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Human Services Foundation, Inc.

Baton Rouge, Louisiana

Financial Statements
and Supplementary Information

Years Ended December 31, 2003 and 2002

Johnston & Hayden, LLC
CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Program Director
Human Services Foundation, Inc.
Baton Rouge, Louisiana

We have audited the accompanying statements of assets, liabilities and fund equity of Human Services Foundation, Inc., as of December 31, 2003 and 2002, and the related statements of support and revenue and expenses, changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and provisions of Office Management and Budget Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Institutions*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund equity of Human Services Foundation, Inc., as of December 31, 2003 and 2002, and the changes in its fund balances and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2004, on our consideration of Human Services Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of the audits performed in conjunction with *Government Auditing Standards* and should be read in conjunction with the auditors' report on the financial statements.

June 24, 2004 Johnston & Hayden

HUMAN SERVICES FOUNDATION, INC.
Baton Rouge, Louisiana

STATEMENTS OF ASSETS, LIABILITIES AND FUND EQUITY

December 31,

	2003	2002
ASSETS		
CURRENT:		
Cash and cash equivalents	$ 27,604	$ 83,271
Accounts receivable	1,203,962	637,735
Total Current Assets	1,231,566	721,006
PROPERTY AND EQUIPMENT:		
Buildings	14,500	14,500
Equipment	85,776	76,421
Furniture and fixtures	74,818	75,639
Land	113,216	113,216
Leasehold improvements	31,177	31,177
Vehicles	99,327	99,327
	418,814	410,280
Less accumulated depreciation	265,516	254,740
Net Property and Equipment	153,298	155,540
OTHER:		
Due from officers	20,134	-
Due from affiliates	625,948	652,075
Total Other Assets	646,082	652,075
TOTAL ASSETS	$ 2,030,946	$ 1,528,621

The accompanying notes are an integral part of these financial statements.

	2003	2002
LIABILITIES		
CURRENT:		
Accounts payable	$ 611,982	$ 304,186
Payroll taxes payable	15,286	9,751
Current portion of long-term debt	63,680	23,498
Total Current Liabilities	690,948	337,435
LONG-TERM:		
Notes payable, less current portion	-	-
OTHER:		
Due to affiliates	95,286	91,486
TOTAL LIABILITIES	786,234	428,921
FUND EQUITY	1,244,712	1,099,700
TOTAL LIABILITIES AND FUND EQUITY	$ 2,030,946	$ 1,528,621

HUMAN SERVICES FOUNDATION, INC.
Baton Rouge, Louisiana

STATEMENTS OF SUPPORT AND REVENUE AND EXPENSES

Years Ended December 31,

	2003	2002
SUPPORT AND REVENUE:		
Contracts and grants	$ 3,841,105	$ 4,145,180
Donations	30,000	861
Other	169,582	292,101
Total Support and Revenue	4,040,687	4,438,142
EXPENSES:		
Program services:		
Amite Substance Abuse Center	43,459	-
Foundation House	285,209	211,168
Health Care Initiative	73,573	51,011
Job Company	744,324	743,637
Livingston Parish Substance Abuse Center	857,037	764,558
OCS Independent Living	59,195	51,742
Premier Silver Option	449	19,056
School Based Intervention Program	447,835	444,424
21st JDC program	362,026	359,763
22nd JDC program	875,255	894,629
Total Program Services	3,748,362	3,539,988
Support services:		
Management and general	145,658	424,843
Loss on disposal of assets	1,655	-
Total Support Services	147,313	424,843
Total Expenses	3,895,675	3,964,831
Excess (Deficiency) of Support and Revenue Over Expenses	$ 145,012	$ 473,311

The accompanying notes are an integral part of these financial statements.

HUMAN SERVICES FOUNDATION, INC.
Baton Rouge, Louisiana

STATEMENTS OF CHANGES IN FUND EQUITY

Years Ended December 31,

	2003	2002
FUND EQUITY, beginning of year	$ 1,099,700	$ 626,389
Excess of support and revenue over expenses	145,012	473,311
FUND EQUITY, end of year	$ 1,244,712	$ 1,099,700

The accompanying notes are an integral part of these financial statements.

HUMAN SERVICES FOUNDATION, INC.
Baton Rouge, Louisiana

STATEMENTS OF CASH FLOWS

Years Ended December 31,

	2003	2002
CASH FLOW FROM OPERATING ACTIVITIES:		
Excess (deficiency) of support and revenue over expenses and changes in fund balance	$ 145,012	$ 473,311
Adjustment to reconcile deficiency of support and revenues over expenses to net cash provided by operating activities:		
Depreciation	13,537	14,882
Loss on disposal of assets	1,655	-
(Increase) decrease in:		
Accounts receivable	(566,227)	(458,111)
Increase (decrease) in:		
Accounts payable	307,796	16,435
Other current liabilities	5,535	3,346
Net cash provided (used) by operating activities	(92,692)	49,863
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(12,950)	(12,697)
CASH FLOWS FROM FINANCING ACTIVITIES:		
New borrowings	63,635	10,309
Reduction of outstanding debt	(23,453)	-
(Increase) decrease in loans to officers	(20,134)	-
(Increase) decrease in due from affiliates	26,127	7,548
Increase (decrease) in loans from officers	-	(11,197)
Increase (decrease) in due to affiliates	3,800	(393)
Net cash provided by financing activities	49,975	6,267
NET INCREASE (DECREASE) IN CASH	(55,667)	43,433
CASH AND CASH EQUIVALENTS, beginning of year	83,271	39,838
CASH AND CASH EQUIVALENTS, end of year	$ 27,604	$ 83,271

The accompanying notes are an integral part of these financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the organization

Human Services Foundation, Inc. (the Foundation) is a non-profit entity established to support various programs providing care and treatment to individuals requiring mental, developmental and rehabilitation services. The Foundation operates a number of programs located in Baton Rouge and New Orleans, Louisiana. These programs include a halfway house to provide care and treatment for alcohol and drug abuse to chemically dependent adolescents, mental health and development diagnosis services, and vocational transition services for foster children between the ages of sixteen and twenty-one.

Method of accounting

The accompanying financial statements have been prepared using the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of support and revenues and expenses during the reporting period. The Foundation regularly assesses these estimates and, while actual results could differ, management believes the estimates are reasonable.

Significant estimates included in or affecting the presentation of the accompanying financial statements include provision for doubtful accounts and estimated useful lives of property and equipment.

Cash and cash equivalents

For the purposes of the statement of cash flows, the Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable

Programs are funded primarily through contractual agreements with the State of Louisiana through the Department of Health and Hospitals, Division of Alcohol and Drug Abuse; and grants through the Department of Social Services, Office of Community Services.

As the State of Louisiana is the Foundation's major source of revenue, all receivables are expected to be fully collectible. Therefore, no provision or liability for uncollectible accounts has been recognized in the accompanying financial statements. A significant reduction in the level of support provided by the State of Louisiana, if this were to occur, could have a significant impact on the Foundation activities.

Property and equipment

All property and equipment is stated at cost. Expenditures for maintenance, repairs and minor renewals are charged to earnings when incurred. Major expenditures for renewals and betterments are capitalized and depreciated over their estimated useful life.

As a general rule, when items are retired or otherwise disposed, the accumulated depreciation is reduced by the accumulated amount of depreciation applicable thereto. Any gain or loss from such retirement or disposal is credited or charged to income.

Depreciation

Depreciation is computed on the straight-line and accelerated methods over the following estimated useful lives of the various classes of depreciable assets:

Buildings	31.5 years
Equipment	5 years
Furniture and fixtures	7 years
Leasehold improvements	5 years
Vehicles	5 years

Income taxes

The Foundation is a non-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision or liability for federal or state income taxes has been included in the accompanying financial statements.

HUMAN SERVICES FOUNDATION, INC.
Baton Rouge, Louisiana

NOTES TO THE FINANCIAL STATEMENTS

NOTE A – *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*

Advertising

The Foundation expenses the production costs of advertising the first time the advertising takes place, except direct response advertising, which is capitalized and amortized over its expected period of future benefits. At December 31, 2003 and 2002, the Foundation had no direct-response advertising classified as assets and all advertising was expensed as incurred.

NOTE B – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2003 and 2002, were as follows:

	2003	2002
Cash on hand	$ 100	$ 100
Cash in bank – checking	27,504	83,171
	$ 27,604	$ 83,271

NOTE C - RELATED PARTY TRANSACTIONS

Amount due from affiliates at December 31, 2003 and 2002, represents funds advanced from the Foundation to various entities under common ownership and management for various reimbursable operating expenses. These loans do not bear interest and have no determined payment schedule. Management does not anticipate that these receivables will be liquidated within the current period. Amounts due from affiliates at December 31, 2003 and 2002, were as follows:

	2003	2002
Baton Rouge Development Center, Inc.	$ 318,287	$ 322,116
Lake Sherwood School	307,661	329,959
	$ 625,948	$ 652,075

NOTE C – RELATED PARTY TRANSACTIONS (continued)

Amounts due to affiliates at December 31, 2002 and 2001, respectively, represents funds advanced to the Foundation from various entities under common ownership and management for working capital needs. These loans do not bear interest and have no determined payment schedule. Management does not anticipate that these liabilities will be liquidated within the current period. Amounts due to affiliates at December 31, 2003 and 2002, were as follows:

	2003	2002
Land of Oz Learning Center	$ 48,769	$ 44,969
Professional Rehabilitation Services, Inc.	46,517	46,517
	$ 95,286	$ 91,486

The amount due from officers at December 31, 2003, totaling $ 20,134, represents funds advanced to officers by the Foundation. These amounts do not bear interest and have not set payment or settlement date. The Foundation had no outstanding loans to officers at December 31, 2002.

Various entities sharing common ownership and management with the Foundation were provided administrative and professional services by the Foundation during the years ended December 31, 2003 and 2002. Fees from these services totaled $ 9,273 and $ 16,749 for the years ended December 31, 2003 and 2002, respectively.

The Foundation rents facilities for its Job Company program from an entity with which it shares common ownership and management under an informal operating lease. Rent expense under this lease for each of the years ended December 31, 2003 and 2002, was $ 24,000.

The Foundation utilizes facilities owned by an entity with which it shares common ownership and management, at no cost to the Foundation. No rent or depreciation expense is recorded in the accompanying financial statements for such usage.

NOTE D – NOTES PAYABLE

Notes payable at December 31, 2003 and 2002, were as follows:

	2003	2002
7.25% note payable to a local bank, payable in monthly installments of principal and interest; matured in May, 2003	$ -	$ 23,498
Note payable to a local bank, payable in monthly Installments of principal and interest; matured in December, 2003	42,030	-
Note payable to a local bank; paying monthly installments of interest only; due to mature in May 2004	21,650	-
	63,680	23,498
Less current portion	63,680	23,498
Long-term portion	$ -	$ -

Future maturities of all notes payable as of December 31, 2003, were as follows:

Year ended December 31,	
2004	$ 63,680
2005	-
2006	-
2007	-
2008 and later	-
	$ 63,680

NOTE E – LEASE COMMITMENTS

As detailed in Note C, the Foundation rents facilities for its Job Company program under an informal operating lease from an entity with which it shares common ownership and management. Rent expense under this lease for the years ended December 31, 2003 and 2002, was $ 24,000 and $ 24,000, respectively.

The Foundation rents facilities for its Livingston Parish Substance Abuse Center and its 21st and 22nd JDC programs from unrelated parties under operating leases, which are renewable annually based on operating costs. Rental expense under these operating leases for the years ended December 31, 2003 and 2002, was $22,395 and $ 40,080, respectively.

Future minimum lease payments under all operating leases as of December 31, 2003, were as follows:

Year ended December 31,		
2004	$	5,600
2005		-
2006		-
2007		-
2008 and later		-

NOTE F – SUPPLEMENTARY CASH FLOW INFORMATION

Cash payments for the years ended December 31, 2002 and 2001, for interest totaled $ 10,886 and $ 2,570, respectively. Since the Foundation was organized as a non-profit organization under the Internal Revenue Code, no cash payments were made for income taxes for the years ended December 31, 2003 and 2002.

During the year ended December 31, 2003, the Foundation abandoned certain assets having a net book value of $ 1,655. The Foundation had no other noncash investing or financing activities for the year ended December 31, 2003.

The Foundation had no noncash investing and financing activities for the year ended December 31, 2002.

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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 Program Director
Human Services Foundation, Inc.
Baton Rouge, Louisiana

We have audited the financial statements of Human Services Foundation, Inc., as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated June 24, 2004. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 Human Services Foundation, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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 audits, we considered Human Services Foundation, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in 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 internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management and shareholders of Human Services Foundation, Inc., and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Johnston & Hayden

June 24, 2004

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AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Program Director
Human Services Foundation, Inc.
Baton Rouge, Louisiana

We have audited the compliance of Human Services Foundation, Inc., with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2003. Human Service Foundation, 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 Human Service Foundation, Inc.'s management. Our responsibility is to express an opinion on Human Service Foundation Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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 major program occurred. An audit includes examining, on a test basis, evidence about Human Service Foundation, 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 of Human Services Foundation, Inc.'s compliance with those requirements.

In our opinion, Human Services Foundation, Inc., complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003.

The management of Human Services Foundation, Inc., is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Human Services Foundation, Inc.'s internal control over compliance with requirements that could have a direct and material effect on its major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the 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 for the information of the management of Human Services Foundation, Inc., and the Louisiana Legislative Auditor. However, this report is a matter of public record and its distribution is not limited.

Johnston & Hayden

June 24, 2004

SUPPLEMENTARY INFORMATION

HUMAN SERVICES FOUNDATION, INC.
Baton Rouge, Louisiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2002

Name of Federal Program/Cluster	Federal CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services		
Pass-through Department of Health and Hospitals, Office of Alcohol and Drug Abuse		
Federal Block Grants for Alcohol and Drug Abuse	93.959	$ 523,411

HUMAN SERVICES FOUNDATION, INC.
Baton Rouge, Louisiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2002

Section I – Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:		Unqualified
Internal control over financial reporting:		
• Material weaknesses identified?	____ yes	X no
• Reportable conditions identified that are not considered to be material weaknesses?	____ yes	X none reported
Noncompliance material to financial statements noted?	____ yes	X no

Federal Awards

Internal control over major programs:		
• Material weaknesses identified?	____ yes	X no
• Reportable conditions identified that are 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 section 510(a) of Circular A-133?	____ yes	X no

HUMAN SERVICES FOUNDATION, INC.
Baton Rouge, Louisiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Year Ended December 31, 2002

Section I – Summary of Auditors' Results (continued)

Identification of major programs:

Name of Federal Program/Cluster	Federal CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services Pass-through Department of Health and Hospitals, Office of Alcohol and Drug Abuse Federal Block Grants for Alcohol and Drug Abuse	93.959	$ 523,411

Dollar threshold used to distinguish
Between type A and type B programs: $ 300,000

Auditee qualified as low-risk auditee? _X_ yes ____ no

HUMAN SERVICES FOUNDATION, INC.
Baton Rouge, Louisiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Year Ended December 31, 2002

Section II – Financial Statement Findings

There were no findings relating to the financial statements for the year ended December 31, 2003.

HUMAN SERVICES FOUNDATION, INC.
Baton Rouge, Louisiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

Year Ended December 31, 2002

Section III – Federal Award Findings and Questioned Costs

There were no findings or questioned costs relating to Federal awards for the year ended December 31, 2003.

HUMAN SERVICES FOUNDATION, INC.
Baton Rouge, Louisiana

AUDITORS' COMMENTS OF AUDIT RESOLUTION MATTERS
RELATING TO FEDERAL AWARDS

There were no findings or questioned costs in the prior audit report dated June 26, 2003.

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June 24, 2004

To the Program Director
Human Services Foundation, Inc.
Baton Rouge, Louisiana

In planning and performing our audit of the financial statements of Human Services Foundation, Inc., for the year ended December 31, 2003, we considered the Foundation's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening the internal controls, improving operating efficiency, and reducing expenses. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated June 24, 2004, on the financial statements of Human Services Foundation, Inc.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss these comments and recommendations in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

Sincerely,

Johnston & Hayden

Johnston & Hayden, LLC

Recordkeeping

Examination of the Organization's accounting records revealed the automated general ledger is not being maintained on a current basis. This condition was noted in a previous audit, and recommendations were made at that time that the Organization (a) obtain an automated general ledger system that would handle the various accounting and reporting needs; (b) adequately train all accounting personnel in required accounting and reporting functions, including payroll, general ledger, and cost reporting; and (c) monitor the accounting function to verify that accurate and timely information be made available for use by management and Federal or state agencies. Subsequent to our prior recommendations, additional accounting personnel were hired to perform payroll and general ledger functions, enabling current personnel to devote needed time to other functions, such as financial and cost reporting. Additionally, new automated general ledger systems were installed. However, during our recent audit, we noted that accounting staff is currently limited to one individual. Based on the amount of work performed by the accounting staff, we recommend that additional personnel be hired to assist in various accounting functions, such as payroll and general ledger processing. It is our understanding that the Organization is starting at least one new program in 2004, which will mean an additional burden in accounting and reporting functions. Management should strive to provide more consistent supervision and oversight of both the accounting and program functions to verify compliance with all program, accounting, and regulatory requirements as applicable.

Bank accounts

The Organization currently maintains separate bank accounts for many of its programs. However, not every program maintains bank accounts. We would recommend that separate accounts be maintained for all programs. This would eliminate the need for transfers of funds between programs and accounts and would assist management and accounting personnel in determining a program's effectiveness. The addition of three or more bank accounts will mean an increased burden in reconciliation and reporting by accounting personnel, as detailed in the "Recordkeeping" section above. An additional clerical employee as suggested above will help alleviate this increased burden.

Miscellaneous

As you are aware, the Organization was created as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code. As such, the activities the Organization participates in must be related to its nonprofit purpose, or they may be subject to taxation or loss of nonprofit status. Such activities include the loaning or payment of funds to other entities that are organized for profit. If these activities do not further the Organization's nonprofit purpose, they should be avoided. Improvements in the accounting systems recommended above will provide management with more timely information to identify and react appropriately to any activities that should be controlled by management.