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**EDUCATIONAL AND TREATMENT COUNCIL, INC.
FINANCIAL AND COMPLIANCE REPORT
JUNE 30, 1999**

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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EDUCATIONAL AND TREATMENT COUNCIL, INC.

June 30, 1999

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INDEPENDENT AUDITORS' REPORT

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, 1999, 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.

As more fully described in Note 8 to the financial statements, the Organization has allocated certain expenses by function based upon approximations made by management. Although such allocations may be reasonable, they are not susceptible to substantiation by auditing procedures.

In our opinion, except for the effects of such reclassification of allocated functional expenses, if any, as might have resulted had the allocations referred to in the preceding paragraph been susceptible to satisfactory audit tests, 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, 1999, 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 17, 1999, 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.

The Year 2000 supplementary information on page 22 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and the presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that Educational and Treatment Council, Inc. is or will become Year 2000 compliant, that the Educational and Treatment Council, Inc.'s year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Educational and Treatment Council, Inc. does business are or will become Year 2000 compliant.

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.



Lake Charles, Louisiana
December 17, 1999

EDUCATIONAL AND TREATMENT COUNCIL, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 1999

With Comparative Totals for June 30, 1998

<u>ASSETS</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Cash and cash equivalents	\$ 826,414	\$ 11,981	\$ -
Accounts and interest receivable	117,452	-	-
Receivable from Brown Foundation, Inc.	9,073	-	-
Prepaid expenses	4,917	-	-
Land, buildings, and equipment	993,870	-	3,959
Construction in progress	-	-	-
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 1,951,726</u>	<u>\$ 11,981</u>	<u>\$ 3,959</u>
 <u>LIABILITIES</u>			
Accounts and interest payable	\$ 62,281	\$ -	\$ -
Accrued salary and payroll taxes	8,229	-	-
Accrued maternity benefits	-	9,758	-
Note payable	500,000	-	-
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>570,510</u>	<u>9,758</u>	<u>-</u>
 <u>NET ASSETS</u>			
Unrestricted	1,381,216	-	-
Temporarily restricted:			
For use in future years:			
Art therapy	-	-	-
Maternity claims	-	-	-
Runaway Youth Act Program	-	2,223	-
Permanently restricted:			
For purchase of property and equipment	<hr/>	<hr/>	<hr/>
	-	-	3,959
Total net assets	<u>1,381,216</u>	<u>2,223</u>	<u>3,959</u>
Total liabilities and net assets	<u>\$ 1,951,726</u>	<u>\$ 11,981</u>	<u>\$ 3,959</u>

See accompanying notes to financial statements.

Total	
1999	1998
\$ 838,395	\$ 745,175
117,452	138,379
9,073	-
4,917	4,819
997,829	374,705
-	17,148
<u>\$ 1,967,666</u>	<u>\$ 1,280,226</u>

\$ 62,281	\$ 11,624
8,229	10,558
9,758	9,758
500,000	-
<u>580,268</u>	<u>31,940</u>

1,381,216	1,226,129
-----------	-----------

-	9,791
-	457
2,223	4,347

3,959	7,562
<u>1,387,398</u>	<u>1,248,286</u>

<u>\$ 1,967,666</u>	<u>\$ 1,280,226</u>
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EDUCATIONAL AND TREATMENT COUNCIL, INC.

STATEMENT OF ACTIVITIES

June 30, 1999

With Comparative Totals at June 30, 1998

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
PUBLIC SUPPORT AND REVENUE			
Public support:			
Contributions	\$ 171,964	\$ -	\$ -
Grants and contracts:			
Federal sources	460,323	2,223	-
State sources	346,900	-	-
Taxes	344,595	-	-
Other	<u>9,890</u>	<u>-</u>	<u>-</u>
Total public support	<u>1,333,672</u>	<u>2,223</u>	<u>-</u>
Revenue:			
Investment income	35,708	-	-
Private placements	-	-	-
Client fees	1,762	-	-
Other	<u>2,565</u>	<u>-</u>	<u>-</u>
Total revenue	<u>40,035</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>1,373,707</u>	<u>2,223</u>	<u>-</u>
Net assets released from restrictions:			
Satisfaction of program restrictions	14,595	(14,595)	-
Expiration of time restrictions	<u>3,603</u>	<u>-</u>	<u>(3,603)</u>
Total net assets released from restrictions	<u>18,198</u>	<u>(14,595)</u>	<u>(3,603)</u>
Total revenue, gains and other support	<u>1,391,905</u>	<u>(12,372)</u>	<u>(3,603)</u>
Expenses and losses:			
Harbor House	800,972	-	-
Crisis Counseling	422,550	-	-
Fund-raising	<u>13,296</u>	<u>-</u>	<u>-</u>
Total expenses	<u>1,236,818</u>	<u>-</u>	<u>-</u>
Change in net assets	155,087	(12,372)	(3,603)
Net assets, beginning	<u>1,226,129</u>	<u>14,595</u>	<u>7,562</u>
Net assets, ending	<u>\$ 1,381,216</u>	<u>\$ 2,223</u>	<u>\$ 3,959</u>

See accompanying notes to financial statements.

<u>Total</u>	
<u>1999</u>	<u>1998</u>
\$ 171,964	\$ 36,516
462,546	555,163
346,900	339,076
344,595	336,260
9,890	3,519
<u>1,335,895</u>	<u>1,270,534</u>
35,708	35,035
-	3,136
1,762	5,211
<u>2,565</u>	<u>1,989</u>
<u>40,035</u>	<u>45,371</u>
<u>1,375,930</u>	<u>1,315,905</u>
-	-
-	-
-	-
<u>1,375,930</u>	<u>1,315,905</u>
800,972	793,375
422,550	297,433
13,296	102
<u>1,236,818</u>	<u>1,090,910</u>
139,112	224,995
<u>1,248,286</u>	<u>1,023,291</u>
<u>\$ 1,387,398</u>	<u>\$ 1,248,286</u>

EDUCATIONAL AND TREATMENT COUNCIL, INC.

STATEMENT OF CASH FLOWS
 Year Ended June 30, 1999
 With Comparative Totals for Year Ended June 30, 1998

	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from service recipients	\$ 1,762	\$ 8,347
Cash received from contributions	171,964	36,516
Cash collected federal grants and contracts	443,204	523,656
Cash collected on state contracts	397,059	314,877
Cash collected from tax levy	344,595	336,260
Interest received	35,708	41,011
Miscellaneous receipts	2,565	1,989
Interest paid	(969)	(445)
Cash paid to employees and suppliers	<u>(1,181,816)</u>	<u>(1,059,996)</u>
Net cash provided by operating activities	<u>214,072</u>	<u>202,215</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase building, furniture and equipment	(611,778)	(45,775)
Construction in progress	<u>-</u>	<u>(17,148)</u>
	<u>(611,778)</u>	<u>(62,923)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long term debt	<u>490,927</u>	<u>-</u>
Net cash (used in) financing activities	<u>490,927</u>	<u>-</u>
Net increase in cash and cash equivalents	93,221	139,293
Cash and cash equivalents:		
Beginning	<u>745,175</u>	<u>605,882</u>
Ending	<u>\$ 838,396</u>	<u>\$ 745,175</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO		
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Change in net assets	\$ 139,112	\$ 224,995
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	37,123	33,556
(Increase) decrease in accounts and interest receivable	20,927	(50,264)
(Increase) decrease in prepaid expenses	(98)	7,643
Increase (decrease) in accounts payable	19,337	(14,940)
Increase (decrease) in accrued expenses	<u>(2,329)</u>	<u>1,225</u>
Net cash provided by operating activities	<u>\$ 214,072</u>	<u>\$ 202,215</u>

See accompanying notes to financial statements.

EDUCATIONAL AND TREATMENT COUNCIL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 1999

With Comparative Totals for Year Ended June 30, 1998

	Program	
	Harbour House	Crisis Counseling
Salaries	\$ 501,460	\$ 246,500
Payroll taxes	37,037	23,834
Employee benefits	17,118	12,322
Advertising/promotions	1,664	941
Childcare	-	-
Clinical supervision	-	23,238
Data processing	4,697	3,580
Dues/subscriptions	506	506
Educational expense	398	-
Food	26,627	391
Fund-raising expense	-	-
Insurance-workmen's compensation	3,308	3,280
Insurance-liability	5,967	9,040
Insurance-motor vehicle	7,439	-
Insurance-malpractice	500	-
Insurance-other	1,277	1,277
Interest	15,249	320
Linen, bedding and miscellaneous housekeeping	4,294	-
Licenses	365	600
Medical service-routine	4,732	-
Medical supplies	-	-
Motor vehicle	3,921	869
Office supplies	9,443	7,176
Personal client needs/clothing	8,445	-
Printing	6,278	821
Postage	1,086	1,459
Professional service	11,750	28,414
Psychiatrist	3,240	-
Recreational	4,788	247
Rent	5,346	10,443
Building/grounds maintenance	13,341	2,061
Building/grounds repairs	13,426	253
Repairs/maintenance-equipment	1,099	1,099
Social Worker	-	-
Supplies	8,448	-
Telephone/telegraph	8,942	8,353
Therapeutic supplies	1,624	990
Training	-	30
Travel and seminar expense	11,422	29,735
Utilities	18,519	1,682
Miscellaneous	2,320	862
Total expenses before depreciation	766,076	420,323
Depreciation of buildings and equipment	34,896	2,227
Total expenses	<u>\$ 800,972</u>	<u>\$ 422,550</u>

Fund Raising	Total	
	1999	1998
\$ -	\$ 747,960	\$ 679,542
-	60,871	52,172
-	29,440	21,109
-	2,605	1,724
-	-	2,700
-	23,238	20,262
-	8,277	1,808
-	1,012	1,277
-	398	2,710
-	27,018	26,251
13,296	13,296	102
-	6,588	5,401
-	15,007	11,472
-	7,439	9,082
-	500	823
-	2,554	4,820
-	15,569	445
-	4,294	3,647
-	965	817
-	4,732	3,814
-	-	521
-	4,790	26,049
-	16,619	21,733
-	8,445	5,319
-	7,099	1,553
-	2,545	2,031
-	40,164	24,752
-	3,240	4,927
-	5,035	7,337
-	15,789	12,255
-	15,402	18,980
-	13,679	8,090
-	2,198	7,742
-	-	-
-	8,448	6,668
-	17,295	17,911
-	2,614	5,036
-	30	1,020
-	41,157	12,512
-	20,201	18,549
-	3,182	4,391
13,296	1,199,695	1,057,354
-	37,123	33,556
<u>\$ 13,296</u>	<u>\$ 1,236,818</u>	<u>\$ 1,090,910</u>

EDUCATIONAL AND TREATMENT COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 1999

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, 1999, advertising expense was \$2,605.

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 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, 1999 are available for the following purposes or periods:

Runaway Youth Act Program	<u>\$ 2,223</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, 1999, cash balances and certificates of deposit of the Organization were as follows:

	<u>Bank Balances</u>	<u>Book Balances</u>
Demand deposits	\$ 15,127	\$ 9,400
Time deposits-interest bearing	<u>828,994</u>	<u>828,995</u>
	<u>\$ 844,121</u>	<u>\$ 838,395</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:

	<u>Balance</u> 7-1-98	<u>Additions</u>	<u>Adjustments/ Transfers</u>	<u>Balance</u> 6-30-99
Cost:				
Land	\$ 25,000	\$ -	\$ -	\$ 25,000
Buildings	466,630	614,228	-	1,080,858
Furniture and equipment	246,561	46,018	-	292,579
Vehicles	28,161	-	-	28,161
Leasehold improvements	<u>59,848</u>	<u>-</u>	<u>-</u>	<u>59,848</u>
	<u>\$ 826,200</u>	<u>\$ 660,246</u>	<u>\$ -</u>	<u>1,486,446</u>
Accumulated depreciation:				
Land	\$ -	\$ -	\$ -	-
Buildings	206,069	15,742	-	221,811
Furniture and equipment	200,526	16,994	-	217,520
Vehicles	23,382	3,094	-	26,476
Leasehold improvements	<u>21,518</u>	<u>1,292</u>	<u>-</u>	<u>22,810</u>
	<u>\$ 451,495</u>	<u>\$ 37,122</u>	<u>\$ -</u>	<u>488,617</u>
Net				<u>\$ 997,829</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 \$3,959 at June 30, 1999.

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, 1998 amounted to \$5,443.

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. Long Term Debt

Long term debt at June 30, 1999 consist of:

Note payable to Brown Foundation, Inc. due November
November 11, 2018, plus interest payable annually
at 5%, secured by a building with a book value of
\$614,228

\$ 500,000

A requirement of this note is a sinking fund be established in 2002. Annual payments are due for years 2002 through 2017 in a sum sufficient to insure when the final payment becomes due the sinking fund will be able to repay the entire principal sum due. As explained in Note 18, this sinking fund requirement has been satisfied.

Note 8. Functional Allocation of Expenses

Expenses were allocated in the accompanying financial statements to program and supporting service functional expense groups. The methods of allocation were based on several factors such as utilization of office space as well as the Organization estimates of the relative proportion of various staff members' time and effort between programs and administrative functions.

Note 9. Operating Lease Commitment

As of May 1, 1999, the Organization entered into a five year non-cancelable operating lease for its office facility requiring rent of \$650 per month.

As of June 30, 1999, the total remaining operating lease payments under a non-cancelable operating lease are as follows:

<u>Year</u>	<u>Amount</u>
2000	\$ 7,800
2001	7,800
2002	<u>1,950</u>
	<u>\$ 17,550</u>

NOTES TO FINANCIAL STATEMENTS

Note 10. 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>\$ 344,595</u>
------	-------------------

Note 11. 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, 1999 was \$-0-.

Note 12. 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 13. 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, an account is maintained with Merrill Lynch Pierce Fenner & Smith, Inc. investment firm. Time deposits purchased through this investment accounts may be insured by the FDIC, FSLIC or private insurers. Balances at June 30, 1999 held at these investment firms amounted to \$555,037.

NOTES TO FINANCIAL STATEMENTS

Note 14. Disclosures About Fair Value of Financial Instruments

Cash and cash equivalents, accounts and interest receivable:

The fair value approximates carrying value at June 30, 1999 because of the short maturity of those instruments.

Note 15. Letter of Credit

On February 16, 1999, Educational and Treatment Council, Inc. entered into an agreement with the Bank One, Louisiana, NA 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 Bank One, Louisiana, NA in an amount of \$20,000. The letter of credit became active on February 16, 1999 and expires on September 30, 2000 and is available in an amount not to exceed \$9,714.

Note 16. Litigation

A suit was filed on behalf of a former resident of Harbour House. The plaintiff is suing for an undisclosed sum. Management believes this case will be dismissed for lack of merit, however, any potential loss is expected to be covered by insurance.

Note 17. Comparative Amounts

The amounts shown for 1998 in the accompanying financial statements are included to provide a basis for comparison with 1999 and are not intended to present all information necessary for a fair presentation of the 1998 financial statements in conformity with generally accepted accounting principles.

Note 18. Subsequent Event

In August 1999, the Organization deposited \$150,440 in a sink fund at Merrill Lynch and designated these funds to be used for repayment of long term debt due November 2018. This deposit has satisfied all sinking fund requirements of the Brown Foundation, Inc. note described in Note 7.

EDUCATIONAL AND TREATMENT COUNCIL, INC.

REQUIRED SUPPLEMENTAL INFORMATION
YEAR 2000 SUPPLEMENTARY INFORMATION

June 30, 1999

See Independent Auditors' Report

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Organization's operations in the year 1999 and beyond.

The Organization has completed an inventory of computer systems and other equipment necessary to conduct the Organization's operations. Based on this inventory, the Organization is in the remediation stage in that it has begun converting existing systems, or switching to compliant systems. Testing and validation of the systems will need to be completed after the hardware and software are installed.

Because of the unprecedented nature of the year 2000 issue, the effects of the year 2000 issue and the success of related remediation efforts cannot be absolutely determined until January 1, 2000, and thereafter. Management has taken every possible action within its control to implement and verify year 2000 compatibility. No one can anticipate all the possible problems associated from year 2000 incompatibilities of the various agencies and vendors with which Educational and Treatment Council, Inc. must, by virtue of their business, have contact, and although the Organization has made all remediation efforts within its control, the success of the remediation efforts cannot be verified until such time as full interaction and verification is made as a result of cooperation with the various agencies and vendors in the year 2000.

EDUCATIONAL AND TREATMENT COUNCIL, INC.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
Year Ended June 30, 1999

<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	06CY0479/03	7/1/98-6/30/99	\$ 149,958	\$ 147,735
Indirect assistance:					
State of Louisiana Department of Health and Hospitals:					
Office of Mental Health	93.958	DHH64975	7/1/98-6/30/99	134,005	134,005
Office of Public Health	93.958	DHH16712	10/1/98-6/30/99	58,448	58,448
Office of Alcohol and Drug Abuse					
SYNAR Community Mobilization Project	93.959	DHH64884	7/1/98-6/30/99	15,300	15,300
Camp New Directions	93.959	DHH64961	7/1/98-6/30/99	<u>29,695</u>	<u>29,695</u>
				<u>237,448</u>	<u>237,448</u>
DSS/OCS:					
Allen Parish Healthy Families Project	17.656	06726	7/1/98-6/30/99	36,830	36,830
Allen Parish In-Home Crisis Counseling Program	17.656	06726	7/1/98-6/30/99	22,242	22,242
U.S. Department of Agriculture: Passed through Louisiana Department of Education:					
National School Lunch Program	10.555		7/1/98-6/30/99	<u>16,069</u>	<u>16,069</u>
				<u>75,141</u>	<u>75,141</u>
Total awards				<u>\$ 462,547</u>	<u>\$ 460,324</u>

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INDEPENDENT AUDITORS' 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, 1999 and have issued our report thereon dated December 17, 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 Educational and Treatment Council, Inc. 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* and which are described in the accompanying schedule of findings and questioned costs as items 99-1, 99-2, and 99-3.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Educational and Treatment Council, 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. 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 Educational and Treatment Council, Inc.'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 99-4, 99-5, and 99-6.

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, of the reportable conditions above, we consider item 99-4 to be a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of Educational and Treatment Council, Inc. in the Schedule of Management Comments and Suggestions.

This report is intended solely for the information of the Board of Directors, management and other state and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Mc Elroy, Quirk & Burch

Lake Charles, Louisiana
December 17, 1999

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INDEPENDENT AUDITORS' 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, 1999. Educational and Treatment Council, Inc.'s major federal programs are identified in the summary of auditors' 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 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, 1999.

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.

This report is intended solely for the information of the Board of Directors, management and other state 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.

McElroy, Quirk & Burch

Lake Charles, Louisiana
December 17, 1999

EDUCATIONAL TREATMENT COUNCIL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 1999

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:
 Material weakness identified? ___ Yes X No
 Reportable condition identified not considered
 to be material weakness? ___ Yes X 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 X 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

(continued on next page)

EDUCATIONAL TREATMENT COUNCIL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 1999

(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

99-1 Remittance of 403(b) Withholdings

Condition: The withholding from employees payroll checks for 403(b) withholdings were not always on a timely basis.

Criteria: The Internal Revenue Service requires deductions for 403(b)'s to be deposited into the employees account within fifteen banking days of the withholding.

Effect: The Organization could be penalized for not meeting Internal Revenue Service requirements.

Recommendation: Procedures should be implemented to insure withholdings for 403(b) are remitted within fifteen banking days of the withholding.

Response: The Financial Officer is now in charge of remitting 403(b) withholdings within the required time frame.

99-2 Taxation of 403(b)

Condition: The Organization is treating 403(b) contributions by employees as exempt from Social Security taxes.

Criteria: The laws allow for 403(b) contributions to be exempt from federal and state income tax, however, do not provide the same exemption from Social Security taxes.

Effect: The Organization could be held responsible for taxes that were not withheld from employees payroll checks.

Recommendation: The Organization should begin withholding Social Security taxes on the 403(b) contributions made by employees.

Response: Beginning with the next pay period the proper taxes on employees' 403(b) contributions will be withheld from employees' pay checks and the Organization will pay the appropriate employment taxes.

EDUCATIONAL TREATMENT COUNCIL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 1999

(Continued)

99-3 Incorrect W-2's

Condition: The Organization manually recapped the 1998 payroll and used this recap to prepare the 1998 W-2's. This recap contained errors causing the W-2's to be incorrect.

Criteria: The W-2's are used by employees to prepare their personal tax returns, therefore, should be correct to ensure employees returns are correct.

Effect: Many of the 1998 W-2's were not correct.

Recommendation: We recommend the Organization issue amended W-2's to employees whose original W-2 was incorrect and an amended W-3 to the federal government.

Response: The Organization will amend any W-2's that were significantly misstated and will submit an amended W-3.

99-4 Bank Reconciliations

Condition: Cash accounts in the general ledger were not reconciled to the bank reconciliation.

Criteria: Cash accounts in the general ledger were not reconciled to the bank reconciliation to insure management is provided with complete and accurate data when making financial decisions.

Effect: Management may make financial decisions that would have been different if complete and accurate financial data were presented.

Recommendation: Procedures should be implemented requiring all cash accounts in the general ledger to be reconciled to the bank reconciliation on a monthly basis.

Response: The Financial Officer is in charge of reconciling the general ledger cash accounts to the bank reconciliations on a monthly basis and the reconciliation will be reviewed by the proper level of management.

EDUCATIONAL TREATMENT COUNCIL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 1999

(Continued)

99-5 Lack of Procedures Regarding Outstanding Accounts Receivables

Condition: We noted that there are no procedures in place to follow up on outstanding receivables.

Criteria: The Organization is responsible for following up on amounts billed that have not yet been collected.

Effect: A receivable from the fiscal year ended June 30, 1998, remains uncollected as of June 30, 1999. This could cause an unnecessary loss of revenue and absorption of costs by the Organization.

Recommendation: We recommend procedures be put in place to follow up on outstanding receivables.

Response: The Financial Officer will be responsible for following up on aged receivables.

99-6 Expense Documentation

Condition: Documentation (i.e., receipts) was not available for some of the Organization's expenditures.

Criteria: The Organization should retain support for expenditures as an internal control.

Effect: Not requiring documentation for expenditures provides the opportunity for disbursements to be made for unauthorized expenditures.

Recommendation: We recommend that the management stress the importance of retaining documentation for expenditures.

Response: The importance of proper documentation will be stressed ^{to} the individuals who write and sign checks.

EDUCATIONAL TREATMENT COUNCIL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 1999

(Continued)

SECTION III - FEDERAL AWARD FINDINGS & QUESTIONED COSTS

No matters were reported.

EDUCATIONAL AND TREATMENT COUNCIL, INC.

SCHEDULE OF MANAGEMENT COMMENTS AND SUGGESTIONS

June 30, 1999

Imprest payroll accounts - We recommend the use of imprest checking account for payroll disbursements. An imprest account maintains a zero balance. When checks are issued, the amount needed to cover those checks are transferred to the account.

Response: The use of an imprest bank account will be discussed at the next finance committee meeting.

Billing for Federal Grant - The time sheets supporting the monthly billings for a federal grant did not agree with the billings submitted for reimbursement. We recommend the implementation of procedures to insure the billings for grants agree with the underlying support.

Response: A new database has been put into use which will reduce the chances of human error when preparing billing statements for grants.