NORTH LOUISIANA GOODWILL INDUSTRIES

REHABILITATION CENTER, INC.

SHREVEPORT, LOUISIANA

DECEMBER 31, 1998

NORTH LOUISIANA GOODWILL INDUSTRIES REHABILITATION CENTER, INC.

SHREVEPORT, LOUISIANA

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July 30, 1999

To the Board of Directors
North Louisiana Goodwill Industries
Rehabilitation Center, Inc.
Shreveport, Louisiana

Independent Auditor's Report

We have audited the accompanying statement of financial position of North Louisiana Goodwill Industries Rehabilitation Center, Inc. at December 31, 1998, and the related statements of activities, functional expenses 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 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 North Louisiana Goodwill Industries Rehabilitation Center, Inc. at December 31, 1998, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued reports dated July 30, 1999 on our consideration of the Center's internal control structure and on its compliance with laws and regulations.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of federal awards on Page 12 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.

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NORTH LOUISIANA GOODWILL INDUSTRIES REHABILITATION CENTER, INC.

STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 1998

ASSETS	Unrestricted	Temporarily Restricted	1998 Total	1997 Total
Current assets:				
Cash	66,430	-	66,430	749,946
Investments-Note 4	1,072,188	880,392	1,952,580	1,730,032
Accounts receivable-net of allowance for bad debts of $61,819	810,935	-	810,935	558,347
Accounts receivable-other	5,491	-	5,491	2,829
Inventory	347,204	-	347,204	271,643
Prepaid expenses and other	302,581	-	302,581	220,858
Total current assets	2,604,829	880,392	3,485,221	3,533,655
Fixed assets:				
Land, buildings and equipment, at cost less accumulated depreciation-Notes 5 and 9	2,672,453	-	2,672,453	2,678,850
Other assets:				
Security deposits	3,270	-	3,270	29,054
Total assets	5,280,552	880,392	6,160,944	6,241,559
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	299,250	-	299,250	268,111
Sales tax payable	28,711	-	28,711	22,135
Accrued payroll	212,766	-	212,766	291,326
Current portion of long-term debt-Note 9	44,058	-	44,058	41,724
Total current liabilities	584,785	-	584,785	623,296
Long-term liabilities:				
Long-term debt less portion classified as current-Note 9	290,230	-	290,230	334,362
Total liabilities	875,015	-	875,015	957,658
Net assets:				
Unrestricted	4,405,537	-	4,405,537	4,421,119
Temporarily restricted	-	880,392	880,392	862,782
Total net assets	4,405,537	880,392	5,285,929	5,283,901
Total liabilities and net assets	5,280,552	880,392	6,160,944	6,241,559

The accompanying notes to financial statements are an integral part of the financial statements.

NORTH LOUISIANA GOODWILL INDUSTRIES REHABILITATION CENTER, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 1998

	Unrestricted	Temporarily Restricted	1998 Total	1997 Total
Public support and revenues:				
Public support:				
Donated goods	2,366,802	-	2,366,802	1,981,048
United Way contributions	73,000	-	73,000	42,606
Other contributions	3,328	-	3,328	4,614
Total public support	2,443,130	-	2,443,130	2,028,268
Revenues:				
Sales:				
Sales of goods purchased	232,713	-	232,713	255,940
Less-cost of purchased goods	184,053	-	184,053	185,143
Gross profit	48,660	-	48,660	70,797
Sales of donated goods	1,778,783	-	1,778,783	1,785,161
Contract work	2,061,048	-	2,061,048	1,943,875
Training and work adjustment fees	300,209	-	300,209	107,231
Case management	124,116	-	124,116	-
Temporary services	744,018	-	744,018	330,240
Cafeteria sales	1,403	-	1,403	1,147
Investment return-Note 4	109,078	61,100	170,178	128,690
Other miscellaneous	13,913	-	13,913	12,665
Total revenues	5,181,228	61,100	5,242,328	4,379,806
Net assets released from restrictions-Note 3	43,490	(43,490)	-	-
Total public support, revenues, and reclassifications	7,667,848	17,610	7,685,458	6,408,074
Expenses:				
Production and sales	3,427,310	-	3,427,310	2,960,770
Training and work adjustment	1,598,367	-	1,598,367	632,961
Contracts	2,105,200	-	2,105,200	2,004,305
Cafeteria	20,352	-	20,352	24,430
Management and general	532,201	-	532,201	403,088
Total expenses	7,683,430	-	7,683,430	6,025,554
Change in net assets	(15,582)	17,610	2,028	382,520
Net assets, beginning of year	4,421,119	862,782	5,283,901	4,901,381
Net assets-end of year	4,405,537	880,392	5,285,929	5,283,901

The accompanying notes to financial statements are an integral part of the financial statements.

NORTH LOUISIANA GOODWILL INDUSTRIES REHABILITATION CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 1998

	Production and Sales	Training and Work Adjustment	Contracts
Salaries and wages	1,989,265	1,118,374	1,454,229
Employee health and retirement benefits-Note 6	75,983	99,734	197,683
Payroll taxes	220,582	122,656	163,267
Total salaries and related expenses	2,285,830	1,340,764	1,815,179
Professional fees and contract service	21,386	25,755	10,516
Supplies	96,566	18,389	89,014
Telephone and telegraph	26,055	23,804	8,422
Postage and shipping	11,475	3,340	1,028
Occupancy	496,204	21,721	52,447
Rental and maintenance of equipment	24,135	8,107	17,406
Printing and publications	62,206	20,539	6,564
Travel and agency vehicles	146,936	53,594	35,792
Conferences, conventions and meetings	3,118	2,330	658
Specific assistance to individuals	16,239	1,688	2,224
Membership dues and support payments	37,161	10,483	17,578
Awards and grants	4,101	832	930
Miscellaneous	79,721	56,699	7,986
Total other expenses before depreciation expense	1,025,303	247,281	250,565
Total expenses before depreciation expense	3,311,133	1,588,045	2,065,744
Depreciation expense	116,177	10,322	39,456
Total expenses	3,427,310	1,598,367	2,105,200

The accompanying notes to financial statements are an integral part of the financial statements.

Cafeteria	Management and General	1998 Total	1997 Total
7,255	295,970	4,865,093	3,766,912
420	57,442	431,262	291,267
801	22,270	529,576	471,813
8,476	375,682	5,825,931	4,529,992
106	43,114	100,877	100,819
3,447	4,200	211,616	190,358
56	4,140	62,477	37,289
8	989	16,840	11,730
3,854	13,903	588,129	514,406
405	2,566	52,619	39,663
45	74	89,428	76,615
243	30,196	266,761	185,850
5	-	6,111	6,566
27	-	20,178	880
4	1,720	66,946	59,516
12	-	5,875	2,338
156	4,105	148,667	72,267
8,368	105,007	1,636,524	1,298,297
16,844	480,689	7,462,455	5,828,289
3,508	51,512	220,975	197,265
20,352	532,201	7,683,430	6,025,554

NORTH LOUISIANA GOODWILL INDUSTRIES REHABILITATION CENTER, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 1998

	Unrestricted	Temporarily Restricted	1998 Total	1997 Total
Cash flows from operating activities:				
Change in net assets	(15,582)	17,610	2,028	382,520
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:				
Bad debt expense	80,000	-	80,000	-
Unrealized (gain) on investments	(19,462)	(17,610)	(37,072)	(20,474)
Depreciation	220,975	-	220,975	197,265
(Increase) decrease in:				
Accounts receivable	(332,588)	-	(332,588)	(45,725)
Accounts receivable-other	(2,662)	-	(2,662)	683
Inventory	(75,561)	-	(75,561)	(22,444)
Prepaid expenses and other	(55,939)	-	(55,939)	(37,469)
Increase (decrease) in:				
Accounts payable	31,139	-	31,139	(20,801)
Sales tax payable	6,576	-	6,576	(215)
Accrued payroll	(78,560)	-	(78,560)	57,029
Total adjustments	(226,082)	(17,610)	(243,692)	107,849
Net cash provided (used) by operating activities	(241,664)	-	(241,664)	490,369
Cash flows from investing activities:				
Capital purchases and improvements	(214,578)	-	(214,578)	(227,208)
Purchase of investments	(185,476)	-	(185,476)	(142,372)
Net cash (used) by investing activities	(400,054)	-	(400,054)	(369,580)
Cash flows from financing activities:				
Debt reduction	(41,798)	-	(41,798)	(39,303)
Net cash (used) by financing activities	(41,798)	-	(41,798)	(39,303)
Net increase (decrease) in cash	(683,516)	-	(683,516)	81,486
Cash at beginning of the year	749,946	-	749,946	668,460
Cash at end of the year	66,430	-	66,430	749,946
Cash paid during the year for interest	33,214	-	33,214	20,278

The accompanying notes to financial statements are an integral part of the financial statements.

NORTH LOUISIANA GOODWILL INDUSTRIES REHABILITATION CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

AT DECEMBER 31, 1998

1. Nature of Business:
North Louisiana Goodwill Industries is a nonprofit, privately supported public service organization, exempt from income taxation under Section 501(c)(3) of the Internal Revenue Code. Revenues are derived primarily from the following:

(a) Sales of used clothing and other household materials donated by the public and refurbished by employees who have disabilities and/or are disadvantaged.

(b) Salvage sales.

(c) Sub-contract work for various types of companies by employees who have disabilities and/or are disadvantaged.

(d) Vocational rehabilitation fees through the State of Louisiana and JTPA grants.

(e) Training grants under welfare-to-work programs.

(f) Goodwill Temporary Services.

(g) United Way.

(h) Miscellaneous cash contributions.

The Center provides work opportunities and training for people who have disabilities and/or are disadvantaged, utilizing sales of reconditioned goods and contracted services to pay their wages.

2. Significant Accounting Policies:
Following is a summary of significant policies by the Center:

(a) Financial Statement Presentation:
In accordance with SFAS No. 117, "Financial Statements of Not-for-Profit Organizations," the Center reports information regarding its financial position and activities based on the absence or existence of donor-imposed restrictions, as follows:

Unrestricted Net Assets-Net assets that are not subject to donor-imposed stipulations. Some unrestricted net assets may be designated by the Board for specific purposes.

Temporarily Restricted Net Assets-Net assets subject to donor-imposed stipulations that may or will be met by actions of the Center, and/or by the passage of time.

Permanently Restricted Net Assets-Net assets subject to donor-imposed stipulations that they be maintained permanently by the Center. Generally, donors permit all or part of the income earned on these assets to be used for general or specific purposes. There were no permanently restricted net assets at December 31, 1998.

2. Significant Accounting Policies: (Continued)

(b) Contributions:
In accordance with SFAS No. 116, "Accounting for Contributions Received and Contributions Made," contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

(c) Promises to Give:
Contributions are recognized when the donor makes a promise to give to the Center that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Center uses the allowance method to determine uncollectible unconditional promises receivable, when material. The allowance is based on prior years' experience and management's analysis of specific promises made.

(d) Contributed Goods and Services:
During the year ended December 31, 1998, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. Goods purchased for resale and donated goods are stated at the lower of cost or market on the first-in, first-out basis.

(e) 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 those estimates.

(f) Investments:
Under SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

(g) Bad Debts:
The Center uses the allowance method to estimate uncollectible accounts receivable. The allowance is based on prior years' experience and management's analysis of specific receivables.

(h) Land, Buildings and Equipment:
Donations of property and equipment are recorded as support at their estimated fair value. 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, the Center reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Center reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method. Buildings are assigned useful lives of forty years. Furniture and equipment generally are assigned ten year useful lives and vehicles are assigned three to five year useful lives.

2. Significant Accounting Policies: (Continued)

(i) Cash and Cash Equivalents:
For purposes of the statement of cash flows, the Center considers all cash on hand and demand deposits with financial institutions to be cash equivalents.

(j) Prior Year Financial Information:
The financial information for 1997 is presented for comparative purposes, and is not intended to be a complete financial statement presentation.

(k) Advertising Costs:
Advertising costs are expensed as incurred. Such costs amounted to $48,265 and $30,393 for 1998 and 1997.

3. Restrictions on Assets:
Substantially all of the restrictions on assets relate to funds received by the Center as a testamentary legatee, and to funds donated to endow retirement benefits paid to a former executive director.

During 1992, the Center received $769,244 as its share of an estate. Under the terms of the will granting this legacy, the funds, including related earnings, are restricted to payment of costs associated with "The Unique Shoppe," an auxiliary retail outlet operated by the Center. Accordingly, the net assets represented by this legacy are presented as temporarily restricted assets, since restrictions on such assets lapse as the Center complies with the stipulations set forth in the will.

In addition, temporarily restricted net assets include certain investments used to generate income to help fund retirement benefits paid to a former executive director and his wife. These investments were funded by contributions solicited for this stated purpose; the investments will become available for use by the Center's general operations after the demise of the former executive director and his wife.

4. Investments:
Investments at December 31, 1998 and 1997 are summarized as follows:

	1998		
	Cost	Approximate Fair Value	Unrealized Appreciation (Depreciation)
U.S. Treasury and Agency securities	998,748	1,053,647	54,899
Corporate debt securities	98,793	104,164	5,371
Government mutual funds	793,766	794,769	1,003
	1,891,307	1,952,580	61,273

	1997		
	Cost	Approximate Fair Value	Unrealized Appreciation (Depreciation)
U.S. Treasury and Agency securities	998,460	1,022,086	23,626
Corporate debt securities	148,742	150,943	2,201
Government mutual funds	558,629	557,003	(1,626)
	1,705,831	1,730,032	24,201

4. Investments: (Continued)

A summary of investment return for each year follows:

	1998 Unrestricted	1998 Temporarily Restricted	1998 Total
Interest income	89,616	43,490	133,106
Net unrealized gain	19,462	17,610	37,072
	109,078	61,100	170,178

	1997 Unrestricted	1997 Temporarily Restricted	1997 Total
Interest income	72,105	40,204	112,309
Net realized (loss)	(4,093)	-	(4,093)
Net unrealized gain	17,547	2,927	20,474
	85,559	43,131	128,690

5. Land, Building and Equipment:
Fixed assets and related accumulated depreciation at December 31, 1998 and 1997 are as follows:

	1998	1997
Buildings and improvements	2,055,228	2,049,663
Equipment	1,628,776	1,446,553
Autos and trucks	83,840	92,411
Total depreciable assets	3,767,844	3,588,627
Accumulated depreciation	(1,685,391)	(1,499,777)
Book value of depreciable assets	2,082,453	2,088,850
Land	590,000	590,000
Book value of fixed assets	2,672,453	2,678,850

6. Tax Deferred Annuities:
The Center has available to the employees tax deferred annuity contracts which are administered by several investment companies. The employees may, at their option, elect to take a reduction in salary to invest in the tax deferred annuity contracts. The Center does not contribute to the tax deferred annuity contracts.

7. Rent:
The Center rents various store facilities to serve as retail outlets for its household goods. The Center has rental agreements for store locations in Monroe, West Monroe, Minden, Bossier City, The Unique Shoppe in Shreveport (each for 60 months), and Alexandria (for 36 months). The Lakeshore Drive store rental agreement is renewable by the month. All rental agreements are noncapitalizable. Rent expense for 1998 and 1997 was $224,939 and $155,691.

7. Rent: (Continued)

The Center also has agreements to lease several trucks. These lease agreements are accounted for as operating leases, and provide for lease terms of six to seven years at approximate rentals of $10,000 per year, per vehicle. Vehicle rent expense for 1998 and 1997 was $60,507 and $44,360.

A summary of future minimum rental payments under noncancelable leases for all operating leases for the next five years and in aggregate, is as follows:

Year Ended December 31	Amount
1999	261,084
2000	261,084
2001	218,006
2002	165,928
2003	116,682
Thereafter	77,400
	1,100,184

8. Commitments:
Goodwill entered into an agreement to provide supplemental retirement benefits to its former executive director upon his retirement in January 1986. These benefits amount to approximately $12,840 per year for the remainder of the lives of the former director and his wife.

In addition, the Center was a defendant in a lawsuit alleging financial liability for a portion of the cost of cleanup of environmental waste on a site formerly owned by the Center. This claim was dismissed in March 1998.

9. Long-Term Debt:
Listed below is a schedule of long-term debt at December 31, 1998 and 1997:

Due To	Terms	1998	1997
U.S. Small Business Administration	$1,800/month including interest of 3%, secured by real estate and building located on West 70th Street in Shreveport, Louisiana	170,549	186,808
Deposit Guaranty National Bank	$3,165/month including interest of 7%, secured by real estate and building located on Jackson Street in Alexandria, Louisiana	163,739	189,278
		334,288	376,086
Less-portion classified as current		44,058	41,724
Notes payable-long-term		290,230	334,362

The approximate book value of collateral at December 31, 1998 was $2,050,000.

9. Long-Term Debt: (Continued)

Maturities of long-term debt for the next five years are as follows:

1999	44,058
2000	46,585
2001	49,231
2002	52,047
2003	55,044
Thereafter	87,323
	334,288

Total interest expense for 1998 and 1997 was $33,214 and $20,278.

10. Donated Goods:
Effective January 1, 1996, in conformity with SFAS No. 116, "Accounting for Contributions Made and Contributions Received," the Center began recognizing donated goods as revenue when received. During 1998, contributed merchandise with an approximate fair value of $2,367,000 was recognized as contribution revenue. This donated goods merchandise requires program related expenses and processes accomplished by people with disabilities and other disadvantaging conditions before it reaches the point of sale.

11. Conditional Promises:
Conditional promises consist of the unfunded portions of approved governmental awards, either currently in effect or approved for commencement after December 31, 1998. Future funding of such awards is conditioned upon the Center's operation of certain programs, incurrence of certain costs, and meeting certain matching requirements. Because such awards represent conditional promises to the Center, they have not been recognized in the financial statements at December 31, 1998. Such conditional promises amounted to approximately $700,000 at December 31, 1998 and expire during 1999.

SUPPLEMENTARY INFORMATION

NORTH LOUISIANA GOODWILL INDUSTRIES REHABILITATION CENTER, INC.

SCHEDULE OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 1998

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Program or Award Amount	Revenue Recognized	Expenditures
U.S. Department of Education				
Passed through Louisiana Department of Education:				
Part H Family Service Coordination	84.181A	327,600	122,021	122,021
U.S. Department of Labor				
Passed through Coordinating and Development Corporation of Louisiana:				
Welfare to Work	17.253	438,456	133,512	133,512
Passed through City of Shreveport:				
Welfare to Work	17.253	100,000	5,791	5,791
Total major programs			261,324	261,324
U.S. Department of Education				
Passed through Louisiana Department of Social Services:				
Vocational Rehabilitation Grants	84.126	303,497	88,064	88,064
Totals			349,388	349,388

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July 30, 1999

To the Board of Directors
North Louisiana Goodwill Industries
Rehabilitation Center, Inc.
Shreveport, Louisiana

Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

We have audited the financial statements of North Louisiana Goodwill Industries Rehabilitation Center, Inc., as of and for the year ended December 31, 1998, and have issued our report thereon dated July 30, 1999. 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 98-3.

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 the Center's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 98-1 and 98-2.

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 consider item 98-2 to be a material weakness.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Heard, McElroy & Vestal, LLP

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July 30, 1999

To the Board of Directors
North Louisiana Goodwill Industries
Rehabilitation Center, Inc.
Shreveport, Louisiana

Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with *OMB Circular A-133*

Compliance

We have audited the compliance of North Louisiana Goodwill Industries Rehabilitation Center, Inc. with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 1998. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center'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 Organizations*. 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 the Center'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 the Center's compliance with those requirements.

In our opinion, North Louisiana Goodwill Industries Rehabilitation Center, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 1998.

Internal Control Over Compliance

The management of North Louisiana Goodwill Industries Rehabilitation Center, Inc. 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 the Center'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 solely for the information and use of the audit committee, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Heard, McElroy & Vestal, LLP

NORTH LOUISIANA GOODWILL INDUSTRIES REHABILITATION CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 1998

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of North Louisiana Goodwill Industries Rehabilitation Center, Inc.

2. Reportable conditions relating to the audit of the financial statements are reported.

3. An instance of noncompliance material to the financial statements of North Louisiana Goodwill Industries Rehabilitation Center, Inc. was disclosed during the audit.

4. No reportable conditions relating to the audit of major federal award program are reported.

5. The auditor's report on compliance for major federal award programs for North Louisiana Goodwill Industries Rehabilitation Center, Inc. expresses an unqualified opinion.

6. There are no audit findings relative to major federal award programs for North Louisiana Goodwill Industries Rehabilitation Center, Inc.

7. The programs tested as major programs included:

Program	CFDA No.
Part H Family Service Coordination	84.181A
Welfare to Work	17.253

8. The threshold for distinguishing Types A and B programs was $300,000.

9. North Louisiana Goodwill Industries Rehabilitation Center, Inc. was determined to not be a low-risk auditee.

B. Findings - Financial Statement Audit

98-1 During the year, the Center received and implemented several large grant awards, including Welfare to Work, Part H Case Management, and Vocational Rehabilitation. Oversight of individual grants vested with different personnel within the organization, but with no overall financial management oversight. Potential problems with grant noncompliance could be avoided if general grant oversight were vested in one individual in financial management. This individual should become familiar with the basic provisions of all grants, and help coordinate billing and monitor overall grant compliance.

98-2 Negative amounts (debits) accumulated during the year in the liability accounts of vouchers issued, store credits, and gift certificates, and were unreconciled at year-end. During the audit, these accumulated amounts ultimately were determined to be various promotional expenses or sales returns, and were adjusted accordingly. These accounts should be monitored and reconciled monthly, and adjusted accordingly. They should not have debit balances.

98-3 Louisiana Revised Statute 24:513 requires certain quasi-public organizations to submit audited financial statements to the Legislative Auditor within six months after the end of the year covered within the audit report. Goodwill was unable to meet this deadline because of turnover in its accounting staff and the implementation of several computerized management systems, including a new accounting system.

C. Findings and Questioned Costs - Major Federal Award Programs

None

NORTH LOUISIANA GOODWILL INDUSTRIES REHABILITATION CENTER, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED DECEMBER 31, 1998

97-1 Monitoring and working of past-due accounts receivable - resolved.

97-2 Account reconciliations, but failure to appropriately adjust the general ledger - resolved.

NORTH LOUISIANA GOODWILL INDUSTRIES REHABILITATION CENTER, INC.

MANAGEMENT'S CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED DECEMBER 31, 1998

98-1 We agree that potential problems could develop without financial management oversight of our grant awards. To correct this weakness, Goodwill will assign general grant oversight to the appropriate individual within Finance. This individual will be responsible for monitoring compliance with grant requirements.

98-2 At the close of the year, there were debit balances in the deferred liability accounts which record vouchers issued, store credits, and gift certificates. This unusual result was caused by a delay in installation of the Point of Sale (POS) register system. The use of the liability accounts will be monitored and reconciled monthly now that the POS system installation is complete. Journal entries, as appropriate, will be made on a regular basis and the accounts will maintain credit balances in the future.

98-3 As was explained in our letter to the Legislative Auditor on July 6, 1999, the delay in submitting the audit was because of turnover in our accounting staff combined with the implementation of a new accounting system and other computerized management systems. We are now fully staffed and training has been completed to allow us to meet grant deadlines on a timely basis.