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NEW ORLEANS SERVICE CENTER, INC.

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Release Date: APR 12 1998

**FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**

FOR THE YEAR ENDED DECEMBER 31, 1997

**Bruno
& Tervalon**

CERTIFIED PUBLIC ACCOUNTANTS
MEMBERSHIP NO. 11111111

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
New Orleans Service Center, Inc.

We have audited the accompanying statement of financial position of **New Orleans Service Center, Inc. (the Center)**, as of December 31, 1997 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, and Government Audit 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 **New Orleans Service Center, Inc.** as of December 31, 1997 and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

**INDEPENDENT AUDITORS' REPORT
(CONTINUED)**

To the Board of Directors of the
New Orleans Service Center, Inc.
Page 2

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report, dated April 29, 1998, on our consideration of New Orleans Service Center, Inc.'s internal control over financial reporting and our tests on its compliance with certain laws, regulations, contracts and grants.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

April 29, 1998

NEW ORLEANS SERVICE CENTER, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 1997

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 56,064
Grants receivable	31,590
Due from employees	<u>630</u>
Total current assets	88,284
Furniture and equipment, net of accumulated depreciation of \$121,244 (NOTES 3 and 5)	48,091
Deposits	<u>959</u>
Total assets	<u>\$137,324</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accrued expenses	\$ 4,956
Obligations under capital leases—current portion (NOTE 3)	<u>16,623</u>
Total current liabilities	21,579
Obligations under capital leases—long-term portion (NOTE 3)	<u>814</u>
Total liabilities	<u>22,393</u>
Unrestricted net assets	114,931
Total liabilities and net assets	<u>\$137,324</u>

The accompanying notes are an integral part of these
financial statements.

NEW ORLEANS SERVICE CENTER, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 1997

SUPPORT AND REVENUE

Support:

Governmental grants	\$287,553
Contributions	<u>10,270</u>
Total support	297,823
Other revenue	<u>1,832</u>
Total support and revenue	<u>299,655</u>

Expenses:

Program services (NOTE 7)	265,897
Management and general	<u>42,923</u>
Total expenses	<u>212,820</u>

Change in unrestricted net assets	(17,465)
Unrestricted net assets at beginning of year	<u>128,446</u>
Unrestricted net assets at end of year	<u>\$110,981</u>

The accompanying notes are an integral part of these
financial statements.

NEW ORLEANS SERVICE CENTER, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1997

Cash flows from operating activities:	
Change in net assets	\$(13,465)
Adjustments to reconcile change in net unrestricted assets to net cash provided by operating activities:	
Depreciation	31,288
Changes in operating assets and liabilities:	
Decrease in grants receivable	44,473
Decrease in accrued expenses	(5,875)
Increase in due from employees	<u>6800</u>
Net cash provided by operating activities	<u>55,783</u>
Cash flows from investing activities:	
Purchases of fixed assets	<u>(9,760)</u>
Net cash used in investing activities	<u>(9,760)</u>
Cash flows from financing activities:	
Decrease in obligations under capital leases	<u>(12,800)</u>
Net cash provided by financing activity	<u>(12,800)</u>
Net increase in cash	33,216
Cash and cash equivalents at beginning of year	<u>22,822</u>
Cash and cash equivalents at end of year	<u>\$ 56,038</u>
Supplemental Disclosure of Cash Flow Information:	
Interest paid in cash during the year	<u>\$ 7,515</u>

The accompanying notes are an integral part of these financial statements.

NEW ORLEANS SERVICE CENTER, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - **Organization:**

New Orleans Service Center, Inc. (the Center) is a not-for-profit corporation organized under the laws of the State of Louisiana on July 13, 1991 and was founded to establish and operate accelerated learning centers associated with multi-family housing complexes in the New Orleans metropolitan area. The Center is primarily supported by governmental grants.

NOTE 2 - **Summary of Significant Accounting Policies:**

A. **Income Taxes**

The Center is exempt from paying corporate income taxes under Section 501(c)(3) of the Internal Revenue Code.

B. **Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Center and changes therein are classified and reported as unrestricted. Unrestricted net assets are net assets not subject to donor-imposed stipulations.

C. **Contributions and Grants**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Grants are recorded on either a cost reimbursement basis, to the extent that funds are expended in accordance with approved budget purposes, or on the basis of performance under the grant contract.

NOTE 2 - *Summary of Significant Accounting Policies, Continued:*

D. *Furniture and Equipment*

Furniture and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period.

E. *Functional Allocation of Expenses*

The costs of providing the Center's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

F. *Cash Equivalents*

For purposes of the statement of cash flows, the Center considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

G. *Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

NEW ORLEANS SERVICE CENTER, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 3 - Furniture and Equipment:

Furniture and equipment consisted of the following at December 31, 1997:

Furniture	\$ 12,062
Equipment	150,122
Software	7,851
Sub-total	169,135
Less: Accumulated depreciation	121,249
Total	<u>\$ 48,886</u>

NOTE 4 - Related Parties:

The Center's first center is located within the government subsidized Palmetto Apartments. The learning center is an 1,800 square foot facility that was constructed with the assistance of Vales Management, Inc., Loyola University, HUD, the City of New Orleans and complex owner Allen Fascat on December 5, 1991. Palmetto Apartment Partnership, landowner, and Palmetto Learning Center, Inc., improvement owner, agreed to lease the Center the above described property upon the following terms:

The initial term of this lease shall be for five (5) years. After the initial term, this lease shall automatically be renewed for an additional fifteen (15) years, except that lessee may cancel said lease at any time and without penalty by providing lessor with thirty (30) days advance notice. Lessee shall be obligated to a rental of \$100 per year.

NEW ORLEANS SERVICE CENTER, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 3 - Capital Leases:

The Center is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled \$63,697 at December 31, 1997 and the accumulated depreciation on those assets totaled \$21,861.

The following is a schedule of future minimum lease payments under capital leases at December 31, 1997:

Period	Amount
1998	\$ 21,637
1999	1,838
Total minimum payments	23,475
Less amounts representing interest	(5,208)
Lease obligation	17,437
Less current portion	(814)
Long-term portion	<u>\$ 16,623</u>

NOTE 4 - Contingencies:

The Center is a defendant in a lawsuit filed by one of its former employees for alleged discrimination. Outside counsel for the organization has advised that at this stage in the proceedings they cannot offer an opinion as to the probable outcome. The Center believes the suit is without merit and is vigorously defending its position.

NEW ORLEANS SERVICE CENTER, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 7 - Program Costs:

Program costs consist of the following at December 31, 1997:

	Family Independence Work	OPIC	DFED	Total
Program Services	\$149,811	\$ 96,209	\$19,077	\$265,097
Transfer-capital lease payments	10,908	6,172	5,376	22,456
Total costs	<u>\$160,719</u>	<u>\$102,381</u>	<u>\$24,453</u>	<u>\$287,553</u>

NOTE 8 - Fair Values of Financial Instruments:

The estimated fair value of financial instruments have been determined by the Center utilizing available market information and appropriate valuation methodologies. The Center considers the carrying amounts of cash and cash equivalents and obligations under capital leases to approximate fair value.

SUPPLEMENTARY INFORMATION

NEW ORLEANS SERVICE CENTER, INC.
 SCHEDULE OF FUNCTIONAL EXPENSES
 FOR THE YEAR ENDED DECEMBER 31, 1997

	PROGRAM SERVICES	SUPPORT SERVICES, MANAGEMENT AND GENERAL	TOTAL EXPENSES
Expenses:			
Salaries	\$156,774	\$ 9,808	\$166,582
Payroll taxes and employee benefits	36,270	2,090	38,360
Occupancy, utilities and maintenance	21,580	-0-	21,580
Professional fees	60,043	300	60,343
Printing and office supplies	15,184	381	15,565
Telephone and postage	7,385	-0-	7,385
Insurance	12,060	-0-	12,060
Travel/conferences	2,124	-0-	2,124
Subscriptions	284	-0-	284
Interest expense	7,474	41	7,515
Equipment	3,134	1,048	4,182
Annual program	-0-	478	478
Staff training	-0-	620	620
Other	<u>2,805</u>	<u>1,927</u>	<u>4,732</u>
Total expenses before depreciation	265,097	16,683	281,780
Depreciation expense	<u>-0-</u>	<u>31,280</u>	<u>31,280</u>
Total expenses	<u>\$265,097</u>	<u>\$47,963</u>	<u>\$313,060</u>

See Independent Auditors' Report.

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

To the Board of Directors of the
New Orleans Service Center, Inc.
New Orleans, Louisiana

We have audited the financial statements of New Orleans Service Center, Inc. (the Center) as of and for the year ended December 31, 1997, and have issued our report thereon dated April 29, 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 the Center'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*.

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

(CONTINUED)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center'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 solely for the use of management and the State of Louisiana, Legislative Auditor and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Center and the State of Louisiana, Legislative Auditor, is a matter of public record.



BRUNO & TERVALON
CERTIFIED PUBLIC ACCOUNTANTS

April 29, 1998

NEW ORLEANS SERVICE CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 1997

We have audited the financial statements of *New Orleans Service Center, Inc.*, as of and for the year ended December 31, 1997, and have issued our report thereon dated April 29, 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. Our audit of the financial statements as of December 31, 1997 resulted in an unqualified opinion.

1. Summary of Auditors' Results

- A. Reportable conditions in internal control were disclosed by the audit of the financial statements: No. Material weaknesses: No.
- B. Noncompliance which is material to the financial statements: None.
- C. Reportable conditions in internal control over major programs: N/A. Material weaknesses: N/A.
- D. The type of report issued on compliance for major programs: N/A.
- E. Any audit findings which are required to be reported under section 501(a) of OMB Circular a-113: N/A.
- F. Major programs: N/A.
- G. Dollar threshold used to distinguish between Type A and Type B programs: N/A.
- H. Auditee qualified as a low-risk auditee under section 530 of OMB Circular A-133: N/A.
- I. A management letter was issued: No.

NEW ORLEANS SERVICE CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 1997

2. **Financial Statement Findings**

No matters were reported.

3. **Federal Award Findings and Questioned Costs**

Not applicable.

NEW ORLEANS SERVICE CENTER, INC.
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 1997

1. **INTERNAL CONTROL AND COMPLIANCE
MATERIAL TO THE FINANCIAL STATEMENTS**

No prior year audit findings reported.

2. **INTERNAL CONTROL AND COMPLIANCE
MATERIAL TO FEDERAL AWARDS**

No prior year audit findings reported.

3. **MANAGEMENT LETTER**

1996-1 Invoice Documentation

The auditors recommended that the Center immediately take steps to ensure that all expenses are documented with invoices or other appropriate documentation.

Corrective Action

Resolved.