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EDUCATIONAL AND TREATMENT COUNCIL, INC.
FINANCIAL AND COMPLIANCE REPORT

JUNE 30, 1998

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 FEB 03 1999

EDUCATIONAL AND TREATMENT COUNCIL, INC.

June 30, 1998

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INDEPENDENT AUDITOR'S REPORT

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To the Board of Directors
Educational and Treatment Council, Inc.
Lake Charles, Louisiana

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated December 22, 1998, on our consideration of Educational and Treatment Council, Inc.'s internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Educational and Treatment Council, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

Mc Elroy, Quirk & Busch

Lake Charles, Louisiana
December 22, 1998

EDUCATIONAL AND TREATMENT COUNCIL, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 1998

With Comparative Totals for June 30, 1997

<u>ASSETS</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Cash and cash equivalents	\$ 720,822	\$ 24,353	\$ -
Accounts and interest receivable	138,379	-	-
Prepaid expenses	4,819	-	-
Land, buildings, and equipment	367,143	-	7,562
Construction in progress	<u>17,148</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 1,248,311</u>	<u>\$ 24,353</u>	<u>\$ 7,562</u>
 <u>LIABILITIES</u>			
Accounts payable	\$ 11,624	\$ -	\$ -
Accrued salary and payroll taxes	10,558	-	-
Accrued maternity benefits	<u>-</u>	<u>9,758</u>	<u>-</u>
Total liabilities	<u>22,182</u>	<u>9,758</u>	<u>-</u>
 <u>NET ASSETS</u>			
Unrestricted	1,226,129	-	-
Temporarily restricted:			
For use in future years:			
Art therapy	-	9,791	-
Maternity claims	-	457	-
Runaway Youth Act Program	-	4,347	-
Permanently restricted:			
For purchase of property and equipment	<u>-</u>	<u>-</u>	<u>7,562</u>
Total net assets	<u>1,226,129</u>	<u>14,595</u>	<u>7,562</u>
Total liabilities and net assets	<u>\$ 1,248,311</u>	<u>\$ 24,353</u>	<u>\$ 7,562</u>

See accompanying notes to financial statements.

Total	
1998	1997
\$ 745,175	\$ 605,882
138,379	88,115
4,819	12,462
374,705	362,487
<u>17,148</u>	<u>-</u>
<u>\$ 1,280,226</u>	<u>\$ 1,068,946</u>

\$ 11,624	\$ 26,564
10,558	9,333
<u>9,758</u>	<u>9,758</u>
<u>31,940</u>	<u>45,655</u>

1,226,129	1,000,319
-----------	-----------

9,791	10,693
457	1,113
4,347	-
-	-
<u>7,562</u>	<u>11,166</u>
<u>1,248,286</u>	<u>1,023,291</u>

<u>\$ 1,280,226</u>	<u>\$ 1,068,946</u>
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EDUCATIONAL AND TREATMENT COUNCIL, INC.

STATEMENT OF ACTIVITIES

June 30, 1998

With Comparative Totals at June 30, 1997

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
PUBLIC SUPPORT AND REVENUE			
Public support:			
Contributions	\$ 36,516	\$ -	\$ -
Grants and contracts:			
Federal sources	550,816	4,347	-
State sources	339,076	-	-
Taxes	336,260	-	-
Other	<u>3,519</u>	<u>-</u>	<u>-</u>
Total public support	<u>1,266,187</u>	<u>4,347</u>	<u>-</u>
Revenue:			
Investment income	35,035	-	-
Private placements	3,136	-	-
Client fees	5,211	-	-
Other	<u>1,989</u>	<u>-</u>	<u>-</u>
Total revenue	<u>45,371</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>1,311,558</u>	<u>4,347</u>	<u>-</u>
Net assets released from restrictions:			
Satisfaction of program restrictions	1,558	(1,558)	-
Expiration of time restrictions	<u>3,604</u>	<u>-</u>	<u>(3,604)</u>
Total net assets released from restrictions	<u>5,162</u>	<u>(1,558)</u>	<u>(3,604)</u>
Total revenue, gains and other support	<u>1,316,720</u>	<u>2,789</u>	<u>(3,604)</u>
Expenses and losses:			
Harbor House	793,375	-	-
Crisis Counseling	297,433	-	-
Fund-raising	<u>102</u>	<u>-</u>	<u>-</u>
Total expenses	<u>1,090,910</u>	<u>-</u>	<u>-</u>
Change in net assets	225,810	2,789	(3,604)
Net assets, beginning	<u>1,000,319</u>	<u>11,806</u>	<u>11,166</u>
Net assets, ending	<u>\$ 1,226,129</u>	<u>\$ 14,595</u>	<u>\$ 7,562</u>

See accompanying notes to financial statements.

<u>Total</u>	
<u>1998</u>	<u>1997</u>
\$ 36,516	\$ 13,560
555,163	565,793
339,076	312,150
336,260	301,849
<u>3,519</u>	<u>-</u>
<u>1,270,534</u>	<u>1,193,352</u>
35,035	19,704
3,136	3,000
5,211	2,232
<u>1,989</u>	<u>7,472</u>
<u>45,371</u>	<u>32,408</u>
<u>1,315,905</u>	<u>1,225,760</u>
-	-
<u>-</u>	<u>-</u>
-	-
<u>-</u>	<u>-</u>
<u>1,315,905</u>	<u>1,225,760</u>
793,375	777,673
297,433	219,787
<u>102</u>	<u>376</u>
<u>1,090,910</u>	<u>997,836</u>
224,995	227,924
<u>1,023,291</u>	<u>795,367</u>
<u>\$ 1,248,286</u>	<u>\$ 1,023,291</u>

EDUCATIONAL AND TREATMENT COUNCIL, INC.

STATEMENT OF CASH FLOWS
 Year Ended June 30, 1998
 With Comparative Totals for Year Ended June 30, 1997

	<u>1998</u>	<u>1997</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from service recipients	\$ 8,347	\$ 5,232
Cash received from contributions	36,516	13,560
Cash collected federal grants and contracts	523,656	585,097
Cash collected on state contracts	314,877	325,518
Cash collected from tax levy	336,260	301,849
Interest received	41,011	19,704
Miscellaneous receipts	1,989	7,472
Interest paid	(445)	(432)
Cash paid to employees and suppliers	<u>(1,059,996)</u>	<u>(1,045,844)</u>
Net cash provided by operating activities	<u>202,215</u>	<u>212,156</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase furniture and equipment	(45,775)	(28,248)
Construction in progress	<u>(17,148)</u>	<u>-</u>
	<u>(62,923)</u>	<u>(28,248)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Investments in property and equipment	-	(14,271)
Payments on long term debt	<u>-</u>	<u>-</u>
Net cash (used in) financing activities	<u>-</u>	<u>(14,271)</u>
Net increase in cash and cash equivalents	139,293	169,637
Cash and cash equivalents:		
Beginning	<u>605,882</u>	<u>436,245</u>
Ending	<u>\$ 745,175</u>	<u>\$ 605,882</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO		
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Change in net assets	\$ 224,995	\$ 227,924
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	33,556	29,239
(Increase) in accounts and interest receivable	(50,264)	(49,378)
(Increase) decrease in prepaid expenses	7,643	(1,121)
Increase (decrease) in accounts payable	(14,940)	25,165
Increase (decrease) in accrued expenses	<u>1,225</u>	<u>(19,673)</u>
Net cash provided by operating activities	<u>\$ 202,215</u>	<u>\$ 212,156</u>

See accompanying notes to financial statements.

EDUCATIONAL AND TREATMENT COUNCIL, INC.

STATEMENT OF FUNCTIONAL EXPENSES
 Year Ended June 30, 1998
 With Comparative Totals for Year Ended June 30, 1997

	Program	
	Harbour House	Crisis Counseling
Salaries	\$ 485,735	\$ 193,807
Payroll taxes	37,250	14,922
Employee benefits	14,194	6,915
Advertising/promotions	1,601	123
Childcare	-	2,700
Clinical supervision	-	20,262
Data processing	1,394	414
Dues/subscriptions	977	300
Educational expense	2,401	309
Food	26,251	-
Fund-raising expense	-	-
Insurance-workmen's compensation	4,795	606
Insurance-liability	9,370	2,102
Insurance-motor vehicle	5,175	3,907
Insurance-malpractice	719	104
Insurance-other	4,786	34
Interest	-	445
Linen, bedding and miscellaneous housekeeping	3,647	-
Licenses	817	-
Medical service-routine	3,814	-
Medical supplies	521	-
Motor vehicle	7,095	18,954
Office supplies	15,563	6,170
Personal client needs/clothing	5,319	-
Printing	1,409	144
Postage	1,659	372
Professional service	23,332	1,420
Psychiatrist	4,927	-
Recreational	7,337	-
Rent	8,400	3,855
Building/grounds maintenance	18,734	246
Building/grounds repairs	8,090	-
Repairs/maintenance-equipment	7,742	-
Social Worker	-	-
Supplies	6,668	-
Telephone/telegraph	7,714	10,197
Therapeutic supplies	2,808	2,228
Training	980	40
Travel and seminar expense	10,237	2,275
Utilities	18,288	261
Miscellaneous	2,245	2,146
Total expenses before depreciation	761,994	295,258
Depreciation of buildings and equipment	31,381	2,175
Total expenses	<u>\$ 793,375</u>	<u>\$ 297,433</u>

Fund Raising	Total	
	1998	1997
\$ -	\$ 679,542	\$ 640,261
-	52,172	48,643
-	21,109	19,009
-	1,724	1,199
-	2,700	2,043
-	20,262	18,075
-	1,808	67
-	1,277	1,166
-	2,710	641
-	26,251	24,921
102	102	376
-	5,401	3,240
-	11,472	6,573
-	9,082	5,088
-	823	3,713
-	4,820	7,173
-	445	432
-	3,647	3,963
-	817	753
-	3,814	4,834
-	521	801
-	26,049	22,314
-	21,733	11,228
-	5,319	7,806
-	1,553	1,343
-	2,031	2,281
-	24,752	21,529
-	4,927	4,455
-	7,337	4,396
-	12,255	9,600
-	18,980	16,167
-	8,090	6,963
-	7,742	7,237
-	-	2,425
-	6,668	8,676
-	17,911	13,911
-	5,036	2,262
-	1,020	574
-	12,512	6,984
-	18,549	19,571
-	<u>4,391</u>	<u>5,904</u>
102	1,057,354	968,597
-	<u>33,556</u>	<u>29,239</u>
<u>\$ 102</u>	<u>\$ 1,090,910</u>	<u>\$ 997,836</u>

EDUCATIONAL AND TREATMENT COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 1998

Note 1. Nature of Activity and Summary of Significant Accounting Policies

Nature of activities:

Purpose:

Educational and Treatment Council, Inc. is a nonprofit corporation organized under the laws of the State of Louisiana for the purpose of serving children, adolescents, families, individuals, and communities within the five-parish area of Southwest Louisiana, through comprehensive counseling services, crisis services, prevention services, community education and residential services for youth. The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Emergency Shelter for Children (commonly known as Harbour House) is a program of Educational and Treatment Council, Inc. for the purpose of providing shelter and counseling to adolescents and children. The Shelter provides emergency shelter care to children and youth between the ages of 3 and 17 who must either be removed from their homes for reasons of neglect, physical or emotional abuse, and/or who are otherwise homeless due to their status as runaways, status offenders, or children in need of care. Shelter care is defined here as a specialized form of short-term residential care for children including youthful offenders who do not require secure care. Shelter care shall generally be provided for an average period of 30 days. Only in cases of documented emergency shall Shelter care be extended beyond 60 days.

History:

Educational and Treatment Council, Inc. was incorporated in November, 1974 to provide counseling and out-patient drug abuse treatment to adolescents and young adults in Southwest Louisiana. The Agency began developing plans for an emergency shelter for children in 1979. In 1982, with the help of a broad spectrum of the community, ETC obtained five acres of property at Chennault Air Base from the United States Department of Health and Human Services through the public benefit allowance. The same year the agency also obtained the needed construction funds through a Coastal Zone Management grant. The facility was completed, with the exception of furnishings, in 1983. However, as no operational funds were available, the Shelter did not

NOTES TO FINANCIAL STATEMENTS

open until September, 1985. The monies to open and continue the on-going services of the Shelter come from a patchwork of services. Locally, on May 5, 1984, the property owners of Calcasieu Parish passed the "Juvenile Detention, Probation and Services Tax" which continues to provide funds for the purchase of Emergency Shelter services. The State Office of Community Services contracts for the care of foster children and children in the custody of Child Protection. On a national level, ETC was awarded a Runaway and Homeless Youth Act Grant in February, 1984 and has been able to maintain this funding source to provide temporary care for runaway and homeless youth.

Objectives:

The Emergency Shelter for Children Program of ETC is designed to provide emergency shelter for battered and abused children and youth, status offenders and runaways ages three to seventeen. Residents of the shelter average length of stay ranges from 30 to 45 days. The maximum residency is 105 days. Some children come to the Shelter as private placements. Residents of the Shelter are provided the following services: group counseling twice daily, individual counseling as needed, family counseling as needed, educational instruction, enrichment programs and classes in basic living skills, psychological screening and/or evaluation as needed:

1. To alleviate the problems of runaway and homeless youth.
2. To reunite youth and their families.
3. To strengthen family relationships.
4. To help youth decide upon constructive courses of action.

Significant Accounting Policies:

Contributions:

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

NOTES TO FINANCIAL STATEMENTS

Gifts of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service (as the assets are used in the Organization's activities).

Accounting 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.

Cash and cash equivalents:

For purposes of reporting cash flows, the Organization considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents.

Deferred revenue and restricted contributions:

Deferred revenue and restricted contributions consist of grants and contributions that the Organization has received but those funds have not yet been expended for the purpose specified. Such amounts are recognized as revenue when qualified expenditures are made for the purpose specified.

NOTES TO FINANCIAL STATEMENTS

Property and equipment:

Property and equipment is stated at cost, net of accumulated depreciation. Depreciation of property and equipment is computed principally by the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building	30
Equipment, furniture and fixtures	5-10
Vehicles	5
Leasehold improvements	15

Advertising costs:

Educational and Treatment Council, Inc. follows the policy of charging the costs of advertising to expense as incurred. For the year ended June 30, 1998, advertising expense was \$1,724.

Donated assets and services:

Materials, equipment and other assets received as donations are recorded and reflected in the accompanying financial statements at their estimated fair market values at the date they are received. No amounts have been reflected in the statements for donated services inasmuch as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of time to the Organization's program services and to its fund-raising activities.

Functional expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activity. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

NOTES TO FINANCIAL STATEMENTS

Note 2. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 1998 are available for the following purposes or periods:

Runaway Youth Act Program	\$	<u>4,347</u>
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Note 3. Cash and Cash Equivalents

Cash includes amounts in demand deposits and interest bearing demand deposits. Cash equivalents include amounts in time deposits with original maturities of 90 days or less.

Under state law, the Board may deposit funds within a fiscal agent bank in demand deposits, interest bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law and national banks having their principal offices in Louisiana. Further, the Board may invest in United States bonds, treasury notes, or certificates, time deposits of state banks organized under Louisiana law and national banks, or any other federally insured investment.

As of June 30, 1998, cash balances and certificates of deposit of the Organization were as follows:

	<u>Bank Balances</u>	<u>Book Balances</u>
Demand deposits	\$ 69,759	\$ 40,660
Time deposits-interest bearing	<u>704,510</u>	<u>704,515</u>
	<u>\$ 774,269</u>	<u>\$ 745,175</u>

NOTES TO FINANCIAL STATEMENTS

Note 4. Changes in Fixed Assets

The schedule below summarizes the results of the changes in fixed assets for the Organization:

	Balance <u>7-1-97</u>	<u>Additions</u>	Adjustments/ <u>Transfers</u>	Balance <u>6-30-98</u>
Cost:				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Buildings	466,630	-	-	466,630
Furniture and equipment	239,546	7,015	-	246,561
Vehicles	28,161	-	-	28,161
Leasehold improvements	<u>21,088</u>	<u>38,760</u>	<u>-</u>	<u>59,848</u>
	<u>\$ 780,425</u>	<u>\$ 45,775</u>	<u>\$ -</u>	<u>826,200</u>
Accumulated depreciation:				
Land	\$ -	\$ -	\$ -	-
Buildings	190,326	15,742	-	206,069
Furniture and equipment	188,775	11,751	-	200,526
Vehicles	17,750	5,632	-	23,382
Leasehold improvements	<u>21,087</u>	<u>431</u>	<u>-</u>	<u>21,518</u>
	<u>\$ 417,938</u>	<u>\$ 33,556</u>	<u>\$ -</u>	<u>451,495</u>
Net				<u>\$ 374,705</u>

Property acquired with federal and community development grants is considered owned by the Organization while used in the program for which it was purchased or in other future authorized programs; however, the United States and other grantor agencies have reversionary interests in certain property. Its disposition as well as the ownership of any proceeds therefrom is subject to government regulations. The total carrying value of property and equipment in which the United States and other grantor agencies have reversionary interest is \$7,562 at June 30, 1998.

Note 5. Retirement Commitments

All employees of the Program are members of the Federal Social Security System. The Program contributes 7.65% of gross salaries up to appropriate statutory limits to that system. The Federal Social Security System administers the plan and pays benefits.

NOTES TO FINANCIAL STATEMENTS

Note 6. Sick and Vacation Pay

The first six months of employment are considered a probationary period during which time sick and vacation leave accrues at one day per month worked for each. No sick or vacation leave may be taken during the probationary period. Any days missed during this period are treated as noncompensatory leave. Termination of service with the Agency during this period results in forfeiture of all accrued sick and vacation leave.

At the beginning of employment, full time employees begin accruing sick leave at the rate of 1 day per month. This accrual of sick leave shall continue until the employee has accrued a maximum of 30 days sick leave. After this maximum has been achieved, no further sick leave shall be accrued until the balance is reduced below 30 days. Any employee terminating agency service shall not be compensated in any form for any unused accrued sick leave. Therefore, no liability has been accrued for these benefits.

At the beginning of employment, full time employees begin accruing annual leave at the rate of 1 day per month up to twelve (12) days annual leave each year of employment. After three years of service, the annual leave increases one day for each additional year of service up to a maximum of twenty (20) days per year.

Prior to June 30, 1996, vacation benefits could be accumulated for a maximum of two years or up to a maximum of (30) days. The balance of accumulated annual leave days at June 30, 1996 has been frozen and all employees were requested to use the accumulated annual leave days they had earned by December 11, 1996. Employees with any annual leave days not used due to staffing shortages and the necessities of program continuation, the deadline was extended based upon individual position requirements at December 11, 1996 would be compensated at their then current pay scale. The dollar value of accrued annual leave at June 30, 1997 amounted to \$5,991.

Beginning July 1, 1996, annual leave continued to accrue under the same terms as prior to July 1, 1996. Any unused annual leave at June 30th of each year shall be reduced to zero subject to the aforementioned exception. There shall be no carryover of annual leave beyond the end of the Agency fiscal year.

NOTES TO FINANCIAL STATEMENTS

Note 7. Juvenile Services Tax

On May 5, 1984, the property owners of Calcasieu Parish passed the Juvenile Detention, Probation and Services Tax. The Juvenile Services tax was approved by voters for 2.4 mills, the Calcasieu Parish Police Jury shall pay as soon as ad valorem taxes are received by the Calcasieu Parish Police Jury a sum equal to the stated contract amount. For and in consideration of the payment of the foregoing lease sums, Education and Treatment Council, Inc. shall provide juvenile services without further cost to the Court or the Calcasieu Parish Police Jury for emergency shelter to children as described in the purpose above.

Amounts paid under the contract are:

1998	<u>\$ 336,260</u>
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Note 8. Private Placements

Residents of the Emergency Shelter for Children may be referred by private sources in addition to residences eligible for the state and federal grants and those referred by the courts. Counselors, attorneys, insurance companies and other concerned citizens may request placement of children they feel are in at-risk situations. The responsible parties are billed for these placements based on the number of days the child stays. Revenue from private placements for the years ended June 30, 1998 was \$3,136.

Note 9. Support From Governmental Units

The Organization receives a substantial amount of its support from the federal government, the State of Louisiana and local governments in Calcasieu Parish. A significant reduction in the level of this support, if this were to occur, could have a significant effect on the Organization's programs and activities.

Note 10. Concentration of Credit Risk

Education Treatment Council, Inc. maintains a portion of its cash balances in several financial institutions located in the City of Lake Charles. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. In addition, accounts are maintained with Merrill Lynch Pierce Fenner & Smith, Inc. and A. G. Edwards and Sons, Inc. investment firms. Time deposits purchased through these investment accounts may be insured by the FDIC, FSLIC or private insurers. Balances at June 30, 1998 held at these investment firms amounted to \$386,684.

NOTES TO FINANCIAL STATEMENTS

Note 11. Disclosures About Fair Value of Financial Instruments

Cash and cash equivalents, accounts and interest receivable:

The fair value approximates carrying value at June 30, 1998 because of the short maturity of those instruments.

Note 12. Letter of Credit

On May 8, 1997, Educational and Treatment Council, Inc. entered into an agreement with the First National Bank of Lake Charles to obtain a stand-by letter of credit and security agreement. The letter of credit is secured by assignment of a certificate of deposit with the First National Bank of Lake Charles in an amount not less than \$75,108. The letter of credit becomes active on July 1, 1997 and expires on June 30, 1998 and is available in an amount not to exceed \$13,401.

Note 13. Litigation

In February, 1993 a lawsuit was filed against Educational and Treatment Council, Inc. and their professional liability insurer, American Home Insurance Company. The suit alleges assault and battery of a child placed in a facility operated by Educational and Treatment Council, Inc. The suit was settled out of court for an undisclosed sum with the insurer.

In April, 1997, a lawsuit was filed against the State of Louisiana through the Department of Social Services and Educational and Treatment Council, Inc. The suit alleges various acts and/or omissions. The plaintiff is suing for an undisclosed sum and management is unable to reasonably estimate the amount of liability which may be incurred, however, any potential loss is expected to be covered by insurance.

Note 14. Comparative Amounts

The amounts shown for 1997 in the accompanying financial statements are included to provide a basis for comparison with 1998 and are not intended to present all information necessary for a fair presentation of the 1997 financial statements in conformity with generally accepted accounting principles.

NOTES TO FINANCIAL STATEMENTS

Note 15. Subsequent Event

On October 12, 1998, the Organization signed a mortgage note in favor of the Brown Foundation, Inc. for \$500,000, at 5% interest per annum payable in twenty annual payments. The proceeds will be used to construct an additional building on their current property. The land and building currently owned was pledged as collateral.

EDUCATIONAL AND TREATMENT COUNCIL, INC.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
Year Ended June 30, 1998

<u>Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Program Year</u>	<u>Program Receipts</u>	<u>Program Expenses</u>
U.S. Department of Health and Human Services:					
Direct awards:					
Runaway Youth Act Program	93.623	06CY0479/02	7/1/97-6/30/98	\$ 245,720	\$ 147,343
Indirect assistance:					
State of Louisiana Department of Health and Hospitals:					
Office of Mental Health	93.958	DHH63373	7/1/97-6/30/98	128,201	128,201
Office of Public Health	93.958	DHH16712	10/1/97-6/30/98	13,815	13,815
Office of Alcohol and Drug Abuse					
SYNAR Community Mobilization Project	93.959	DHH63724	7/1/97-6/30/98	10,815	10,815
Camp New Directions	93.959	DHH62910	7/1/97-6/30/98	<u>29,400</u>	<u>29,400</u>
				<u>182,231</u>	<u>182,231</u>
DSS/OCS:					
Allen Parish Healthy Families Project	17.656	06726	7/1/97-6/30/98	37,358	37,358
Allen Parish In-Home Crisis Counseling Program	17.656	06726	7/1/97-6/30/98	74,715	74,715
U.S. Department of Agriculture:					
Passed through Louisiana Department of Education:					
National School Lunch Program	10.555		7/1/97-6/30/98	<u>15,139</u>	<u>15,139</u>
				<u>127,212</u>	<u>127,212</u>
Total awards				<u>\$ 555,163</u>	<u>\$ 456,786</u>

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

To the Board of Directors
Educational and Treatment Council, Inc.
Lake Charles, Louisiana

We have audited the financial statements of the Educational and Treatment Council, Inc. as of and for the year ended June 30, 1998 and have issued our report thereon dated December 22, 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 Educational and Treatment Council, Inc. (A Nonprofit Corporation) 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 Educational and Treatment Council, Inc.'s (A Nonprofit Corporation) 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.

The status of our prior year audit findings are detailed in our Summary Schedule of Prior year Audit Findings.

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



Lake Charles, Louisiana
December 22, 1998

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

Board of Directors
Educational and Treatment Council, Inc.
Lake Charles, Louisiana

Compliance

We have audited the compliance of Educational and Treatment Council, 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 June 30, 1998. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Educational and Treatment Council, Inc.'s management. Our responsibility is to express an opinion on Educational and Treatment Council, Inc.'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 Educational and Treatment Council, Inc.'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 Educational and Treatment Council, Inc.'s compliance with those requirements.

In our opinion, Educational and Treatment Council, 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 June 30, 1998.

Internal Control Over Compliance

The management of Educational and Treatment Council, 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 Educational and Treatment Council, Inc.'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.

The status of our prior year audit findings are detailed in our Summary Schedule of Prior year Audit Findings.

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



Lake Charles, Louisiana
December 22, 1998

EDUCATIONAL TREATMENT COUNCIL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 1998

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued Unqualified
Internal control over financial reporting:
Material weakness identified? Yes No
Reportable condition identified not considered
to be material weakness? Yes None reported
Noncompliance material to financial statements
noted? Yes No

Federal Awards

Internal control over major programs:
Material weakness identified? Yes No
Reportable condition identified not considered
to be material weakness? Yes None reported
Type of auditor's report issued on compliance
for major programs: Unqualified
Any audit findings disclosed that are required
to be reported in accordance with Circular
A-133, Section .510(a)? Yes No

Identification of major programs:

<u>CFDA Number</u>	<u>State Grant No.</u>	<u>Name of Federal Program or Cluster</u>
93.958	DHH63373	Pass-through from Sate Department of Health And Hospitals from US Department of Health and Human Services (Mental Health Block Grant)

Dollar threshold used to distinguish between
Type A and Type B programs: \$ 300,000

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS & QUESTIONED COSTS

No matters were reported.

EDUCATIONAL AND TREATMENT COUNCIL, INC.

SUMMARY SCHEDULE OF PRIOR YEAR MANAGEMENT RECOMMENDATIONS

June 30, 1998

GENERAL LEDGER MAINTENANCE - 97-1

• Auditee response:

An overall review of the accounting department will be conducted to review and revise job duties, improve statutory report generation, and improve completeness and timeliness of reports.

1. Accounting system - The agency's accounting system will be reviewed to determine whether an upgrade change is needed.
2. A "desk audit" of accounting personnel will be conducted to determine efficiency of scope of jobs. Accounting procedures will be reviewed by the auditor and the Finance Committee of the Board of Directors and standardized procedures will be implemented.
3. Procedure will be established to assure timeliness and correctness of general ledger information. Appropriate training on the general ledger accounting system will be provided for accounting personnel.
4. Monthly report will be reconciled to supporting documents. Correctness and completeness of the general system will be stressed and accuracy will be reviewed.
5. At the Board Meeting of Educational and Treatment Council, Inc., January 27, 1998, the following motion was introduced, voted on by all in attendance, and the motion carried with a majority vote:

Based on the results of the audit report, I move that the Personnel Committee assist the Executive Director in resolving the problems in the accounting department by assessing current staff abilities and the required skills needed to timely and adequately perform tasks relative to the job, including but not limited to timely posting of entries and production of reports, and return the results of this study to the board at the March meeting.

