>1,812,489</u>	<u>1,935,884</u>
TOTAL ASSETS	<u>\$7,693,194</u>	<u>\$7,515,436</u>
LIABILITIES AND NET ASSETS		
Funds held for affiliates	\$ 275,115	\$ 318,766
Other liabilities	<u>1,704</u>	<u>-</u>
Total liabilities	<u>276,819</u>	<u>318,766</u>
Net Assets:		
Unrestricted	7,358,316	7,145,278
Temporarily restricted	<u>55,578</u>	<u>58,792</u>
Total net assets	<u>7,413,894</u>	<u>7,204,070</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$7,693,194</u>	<u>\$7,515,436</u>

See notes to financial statements.

PHILMAT, INC.

STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 1987, WITH COMPARATIVE TOTALS FOR JUNE 30, 1986

	Unrestricted	Temporarily Restricted	Total	
			1987	1986
REVENUE:				
Grant Revenue:				
Commodity supplemental food and warehouse program	\$1,733,661	\$ -	\$1,733,661	\$1,268,146
Headstart program	688,217		688,217	996,790
Other programs	262,276		262,276	258,679
	<u>4,684,154</u>		<u>4,684,154</u>	<u>4,114,575</u>
Contributions	1,239,660	5,287	1,239,660	1,116,275
Investment income	389,143		389,143	313,492
Net unrealized gain on investments	265,676		265,676	21,583
Rent	49,851		49,851	39,329
Other	67,211		67,211	187,218
	<u>6,642,881</u>	<u>5,287</u>	<u>6,648,088</u>	<u>8,277,663</u>
EXPENSES:				
Program services	6,258,399		6,258,399	6,696,251
Fund raising	603,530		603,530	62,831
Depreciation expense	66,584		66,584	68,783
	<u>6,428,432</u>	<u>-</u>	<u>6,428,432</u>	<u>8,767,652</u>
CHANGE IN NET ASSETS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE				
	215,449	1,287	218,635	473,911
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE				
				289,415
CHANGE IN NET ASSETS				
	215,449	1,287	218,635	763,326
BEGINNING NET ASSETS				
	2,145,278	80,292	2,185,670	6,431,744
ENDING NET ASSETS				
	<u>\$2,398,176</u>	<u>\$ 81,579</u>	<u>\$2,404,385</u>	<u>\$7,195,070</u>

See notes to financial statements.

PHILMAT, INC.

STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 1987, WITH COMPARATIVE TOTALS FOR JUNE 30, 1986

	1987	1986
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 218,525	\$ 762,926
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	62,564	65,270
Gain on the sale of property	-	(18,714)
Loss on sale of property	68,771	-
Net unrealized gain on investments	(266,879)	(71,863)
Changes in operating assets and liabilities:		
Grants receivable	164,453	(526,518)
Contributions receivable	(5,187)	(90,397)
Funds held for affiliates	(42,581)	(862,517)
Other liabilities	3,764	-
Net cash provided by (used in) operating activities	<u>394,272</u>	<u>(217,899)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in investments	(85,898)	127,595
Acquisition of property and equipment	(100,345)	(28,744)
Proceeds from the sale of property	<u>124,386</u>	<u>48,297</u>
Net cash (used in) provided by investing activities	<u>(61,857)</u>	<u>147,148</u>
INCREASE (DECREASE) IN CASH EQUIVALENTS	<u>164,815</u>	<u>169,049</u>
BALANCE AT BEGINNING OF YEAR	<u>613,126</u>	<u>684,099</u>
BALANCE AT END OF YEAR	<u>\$ 778,941</u>	<u>\$ 853,148</u>

See notes to financial statements.

PHILMAT, INC.

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 1987

ii. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - 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-ecclerastical community services to individuals residing within New Orleans, Baton Rouge, Lafayette and Houma. A significant portion of the revenues of PHILMAT are contributions received in response to an annual appeal, and are restricted in use for the purposes set forth above.

The commodity supplemental food and warehouse program, Food for Families, 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 (LDHH), with PHILMAT acting as the local agent.

The Department of Health and Human Services provides funds to PHILMAT for the Head Start Program, which provides a full range of services to 125 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.

basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with the principles of not-for-profit accounting.

PHILMAT classifies resources into three separate classes of net assets, as follows:

Unrestricted—Assets and contributions that are not restricted by donors or for which there are no restrictions.

Temporary restriction—A donor-imposed restriction that permits the organization to use the donated assets as specified. The use of the assets is restricted until passage of time or by actions of the organization.

Permanent restriction—A donor-imposed restriction that stipulates that resources be maintained permanently but permits the use of all or part of the income derived.

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.

Cash Equivalents - Cash equivalents include all cash and temporary investments which are both readily convertible to known amounts of cash and so near maturity that there is insignificant risk of change in value.

Investments - Investments are carried at market value in the financial statements. Unrealized gains or losses on investments are reflected in the Statement of Activities.

Property - Property is carried at purchased cost or appraised value when acquired by donation or gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the estimated useful lives of the improvements. The estimated useful lives in determining depreciation follow:

Building and improvements	40 years
Equipment and furnishings	5 years
Vehicles	5 years

Income Taxes - No provision has been made for income taxes as PHEMAT is incorporated as a non-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

2. CONTRIBUTIONS RECEIVABLE

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

Unconditional promises are expected to be realized in the following periods:

In one year or less	\$ 61,817
Less allowances	<u>(2,646)</u>
Total	<u>\$ 59,171</u>

Contributions receivable are restricted for the following purposes at June 30, 1997:

Future time periods	<u>\$ 59,171</u>
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3. INVESTMENTS

Investments at June 30, 1997 consist of mutual funds with a market value and cost of \$0,332,264 and \$1,122,837, respectively. At June 30, 1996, the mutual funds had a market value and cost of \$4,837,040 and \$3,680,808, respectively.

4. PROPERTY

Property at June 30, 1997 and 1996 is summarized as follows:

	1997	1996
Land	\$ 256,540	\$ 283,691
Buildings and improvements	1,362,870	1,983,804
Equipment and furnishings	138,797	89,606
Vehicles	33,863	-
	<u>1,592,070</u>	<u>2,357,101</u>
Accumulated depreciation	<u>370,362</u>	<u>409,437</u>
Property - net	<u>\$1,221,708</u>	<u>\$1,947,664</u>

5. PENSION PLAN

Substantially all employees are covered by a defined contribution plan, administered by the Archdiocese. Contributions to the plan on behalf of the employees for the years ended June 30, 1997 and 1996 approximated \$12,800 and \$10,800, respectively. It is the policy of PHLMAT to fund pension cost accrued.

6. RELATED PARTY TRANSACTIONS

The Archbishop of New Orleans serves as president of the Roman Catholic Church of the Archdiocese of New Orleans, a Louisiana corporation. He also serves as president of PHLMAT and all other corporations, boards of trustees and separate activities 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 will, when necessary, make available to these separate corporations and activities specific assistance in the form of operating subsidies, loans, use of facilities and/or administrative support.

7. COMMITMENTS

Food For Families receives a substantial amount of its support pursuant to 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 effect on the program. Food For Families is required to submit reports to substantiate the support received. These reports are subject to audit and/or approval by LDHH.

B. FUNCTIONAL EXPENSES

Expenses incurred were for:

Program Services	Allocated Management and General	Total		
		1987	1988	
Program Services:				
Subsidies to Centers				
Luzerne Ward Center	\$ 136,837	\$ 7,659	\$ 134,486	\$ 183,278
St. John the Baptist				
Community Center	167,989	11,002	179,081	142,372
St. Louis Community Center	169,352	6,578	166,500	91,389
St. Philip Social Apostolate	111,696	7,122	119,038	120,659
St. Theresa Social Apostolate	5,838	384	6,242	66,789
St. Mary of the Angels				
Social Apostolate	100,341	6,531	106,812	105,093
Our Lady of Lourdes				
Senior Center	129,691	8,581	138,192	127,859
Carmelite Supplemental Food and Warehouse	3,292,634	248,679	4,842,353	2,517,319
Head Start	668,717	49,835	712,552	639,470
Warehouse Food Programs	42,939	2,819	49,758	33,166
Second Harvest's Food Bank	25,080	1,639	26,699	99,183
Summer Winters	214,431	12,367	249,799	125,583
Neighborhood Housing Program for the Elderly	2,314	182	2,466	34,264
SPUR	18,513	689	11,202	38,834
CDHG Adult Literacy Program	6,474	424	6,898	22,283
CDHG Senior Enrichment	22,314	1,465	23,819	36,984
Emergency Food and Shelter	18,945	717	11,862	11,734
Campaign for Human Development	32,432	2,126	34,562	43,589
Education Program	18,443	685	11,328	23,360
Daughters of Charity				
Neighborhood Health Participation	126,718	8,267	128,833	185,449
Child and Adult Care Food Program	136,388	7,629	124,609	194,805
Homeless Prevention - HHG	-	-	-	31,862
Project Independence	29,698	1,991	30,691	-
Unity	6,484	424	6,928	-
TOTAL PROGRAM SERVICES	\$ 5,821,488	\$ 184,879	\$ 6,756,356	\$ 5,636,211

	Management and General		Fund Raising	
	1997	1998	1997	1998
Salaries	\$ 174,792	\$ 176,486	\$ 18,800	\$ -
Payroll taxes	13,221	13,382	1,320	-
Staff training and development	18,080	9,641	2,349	-
Building maintenance	28,072	18,008	-	-
Supplies	11,086	7,129	1,821	5,647
Fringe benefits	18,212	18,525	2,865	-
Communications	3,090	3,585	35,147	53,244
Transportation	2,028	1,545	-	-
Professional services	12,188	12,224	549	1,260
Other	18,580	962	13,844	-
Special projects	3,387	4,859	-	-
Pensions	-	-	16,346	12,282
Computer expense	3,023	-	1,158	3,251
Copier expense	723	(3,116)	858	2,892
Insurance	6,580	8,248	-	-
Flood expense	-	18,125	-	-
Personnel recruitment	2,761	2,129	-	-
Staff Development Corp.	4,782	4,897	-	-
Loss on sale of property	68,771	-	-	-
Collaborative planning process	3,211	8,248	-	-
	<u>384,879</u>	<u>312,238</u>	<u>187,270</u>	<u>80,827</u>
Allocation to program services and fund raising	<u>(254,279)</u>	<u>(212,038)</u>	<u>-</u>	<u>2,804</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 187,270</u>	<u>\$ 83,631</u>

PHILMAT, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 1997**

	Federal CFDA#	Identifiable Federal Expenditures
U.S. Department of Agriculture passed through the State of Louisiana Department of Health and Hospitals - Commodity Supplemental Food and Workload Program	10-557	\$3,795,674
U.S. Department of Health and Human Services passed through Total Community Action - Head Start Program	15-600	668,717
Passed through local agencies: Department of Agriculture - Child and Adult Care Food Program	10-558	116,380
Federal Emergency Management Agency - Emergency Food and Shelter National Board Program	85-523	18,945
Community Development Block Grants City of New Orleans: - Summer Witness Program	14-219	88,831
- Adult Literacy Program	14-218	6,474
- Senior Enrichment Program	14-218	21,244
State of Louisiana, Department of Social Services, Office of Family Support - Project Independence	14-218	26,000
Unity - Community Planning and Development	14-218	6,484
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$4,736,655</u>

See notes to schedule of expenditures of federal awards.

PHILMAT, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 1997

1. DESCRIPTION OF GRANTS

United States Department of Agriculture Commodity Supplemental Food and Warehouse Program

The commodity supplemental food and warehouse program, Food for Families, distributes food provided by the United States Department of Agriculture to women, infants, children and senior citizens who are certified eligible participants according to Federal Guidelines as low-income families and vulnerable to malnutrition.

United States Department of Health and Human Services Head Start Program

The Department of Health and Human Services provides funds to PHILMAT for the Head Start Program, which provides a full range of services to 185 children in three sites and appropriate support services to participants' families. The services provided include educational, social services, parent involvement, medical, dental, vision, and mental health.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting. Grant revenues are recorded, for financial reporting purposes, when PHILMAT has met the cost reimbursement or funding qualifications for the respective grants.

Accrual Reimbursement - Various reimbursement procedures are used for federal awards received by PHILMAT. Consequently, timing differences between expenditures and program reimbursements exist at the beginning and end of the year. Grant receivable balances included in the accompanying financial statements represent an excess of expenditures over cash reimbursements received to date.



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

Miss Roseann Francis B. Schulte, D.D., President
PHILMAT, Inc.
New Orleans, Louisiana

We have audited the financial statements of PHILMAT, Inc. (PHILMAT), as of and for the year ended June 30, 1997, and have issued our report thereon dated August 22, 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 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 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 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. 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 management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Robert C. Jacobs, Inc.
August 12, 1997



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

Miss Revested Francis B. Schultz, 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, 1997. 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 programs is the responsibility of PHILMAT's management. Our responsibility is to express an opinion on the PHILMAT's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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, *Audit of States, Local Governments, and Non-Profit Organizations*. These 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 these 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 these requirements.

In our opinion, PHILMAT complied, 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, 1997.

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 examination 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 for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



August 22, 1997

PHILMAT, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 1997

SUMMARY OF THE AUDITORS' RESULTS

- An unqualified opinion was issued on the financial statements of the auditee.
- The statement that reportable conditions in internal control were disclosed by the audit of the financial statements and whether any such conditions were material weaknesses is not applicable.
- The audit disclosed no instances of noncompliance that were material to the financial statements of the auditee.
- The statement that reportable conditions in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses is not applicable.
- An unqualified opinion was issued on compliance for major programs.
- The audit disclosed no findings which are required to be reported under Section 316(a) of Circular A-133.
- Major programs for the fiscal year ended June 30, 1997 were:
 1. Department of Agriculture
Commodity Supplemental Food and Warehouse Program (CFDA #10.815)
 2. Department of Health and Human Services
Head Start Program (CFDA #13.683)
- The dollar threshold used to distinguish between Type A and Type B programs was \$500,000.
- The auditee did not qualify as a low-risk auditee.

SCHEDULE OF FINDINGS RELATED TO THE FINANCIAL STATEMENTS

There were no findings related to the financial statements for the year ended June 30, 1997.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

There were no items identified in the course of our testing during the current year required to be reported.

STATUS OF PRIOR YEAR AUDIT FINDINGS

In prior years, there were several immaterial instances of non-compliance. These prior year findings were not considered pervasive to the financial statements and therefore no corrective action plan was deemed necessary as follow-up to these immaterial instances.



August 22, 1997

Raymond Francis B. Deloitte, D.D., President
PHELMAF, Inc.
New Orleans, Louisiana

In planning and performing our audit of the financial statements of PHELMAF, Inc. (PHELMAF) for the year ended June 30, 1997 (on which we have issued our report August 22, 1997), we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the 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 the specific internal control structure element does not reduce to a relatively low level the risk that errors or irregularities 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. However, we noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

We also submit our comments concerning certain observations and recommendations relating to other administrative matters. These recommendations resulted from our observations made in connection with our audit of the financial statements for the year ended June 30, 1997. Our comments are presented in Exhibit 1.

This report is intended solely for the information and use of the board of directors, management, and others within the organization.

Yours truly,

Deloitte & Touche LLP

Introduction

The approach of the year 2000 presents significant issues for many financial, information, and operational systems. It is estimated that approximately 20% of the systems in use today are not able to appropriately interpret dates after December 31, 1999, because such systems allow only two digits to indicate the year in a date. For example, such systems are unable to distinguish January 1, 2000 from January 1, 1900. This shortcoming is very common and can have pervasive and adverse consequences on the operations of the entity and the integrity of information processing. Safety, operational, and financial issues may arise because of this and the effects of inaccurate dates may not be obvious.

While you are currently considering acquisition of new software to address the year 2000 issue, listed below are a number of questions that organizations are considering in the decision process. Obviously, several of the questions need some modification to suit PHILMAT, but they provide background information to assist a smooth transition into the year 2000.

- a. Has a written plan that outlines PHILMAT's procedures for the year 2000 programming issue been developed? Has the plan been reviewed?
- b. Has PHILMAT identified and scheduled a sufficient number of personnel and processing resources to address the year 2000 issue and to accomplish all of the objectives set forth in your year 2000 plan? Does the plan describe the resources that are needed? Have the cost of those resources been included in PHILMAT's budget?
- c. Does the plan include a timetable of expected completion dates for various phases of the project? (i.e., key milestones)? Are PHILMAT's year 2000 activities on schedule?
- d. Does the plan include a process for preparing (or updating) a comprehensive inventory of financial, informational, and operational systems? Has this inventory listing been completed? If not, when will it be completed?
- e. When will all of the systems that are critical to the operations of PHILMAT be identified? Has this date been included within the written plan?
- f. What procedures are in place to identify those critical systems that are negatively impacted by the year 2000? Are these procedures documented in the plan? What percentage of the critical systems have been subject to these procedures? What were the results of those procedures? When will these procedures be completed for all of the critical systems?
- g. What are PHILMAT's plans for fixing critical systems that are negatively impacted by the year 2000 (e.g., such restoration, replacement, upgrade, develop "work-arounds")? Has this been documented in the year 2000 plan?
- h. When do you expect all critical systems to be year 2000 compliant? Has this date been documented in the plan? What percentage of PHILMAT's critical systems are not year 2000 compliant?

- i. What procedures are in place to test those critical systems that are considered to be year 2000 compliant? Are these procedures documented in the plan? What percentage of the critical systems have been subject to these procedures? What were the results of these procedures? When will these procedures be completed for all critical systems? Has this completion date been documented in the plan?
- j. What procedures are in place to determine that, where necessary, the systems of your key vendors, service providers and customers are year 2000 compliant? Are these procedures documented in the plan? What percentage of your key vendors, service providers and customers have been subjected to these procedures? What were the results of these procedures? When will these procedures be completed for all of your key vendors, service providers and customers? Has this completion date been documented in the plan?
- k. What procedures are in place to mitigate FIELDMAT's risk of litigation and non-compliance with government regulations as a result of year 2000 operating problems or product/service failures? Have these procedures been documented in the plan? Has FIELDMAT's general counsel reviewed the plan?
- l. What contingency plans are in place, or planned, if systems fail to function properly? Have these plans been tested?
- m. Who has oversight responsibility for this year 2000 project? How do they fulfil this responsibility, (e.g., mission status reports, exception reports that identify departures from schedules early enough for corrective action)? Who verifies the necessity of the reporting to this oversight body (individual)?
- n. Are senior management kept up to date on your year 2000 activities and the results of those activities? When was the last communication to senior management?
- o. Has the year 2000 impacted current or prior year operations? Has the year 2000 impacted current or prior year management or financial reporting?
- p. What year 2000 issues cause you the most concern?

Recommendations

Evaluation and assessment of the potential impact and FIELDMAT's plans regarding the transition to the year 2000 should be continued and implementation completed to achieve year 2000 compliance.