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FAMILY SERVICE OF GREATER NEW ORLEANS

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION COMPLIANCE AND INTERNAL CONTROLS OVER FINANCIAL REPORTING AND COMPLIANCE IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND OMB CIRCULAR A-133

Year Ended June 30, 1998

SPILSBURY, HAMILTON, LEGENDRE & PACIERA
CERTIFIED PUBLIC ACCOUNTANTS

FAMILY SERVICE OF GREATER NEW ORLEANS

Year Ended June 30, 1998

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SPILSBURY, HAMILTON, LEGENDRE & PACIERA

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
SOCIETY OF LOUISIANA CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

President and Board of Directors
Family Service of Greater New Orleans
New Orleans, Louisiana

We have audited the accompanying statement of financial position of Family Service of Greater New Orleans (a nonprofit organization) as of June 30, 1998, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Family Service'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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Family Service of Greater New Orleans as of June 30, 1998, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Family Service's financial statements for the year ended June 30, 1997, from which the summarized information was derived.

President and Board of Directors
Family Service of Greater New Orleans

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 1998, on our consideration of Family Service of Greater New Orleans' internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages 19 to 22 is presented for purposes of additional analysis and is not a required part of the basic financial statements of Family Service of Greater New Orleans. The schedule of expenditures of federal awards on pages 23 and 24 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Spilsbury, Hamilton, Legendre & Paciera

November 2, 1998

FAMILY SERVICE OF GREATER NEW ORLEANS
STATEMENT OF FINANCIAL POSITION
JUNE 30, 1998
With Summarized Financial Information
at June 30, 1997

	1998	1997
ASSETS		
Cash and cash equivalents	$ 100,189	$119,956
Accounts receivable	301,198	189,538
Contributions receivable	107,219	87,663
Prepaid insurance	2,530	3,184
Prepaid pension cost	149,994	137,684
Cash equivalents restricted to investment in property and equipment	259,647	56,941
Equipment	229,542	224,867
Leasehold improvements	153,948	153,948
Accumulated depreciation	(303,214)	(285,728)
Investments	31,229	29,559
Cash equivalents restricted for permanent endowment	23,583	10,683
Total Assets	$1,055,865	$728,295
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 38,490	$ 15,313
Accrued pension cost	26,803	27,362
Accrued salaries	39,239	19,767
Accrued vacation	56,679	48,714
Deferred revenue	5,900	4,450
Deferred Gala income	5,400	0
Capital lease payable	0	4,741
Total Liabilities	172,511	120,347
Net Assets:		
Unrestricted net assets	381,452	345,108
Temporarily restricted net assets	462,889	237,780
Permanently restricted net assets	39,013	25,060
Total Net Assets	883,354	607,948
Total Liabilities and Net Assets	$1,055,865	$728,295

See accompanying notes to financial statements.

FAMILY SERVICE OF GREATER NEW ORLEANS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 1998
With Summarized Financial Information
for the Year Ended June 30, 1997

	Unrestricted
SUPPORT AND REVENUE	
Contributions	$ 15,233
Capital campaign contributions	0
Contributed services	6,341
Fees and grants from governmental agencies	933,161
Program service fees	373,065
Fund-raising revenue	39,124
Interest income	11,948
Realized and unrealized gains on investments	430
United Way allocations and designations	15,496
Miscellaneous revenue	5,975
Net assets released from restrictions	883,795
Total Support and Revenue	2,284,568
EXPENSES AND LOSSES	
Program services:	
Counseling	1,686,551
Community education and training	246,776
	1,933,327
Supporting services:	
Fund-raising	51,307
Management and general	262,508
	313,815
Total Expenses	2,247,142
Loss on termination of capital lease agreement	1,082
Total Expenses and Losses	2,248,224
NET INCREASE NET ASSETS	36,344
NET ASSETS	
Beginning of period	345,108
End of Period	$ 381,452

See accompanying notes to financial statements.

Temporarily Restricted	Permanently Restricted	1998 Total	1997 Total
$225,768	$ 0	$ 241,001	$ 137,506
206,077	13,953	220,030	165,939
0	0	6,341	4,282
0	0	933,161	655,910
0	0	373,065	346,701
0	0	39,124	36,187
3,294	0	15,242	6,146
0	0	430	0
673,765	0	689,261	671,789
0	0	5,975	2,726
(883,795)	0	0	0
225,109	13,953	2,523,630	2,027,186
0	0	1,686,551	1,345,352
0	0	246,776	157,710
0	0	1,933,327	1,503,062
0	0	51,307	56,740
0	0	262,508	286,545
0	0	313,815	343,285
0	0	2,247,142	1,846,347
0	0	1,082	0
0	0	2,248,224	1,846,347
225,109	13,953	275,406	180,839
237,780	25,060	607,948	427,109
$462,889	$39,013	$ 883,354	$ 607,948

FAMILY SERVICE OF GREATER NEW ORLEANS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 1998
With Summarized Financial Information
for the Year Ended June 30, 1997

	Program Services	
	Counseling	Community Education and Training
Salaries	$1,128,186	$154,010
Employees' retirement benefits and medical insurance	77,233	10,038
Payroll taxes	90,074	9,499
Total Employee Compensation	1,295,493	173,547
Advertising	1,926	168
Professional fees	52,331	14,190
Contract services - Jefferson Region Family Resource Center	64,463	0
Supplies	14,790	27,902
Telephone	22,487	1,862
Postage and messenger service	12,472	930
Occupancy	140,839	15,496
Insurance	4,005	618
Equipment maintenance	11,566	842
Printing and publications	18,742	2,045
Travel and other transportation	17,848	3,586
Conferences and meetings	10,574	1,856
Specific assistance	4,250	2,240
Membership dues	732	21
Miscellaneous	1,842	709
National dues	7,158	764
Depreciation	5,033	0
Totals	$1,686,551	$246,776

See accompanying notes to financial statements.

Supporting Services		Total Program and Supporting Services Expenses	
Fund-raising	Management and General	1998	1997
$28,206	$149,799	$1,460,201	$1,268,084
3,076	12,941	103,288	56,657
2,158	14,205	115,936	101,010
33,440	176,945	1,679,425	1,425,751
0	719	2,813	4,327
0	8,596	75,117	42,394
0	0	64,463	0
11,067	2,446	56,205	46,272
0	2,877	27,226	21,439
200	2,869	16,471	15,506
0	22,017	178,352	174,510
0	1,394	6,017	6,054
0	2,339	14,747	10,086
5,824	7,207	33,818	40,874
0	3,606	25,040	10,187
0	2,703	15,133	7,884
0	0	6,490	1,848
0	1,081	1,834	1,289
776	4,195	7,522	2,636
0	1,282	9,204	9,956
0	22,232	27,265	25,334
$51,307	$262,508	$2,247,142	$1,846,347

FAMILY SERVICE OF GREATER NEW ORLEANS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 1998
With Summarized Financial Information
for the Year Ended June 30, 1997

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$275,406	$180,839
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	27,265	25,334
Realized and unrealized (gains) on investments	(430)	0
Loss on termination of capital lease agreement	1,082	0
Contributions restricted for purchasing property and equipment	(206,077)	(114,586)
Interest restricted for purchasing property and equipment	(2,483)	(2,604)
Contributions restricted for permanent endowment	(13,953)	(15,060)
(Increase) decrease in assets:		
Accounts receivable	(111,660)	(33,589)
Contribution receivable	(29,460)	0
Prepaid insurance	654	(38)
Prepaid pension cost	(12,310)	(40,045)
Increase (decrease) in liabilities:		
Accounts payable	23,177	(4,323)
Accrued pension cost	(559)	27,362
Accrued salaries	19,472	(2,600)
Accrued vacation	7,965	2,607
Deferred revenue	1,450	(11,834)
Deferred Gala income	5,400	0
Net Cash Provided by (Used for) Operating Activities	(15,061)	11,463

See accompanying notes to financial statements.

FAMILY SERVICE OF GREATER NEW ORLEANS
STATEMENT OF CASH FLOWS
(Continued)
YEAR ENDED JUNE 30, 1998
With Summarized Financial Information
for the Year Ended June 30, 1997

	1998	1997
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in cash equivalents restricted for purchasing property and equipment	$(202,706)	$(30,681)
Purchase of investments restricted for purchasing property and equipment	(21,499)	(1,009)
Proceeds from sale or redemption of investments restricted for purchasing property and equipment	27,227	8,370
Purchase of equipment	(19,547)	(22,494)
Increase in cash equivalents restricted for permanent endowment	(12,900)	(683)
Purchase of investments restricted for permanent endowment	0	(10,000)
Net Cash (Used for) Investing Activities	(229,425)	(56,497)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for purchasing property and equipment	$210,066	$ 31,300
Interest restricted for purchasing property and equipment	2,483	2,604
Contributions restricted for permanent endowment	12,900	10,683
Repayment of capital lease obligation	(730)	(2,188)
Net Cash Provided by Financing Activities	224,719	42,399
Net (Decrease) in Cash and Cash Equivalents	(19,767)	(2,635)
Cash and Cash Equivalents -		
Beginning of Year	119,956	122,591
End of Year	$100,189	$119,956
Supplemental Schedule of Cash Flow Information		
Cash paid during the year for:		
Interest	$ 0	$ 0
Income taxes	$ 0	$ 0

See accompanying notes to financial statements.

FAMILY SERVICE OF GREATER NEW ORLEANS
STATEMENT OF CASH FLOWS
(Continued)
YEAR ENDED JUNE 30, 1998
With Summarized Financial Information
for the Year Ended June 30, 1997

	1998	1997
Non-Cash Investing and Financing Activities		
Disposal of copy machine due to termination of capital lease agreement -		
Net book value of asset	$5,093	$ 0
Elimination of capital lease obligation	$4,011	$ 0
Donated equities restricted for purchasing property and equipment	$6,968	$ 0

See accompanying notes to financial statements.

A. Description of Organization

Family Service of Greater New Orleans ("Family Service"), a non-profit organization, is a member agency of the Family Service America, and is a United Way Agency. Its principal programs include: (1) counseling individuals and families; and (2) community education and training.

Family Service is exempt from income tax under Section 501(c)(3) of the U. S. Internal Revenue Code and comparable state law, and contributions to it are tax deductible within the limitations prescribed by the Code.

B. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

Family Service prepares its financial statements on the accrual basis of accounting. 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*, and the provisions contained in the AICPA Audit and Accounting Guide, "Not-for-Profit Organizations," May 1, 1997 Edition. Under SFAS No. 117, Family Service 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.

Reclassifications

Certain items in the prior-year summarized financial information have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, Family Service considers all unrestricted highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

Summary of Significant Accounting Policies (Cont'd)

Accounts Receivable

No allowance for uncollectible accounts has been provided. Management has evaluated the accounts and believes they are all collectible.

Investments

Family Service records its investments in accordance with SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the changes in unrestricted or temporarily restricted net assets, depending on whether or not there are donor-imposed restrictions on the gains and losses.

Equipment and Leasehold Improvements

Equipment and leasehold improvements greater than $500 are capitalized at their purchase price, or, in the case of a contributed asset, at the estimated fair market value at the date of receipt.

Depreciation is computed using the straight-line method over the following estimated lives:

Equipment	5 years
Leasehold improvements	10 years

Deferred Revenue

Employee assistance program revenue, which represents approximately 15% of program service fees, is based on calendar year contract agreements. Payments received for services not yet rendered at June 30, 1998 are recorded as deferred revenue.

Net Assets

Net assets are included in one of the following three classes of net assets, depending on the presence and type of donor-imposed restrictions.

Unrestricted Net Assets - Those net assets whose use is not restricted by donors.

Summary of Significant Accounting Policies (Cont'd)

Net Assets (Cont'd)

Temporarily Restricted Net Assets - Those net assets whose use by Family Service has been limited by donors (a) to later periods of time or after specified dates, or (b) to specific purposes.

Permanently Restricted Net Assets - Those net assets that must be maintained in perpetuity due to donor-imposed restrictions that will neither expire with the passage of time nor be removed by meeting certain requirements.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Donor support in the form of cash and other assets is reported as restricted support if it is received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, Family Service reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Family Service reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Family Service recognizes contributed services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. In 1998, management and general professional fees, totaling $6,341, were contributed to Family Service.

C. Contributions Receivable

The contributions receivable at June 30, 1998 are categorized by source as follows.

Capital campaign pledges	$ 77,759
Private grant	29,460
	$107,219

Family Service conducted a capital campaign to obtain funding for the purchase of property and equipment and to establish a permanent endowment for Family Service. At June 30, 1998, pledges receivable relating to the campaign were as follows.

	Temporarily Restricted	Permanently Restricted	Total
Pledges receivable -			
Less than one year	$36,988	$3,584	$40,572
One to five years	43,337	2,283	45,620
	80,325	5,867	86,192
Discount to net present value	7,996	437	8,433
Net Pledges Receivable	$72,329	$5,430	$77,759

A discount rate of 6.2%, based on the U.S. Treasury Note yield, was used to calculate the present value of estimated future cash flows of the pledges receivable. No allowance for uncollectible pledges has been recorded, since management considers all amounts to be fully collectible.

In addition, in 1998 Family Service was awarded a private grant totaling $119,561. At June 30, 1998, $29,460 was not collected. No discount rate or allowance for uncollectible amounts has been recorded, since management expects to receive the balance in less than one year.

D. Conditional Promise to Give

In 1998, Family Service received a conditional promise to give of $40,000. This amount is contingent upon the donor's ability to pay and the continuation of the projects associated with the capital campaign. As a result, as of June 30, 1998, no income from this promise to give has been recorded in the *Statement of Activities*.

E. Investments

Investments in equity securities with readily determinable fair market values and all investments in debt securities are stated at fair value, which is based on quoted market prices for those investments.

The values of the investments by classification of net assets at June 30, 1998 are as follows.

Unrestricted	$ 115
Temporarily restricted	280,761
Permanently restricted	33,583
Total Investments	$314,459

The value of the investments by asset type at June 30, 1998 are as follows.

Cash and cash equivalents:		
Restricted to investment in property and equipment	$259,647	
Restricted for permanent endowment	23,583	$283,230
Certificate of deposit	20,630	
Corporate stock	484	
Mortgage-backed securities	10,115	31,229
Total Investments		$314,459

The following schedule summarizes investment income and its classification in the *Statement of Activities* for the year ended June 30, 1998.

	Unrestricted	Temporarily Restricted	Total
Interest income	$11,948	$3,294	$15,242
Realized and unrealized gains on investments	430	0	430
Total Investment Income	$12,378	$3,294	$15,672

Investment income is reported net of investment expenses, which totaled $310 in 1998.

F. Equipment and Leasehold Improvements

Equipment and leasehold improvements consist of the following.

Equipment	$229,542
Leasehold improvements	153,948
Accumulated depreciation	(303,214)
	$ 80,276

In 1998, depreciation expense was $27,265.

G. Retirement Plan

Family Service applied the provisions of Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions* ("SFAS-87"), beginning with 1989 for its defined benefit pension plan.

As of December 31, 1996, Family Service elected to curtail the plan. At that time, the plan ceased to accrue benefits and all participants became 100% vested in their accrued benefits. The plan termination settlement is expected to occur in 1999.

Prior to the curtailment, the plan covered substantially all of its employees. The benefits were based on final average earnings, credited service and the social security average annual wage. Final average earnings were by definition the highest average earnings during any 36 consecutive months out of the last 120 months of service. The annual retirement benefit payable at age 65 was computed as follows: 1-1/2% of final average earnings multiplied by total credited service plus 1/2% of final average earnings in excess of the social security average annual wage. The funding policy was to fund pension cost accrued. Contributions were intended to provide not only for benefits attributed to services to date, but also for those expected to be earned in the future.

The following table sets forth the plan's funded status as of June 30, 1998 and amounts recognized in the financial statements.

FAMILY SERVICE OF GREATER NEW ORLEANS
NOTES TO FINANCIAL STATEMENTS
(Continued)
JUNE 30, 1998

Retirement Plan (Cont'd)

Actuarial present value of accumulated benefit obligations:

Vested - 100% of participants	$(1,418,501)
Projected benefit obligations for service rendered to date	$(1,418,501)
Market value of plan assets	1,692,808
Excess of market value of plan assets over projected benefit obligations	274,307
Unrecognized net asset at transition (1/1/89) being recognized over 18 years	(29,352)
Remaining unrecognized prior service cost at transition	(94,961)
Prepaid pension cost as of June 30, 1998	$ 149,994

Net pension cost includes the following components:

Service cost (Benefits earned during the year)	$ 4,600
Interest cost on projected benefit obligations	80,327
Actual return on plan assets	(87,421)
Net amortization and deferral	(9,816)
Net periodic pension cost	$(12,310)

At June 30, 1998, the weighted average discount rate and expected long-term rate of return on assets were both 6.0%. The rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation was 4.0% prior to pension curtailment.

In accordance with Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Pension Plans," Family Service recognized net gains on curtailment to the extent of any unrecognized net losses. The remaining net gains, which relate to items existing at the date of the initial application of SFAS-87, will be recognized in the *Statement of Activities* when the plan is terminated.

Subsequent to year-end, the Board of Directors approved a motion to amend the method of allocating and refunding any potential assets in excess of benefit obligations required to be refunded to participants resulting from the termination of the defined benefit plan.

Retirement Plan (Cont'd)

In an effort to recognize the contribution to the agency by long-term employees and to lessen the impact of discontinuing the defined benefit plan on the older active employees, any excess plan assets up to $176,000 will be allocated to all active employees who are plan participants as of the asset distribution date on a prorata basis using a formula that recognizes and leverages to the combined age and total years of service of the active employees

Based on amounts shown above, as of June 30, 1998, it is reasonably possible that this distribution policy will result in a loss on termination of the pension plan.

Effective January 1, 1997, Family Service established a defined contribution retirement plan covering full-time employees over 21 years old having at least one year of service. Contributions to the plan are at the discretion of the Board of Directors. The amounts in a participant's account shall be 100% vested upon the attainment of his normal retirement age or, if earlier, upon meeting the applicable vesting requirements listed below.

Years of Vesting Service	Vesting Percentage
Less than 3	0
3	50
4	75
5	100

In 1998, Family Service contributed $64,712 to the defined contribution retirement plan based on 7.5% of the base salary of the eligible employees.

H. Commitments

Family Service presently conducts its operations at six locations in the Metropolitan New Orleans Area. Two locations operate under month-to-month leases. The other four locations have operating leases expiring December 31, 1998 through December 31, 2008. All contain renewal options.

Rental expense for occupancy amounted to $170,096 for the year ended June 30, 1998. In addition, in November 1997, Family Service entered into three 60-month operating leases for copy machines. Rental payments under these leases were $5,686 for 1998.

Future minimum commitments under all operating lease agreements are as follows.

Commitments (Cont'd)

1999	$ 150,313
2000	119,327
2001	119,327
2002	121,903
2003	118,796
Thereafter	660,937
	$1,290,603

I. Capital Leases

In October 1997, Family Service terminated its capital leases for two copy machines. At the time of the termination, the net book value of the copy machines was $5,093 (cost of $14,872, less accumulated depreciation of $9,779), and the remaining lease payable was $4,011. Therefore, a loss on termination of the capital leases totaling $1,082 was recorded.

J. Unrestricted Net Assets

Unrestricted net assets consist of the following:

Carrying value after accumulated depreciation of equipment and leasehold improvements	$ 80,276
Net assets available for general activities	301,176
	$381,452

K. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes.

Community Education and Training Program activities:		
Families and Schools Together	$103,291	
Step-up	551	
Mobil - St. Bernard Parish	3,716	$107,558
Hibernia Bank - Clinical Symposium		736
Specific assistance to clients		1,505
Purchases of property and equipment:		
Capital Campaign contributions	301,438	
Other	51,652	353,090
		$462,889

Temporarily Restricted Net Assets (Cont'd)

The following temporarily restricted net assets were released during 1998 due to the satisfaction of donor restrictions.

Counseling Program expenses:		
United Way		$609,711
Community Education and Training Program expenses:		
Anger Management	$ 10,000	
Families and Schools Together	183,193	
United Way	64,054	257,247
Hibernia Bank - Clinical Symposium		131
Specific assistance to clients		1,450
Purchase of equipment		15,256
		$883,795

L. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is restricted as follows.

Hibernia Bank - Clinical Symposium		$20,000
Available for general activities:		
Capital Campaign contributions	$ 9,013	
Other	10,000	19,013
		$39,013

SUPPLEMENTARY_INFORMATION

FAMILY SERVICE OF GREATER NEW ORLEANS
SCHEDULE OF PROGRAM SERVICES SUPPORT, REVENUE, EXPENSES AND LOSSES
YEAR ENDED JUNE 30, 1998
With Summarized Financial Information
for the Year Ended June 30, 1997

	Counseling
SUPPORT AND REVENUE	
Individual contributions	$ 2,955
Private grants	1,693
Fees and grants from governmental agencies	881,753
Program service fees	338,072
United Way allocations and designations	623,733
Miscellaneous revenue	0
Total Direct Support and Revenue	1,848,206
Other support and revenue allocated (Schedule)	304,144
Total Support and Revenue	2,152,350
EXPENSES AND LOSSES	
Salaries	1,128,186
Employees' retirement benefits and medical insurance	77,233
Payroll taxes	90,074
Total Employee Compensation	1,295,493
Advertising	1,926
Professional fees	52,331
Contract services - Jefferson Region Family Resource Center	64,463
Supplies	14,790
Telephone	22,487
Postage and shipping	12,472
Occupancy	140,839
Insurance	4,005
Equipment maintenance	11,566
Printing and publications	18,742
Travel and other transportation	17,848
Conferences and meetings	10,574
Specific assistance	4,250
Membership dues	732
Miscellaneous	1,842
National dues	7,158
Depreciation	5,033
Total Direct Expenses	1,686,551
Supporting services expenses and losses allocated (Schedule)	273,960
Total Expenses and Losses	1,960,511
INCREASE IN NET ASSETS	$ 191,839

Community Education and Training	Total Program Services 1998	1997
$ 0	$ 2,955	$ 0
220,213	221,906	123,255
3,000	884,753	655,910
34,993	373,065	346,701
65,528	689,261	671,789
2,099	2,099	0
325,833	2,174,039	1,797,655
45,447	349,591	229,531
371,280	2,523,630	2,027,186
154,010	1,282,196	1,067,469
10,038	87,271	46,902
9,499	99,573	85,473
173,547	1,469,040	1,199,844
168	2,094	1,140
14,190	66,521	32,759
0	64,463	0
27,902	42,692	28,293
1,862	24,349	18,805
930	13,402	11,318
15,496	156,335	152,029
618	4,623	4,782
842	12,408	8,868
2,045	20,787	17,142
3,586	21,434	9,189
1,856	12,430	4,028
2,240	6,490	1,848
21	753	625
709	2,551	1,265
764	7,922	8,454
0	5,033	2,673
246,776	1,933,327	1,503,062
40,937	314,897	343,285
287,713	2,248,224	1,846,347
$ 83,567	$ 275,406	$ 180,839

FAMILY SERVICE OF GREATER NEW ORLEANS
SCHEDULE OF OTHER SUPPORT AND REVENUE AND
SUPPORTING SERVICES EXPENSES AND LOSSES
ALLOCATED TO PROGRAMS
YEAR ENDED JUNE 30, 1998

OTHER REVENUE	
Individual contributions	$ 14,740
Private grants	1,400
Capital Campaign contributions	220,030
Contributed services	6,341
Fees and grants from governmental agencies	48,408
Fund-raising revenue	39,124
Interest income	15,242
Realized and unrealized gains on investments	430
Miscellaneous revenue	3,876
	$349,591
Allocated to programs as follows:	
Counseling	$304,144
Community education and training	45,447
	$349,591
SUPPORTING SERVICES EXPENSES AND LOSSES	
Salaries	$178,005
Employees' retirement benefits and medical insurance	16,017
Payroll taxes	16,363
Total Employee Compensation	210,385
Advertising	719
Professional fees	8,596
Supplies	13,513
Telephone	2,877
Postage and shipping	3,069
Occupancy	22,017
Insurance	1,394
Equipment maintenance	2,339
Printing and publications	13,031
Travel and other transportation	3,606
Conferences and meetings	2,703
Membership dues	1,081
Miscellaneous	4,971
National dues	1,282
Depreciation	22,232
Loss on termination of capital lease agreement	1,082
	$314,897
Allocated to programs as follows:	
Counseling	$273,960
Community education and training	40,937
	$314,897

FAMILY SERVICE OF GREATER NEW ORLEANS
SCHEDULE OF CURRENT FINANCIAL ACTIVITIES
AND BUDGET COMPARISONS
YEAR ENDED JUNE 30, 1998

	Actual	Budget	Over/ *(Under)* Budget
SUPPORT AND REVENUE			
Contributions	$ 241,001	$ 242,532	$ (1,531)
Capital Campaign contributions	220,030	0	220,030
Contributed services	6,341	0	6,341
Fees and grants from governmental agencies	933,161	820,657	112,504
Program service fees	373,065	420,700	(47,635)
Fund-raising revenue	39,124	38,800	324
Interest income	15,242	5,700	9,542
Realized and unrealized gains on investments	430	0	430
United Way allocations and designations	689,261	690,024	(763)
Miscellaneous revenue	5,975	0	5,975
Total Support and Revenue	2,523,630	2,218,413	305,217
EXPENSES AND LOSSES			
Salaries	1,460,201	1,488,539	(28,338)
Employees' retirement benefits and medical insurance	103,288	111,501	(8,213)
Payroll taxes	115,936	119,196	(3,260)
Total Employee Compensation (Carried Forward)	1,679,425	1,719,236	(39,811)

FAMILY SERVICE OF GREATER NEW ORLEANS
SCHEDULE OF CURRENT FINANCIAL ACTIVITIES
AND BUDGET COMPARISONS
(Continued)
YEAR ENDED JUNE 30, 1998

	Actual	Budget	Over/ (Under) Budget
Total Employee Compensation (Carried Forward)	$1,679,425	$1,719,236	$(39,811)
Advertising	2,813	0	2,813
Professional fees	75,117	63,700	11,417
Contract services - Jefferson Region Family Resource Center	64,463	0	64,463
Supplies	45,138	57,500	(12,362)
Telephone	27,226	22,800	4,426
Postage and shipping	16,271	15,600	671
Occupancy	178,352	177,396	956
Insurance	6,017	6,400	(383)
Equipment maintenance	14,747	12,600	2,147
Printing and publications	28,348	28,700	(352)
Travel and other transportation	25,040	9,570	15,470
Conferences and meetings	15,133	15,000	133
Specific assistance	6,490	12,500	(6,010)
Membership dues	1,834	0	1,834
Miscellaneous	6,826	5,000	1,826
National dues	9,204	10,500	(1,296)
Depreciation	27,265	29,000	(1,735)
Annual Gala expenses	17,433	15,000	2,433
Loss on termination of capital lease agreement	1,082	0	1,082
Total Expenses and Losses	2,248,224	2,200,502	47,722
INCREASE IN NET ASSETS	$ 275,406	$ 17,911	$257,495

FAMILY SERVICE OF GREATER NEW ORLEANS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 1998

Federal Grantor Pass-through Grantor Additional Pass-through Grantor Federal CFDA Program Title Family Service of Greater New Orleans Program Title	Federal CFDA or Other Identifying Number
U.S. Department of Health and Human Services	
Passed through Louisiana Department of Social Services	
Family Preservation and Support Services	93.556
Jefferson Region Family Resource Center	
Passed through Volunteers of America of Greater New Orleans	
Family Preservation and Support Services	93.556
Volunteers of America of Greater New Orleans Collaborative	
Passed through Louisiana Department of Social Services	
Foster Care - Title IV-E	93.658
Foster Care	
Special Parents' Fund	
Social Services Block Grant	93.667
Child Abuse Prevention - Orleans Parish	
Child Abuse Prevention - Jefferson Parish	
Child Abuse Prevention - St. Bernard Parish	
Child Abuse Prevention - St. Tammany Parish	
Foster Care	
Special Parents' Fund	
Independent Living	93.674
Independent Living Skills	
Department of Justice	
Community Care and Pretrial Services	
Community Care Services	053L-98-1/
Pretrial Services	053L-98-2
Federal Bureau of Prisons	
Bureau of Prisons	08-5026
Passed through Louisiana Commission on Law Enforcement	
Passed through City of New Orleans	
Crime Victim Assistance	16.575
Victims of Crime Assistance (VOCA)	
Passed through Department of Juvenile Services of Jefferson Parish	
Byrne Formula Grant Program	16.579
Jefferson Parish Multi-Family Treatment	

Pass-through Grantor Number(s)	Federal Expenditures		
518033	$237,096		
N/A	20,215	$257,311	
020001635	23,862		
020001635	2,140	26,002	
515411	44,695		
508027	80,755		
508027	16,180		
507872	58,488		
020001635	16,296		
020001635	1,462	217,876	
514704		127,200	$628,389
N/A	104,537		
N/A	34,926	139,463	
N/A		22,861	
97-C9-V.2-0367		19,277	
96-B7-B.13-0080		9,836	191,437

FAMILY SERVICE OF GREATER NEW ORLEANS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)
YEAR ENDED JUNE 30, 1998

Federal Grantor Pass-through Grantor Additional Pass-through Grantor Federal CFDA Program Title Family Service of Greater New Orleans Program Title	Federal CFDA or Other Identifying Number
Department of Veterans Affairs	
Passed through Veterans Affairs Medical Center Readjustment Counseling Services Vietnam Veterans Program	V629P-3204
Corporation for National and Community Services	
Volunteers in Service to America VISTA Program	94.013
Total Expenditures of Federal Awards	

NOTE 1: The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

NOTE 2: Of the federal expenditures presented in the schedule, Family Service of Greater New Orleans provided federal awards to subrecipients as follows.

Program Title	Federal CFDA Number	Subrecipient's Name	Amount
Family Preservation and Support Services	93.556	United Way	$ 1,013
		Active Intervention	890
		Donna D's Transportation	600
		Associated Catholic Charities	2,908
		Volunteers of America of Greater New Orleans	49,836
		Children's Bureau of New Orleans	9,217
			$64,464

Pass-through Grantor Number(s)	Federal Expenditures
N/A	$ 375
N/A	179
	$820,380

Spilsbury, Hamilton, Legendre & Paciera

Keith T. Hamilton, C.P.A.
LeRoy P. Legendre, C.P.A.
Kirth M. Paciera, C.P.A.
Rene G. Gautreau, C.P.A.

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Sidney T. Spilsbury, C.P.A.
(1905-1985)

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

President and Board of Directors
Family Service of Greater New Orleans
New Orleans, Louisiana

We have audited the financial statements of Family Service of Greater New Orleans ("Family Service") as of and for the year ended June 30, 1998, and have issued our report thereon dated November 2, 1998. 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 Family Service'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 Family Service's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Family Service of Greater New Orleans' ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 98-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the management of Family Service of Greater New Orleans in a separate letter dated November 2, 1998.

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

Spilsbury, Hamilton, Legendre & Paciera

November 2, 1998

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MEMBERS OF
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CERTIFIED PUBLIC ACCOUNTANTS

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

President and Board of Directors
Family Service of Greater New Orleans
New Orleans, Louisiana

Compliance

We have audited the compliance of Family Service of Greater New Orleans ("Family Service") (a non-profit organization) 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 its major federal program for the year ended June 30, 1998. Family Service's major federal program is 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 its major federal program is the responsibility of Family Service's management. Our responsibility is to express an opinion on Family Service'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, *Audits of States, Local Governments and Non-Profit Family Services.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Family Service's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Family Service's compliance with those requirements.

In our opinion, Family Service of Greater New Orleans complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 1998.

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

Internal Control Over Compliance

The management of Family Service of Greater New Orleans 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 Family Service's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Spilsbury, Hamilton, Legendre & Paciera

November 2, 1998

A. **SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of Family Service of Greater New Orleans.
2. A reportable condition was identified during the audit of the financial statements. It was not considered to be a material weakness.
3. No instances of noncompliance material to the financial statements of Family Service of Greater New Orleans were disclosed during the audit.
4. No material weaknesses were identified during the audit of the major federal award program.
5. The auditor's report on noncompliance for the major federal award program for Family Service of Greater New Orleans expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award program for Family Service of Greater New Orleans.
7. The program tested as a major program was as follows:

   CFDA #93.556 — Family Preservation and Support Services

8. The threshold used to distinguish between Type A and Type B programs was $300,000.
9. Family Service of Greater New Orleans was determined to be a low-risk auditee.

B. **FINDINGS - FINANCIAL STATEMENTS AUDIT**

Finding No. 98-1

1. Statement of Condition:

   Numerous credit balances were noted in the accounts receivable subledger.

2. Context:

   221 credit balances totaling $6,549 were included in the accounts receivable subledger.

3. Effect of Condition:

   Net assets may be understated due to revenue from client fees not being recorded. Amount is estimated to be approximately $6,500.

B. **FINDINGS - FINANCIAL STATEMENTS AUDIT** (Cont'd)

Finding No. 98-1 (Cont'd)

4. Cause of Condition:

Revenue from client fees are recorded when the social worker completes a Form 210. If the social worker fails to complete this form, but collects the fee from the client, a credit balance in accounts receivable would result because the revenue was not recorded.

5. Recommendation:

Family Service should assign an individual or group of individuals the responsibility of reviewing the accounts receivable subledger on a monthly basis.

Any unusual balances should be investigated.

In addition, Family Service should investigate the reason for each credit balance as of June 30, 1998. Amounts owed to clients should be repaid. Prepayments by clients should be indicated. Remaining balances, which resulted from Forms 210 not being completed, should be adjusted.

6. Management's Response:

Management will review the accounts receivable subledger as part of its monthly general ledger closing procedures.

Any unusual items will be investigated and appropriate journal entries will be made at that time.

In addition, credit balances as of June 30, 1998 will be investigated and appropriate action will be taken.

C. **FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None

FAMILY SERVICE

OF GREATER NEW ORLEANS

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• EAST JEFFERSON
• WESTBANK
• ST. BERNARD
• SLIDELL

November 2, 1998

CORRECTIVE ACTION PLAN

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Family Service of Greater New Orleans respectfully submits the following corrective action plan for the year ended June 30, 1998.

Name and address of independent public accounting firm:

Spilsbury, Hamilton, Legendre and Paciera

4731 Canal Street, New Orleans, LA 70119

Audit period: Year ended June 30, 1998

The findings from the year ended June 30, 1998 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Audit Results, does not include findings and is not addressed.

FINDINGS - FINANCIAL STATEMENTS AUDIT

Finding No. 98-1

Recommendation: Family Service should assign an individual or group of individuals the responsibility of reviewing the accounts receivable subledger on a monthly basis.

Any unusual balances should be investigated.

In addition, Family Service should investigate the reason for each credit balance as of June 30, 1998. Amounts owed to clients should be repaid. Prepayments by clients should be indicated. Remaining balances, which resulted from Form 210s not being completed, should be adjusted.

FSA

FINDINGS - FINANCIAL STATEMENTS AUDIT (Cont'd)

Finding No. 98-1 (Cont'd)

<u>Action Taken</u>: Management reviews the accounts receivable subledger as part of its monthly general ledger closing procedures.

Any unusual items are investigated and appropriate journal entries are made at that time.

In addition, credit balances as of June 30, 1998 have been investigated and appropriate action has been taken.

FINDINGS - FEDERAL AWARD PROGRAMS AUDIT

None

If the Department of Health and Human Services has questions regarding this plan, please call me at (504) 822-0800.

Yours truly,

FAMILY SERVICE OF GREATER NEW ORLEANS

By: Robert R. Quintana, Jr.

Robert R. Quintana, Jr.
Executive Director

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SIDNEY T. SPILSBURY, C.P.A.
(1905 - 1985)

November 2, 1998

Family Service of Greater New Orleans
2515 Canal Street
New Orleans, LA 70119

In planning and performing our audit of the financial statements of Family Service of Greater New Orleans ("Family Service") for the year ended June 30, 1998, we considered Family Service's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. Our comments and suggestions regarding those matters are summarized as follows:

Timely Bank Reconciliations

Due to several unforeseen circumstances, including two hurricanes in the Greater New Orleans area and the resignation of one of the members of the accounting department, Family Service did not have their bank reconciliations completed in a timely manner.

It is our understanding that bank reconciliations are part of the monthly general ledger closing procedures and that this delay was an isolated incident. In addition, we understand that, subsequent to year-end, all reconciliations have been completed in a timely manner.

Capital Campaign Funds

In 1998, the Board of Directors of Family Service approved the borrowing of $42,000 from funds collected during the capital campaign to meet its cash flow demands. At year-end, $7,000 had been repaid with interest.

In addition, we understand that the Board of Directors has approved a payment plan that will have all capital campaign funds repaid by the end of November 1998.

Capital Campaign Funds (Cont'd)

We recommend that management repay these funds according to the payment plan. In the future, we encourage management to consider other alternatives for meeting immediate cash demands.

In addition, during 1998, $699.33 relating to capital campaign collections were deposited into the operating account.

We recommend that these amounts be transferred to Merrill Lynch Account #594-07M94, which contains the capital campaign funds.

Extension of Credit to Clients

During our discussions with management, we became aware that the paperwork associated with invoicing clients for counseling and mediation fees is both costly and time consuming. As a result, we recommend that in the upcoming year management review its policies and procedures relating to the extension of credit to its clients.

The Year 2000 Issue

The Year 2000 Issue results from the inability of a computer program to process year-date data accurately beyond the year 1999. Except in recently introduced year 2000 compliant programs, computer programs consistently have included abbreviated dates (that is, dates that excluded the first two digits of the year) with the assumption that those two digits would always be 19. Unless corrected, that shortcut may create widespread problems on January 1, 2000. On that date, some computer programs may recognize the date as January 1, 1900, and either process data incorrectly or stop processing it altogether.

The Year 2000 Issue may affect computer applications before January 1, 2000, when systems currently attempt to perform calculations into the year 2000. Furthermore, some computer programs use several dates in the year 1999 (such as 01/01/99, 09/09/99, and 12/31/99) to mean something other than the date. As systems process data using those dates, they may produce erratic results or stop functioning.

The Year 2000 Issue (Cont'd)

The Year 2000 Issue presents yet another challenge: the algorithm used in some computer programs for calculating leap years may be unable to detect that the year 2000 is a leap year. Therefore, systems that are not year 2000 compliant may produce incorrect results.

We recommend that you begin to take immediate steps to identify, modify, and test all systems that may be impacted by the Year 2000 Issue. In addition, you should monitor your progress to ensure compliance before systems begin to fail, which may be evident before January 1, 2000. If the Organization fails to take timely and appropriate action, it may experience costly and significant computer program failures, which could prevent it from performing its routine processing activities. Depending on the extent of system failures, noncompliance could be catastrophic for the Organization.

In addition, the Organization should implement verification procedures to test the accuracy of information received from its vendors, service providers, bankers, customers, and other third-party organizations with whom it exchanges date-dependent information to ensure that those organizations also are year 2000 compliant. The Organization should satisfy itself that its operations or cash flows will not be affected by problems in those organizations relating to the Year 2000 Issue.

In accordance with Government Auditing Standards, we have previously issued our report, dated November 2, 1998, on our consideration of Family Service's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. In that report, we described the reportable condition that we noted during our audit. The following is a summary of Finding No. 98-1.

Two hundred twenty-one (221) credit balances totaling $6,549 were included in the accounts receivable subledger. It is our understanding that the majority of these credit balances resulted from social workers not completing Forms 210. As a result, the cash collected from these counseling sessions was recorded, but the revenue was not. This condition may have resulted in net assets being understated by approximately $6,500.

We recommended in our report that an individual or group of individuals be assigned the responsibility of reviewing the accounts receivable subledger on a monthly basis. Any unusual balances should be investigated and appropriate action taken. It is our understanding that this procedure will be implemented and that the credit balances as of June 30, 1998 will be investigated as well.

This letter does not affect our report, dated November 2, 1998, on the financial statements of Family Service of Greater New Orleans.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Spilsbury, Hamilton, Legendre & Paciera

SPILSBURY, HAMILTON, LEGENDRE AND PACIERA
Certified Public Accountants

FSGNO

FAMILY SERVICE
OF GREATER NEW ORLEANS
Changing our world one family at a time
for 100 years

FSGNO

DATE:	**December 11, 1998**
TO:	**FSGNO Operating and Administrative Committee**
FROM:	**Larry Taggart, Director of Finance and Administration**
RE:	**Response to Auditors Comments – FY 1998 Audit**

Larry Taggart

The following are our responses to the auditor's comments made in conjunction with the fiscal year 1998 audit:

COMMENT: Timely Bank Reconciliations
Due to several unforeseen circumstances, including two hurricanes in the Greater New Orleans area and the resignation of one of the members of the accounting department, Family Service did not have their bank reconciliations completed in a timely manner.

It is our understanding that bank reconciliations are part of the monthly general ledger closing procedures and that this delay was an isolated incident. In addition, we understand that, subsequent to year-end, all reconciliations have been completed in a timely manner.

RESPONSE:
The above understanding is factual. Bank reconciliations are part of the monthly general ledger closing process. All reconciliations are current.

COMMENT: Capital Campaign Funds
In 1998, the Board of Directors of Family Service approved the borrowing of $42,000 from funds collected during the capital campaign to meet its cash flow demands. At year-end, $7,000 had been repaid with interest.

In addition, we understand that the Board of Directors has approved a payment plan that will have all capital campaign funds repaid by the end of November 1998.

We recommend that management repay these funds according to the payment plan. In the future, we encourage management to consider other alternatives for meeting immediate cash demands.

In addition, during 1998, $699.33 relating to capital campaign collections were deposited into the operating account.

We recommend that these amounts be transferred to Merrill Lynch Account #594-07M94, which contains the capital campaign funds.

RESPONSE:
As the end of November 1998 all borrowed capital funds have been repaid along with the appropriate interest. The Board considered other alternatives prior to borrowing from capital funds and will consider other alternatives in the future.

The $699.33 in capital campaign funds deposited into the operating account were contributions made through credit card transactions. All FSGNO credit card transactions are automatically credited to the operating account. This amount has now been transferred to the capital campaign account with Merrill Lynch.

COMMENT: Extension of Credit to Clients

During our discussions with management, we became aware that the paperwork associated with invoicing clients for counseling and mediation fees is both costly and time consuming. As a result, we recommend that in the upcoming year management review its policies and procedures relating to the extension of credit to its clients.

RESPONSE:
Review of the applicable policies and procedures has begun, and will be considered as part of the forthcoming strategic planning process.

COMMENT: The Year 2000 Issue

The Year 2000 Issue results from the inability of a computer program to process year-date data accurately beyond the year 1999. Except in recently introduced year 2000 compliant programs, computer programs consistently have included abbreviated dates (that is, dates that excluded the first two digits of the year) with the assumption that those two digits would always be 19. Unless corrected, that shortcut may create widespread problems on January 1, 2000. On that date, some computer programs may recognize the date as January 1, 1900, and either process data incorrectly or stop processing it altogether.

The Year 2000 Issue may affect computer applications before January 1, 2000, when systems currently attempt to perform calculations into the year 2000. Furthermore, some computer programs use several dates in the year 1999 (such as 01/01/99, 09/09/99, and 12/31/99) to mean something other than the date. As systems process data using those dates, they may produce erratic results or stop functioning.

The Year 2000 Issue presents yet another challenge: the algorithm used in some computer programs for calculating leap years may be unable to detect that the year 2000 is a leap year. Therefore, systems that are not year 2000 compliant may produce incorrect results.

We recommend that you begin to take immediate steps to identify, modify, and test all systems that may be impacted by the Year 2000 Issue. In addition, you should monitor your progress to ensure compliance before systems begin to fail, which may be evident before January 1, 2000. If the Organization fails to take timely and appropriate action, it may experience costly and significant computer program failures, which could prevent it from performing its routine processing activities. Depending on the extent of system failures, noncompliance could be catastrophic for the organization.

In addition, the Organization should implement verification procedures to test the accuracy of information received from its vendors, service providers, bankers, customers, and other third-party organizations with whom it exchanges date-dependent information to ensure that those organizations also are year 2000 compliant. The Organization should satisfy itself that its operations or cash flows will not be affected by problems in those organizations relating to the Year 2000 Issue.

RESPONSE:
Family Service (FSGNO) is well aware of the Y2K issues, and understands that this comment has been included in the management letters issued to all Spilsbury, Hamilton, Legendre & Paciera clients. FSGNO's accounting software package has been certified as Y2K compliant, as has much of the software utilized in-house. Staff has attended workshops

on the Y2K issues and is in the process of developing its own procedures with respect to hardware and vendor software. The principal concern about vendor software is that of governmental entities. Contingency plans will be developed.

COMMENT:

In accordance with Government Auditing Standards, we have previously issued our report, dated November 2, 1998, on our consideration of Family Service's internal control over financial reporting, and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. In that report, we described the reportable condition that we noted during our audit. The following is a summary of Finding No. 98-1.

Two hundred twenty-one (221) credit balances totaling $6,549 were included in the accounts receivable subledger. It is our understanding that the majority of these credit balances resulted from social workers not completing Forms 210. As a result, the cash collected from these counseling sessions was recorded, but the revenue was not. This condition may have resulted in net assets being understated by approximately $6,500.

We recommended in our report that an individual or group of individuals be assigned the responsibility of reviewing the accounts receivable subledger on a monthly basis. Any unusual balances should be investigated and appropriate action taken. It is our understanding that this procedure will be implemented and that the credit balances as of June 30, 1998 will be investigated as well.

RESPONSE:

Initial research during the audit indicated that the credit balances resulted from cash receipts which were not accompanied by a "Form 210", the internal credit advice used to generate revenue entries to the general ledger. A customized automated package which was used to detect instances where staff time logs did not match Form 210's is no longer functional. A further review of the balances has begun and the appropriate accounting entries will be made on disposition. In addition, both automated and manual procedures that will detect such problems in the future are in the development stages.

Please let me know if you have questions on any of the above.

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(1905 - 1985)

September 24, 1998

President and Board of Directors
Children's Bureau of New Orleans
210 Baronne Street, Suite 722
New Orleans, LA 70112

In planning and performing our audit of the financial statements of Children's Bureau of New Orleans ("Children's Bureau") for the year ended June 30, 1998, we considered the Organization's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. (We previously reported on the Organization's internal control in our report dated September 24, 1998.) This letter does not affect our report dated September 24, 1998 on the financial statements of Children's Bureau of New Orleans.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Organization personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

<u>Program Eligibility</u>

During our compliance testing of program eligibility, we noted one case in which the residency requirement was not met. This case was determined to be an immaterial instance of noncompliance and appeared to be an isolated incident. Because many of Children's Bureau's grants indicate a specific geographic area (i.e., parish) from which eligible participants may be served, controls that reduce the risk of serving ineligible persons need to be strengthened. We recommend that all program personnel be aware of the program's eligibility requirements and that the residency of potential participants be verified at the intake level. Also, we recommend that the program supervisor periodically review a listing of the program participants to ensure that only eligible persons are being served. These steps will decrease the likelihood that ineligible persons will be served.

The Year 2000 Issue

The Year 2000 Issue results from the inability of a computer program to process year-date data accurately beyond the year 1999. Except in recently introduced year 2000 compliant programs, computer programs consistently have included abbreviated dates (that is, dates that excluded the first two digits of the year) with the assumption that those two digits would always be 19. Unless corrected, that shortcut may create widespread problems on January 1, 2000. On that date, some computer programs may recognize the date as January 1, 1900, and either process data incorrectly or stop processing it altogether.

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In addition, the Organization should implement verification procedures to test the accuracy of information received from its vendors, service providers, bankers, customers, and other third-party organizations with whom it exchanges date-dependent information to ensure that those organizations also are year 2000 compliant. The Organization should satisfy itself that its operations or cash flows will not be affected by problems in those organizations relating to the Year 2000 Issue.

We wish to thank you and the accounting department for the support and assistance given us during our audit. This report is intended solely for your information and use by members of the management within your Organization.

Sincerely,

Spilsbury, Hamilton, Legendre & Paciera

SPILSBURY, HAMILTON, LEGENDRE AND PACIERA
Certified Public Accountants