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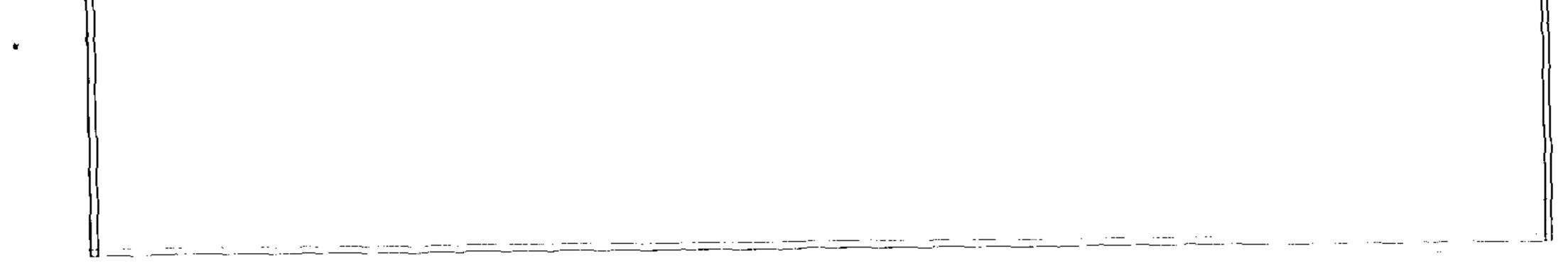
Financial Report

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The Magnolia School, Inc.

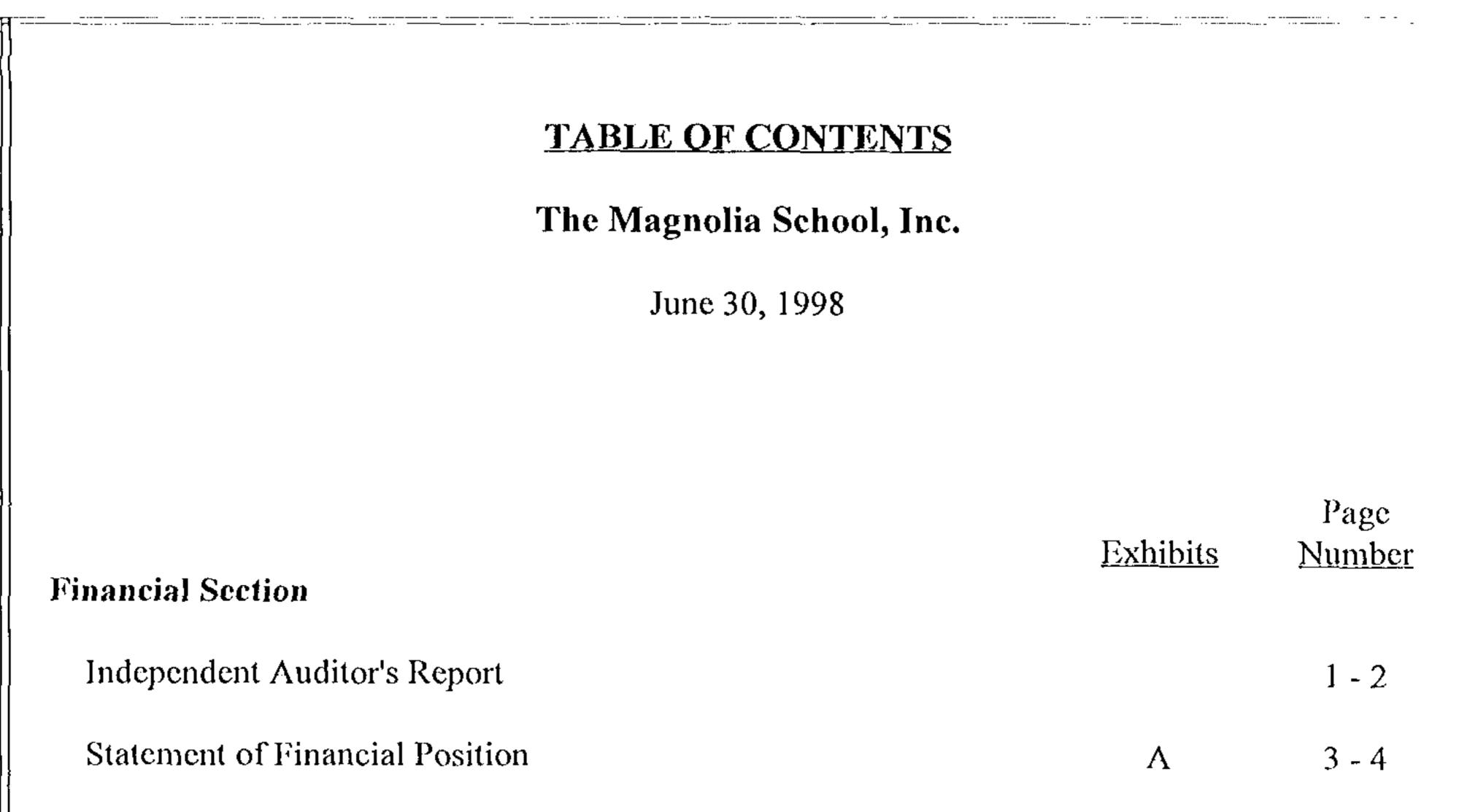
June 30, 1998

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.



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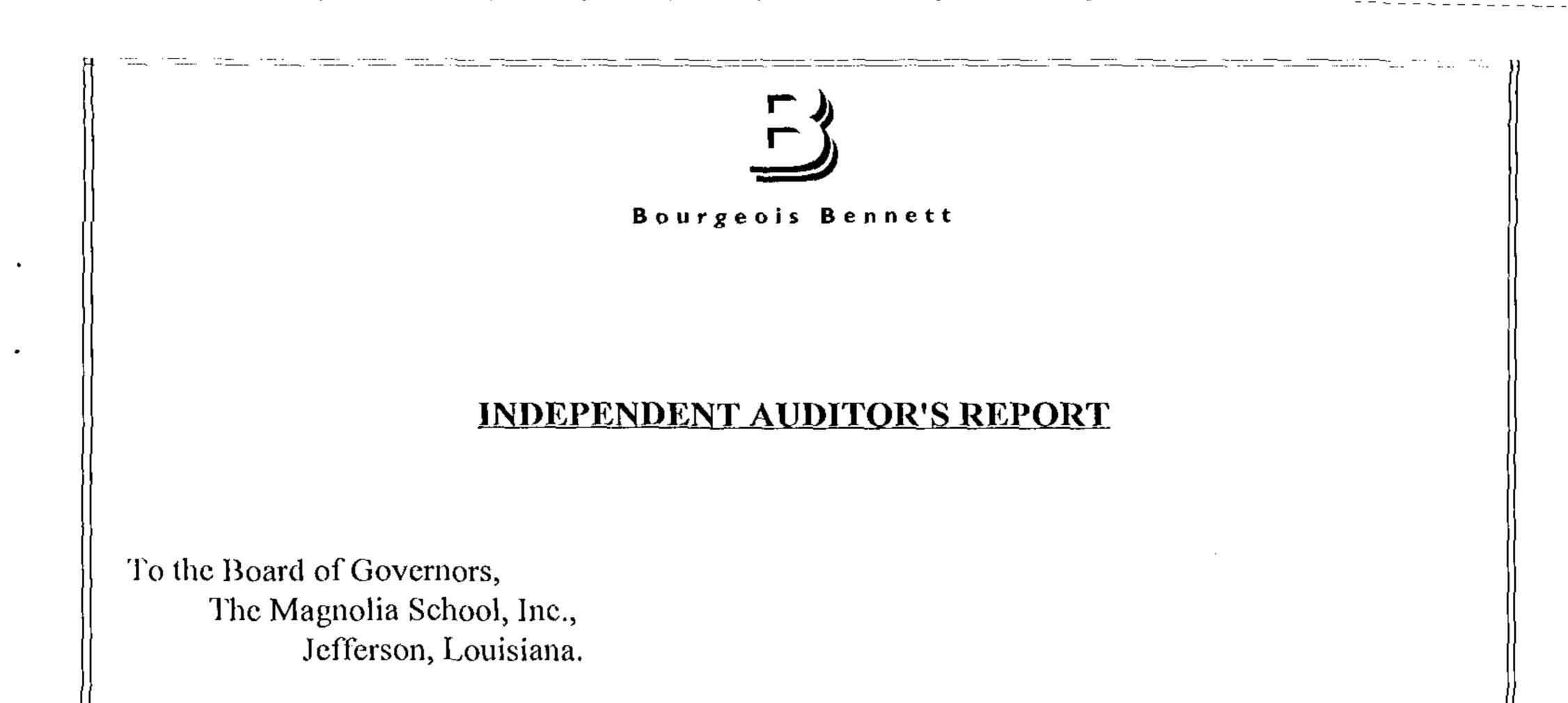
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We have audited the accompanying statement of financial position of The Magnolia

School, Inc. (a nonprofit organization) as of June 30, 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 School'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 <u>Government Auditing Standards</u>, 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 presented. 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 The Magnolia School, 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.

1340 West Tunnel Blvd., Suite 430 P.O. Box 2168 Houma, LA 70361-2168 Phone (504) 868-0139 Fax (504) 879-1949 Certified Public P Accountants I Consultants N A Limited Liability Company F P

P.O. Box 60600 New Orleans, LA 70160-0600 Heritage Plaza, Suite 800 Phone (504) 831-4949 Fax (504) 833-9093 504 West Second Street P.O. Box 1205 Thibodaux, LA 70302-1205 Phone (504) 447-5243 In accordance with <u>Government Auditing Standards</u>, we have also issued our report dated August 21, 1998 on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations contracts and grants.

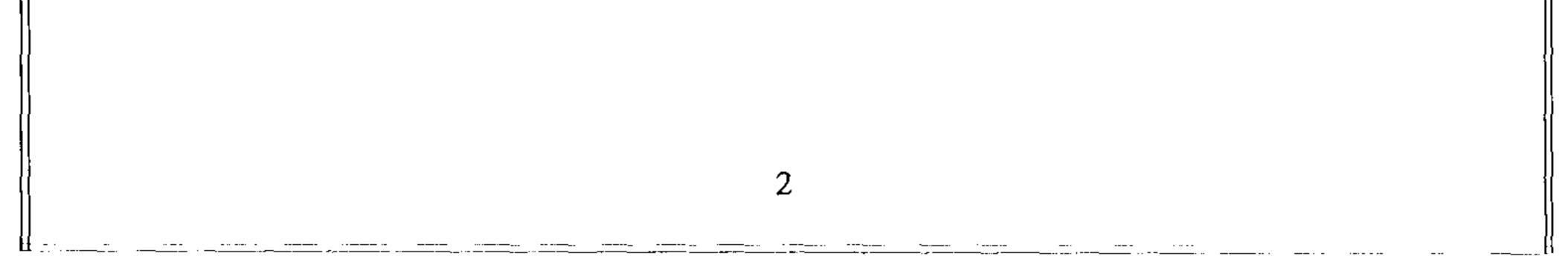
Bourgeoir Bennett, L.L.C.

Certified Public Accountants.

New Orleans, La., August 21, 1998.

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STATEMENT OF FINANCIAL POSITION

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The Magnolia School, Inc.

June 30, 1998

ASSETS

Current	
Cash and cash equivalents	\$ 812,657
Restricted cash	109,533
Accounts receivable:	
Medicaid	678,659
Tuition (net of allowance for	
doubtful accounts of \$75,000)	17,708
Other	40,878
Inventory	85,672
Duese id anne an an	140.252

Prepaid expenses	149,353
Total current assets	1,894,460
Property and Equipment	
Land	226,930
Buildings and improvements	3,832,026
Equipment and fixtures	1,281,197
	5,340,153
Less accumulated depreciation	(3,113,199)
Net property and equipment	2,226,954
Other	
Investments	235,304
Deposits	2,403
Total other assets	237,707
Total assets	\$ 4,359,121

See notes to financial statements.

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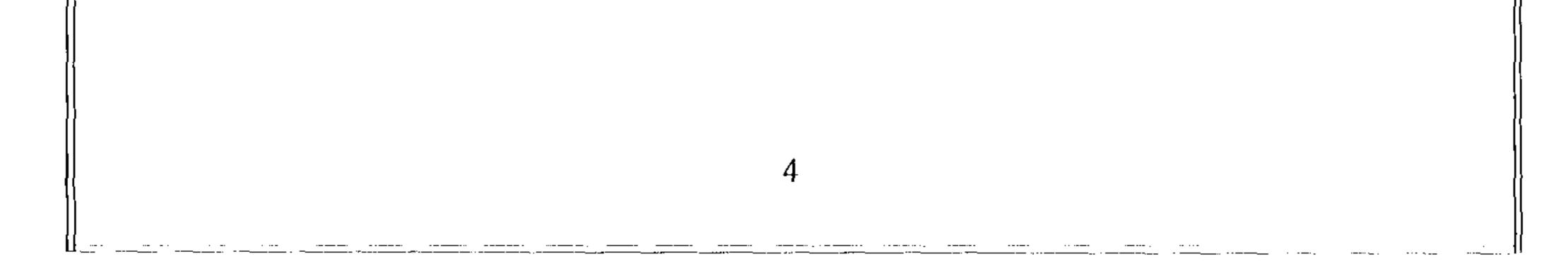
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Exhibit A

LIABILITIES AND NET ASSETS

Current	
Trade accounts payable	\$ 129,210
Bed fee payable - State of Louisiana Department of	
Social Services	43,618
Accrued payroll and related taxes	174,017
Accrued expenses	7,710
Accrued pension obligation	19,200
Deposits held in custody	109,533

Total current liabilities	483,288
Long-Term	
Accrued pension obligation	85,055
Total liabilities	568,343
Net Assets	
Unrestricted:	
Net investment in property and equipment	2,226,954
Undesignated	1,538,364
Total unrestricted net assets	3,765,318
Temporarily restricted	25,460
Total net assets	3,790,778
Total liabilities and net assets	\$ 4,359,121



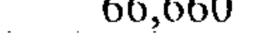
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			Exhibit B
STATEMEN	TOF ACTIVITIE	LS	
The Mag	nolia School, Inc.		
For the year	ended June 30, 1998		
	Unrestricted	Temporarily Restricted	Totals
Support and Revenue			-
Support: Medicaid Jefferson Parish Human	\$ 5,919,965		\$ 5,919,96
Services Authority Contributions Other	142,663 28,781 8,870	\$ 36,149	142,66 64,93 8,87
	< 100 0 70	26 140	C 10 C 40
Not equate relaced	6,100,279	36,149	6,136,42
Net assets released from restrictions	16,469	(16,469)	-
Total support	6,116,748	19,680	6,136,42
Revenue:			
Tuition	226,587		226,58
Investment income	29,713		29,71
Net realized gain on sale of			
investment in real estate	10,000		10,00
Net unrealized gains on	- - - - - - - - - -		
investments	51,401		51,40
Other	228,680		228,68
Total revenue	546,381		546,38
Total support and revenue	6,663,129	19,680	6,682,80
Expenses			
Program services:			
Therapeutic and training	2,600,813		2,600,81
Medical and nursing	299,203		299,20
Recreational	66,660		66,66



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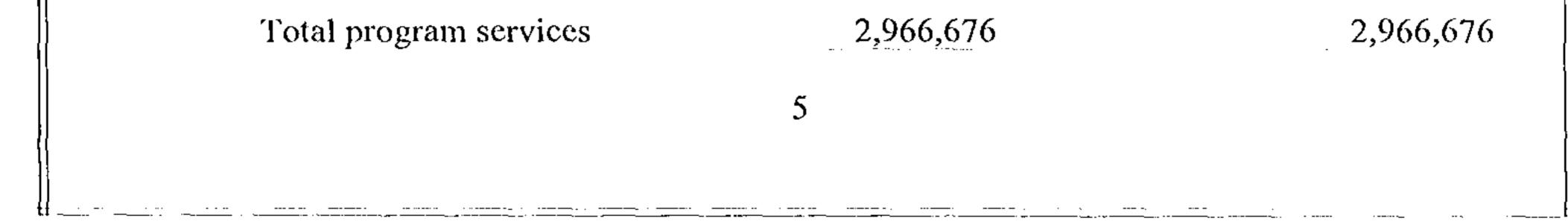


			Exhibit B (Continued)
	Unrestricted	Temporarily Restricted	Totals
Supporting services:			
Administrative and general	2,676,875		2,676,875
Dictary	464,130		464,130
Housekeeping	114,028		114,028
Plant operation and maintenance	378,726		378,726
Other	86,286		86,286
Total supporting services	3,720,045		3,720,045
Total expenses	6,686,721		6,686,721
Increase (Decrease) in Net Assets	(23,592)	19,680	(3,912)

Net Assets Beginning of year

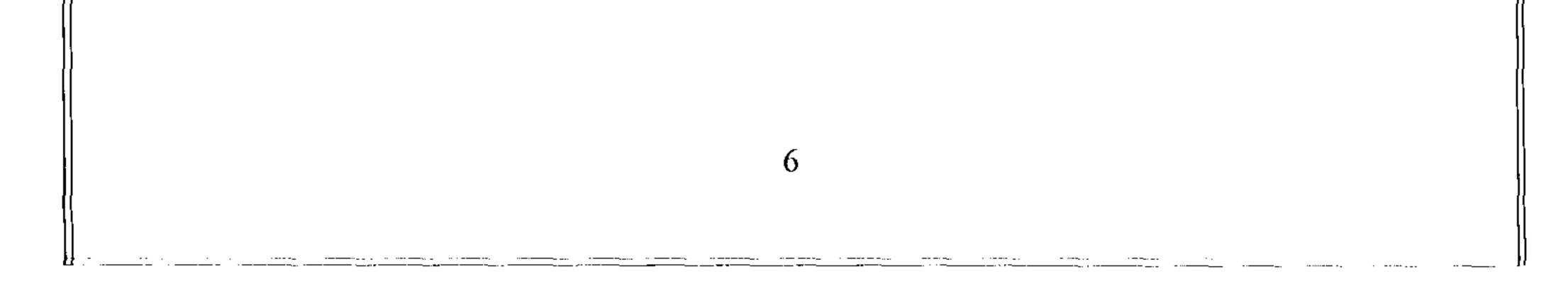
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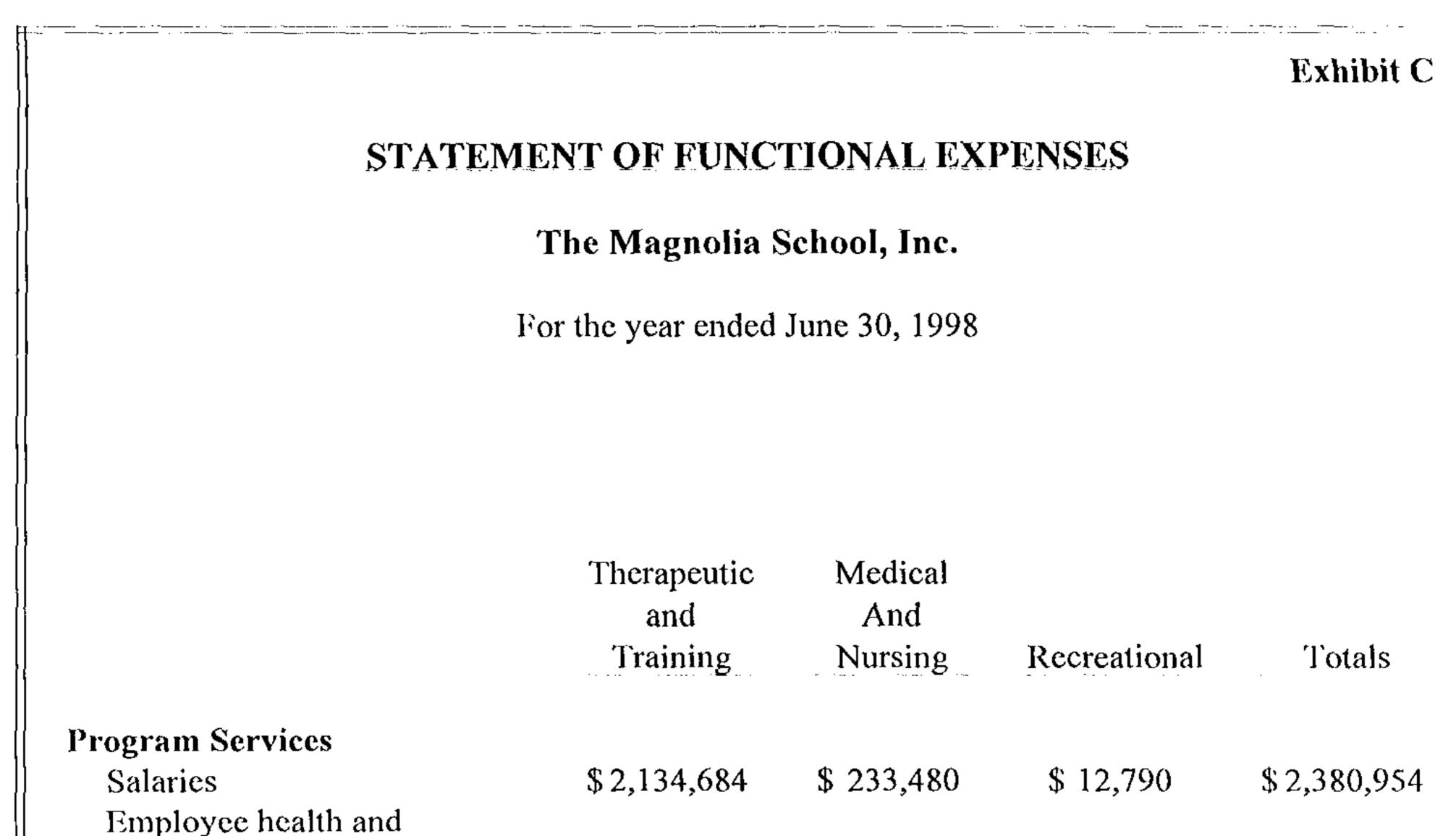
End of year

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3,788,9105,7803,794,690\$ 3,765,318\$ 25,460\$ 3,790,778

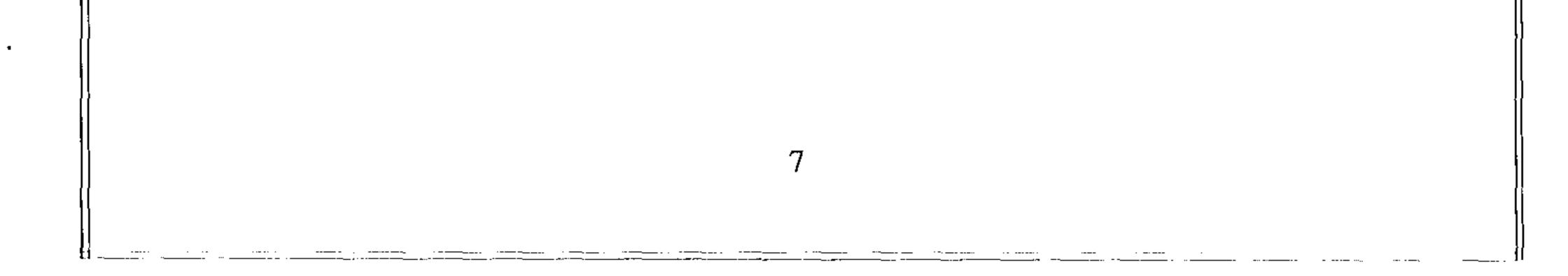
Sec notes to financial statements.





retirement honofite	154,939	7 875		167 764
retirement benefits	-	7,825	-	162,764
Payroll taxes, etc.	165,237	17,861	978	184,076
Total salaries and				
related expenses	2,454,860	259,166	13,768	2,727,794
Contract services	19,311	21,165	-	40,476
Freight	6,128	-	-	6,128
Purchases - retail store	108,275	-	-	108,275
Supplies and other	12,239	18,872	52,892	84,003
Total program services				
expenses	\$2,600,813	\$ 299,203	\$ 66,660	\$2,966,676

See notes to financial statements.



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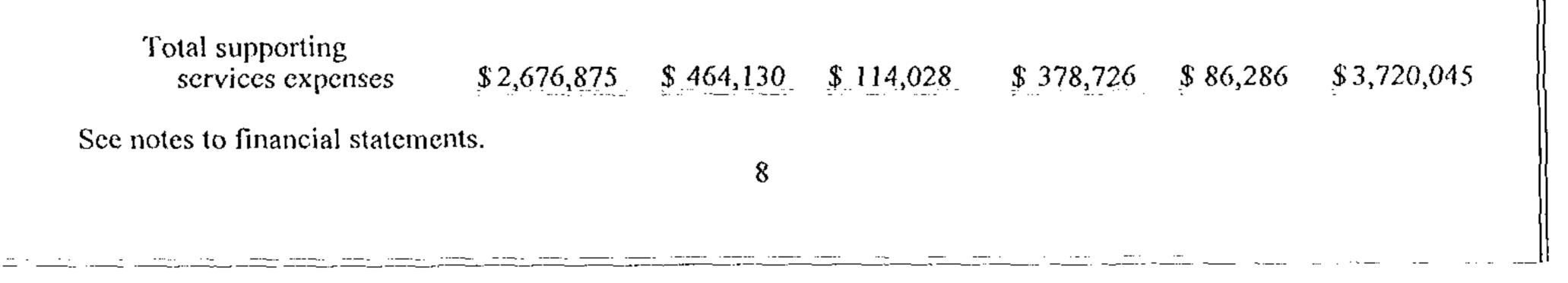
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	Adminis- trative and General	Dietary	House- keeping	Plant Operation and Maintenance	Other	Totals
Supporting Services	607 202	<u> ቀ ነበረ ለ</u> 11	ወ ደር ድንፅ	¢ 110 070		¢ 0/1 0/0
Salaries \$	587,322	\$ 186,011	\$ 50,538	\$ 118,078		\$ 941,949
Employee health and	72 (10	14 270	6 106	20.500		122 707
retirement benefits	73,642	14,370	6,186	39,509		133,707
Payroll taxes, etc.	45,462	14,230	3,866	9,033	••• ·	72,591
Total salaries and						
related expenses	706,426	214,611	60,590	166,620		1,148,247
ronatou onponsoos	,	,		,		, ,
Advertising	3,610					3,610
Automobile	57,281					57,281
Bad debts	83,690					83,690
Bed fee - Louisiana Department	·					
of Health and Hospitals	433,203					433,203
Client personal needs	·				\$ 81,652	81,652
Contract services				62,202		62,202
Depreciation	300,025					300,025
Donation to Magnolia Foundation	393,856					393,856
Dues and subscriptions	2,145					2,145
Food	-	247,531				247,531
Insurance	182,026					182,026
Interest	4,759					4,759
Laundry, linen and bedding	-				4,634	4,634
Legal and accounting	31,551					31,551
Miscellaneous	32,958					32,958
Office supplies	102,466					102,466
Pension expense	19,200					19,200
Postage	3,460					3,460
Printing	4,349					4,349
Rent	109,928					109,928
Repairs and maintenance:						
Buildings and grounds				95,794		95,794
Supplies				9,825		9,825
Other				44,285		44,285
Supplies and other		1,988	53,438			55,426
Taxes and licenses	8,505					8,505
Telephone	33,408					33,408
Travel	21,072					21,072
Utilities	142,957			. _		142,957

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Exhibit D

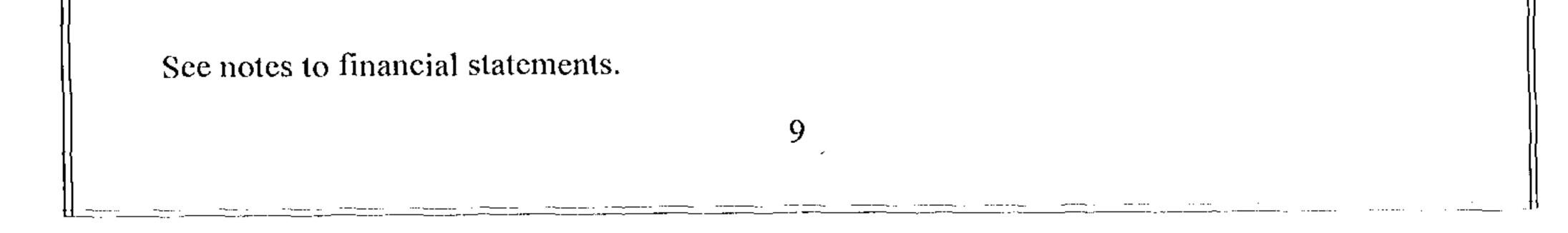
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STATEMENT OF CASH FLOWS

The Magnolia School, Inc.

For the year ended June 30, 1998

Cash Flows From Operating Activities Decrease in net assets	\$	(3,912)
Adjustments to reconcile increase in net assets to cash	-	
provided by operating activities:		
Depreciation		300,025
Net realized gain on sale of investment in real estate		(10,000)
Net unrealized gains on investments		(51,401)
Decrease (increase) in operating assets:		
Accounts receivable		(53,127)
Inventory		27,126
Prepaid expenses and deposits		(10,833)
Increase (decrease) in operating liabilities:		
Accounts payable		(32,414)
Accrued expenses and other		(71,197)
Net cash provided by operating activities		94,267
Cash Flows From Investing Activities		
Proceeds from sale of investment in real estate		384,000
Purchases of property and equipment		(273,023)
Net cash provided by investing activities		110,977
Cash Flows From Financing Activities		
Repayment of funds owed to State of Louisiana Department of Social Services		(3,365)
Net cash used in financing activities		(3,365)
Net Increase In Cash and Cash Equivalents		201,879
Cash and Cash Equivalents		610,778
Beginning of year		010,770
End of year	\$	812,657



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Exhibit E

NOTES TO FINANCIAL STATEMENTS

The Magnolia School, Inc.

June 30, 1998

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The Magnolia School, Inc. (the School) is a non-profit corporation founded in 1935 for the purpose of providing housing, training and education for mentally retarded children and adults.

b. Basis of Accounting

The financial statements of the School have been prepared on the accrual basis of accounting.

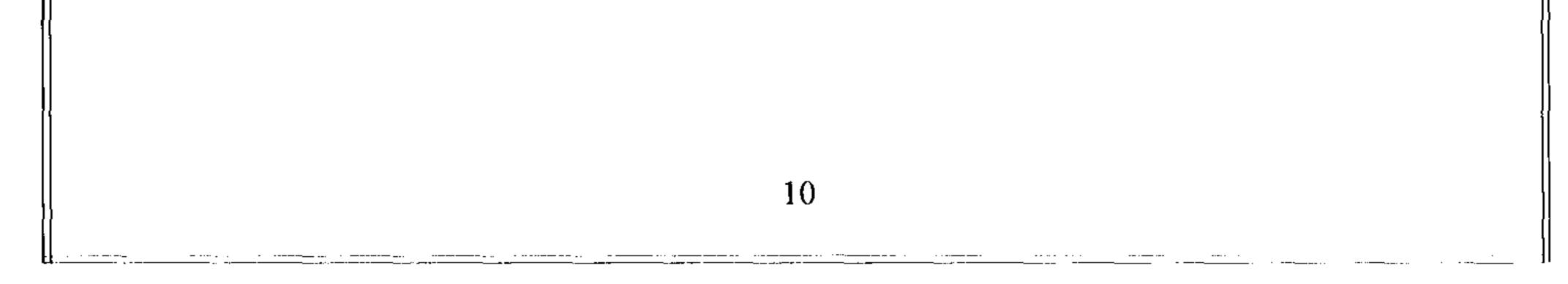
c. Use of Estimates

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

d. Cash and Cash Equivalents

The School classifies as cash and cash equivalents all highly liquid debt instruments with a maturity of three months or less.

Restricted cash consists of amounts credited to the School's bank accounts from deposits held in custody for the students of the program.



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Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Allowance for Doubtful Accounts

The School uses the reserve method to recognize uncollectible accounts. The reserve is based on certain tuition accounts receivable balances that are greater than 120 days old.

f. Promises to Give

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Unconditional promises are recorded net of any allowance for uncollectible amounts estimated by the management of the School. At June 30, 1998, all unconditional promises to give had been collected.

g. Inventory

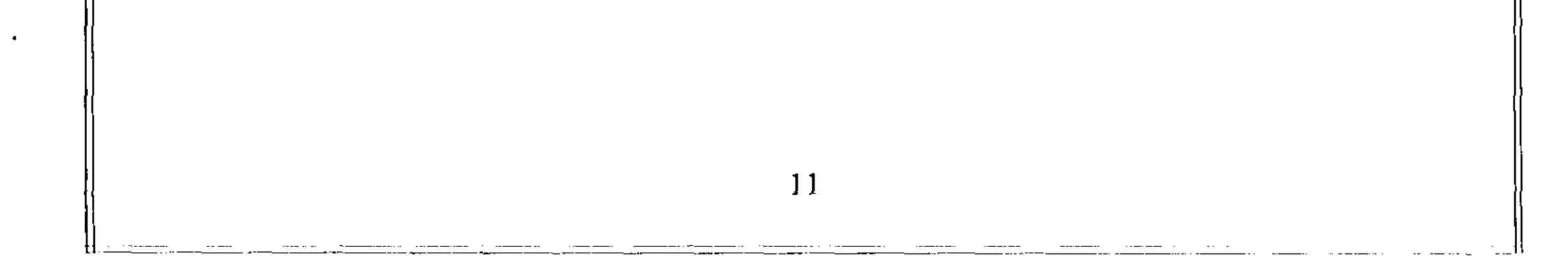
Inventory is stated at the lower of cost, as determined by the first-in, first-out (FIFO) method, or market.

h. Property and Equipment

The School records purchases of property and equipment at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method.

i. Investments

Investments, which consist of marketable securities, are stated at fair value and are composed of corporation stocks.



Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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

k. Tax Matters

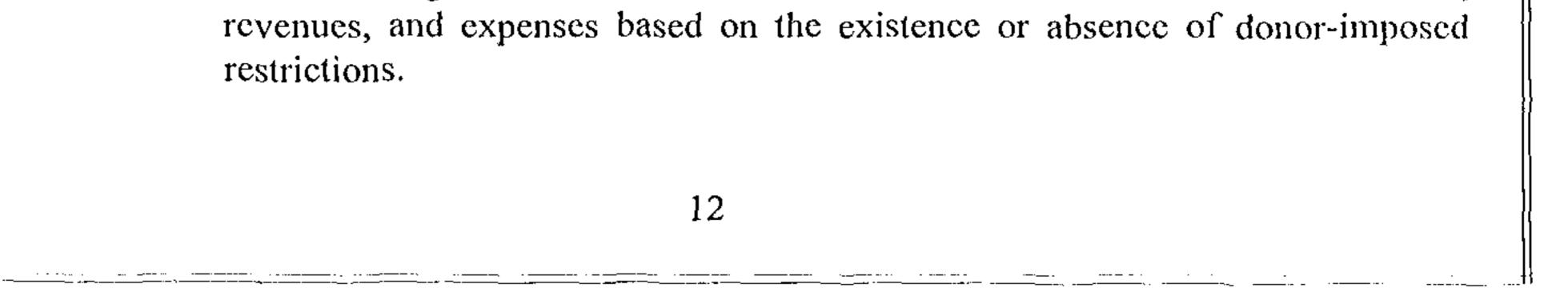
The School is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, and qualifies as an organization that is not a private foundation as defined in Section 509(a) of the Code. It is exempt from Louisiana income tax under the authority of R.S. 47:121(5).

I. Allocated Expenses

The costs of providing the various programs and other activities are summarized in the statement of functional expenses. Certain expenses have been allocated among the programs and supporting services based on management's estimate of the costs involved.

m. Financial Statement Presentation

Financial statement presentation follows the recommendations of the Statement of Financial Accounting Standards, (SFAS) No. 117, "Financial Statements of Not-For-Profit Organizations." Under SFAS No. 117, PPLA classified its nets assets,



Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m. Financial Statement Presentation (Continued)

Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets - Support, revenue and expenses for the general operation of the School.

Temporarily Restricted Net Assets - Contributions specifically authorized by the grantor or donor to be used for a certain purpose or to benefit a specific accounting period.

Note 2 - RESTRICTIONS ON ASSETS

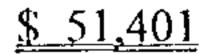
Temporarily restricted net assets are restricted by donors for specific programs, purposes, or to assist specific departments of the School. These restrictions are considered to expire when payments for restricted purposes are made. None of the temporarily restricted net assets are time-restricted by donors.

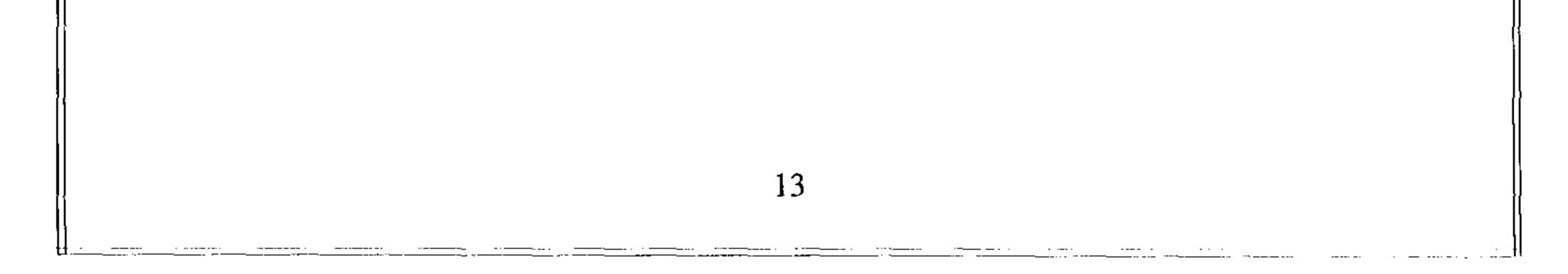
Note 3 - INVESTMENTS

The following summarizes investments at June 30, 1998:

		Fair	
		Market	Unrealized
	Cost	Value	Gains
Investments - corporate stocks			
June 30, 1998	<u>\$41,661</u>	<u>\$235,304</u>	\$193,643
June 30, 1997	<u>\$41,661</u>	<u>\$183,903</u>	142,242

Net unrealized gain on investments





FUNDS OWED TO STATE OF LOUISIANA DEPARTMENT OF SOCIAL **Note 4** -SERVICES

The amount due to the State of Louisiana Department of Social Services (the State) is the result of an overpayment of State funds to the School. An agreement with the State was reached whereby the School is to pay the State \$3,000 per month, principal only, beginning in July 1990, until the entire debt is extinguished. The debt was extinguished during the fiscal year ending June 30, 1998.

CUSTODIAL FUNDS Note 5 -

For the year ended June 30, 1998, personal funds of the students totaling \$109,533, were held in custody and reported as deposits held in custody in the accompanying financial statements.

Note 6 - LEASE COMMITMENTS

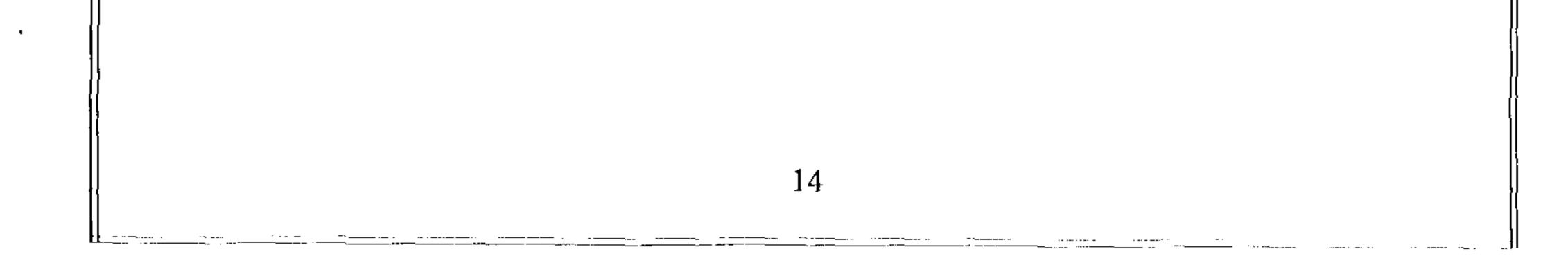
The School leases several of its residential facilities under separate operating leases, ten of which are leased from the Magnolia Foundation, an affiliated entity. Lease payments made to this affiliate totaled \$89,528 for the year ended June 30, 1998. Rent expense incurred under all leases totaled \$109,928 for the year ended June 30, 1998.

Minimum future lease payments are as follows:

Year Ending <u>June 30.</u>

1999	\$111,241
2000	64,400
2001	<u>13,400</u>
Total	\$189.041

<u>\$107,041</u>



Note 7 - EMPLOYEE BENEFIT PLANS

The School has established a non-contributory profit sharing plan for all employees who are age 21 or older and have one or more years of service. Under the plan, the School makes discretionary contributions to the plan which become fully vested to employees after five years of participation in the plan. The School did not fund a contribution to the plan during the year ended June 30, 1998.

The School has established a flexible benefit plan (cafeteria plan) to provide supplemental health and certain other employee benefits. Contributions to the plan will be paid by the participants. The School benefits from the plan by realizing a reduction of payroll taxes for those employees who elect to participate in this plan.

The School makes retirement payments to a former employee of the School. While an actuary has not been engaged to project the estimated benefit obligation to this employee,

management estimates the benefit obligation to be \$104,255 for the year ended June 30, 1998. For the year ended June 30, 1998, retirement payments made under the terms of this plan totaled \$19,200.

Note 8 - RELATED PARTY TRANSACTIONS

For the year ended June 30, 1998 the School made donations of cash and property to the Magnolia Foundation totaling \$393,856. Also, the School leases residential facilities from the Foundation as described in Note 6.

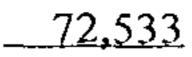
Note 9 - SUPPLEMENTAL CASH FLOW INFORMATION

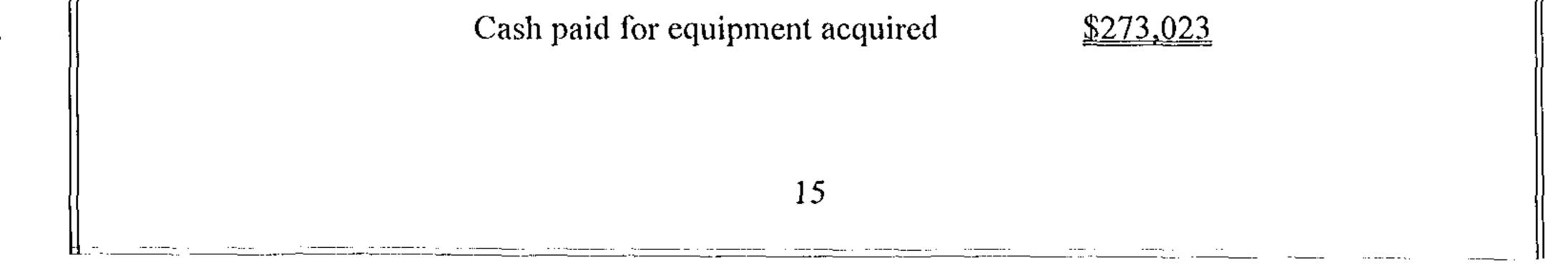
The following summaries the non-cash investing and financing transactions of the School:

Cost of equipment acquired

\$200,490

Decrease (increase) in trade accounts payable for equipment purchases

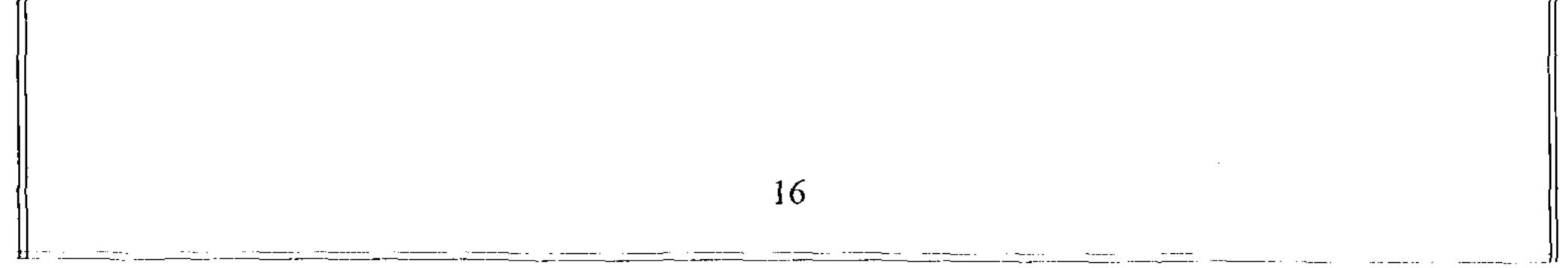




Note 10 - ECONOMIC DEPENDENCY

The School's residential and adult day programs are licensed by the State of Louisiana Department of Social Services and are certified Title XIX facilities. The education program is certified by the Louisiana State Department of Education. The School receives the majority of its support and revenue from Medicaid which is administered through the State of Louisiana Department of Social Services. If significant budget cuts are made at the federal and/or state levels, the amount of funds the School receives could be reduced significantly and which would have an adverse impact on its operations. Management is not aware of any actions that will adversely affect the amount of funds the School will receive in the next fiscal year.





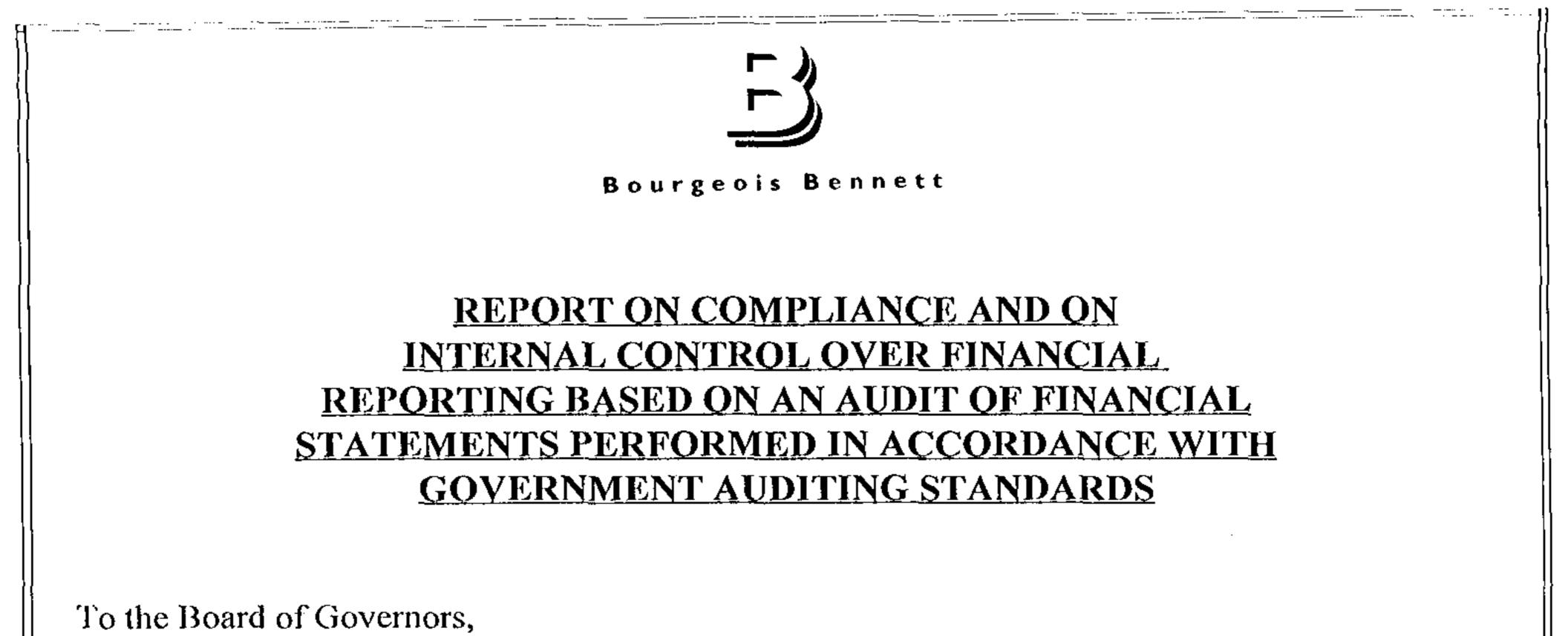
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SPECIAL REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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The Magnolia School, Inc., Jefferson, Louisiana.

We have audited the financial statements of The Magnolia School, Inc. (a nonprofit

organization) as of and for the year ended June 30, 1998, and have issued our report thereon dated August 21, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in <u>Government Auditing Standards</u>, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether The Magnolia School, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provision 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 <u>Government Auditing Standards</u>.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Magnolia School, Inc.'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

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1340 West Tunnel Blvd., Suite 430 P.O. Box 2168 Houma, LA 70361-2168 Phone (504) 868-0139 Fax (504) 879-1949 Certified Public Accountants I Consultants A Limited Liability Company

P.O. Box 60600 New Orleans, LA 70160-0600 Heritage Plaza, Suite 800 Phone (504) 831-4949 Fax (504) 833-9093

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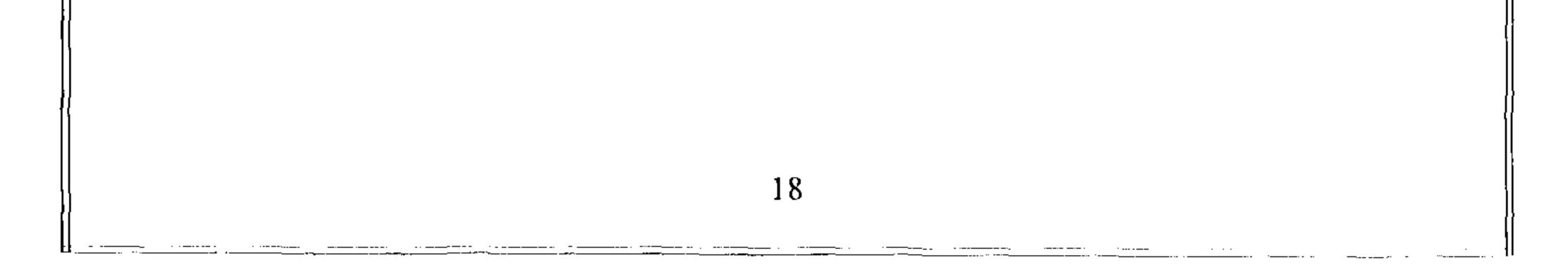
504 West Second Street P.O. Box 1205 Thibodaux, LA 70302-1205 Phone (504) 447-5243 necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control 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 the Legislative Auditor of the State of Louisiana. However, this report is a matter of public record, and its distribution is not limited.

Bourgeoir Bennett, L.L.C.

Certified Public Accountants.

New Orleans, La., August 21, 1998.



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SCHEDULE OF FINDINGS

The Magnolia School, Inc.

For the year ended June 30, 1998

Section I Summary of Auditor's Report

a) Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

not considered to be material weakness

- Material weakness(es) identified? ____yes <u>X</u>_no • Reportable condition(s) identified that are .
 - $_____ yes _X__ none reported$

Noncompliance material to financial statements noted? $\underline{}$ yes \underline{X} no

b) Federal Awards

For the year ended June 30, 1998, The Magnolia School, Inc. was not subject to OMB Circular A-133, Audits of States, Local Government and Non-Profit Organizations.

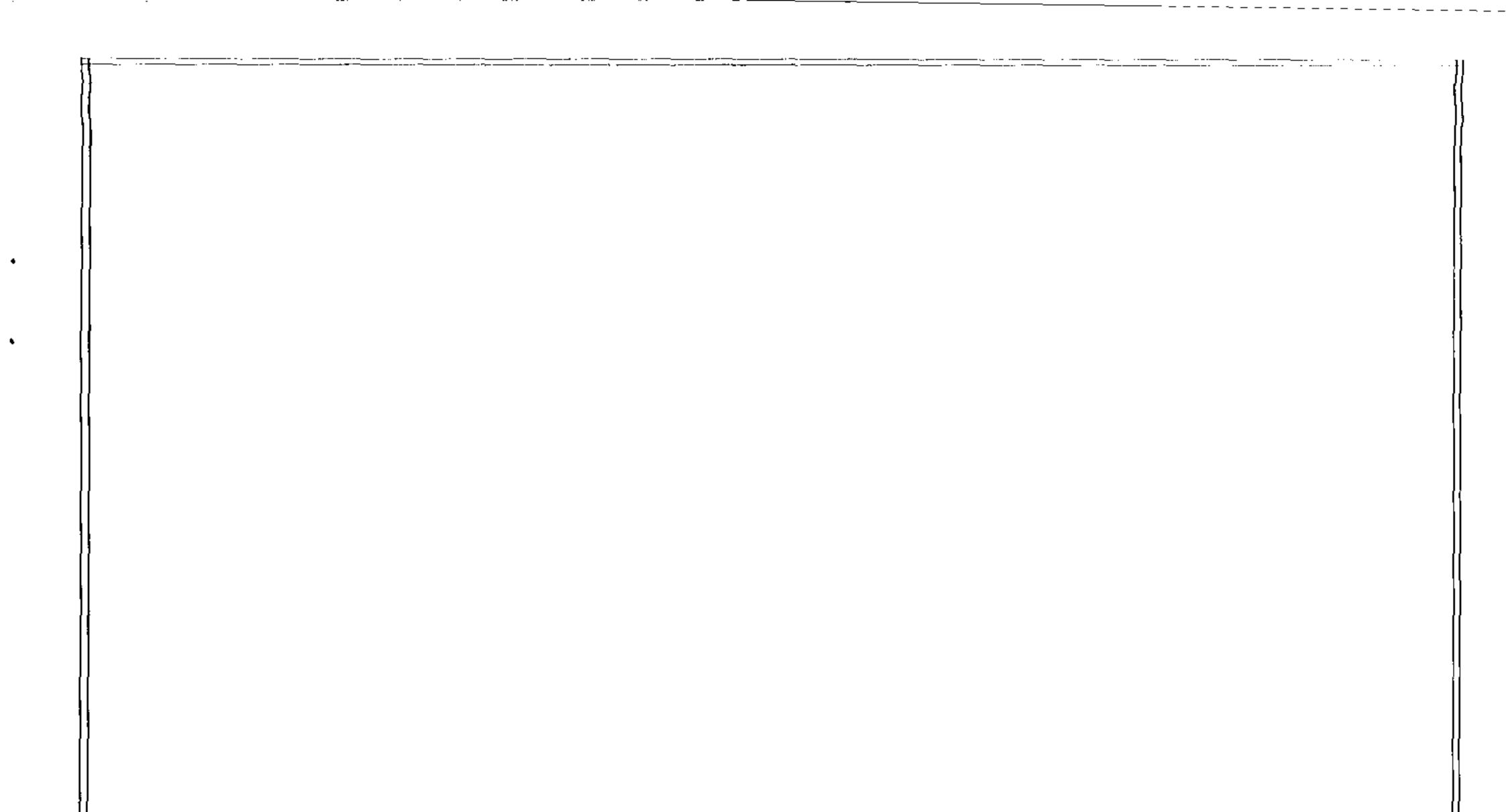
Section II Financial Statement Findings

There were no financial statement findings required to be reported for the year ended June 30, 1998.

Section III Federal Award Findings and Questioned Costs

Not applicable.

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REPORTS BY MANAGEMENT

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SCHEDULE OF PRIOR YEAR FINDINGS The Magnolia School, Inc. For the year ended June 30, 1998 Section I Internal Control and Compliance Material to the Financial Statements For the year ended June 30, 1997, there were no internal control or compliance issues reported or noted.

Section II Internal Control and Compliance Material To Federal Awards

For the year ended June 30, 1997, there were no internal control or compliance issues material

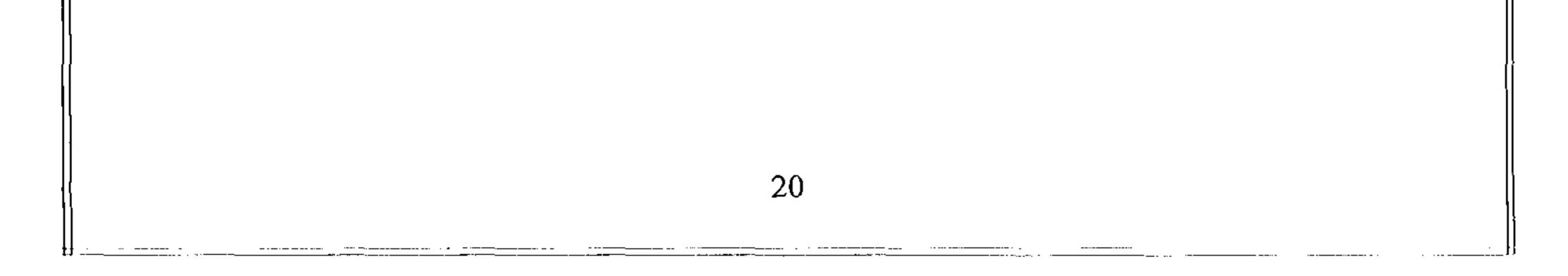
to federal awards reported.

Section III Management Letter

Not applicable.

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MANAGEMENT'S CORRECTIVE ACTION PLAN

The Magnolia School, Inc.

For the year ended June 30, 1998

Section I Internal Control and Compliance Material to the Financial Statements

For the year ended June 30, 1998, there were no internal control or compliance issues reported or noted.

Section II Internal Control and Compliance Material To Federal Awards

For the year ended June 30, 1998, The Magnolia School, Inc. was not subject to OMB Circular A-133, <u>Audits of States, Local Government and Non-Profit Organizations</u>.

Section III Management Letter

Not applicable.

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