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START CORPORATION AND SUBSIDIARY

Consolidated Financial Reports

June 30, 1998

START CORPORATION AND SUBSIDIARY

Consolidated Financial Reports

June 30, 1998

TABLE OF CONTENTS

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Bergeron & Lanaux

— Certified Public Accountants —
A Professional Corporation

Claude E. Bergeron, CPA
Thomas J. Lanaux, CPA
Michael D. Bergeron, CPA

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statement of financial position of START Corporation and Subsidiary (non-profit organizations) as of June 30, 1998, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of START Corporation and Subsidiary as of June 30, 1998, and the results of their operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated October 9, 1998 on our consideration of START Corporation and Subsidiary's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of START Corporation and Subsidiary taken as a whole. The accompanying supplementary consolidated statement of unrestricted functional revenues and expenses presented in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

October 9, 1998

Bergeron & Lanaux

START CORPORATION AND SUBSIDIARY

Consolidated Statement of Financial Position

June 30, 1998

ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,651	
Grant and contract receivables	28,254	
Other prepaid expenses and deposits	18,297	
Total current assets		$ 60,202
Land, buildings, and equipment at cost:		
Land	24,611	
Buildings and renovations	89,325	
Leasehold improvements	21,970	
Furniture, fixtures & equipment	74,121	
Vehicles	15,857	
		225,884
Less accumulated depreciation		(108,409)
Net land, buildings, and equipment		117,475
Total assets		$ 177,677
LIABILITIES AND FUND BALANCES		
Current liabilities:		
Notes payable	$ 101,412	
Payroll taxes payable	4	
Total current liabilities		$ 101,416
Net assets:		
Unrestricted net assets	70,761	
Temporarily restricted net assets	5,500	
Total net assets		76,261
Total liabilities and net assets		$ 177,677

See notes to financial statements

START CORPORATION AND SUBSIDIARY

Consolidated Statement of Activities

Year Ended June 30, 1998

Changes in unrestricted net assets:		
Revenues and gains:		
Fees, grants, and contracts from governmental agencies	$ 332,184	
Contributions	13,510	
Total public support		$ 345,694
Other revenues:		
Program service fees	43,752	
Fees and sales to public	10,835	
Miscellaneous	5,976	
Total other revenues		60,563
Total unrestricted revenues and gains		406,257
Expenses:		
Program Services:		
Mental Health Rehabilitation	17,884	
Psychosocial Recovery Skills	115,738	
Vocational Services	55,509	
Housing Development	9,104	
Transitional Living Center	112,645	
Total program services		310,880
Supporting Services:		
Management and general	99,218	
Fundraising	130	
Total supporting services		99,348
Total Expenses		410,228
Decrease in unrestricted net assets		(3,971)
Changes in temporarily restricted net assets:		
Contributions	1,250	
Increase in temporarily restricted net assets		1,250
Decrease in net assets		(2,721)
Net assets at beginning of year		78,982
Net assets at end of year		$ 76,261

See notes to financial statements

START CORPORATION AND SUBSIDIARY

Consolidated Statement of Cash Flows

Year Ended June 30, 1998

Cash flows from operating activities:		
Change in net assets	$	(2,721)
Noncash adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation		15,058
Gain on sale of asset		(100)
Changes in:		
Grants & contracts receivable		6,019
Accounts receivable		3,759
Prepaid expenses		4,505
Payroll taxes payable		(2,751)
Net cash provided by (used in) operating activities		23,769
Cash flows from investing activities:		
Sale of investment		6,000
Purchase of furniture and building renovations		(1,610)
Proceeds from the sale of an asset		735
Net cash provided by (used in) investing activities		5,125
Cash flows from financing activities:		
Gross borrowings		21,165
Payments on notes payable		(53,476)
Net cash provided by (used in) financing activities		(32,311)
Net increase (decrease) in cash and cash equivalents		(3,417)
Cash and cash equivalents at beginning of year		17,068
Cash and cash equivalents at end of year	$	13,651
Supplemental data:		
Interest paid	$	9,440

See notes to financial statements

1) Organization

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

2) Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies:

a) Principles of Consolidation. The consolidated financial statements of START Corporation include the accounts of START and its wholly-owned subsidiary, Housing Assistance for Defined Disabilities, Inc. (HADD). All significant intercompany transactions have been eliminated in consolidation.

b) Basis of Accounting & Presentation. Funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The financial statements are presented in accordance with the Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, START is required to report three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The financial statements do not include any permanently restricted net assets.

c) Property and Equipment. Property and equipment are recorded at historical cost or, if donated, at the fair market value on the date donated and are depreciated on straight-line and accelerated methods over their estimated useful lives as follows:

Buildings and renovations	39 years
Leasehold improvements	8 years
Vehicles	3-5 years
Furniture, fixtures and equipment	5-7 years

Expenditures for renewals and betterments are capitalized and expenditures for ordinary maintenance and repairs are expensed as incurred. The cost and accumulated depreciation applicable to assets retired or sold, if any, are removed from the respective accounts and gains or losses thereon are included in operations. Depreciation expense for the year ended June 30, 1998 totaled $15,058.

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

i) Mental Health Rehabilitation – Program designed to improve the consumer's/family's functional skills and environmental resources that will enable them to be successful and satisfied in daily living environments of their choice with no more professional intervention than is necessary.

ii) Psychosocial Recovery Skills – A training program designed to teach a variety of psychosocial recovery skills in the field and community. These skills are essential to the seriously mentally ill adult for a successful recovery process and enhance the individual's ability to negotiate the environment as independently as possible.

iii) Vocational Services – Program provides opportunities for pre-vocational and direct vocational training and placement of individuals with severe mental or physical disabilities.

iv) Housing Development – Program is designed to assist in the recovery of individuals with serious mental illness by providing the necessary technical and practical support in locating and providing safe, secure and affordable housing. The program is designed to provide a listing of resources and the technical assistance in gaining additional knowledge and resources through regional housing development.

v) Transitional Living Center – Program provides emergency respite and system respite through residential and telephone crisis services to consumers with serious mental illness. Protecting the health, safety and welfare of consumers with serious mental illness is a primary concern of the program.

e) Advertising Costs. Advertising costs are charged to operations when incurred, except for direct-response advertising. The costs of direct-response advertising are capitalized and amortized over the period which future benefits are expected to be received. There were no direct-response advertising costs incurred during the year. Advertising costs incurred and charged to operations was $531 for the year ended June 30, 1998.

f) Accumulated Vacation and Sick Leave. Vacation and sick leave do not vest to the employee and, accordingly, have not been accrued. Employees accumulate 1 day of vacation per month to a maximum of 12 days. Employees accumulate 1 day of sick leave per month to a maximum of 60 days. Unused sick leave carries over into the next year. Upon termination, any unused vacation or sick leave is forfeited.

g) Income Taxes. START is a non-profit organization and is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code of 1986. HADD, its wholly-owned subsidiary, is a title holding corporation exempt from income taxes under Section 501(c) (2) of the Internal Revenue Code of 1986. Accordingly, no provisions for income taxes have been made in the financial statements.

h) Cash and Cash Equivalents. For purposes of the statement of cash flows, START considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

i) Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3) Notes Payable

Notes payable at June 30, 1998 follow:

8.50% note payable to Hibernia National Bank. The note is payable on demand, and if no demand is made, in monthly installments of $913, including interest with an approximate remaining principle balance of $64,000 due March 26, 2004 collateralized by building and land.	$	87,882
12.75% insurance notes payable in monthly installments of principal and interest of $1,185, maturing March, 1998		13,530
Total notes payable	$	101,412

Total interest incurred on both short-term and long-term debt was $9,440 which was charged to interest expense for the year ended June 30, 1998.

4) Temporarily Restricted Net Assets

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

5) Funding

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

State of Louisiana Department of Health and Hospitals:		
Mental Health Rehabilitation	$	3,700
Psychosocial Recovery Skills		118,526
Housing Development		9,135
Transitional Living Center		153,457
State of Louisiana Division of Rehabilitation Services:		
Vocational Services		47,366
	$	332,184

6) Operating Leases

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

START entered into a one year lease agreement beginning July, 1998 to lease twelve apartments for a period of one year. The apartments are used to provide temporary housing for individuals qualifying for its Psychosocial Skills Program.

Minimum future rental payments under the non-cancelable operating lease as of June 30, 1998 for each of the next three years and in the aggregate follow:

Year ending June 30,		
1999	$	31,700
2000		400
	$	32,100

7) Deferred Compensation Plans

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

8) Commitments, Contingencies and Economic Dependency

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

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

SUPPLEMENTARY INFORMATION SECTION

Schedule 1

START CORPORATION
Consolidated Statement of Unrestricted Functional Revenues and Expenses - Unrestricted Net Assets
Year Ended June 30, 1998

	Program Services						Supporting Services			
	Mental Health Rehabilitation	Psychosocial Recovery Skills	Vocational Services	Housing Development	Transitional Living Center	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total All Services
Revenues:										
Public support:										
Fees, grants and contracts from governmental agencies	$ 3,700	$ 118,526	$ 47,366	$ 9,135	$ 153,457	$ 332,184	$ -	$ -	$ -	$ 332,184
Contributions	-	-	-	225	-	225	40	13,245	13,285	13,510
	3,700	118,526	47,366	9,360	153,457	332,409	40	13,245	13,285	345,694
Other revenues:										
Program service fees	-	28,436	-	-	15,316	43,752	-	-	-	43,752
Fees and sales to public	-	921	-	-	-	921	9,914	-	9,914	10,835
Other	-	-	-	-	-	-	5,976	-	5,976	5,976
	-	29,357	-	-	15,316	44,673	15,890	-	15,890	60,563
Total revenues	3,700	147,883	47,366	9,360	168,773	377,082	15,930	13,245	29,175	406,257
Expenses:										
Salaries	4,724	50,629	36,880	5,800	69,296	167,329	56,344	-	56,344	223,673
Payroll taxes	383	4,711	3,957	803	7,279	17,133	4,507	-	4,507	21,640
Employee benefits	147	3,437	1,149	-	2,906	7,639	1,762	-	1,762	9,401
Total salary and related benefits	5,254	58,777	41,986	6,603	79,481	192,101	62,613	-	62,613	254,714
Advertising	-	8	21	-	29	58	373	100	473	531
Bank charges	-	-	-	-	-	-	62	-	62	62
Client assistance	-	36,929	-	-	-	36,929	-	-	-	36,929
Contract services	72	2,870	1,556	-	44	4,542	75	-	75	4,617
Dues and subscriptions	-	87	-	-	78	165	267	-	267	432
Insurance	3,202	5,217	5,393	192	6,522	20,526	3,088	-	3,088	23,614
Interest	-	-	-	-	-	-	9,440	-	9,440	9,440
Licenses, taxes and fees	12	250	100	87	50	499	264	-	264	763
Maintenance and repairs	65	904	1,138	-	4,147	6,254	6,650	-	6,650	12,904
Miscellaneous	-	-	-	-	6	6	28	-	28	34
Postage and delivery	-	237	96	-	192	525	96	30	126	651
Printing	-	-	-	-	-	-	-	-	-	-
Professional fees	800	2,258	1,000	-	1,856	5,914	423	-	423	6,337
Rent	600	-	-	-	-	600	3,600	-	3,600	4,200
Supplies and materials	51	1,068	213	556	9,706	11,594	937	-	937	12,531
Telephone	80	3,842	1,439	-	3,174	8,535	2,668	-	2,668	11,203
Travel	125	2,744	976	480	205	4,530	1,162	-	1,162	5,692
Utilities	-	208	901	-	5,240	6,349	4,267	-	4,267	10,616
Total expenses before depreciation	10,261	115,399	54,819	7,918	110,730	299,127	96,013	130	96,143	395,270
Depreciation of buildings & equipent	7,723	339	690	1,186	1,915	11,853	3,205	-	3,205	15,058
Loss on sale of asset	(100)	-	-	-	-	(100)	-	-	-	(100)
Total expenses	17,884	115,738	55,509	9,104	112,645	310,880	99,218	130	99,348	410,228
Excess (deficiency) of revenues over expenses	$ (14,184)	$ 32,145	$ (8,143)	$ 256	$ 56,128	$ 66,202	$ (83,288)	$ 13,115	$ (70,173)	$ (3,971)

See notes to financial statement.

SUPPLEMENTARY FINANCIAL REPORTS

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

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

We have audited the financial statements of START Corporation and Subsidiary (non-profit organization) as of and for the year ended June 30, 1998, and have issued our report thereon dated October 9, 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 START Corporation and Subsidiary's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered START Corporation and Subsidiary's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Bergeron & Lanaux

October 9, 1998

START CORPORATION AND SUBSIDIARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 1998

We have audited the financial statements of START Corporation and Subsidiary as of and for the year ended June 30, 1998, and have issued our report thereon dated October 9, 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 June 30, 1998 resulted in an unqualified opinion. We did not issue a separate management letter as a result of this engagement.

Section I Summary of Auditor's Reports

a. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control		
Material Weakness	____Yes	XX No
Reportable Conditions	____Yes	XX No
Compliance		
Compliance Material to Financial Statements	____Yes	XX No

b. Federal Awards - Not applicable, there were none.

c. Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster
Not applicable	

Section II Financial Statement Findings

There were none.

Section III Federal Award Findings and Questioned Costs

Not Applicable.

START CORPORATION AND SUBSIDIARY
SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended June 30, 1998

SECTION I INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS

There were none.

SECTION II INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS

Not applicable.

SECTION III MANAGEMENT LETTER

No management letter was issued.

START CORPORATION AND SUBSIDIARY
MANAGEMENT'S CORRECTIVE ACTION PLAN
For the Year Ended June 30, 1998

SECTION I INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENT

No findings were reported which require a response from management.

SECTION II INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS

Not applicable.

SECTION III MANAGEMENT LETTER

No management letter was issued.