

Organizational Structure

Observation

The size of the Organizations' administrative staff precludes certain basic internal controls that would be preferred if the office were large enough to provide optimum segregation of duties.

Recommendation

This situation dictates that the Board of Directors remain closely involved in the financial affairs of the Organization to provide cash management, oversight and independent review functions.

I wish to thank Mrs. Tanna Barthelemy and Mrs. Vanessa Carter for their support and assistance during my audit.

This report is intended solely for the information and use of the Board of Directors, management, and others within the Organization.

Brian E. Adorno, CPA
A Professional Corporation

New Orleans, Louisiana
December 31, 1997

Recommendation

All invoices should be signed by the authorized officer for documentation of approval of the transaction prior to payment.

Observation

Disbursements for minor amounts of services rendered to the Organization were made without invoices or other supporting documentation from the service provider.

Recommendation

The treasurer should require that all service providers or other vendors of the Organization provide an invoice or statement for services rendered, or products sold, prior to payment being made.

Observation

While testing cash disbursements, it was noted that not all payroll files were approved or updated for wage increases.

Recommendation

All salary increases should be approved and documented by a member of the Board of Directors prior to payment.

Annual Budget

Observation

The Company failed to adopt a formal budget of its proposed revenues and expenditures for the year.

Recommendation

I recommend that the company adopt a formal budget of proposed revenues and expenses for each program for each year. The use of this internal budget will guide management in determining if there are excess expenses over revenues.

Payroll Taxes

Observations

On two occasions the Organization paid its federal payroll taxes late causing the Organization to incur penalties.

The Organization has an outstanding liability with the State of Louisiana Departments of Revenue and Labor for partial unpaid withholdings and state unemployment taxes from payroll for the 1996 and 1997 calendar years.

Recommendation

I recommend the Organization pays all payroll taxes when due and institute a method of repayment of back taxes for the outstanding liabilities.

CPA

BRIAN E. ADORNO

4480 General deGaulle Drive
Executive Square * Suite 222
New Orleans, Louisiana 70131

Phone: (504) 433-5222
Fax: (504) 433-0100

December 31, 1997

To the Board of Directors
Brookhaven Homes of Louisiana Inc
New Orleans, Louisiana

Business

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Taxes

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Finance

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Estates

In planning and performing my audit of the financial statements of Brookhaven Homes of Louisiana Inc for the year ended June 30, 1997, I considered the Organization's internal control structure to plan my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on internal control structure.

However, during my audit, I noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. (I previously reported on the Organization's internal control structure in my report dated December 31, 1997.) This letter does not affect my report dated December 31, 1997 on the financial statements of Brookhaven Homes of Louisiana Inc.

I will review the status of these comments during my next audit engagement. My comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. I 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. My comments are summarized as follows:

Cash Management

Observation

While testing cash disbursements, I noted that supporting invoices were not always signed for approval for payment by the treasurer or other authorized officers.

Member:

Louisiana Bar Association

American Institute of
Certified Public
Accountants

Louisiana Society of
Certified Public
Accountants



CPA

BRIAN E. ADORNO

4480 General deGaulle Drive
Executive Square 4 Suite 222
New Orleans, Louisiana 70131

Phone: (504) 435-5222
Fax: (504) 435-0100

*Certified Public
Accountant, A.C.A.*

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH LAWS AND REGULATIONS IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Business

The Board of Directors
Brookhaven Homes of Louisiana Inc

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Taxes

I have audited the financial statements of Brookhaven Homes of Louisiana Inc (a nonprofit organization) as of and for the year ended June 30, 1997, and have issued my report thereon dated December 31, 1997.

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Finance

I conducted my audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform my audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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Estates

Compliance with laws, regulations, contracts, and grants applicable to Brookhaven Homes of Louisiana Inc is the responsibility of the Company's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of the Company's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, I 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*.

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

Brian E. Adorno, CPA

December 31, 1997

CPA

BRIAN E. ADORNO

4480 General deGaulle Drive
Executive Square - Suite 222
New Orleans, Louisiana 70131

Phone: (504) 433-5222
Fax: (504) 433-0701

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Business

To the Board of Directors
Brookhaven Homes of Louisiana Inc

Taxes

I have audited the financial statements of Brookhaven Homes of Louisiana Inc (a nonprofit organization) for the year ended June 30, 1997, and have issued my report thereon dated December 31, 1997.

Finance

I conducted my audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform my audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Estates

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

In planning and performing my audit of the financial statements of Brookhaven Homes of Louisiana Inc for the year ended June 30, 1997, I obtained an understanding of the internal control structure. With respect to the internal control structure, I obtained an understanding of the design of relevant

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BROOKHAVEN HOMES OF LOUISIANA, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 1997

As of February 1, 1997, the Organization entered into a two-year lease for its office facility requiring rent of \$4,752 annually. Upon expiration of the initial lease, the Organization has the right to renew the lease with renegotiated terms otherwise occupancy is on a month-to-month basis. Rent expense for the period ending June 30, 1997 was \$44,382.

Subsequent to the end of the fiscal year, the Organization entered into a two-year commercial lease for a day care center for adults at a rate of \$1,000 per month.

8. GOING CONCERN

As shown in the accompanying financial statements, the Organization has an outstanding liability with the Internal Revenue Service for \$99,082 as of June 30, 1997. The liability arises from the Organization's failure to pay payroll taxes during the 1993 and 1994 calendar years, as well as the Organization's failure to file required income tax returns on time. A large portion of the outstanding liability consists of penalty assessments by the Internal Revenue Service. A lien has been recorded to secure payment of these assessments. The organization's ability to pay this outstanding liability is uncertain. These factors create an uncertainty about the Organization's ability to continue as a going concern. Management of the Organization has proposed to submit an Offer in Compromise to the Internal Revenue Service to significantly reduce this tax liability. The ability of the Organization to continue as a going concern is dependent on the Organization's ability to reduce and/or refinance its obligation to the Internal Revenue Service. The financial statements do not include any adjustments that might be necessary if the Organization is unable to continue as a going concern.

9. ECONOMIC DEPENDENCY

The Organization receives the majority of its revenue from only a few grants and from a few state and locally sponsored agencies. If budget cuts from funding sources are made at the state and local levels, the amount of the funds the Organization receives could be significantly reduced, with resultant adverse impact on revenues and operations.

Management is not aware of any plans on the part of its current funding sources to significantly reduce payments to the Organization.

BROOKHAVEN HOMES OF LOUISIANA, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 1997

Net assets, originally reported as of June 30, 1996	\$52,458
Prior Period Adjustments:	
Internal Revenue Service Taxes Payable	(94,052)
Due to Others	(5,459)
Accrued Expenses	(5,343)
Payroll Taxes Payable	954
Accounts Recievable	(6,337)
Cash	<u>(2,517)</u>
Net assets, restated as of June 30, 1996	<u>\$(60,296)</u>

6. LIABILITIES-DUE TO OTHERS

Due to Others represents an outstanding loan agreement with First Family Financial Services. This loan agreement was co-signed by the Administrator of the Organization and the Organization has assumed the payments. This loan agreement bears interest at 26.93% and is payable over a period of thirty-six months. As of June 30, 1997, the balance due to First Financial Services was \$4,571 of which \$1,882 is current and \$2,689 is classified as a long-term liability which matures during the fiscal year ended June 30, 1999.

7. LONG TERM LEASES

As of July 1, 1993, the Organization entered into a ten-year commercial lease for a residential home for disabled persons in Baton Rouge from a member of the Board of Directors. This lease requires rent of \$7,632 annually without escalations. At the expiration of this initial lease, the lease grants the Organization the right to renew the lease for an additional five years.

In December 1994, the Organization entered a five-year operating lease for an additional home for the disabled person in Baton Rouge from a member of the Board of Directors. This lease requires an annual rent of \$11,943 without escalations. During the period ending June 30, 1997, the Organization made only half of the required payments.

BROOKHAVEN HOMES OF LOUISIANA, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 1997

4. RELATED PARTY TRANSACTIONS

The Organization has entered into a contract with two of its Board Members to serve as Administrators. These Administrators are employees of the Organization and receive a salary as compensation for their services. The amount of wages paid to the Administrators during the period ending June 30, 1997 totaled \$40,015. The Administrators were reimbursed for expenses incurred in the operations of its programs. During the period ending June 30, 1997, the Administrators received a total of \$6,458 as reimbursement for expenses incurred on behalf of the Organization.

During the period ending June 30, 1997, the Administrators borrowed \$3,415 from the Organization on a non-interest bearing open account basis.

The Organization, in addition to the above transactions, paid another member of the Board of Directors rent in the amount of \$13,603 during the period ending June 30, 1997. This member was reimbursed for expenses incurred on behalf of the Organization in the amount of \$1,680.

During the normal course of business, the Organization purchases various services and provides reimbursement for expenses to individuals associated with the Board of Directors. As of June 30, 1997 amounts paid to those associated with the Board of Directors totaled \$23,730.

In addition, the Organization is affiliated with a for profit agency, Networks in Community Living, Inc., which is a rehabilitative organization controlled by the Board of Directors of this Organization. Borrowings take place between these two companies in order to finance the short-term cash needs of each. As of June 30, 1997 the Organization owed Networks in Community Living, Inc. a total of \$9,935 on a non-interest bearing open account basis.

5. RESTATEMENT OF NET ASSETS

During the fiscal year, the Organization made several prior period adjustments required by generally accepted accounting principals for correction of errors. The Organization has restated net assets for the year ended June 30, 1996, as follows:

BROOKHAVEN HOMES OF LOUISIANA, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 1997

2. PROPERTY, PLANT & EQUIPMENT

Property and Equipment consist of the following at June 30, 1997:

Automobiles	\$20,649
Furniture and Equipment	<u>5,646</u>
Total Property, Plant & Equipment	26,295
Less accumulated depreciation	<u>(5,250)</u>
Net Property, Plant & Equipment	<u>\$21,045</u>

Depreciation expense for furniture and equipment is charged to management and general expense and depreciation for automobiles is charge to the program related depreciation expense. Depreciation expense totaled \$5,250 for the year ended June 30, 1997.

3. GRANTS

The Organization is the recipient of two grants from the State of Louisiana Office of Mental Health awarded for the purpose of developing and operating a substitute family care program to adolescents and adults with chronic mental illnesses. A total of \$157,728 was received under these grants for the year ending June 30, 1997.

The Organization is the recipient of a grant from the Jefferson Parish Human Services Authority awarded for substitute family care services provided by the Organization. The amount of this grant received during the year ending June 30, 1997 was \$8,000.

The Organization is the recipient of a grant from the Unity for the Homeless awarded for host-family based transitional housing for homeless families and life skills services provided by the Organization. The amount of this grant received during the year ending June 30, 1997 was \$173,220.

BROOKHAVEN HOMES OF LOUISIANA, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 1997

Income Taxes

The Organization operates as a nonprofit entity and has been granted tax-exempt status by the Internal Revenue Service under Section 501(c)(3) of the Internal Revenue Code. The Organization's exempt status is recognized by the State of Louisiana. Accordingly, no provision has been made in these statements for federal or state income taxes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principals 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 those estimates.

Financial Statement Presentation

In 1995 the Organization adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Legend for Revenues and Expenditures by Program

- ASFC - LA Department of Health & Hospitals Office of Mental Health
Adult Substitute Family Care Services
- JPHSA- Jefferson Parish Human Services Authority
Substitute Family Care Services
- KSFC- LA Department of Health & Hospitals Office of Mental Health
Adolescent Substitute Family Care Services
- OCS- LA Department of Social Services Office of Community Services
- OYD- LA Department of Public Safety & Corrections Office of Youth Development
- UNITY- Unity for the Homeless
- WRAP- LA Department of Health & Hospitals - "Wraparound Funds"

BROOKHAVEN HOMES OF LOUISIANA, INC.

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 1997

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Brookhaven Homes of Louisiana, Inc. (the Organization) was established in Louisiana in 1989 as a non-profit corporation to provide substitute family housing to adults and youths that have severe mental health problems. In addition to those services, the Organization also provides a client assistant program for adults who live independently but need support and case management. The Organization also provides assistance to those who are homeless. The Organization performs these services for individuals through grants from state and federal programs and on a fee for service basis through state and local agencies.

Basis of Accounting

The Organization uses the accrual method of accounting and follows the standards of accounting and financial reporting outlined by the American Institute of Certified Public Accountants in its Audit and Accounting Guide, *Audits of Not-for-Profit Organizations*.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Property, Plant and Equipment

Property and equipment acquired by the Organization are considered to be owned by the Organization. During the period ending June 30, 1997, a van was purchased with funds provided by the Unity for the Homeless, and Unity for the Homeless claims a reversionary interest in this vehicle. Property and equipment are carried at cost. Depreciation is provided using the straight-line method over estimated useful lives ranging from three for autos to six years for furniture and equipment.

Expenditures for maintenance and repairs are charged to operations as incurred. Expenditures for betterment's and major renewals are capitalized. The cost of assets sold or retired and the related amounts of accumulated depreciation are eliminated from the accounts in the year of disposal and the resulting gains or losses are recognized.

BROOKHAVEN HOMES OF LOUISIANA, INC.

STATEMENT OF CASH FLOWS
For the Year Ended June 30, 1997

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets	(\$7,890)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	5,250
(Increase) decrease in operating assets:	
Grant Revenue Receivable	(16,864)
Due from Officers	(3,415)
Increase (decrease) in operating liabilities:	
Accounts payable	22,775
Payroll taxes payable	(3,410)
Accrued Expenses	10,016
Contract Advances	4,659
Other Payables	5,030
Due to Networks	9,935
Due to Others	(888)
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 25,198

CASH FLOW FROM INVESTING ACTIVITIES

Acquisition of property, plant & equipment	(26,295)
 NET CASH USED BY INVESTING ACTIVITIES	 (26,295)
 NET INCREASE (DECREASE) IN CASH	 (1,097)
CASH AT BEGINNING OF YEAR	(694)
 CASH AT END OF YEAR	 (\$1,791)

SUPPLEMENTAL DISCLOSURES

Interest Paid \$796

There were no non-cash investing and financing transactions during 1996.

The accompanying notes are an integral part of this statement.

BROOKHAVEN HOMES OF LOUISIANA, INC

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 1997

EXPENSES	Program Services ASFC	Program Services BILC	Program Services JPHSA	Program Services KSFC	Program Services OCS	Program Services OYD	Program Services UNITY	Program Services WRAP	Supporting Services Management and General	Total
Advertising		\$105			\$1,064		\$865			\$2,034
Allowances	546	1,306			2,408	356				4,616
Auto and Truck Expense	2,496				5,630					8,815
Bank Fees									685	685
Building Maintenance		2,935								3,548
Clothing and Personal		374			314					688
Contract Labor	2,372		152	5,823						23,662
Depreciation Expense							15,315		87	5,250
Dietary Foods	43						5,163			5,886
Family Payments	65,767	3,800	13,105	22,591	65,903	13,537		155		184,703
Furniture and Equipment Rental	879			119	2,040		3,668			6,861
Housekeeping	382	168					1,476	1,230		2,026
Insurance						2,014	6,807		6,394	10,051
Interest Expense										6,394
Licenses and Permits	407									407
Medical and Medication										235
Meals & Entertainment			235							235
Office Expense	3,966		994	(172)		310	5,486		5,772	5,772
Payroll Taxes	4,496		23	4,473	412	139	12,890	504		10,584
Penalties									2,331	2,331
Postage	200				64	65	130			459
Professional Fees	4,130			496		1,433	45			6,104
Recreation	221				1,667		14			1,902
Rent	13,007	21,415		1,768			14,163			50,353
Repairs and Maintenance	688	138					1,026			1,852
Respite Payments	626		512	12,090	11,555	67	135	2,220		27,205
Salaries	26,372		152	26,173	2,374	825	75,457	2,875		134,228
Supplies					367	639	2,524			3,163
Telephone	9,339	1,374		563			1,776			13,419
Training and Seminars	300			726		5,610	80	110		6,100
Travel	1,097						3,269			5,092
Utilities		1,338								1,338
Total	\$137,334	\$32,953	\$15,173	\$74,650	\$93,798	\$24,995	\$157,434	\$7,094	\$15,269	\$558,700

The accompanying notes are an integral part of this statement.

BROOKHAVEN HOMES OF LOUISIANA, INC.

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 1997

UNRESTRICTED NET ASSETS

Support	
Grant Revenue-ASFC	\$94,191
Grant Revenue-JPHSA	11,625
Grant Revenue-KSFC	63,537
Grant Revenue-OCS	122,557
Grant Revenue-OYD	29,120
Grant Revenue-Unity	173,220
Grant Revenue-WRAP	7,337
Service Revenues	
Client Payments-ASFC	32,658
Client Payments-BILC	11,365
Client Payments-KSFC	5,200
TOTAL UNRESTRICTED SUPPORT	550,810

EXPENSES

Program Services	
ASFC	137,334
BILC	32,953
JPHSA	15,173
KSFC	74,650
OCS	93,798
OYD	24,995
UNITY	157,434
WRAP	7,094
Supporting Services	
Management & General	15,269
TOTAL EXPENSES	558,700

INCREASE IN UNRESTRICTED NET ASSETS (DEFICIT)	(7,890)
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR, as restated	(60,296)
NET ASSETS (DEFICIT) AT END OF YEAR	(\$68,186)

The accompanying notes are an integral part of this statement.

BROOKHAVEN HOMES OF LOUISIANA, INC.

STATEMENT OF FINANCIAL POSITION
June 30, 1997

ASSETS

Current Assets

Grant Revenue Receivable	\$77,000
Due from Officers	3,415

TOTAL CURRENT ASSETS	80,415
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Property, Plant, & Equipment

Autos and Trucks	20,649
Furniture and Equipment	5,646
Accumulated Depreciation	(5,250)

TOTAL PROPERTY, PLANT, & EQUIPMENT	21,045
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TOTAL ASSETS	\$101,460
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LIABILITIES

Current Liabilities

Bank Overdraft	\$1,791
Accounts Payable	22,775
Payroll Taxes Payable	11,474
Accrued Expenses	15,359
Contract Advances Payable	4,659
IRS Taxes Payable	99,082
Due to Others	1,882

TOTAL CURRENT LIABILITIES	157,022
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Long-term Liabilities

Due to Networks	\$9,935
Due to Others	2,689

TOTAL LONG-TERM LIABILITIES	12,624
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TOTAL LIABILITIES	\$169,646
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NET ASSETS (DEFICIT)

Unrestricted	(68,186)
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TOTAL NET ASSETS (DEFICIT)	(68,186)
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TOTAL LIABILITIES AND NET ASSETS	\$101,460
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The accompanying notes are an integral part of this statement.

CPA

BRIAN E. ADORNO

4480 General deGaulle Drive
Executive Square - Suite 222
New Orleans, Louisiana 70131

Phone: (504) 433-5222
Fax: (504) 433-0100

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Brookhaven Homes of Louisiana Inc

Business

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Taxes

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Finance

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Estates

I have audited the accompanying statement of financial position of Brookhaven Homes of Louisiana Inc (a nonprofit organization) as of June 30, 1997, and the related statements of activity, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with general accepted auditing standards. These standards require that I 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. I believe my audit provides a reasonable basis for my opinion.

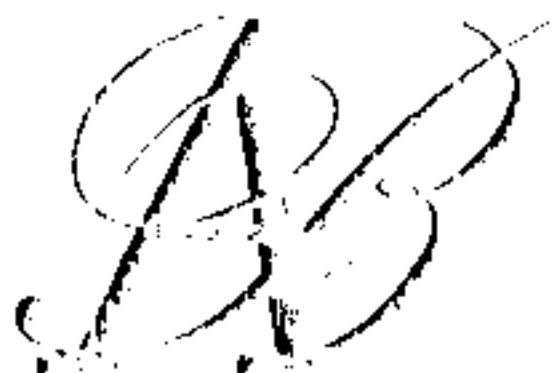
In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brookhaven Homes of Louisiana Inc as of June 30, 1997, and the changes in its net assets and cash flows for the year then ended in accordance with generally accepted accounting principles.

As discussed in Note 8 to the financial statements, the Organization has an outstanding tax liability with the Internal Revenue Service that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 8. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, I have also issued a report dated December 31, 1997, on my consideration of Brookhaven Homes of Louisiana, Inc.'s internal control structure and a report dated December 31, 1997, on its compliance with laws and regulations.

Brian E. Adorno, CPA

December 31, 1997



*Certified Public
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BROOKHAVEN HOMES OF LOUISIANA, INC.

FINANCIAL STATEMENTS

WITH INDEPENDENT AUDITOR'S REPORT THEREON

YEAR ENDED JUNE 30, 1997

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date MAR 04 1998