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SOUTHSIDE DEVELOPMENT CORPORATION, INC.

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2003

William V. Trimm, CPA
Certified Public Accountant
4909 Common Street Ste. 2A
Lake Charles, La. 70607

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William V. Trimm
Certified Public Accountant
4909 Common Street Ste 2A
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southside Development Corporation
Jennings, Louisiana

I have audited the accompanying statement of financial position of Southside Development Corporation as (a nonprofit organization) as of June 30, 2003, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Southside Development Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit. The prior year summarized comparative information has been derived from Southside Development Corporation's 2002 financial statements and, in my report dated April 15, 2004, I expressed an unqualified opinion on those financial statements.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards required that I 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southside Development Corporation(a nonprofit organization), as of June 30, 2003, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 23, 2004 on my consideration of Southside Development Corporation's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

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 my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

William V. Trimm
Certified Public Accountant

Lake Charles, Louisiana
May 23, 2004

SOUTHSIDE DEVELOPMENT CORPORATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2003
(with comparative totals as of June 30, 2002)

	2003 Total	2002 Total
ASSETS		
Current Assets:		
Cash and Cash Equivalents (note 1d)	$ 24,592	$ 73,317
Accounts Receivable-Programs	44,667	-
Accounts Receivable-Employees	1,230	-
Revolving Loans Receivable-current (note 10)	17,689	16,519
Less: Allowance for Doubtful Accounts	(4,757)	(4,037)
Note Receivable-current (note 10)	703	580
Total Current Assets	$ 84,124	$ 86,379
Fixed Assets:		
Furniture, Equipment & Leasehold Improvements	$ 434,237	$ 372,950
Less: Accumulated Depreciation	(70,857)	(32,554)
Net Furniture, Equipment & Lease.Improvements	363,380	340,396
Land	28,248	28,248
Total Fixed Assets	$ 391,628	$ 368,644
Long-term Assets:		
Revolving Loans Receivable-long/term (note 10)	$ 171,152	$ 176,876
Less: Allowance for Doubtful Accounts-long/term	(46,031)	(53,170)
Note Receivable-long/term (note 10)	21,963	23,234
Utility Deposits	500	500
Total Long-term Assets	$ 147,584	$ 147,440
Total Assets	$ 623,336	$ 602,463

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

SOUTHSIDE DEVELOPMENT CORPORATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2003
(with comparative totals as of June 30, 2002)

	2003 Total	2002 Total
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable and Accrued Expenses	$ 44,400	$ 39,457
Current portion long/term debt	14,497	1,056
Capital Leases and Notes payable-current (note 4)	265,210	210,809
Total Current Liabilities	$ 324,107	$ 251,322
Long-term Debt:		
Capital Leases and Notes payable-l/t (net of curr.portion) (note 4)	$ 47,518	$ 40,626
Total Long/Term Liabilities	$ 47,518	$ 40,626
Total Liabilities	$ 371,625	$ 291,948
Net Assets:		
Unrestricted Net Assets:		
Designated By Board for Property/Community Dev.	$ 28,248	$ 28,248
Operating/Undesignated	(312,731)	(248,777)
Net Fixed Assets	336,793	340,396
Total Unrestricted Net Assets	$ 52,310	$ 119,867
Permanently Restricted Net Assets:		
Revolving Loan Fund-Net (note 3)	$ 172,814	$ 162,288
Headstart	26,587	28,360
Total Permanently Restricted Net Assets	$ 199,401	$ 190,648
Total Net Assets	$ 251,711	$ 310,515
Total Liabilities and Net Assets	$ 623,336	$ 602,463

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

SOUTHSIDE DEVELOPMENT CORPORATION
STATEMENT OF ACTIVITIES
For the year ended June 30, 2003 (with comparative totals as of June 30, 2002)

	2003				2002
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
PUBLIC SUPPORT, REVENUES, AND GRANTS					
Grant Support	$ 51,000	$ -	$ -	$ 51,000	$ 127,230
Grant Support-DHHS/Headstart		1,218,809	-	1,218,809	1,138,470
In-Kind Revenues	336,950	-	-	336,950	306,838
CACFP Reimbursement	-	88,863	-	88,863	92,224
Membership Dues	830	-	-	830	1,920
Fundraisers	14,729	-	-	14,729	12,235
Proceeds from disposal of equipment	-	-	-	-	1,400
Other Income	498	-	-	498	35,450
Program Income	-	121,786	-	121,786	-
Loan Fees	-	-	-	-	3,775
Interest Income	176	-	12,342	12,518	16,492
Net assets released from restrictions- *Satisfaction of purpose restrictions*	1,433,047	(1,429,458)	(3,589)	-	-
Total Public Support, Revenue & Grants	$1,837,230	$ 0	$ 8,753	$1,845,983	$1,736,034
EXPENSES					
Program Services:					
Youth	$ 10,367	-	-	$ 10,367	$ 5,722
CACFP	88,863	-	-	88,863	92,224
Revolving Loan Program	956	-	-	956	57,247
After School-Beau Care Program	36,822	-	-	36,822	-
Healthy Marriage Program	*84,965*	-	-	*84,965*	-
Headstart Program	1,565,353	-	-	1,565,353	1,305,259
Total Program Services	$1,787,326	-	-	$1,787,326	$1,460,452
Support Services:					
Management and Gen.Operating	$ 113,994	-	-	$ 113,994	$ 116,348
Fundraising	3,467	-	-	3,467	8,345
Total Support Services	$ 117,461	-	-	$ 117,461	$ 124,693
Total Program and Support Services	$1,904,787	-	-	$1,904,787	$1,585,145
Change in net assets	$ (67,557)	-	$ 8,753	$ (58,804)	$ 150,889
Net assets as of beginning of year	$ 119,867	-	$ 190,648	$ 310,515	$ 159,626
Net assets as of end of year	$ 52,310	$ -	$ 199,401	$ 251,711	$ 310,515

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

SOUTHSIDE DEVELOPMENT CORPORATION
STATEMENT OF FUNCTIONAL COSTS
For the year ended June 30, 2003
(with comparative totals as of June 30, 2002)

	Program Services						Supporting Services		2003 Total	2002 Total
	Property & Community Development	Revolving Loan Program	After School	Healthy Marriage	Headstart	CACFP	Mgmt. and General	Fundraising		
Salaries and Wages	$ -	$ -	$ 24,725	$ 43,724	$ 861,395	$ 34,363	$ 23,158	$ -	$ 987,365	$ 784,918
Fringe Benefits	-	-	2,225	3,935	116,397	-	2,084	-	124,641	102,101
Travel	15,066	-	-	3,127	12,452	-	-	-	30,645	25,420
Supplies	15,216	-	53	-	97,301	-	-	-	112,570	70,053
Utilities	2,236	-	-	417	41,502	-	-	-	44,155	41,844
Insurance	1,814	-	-	-	24,911	-	-	-	26,725	-
Food Cost	-	-	-	-	8,814	54,500	-	-	63,314	53,306
Rent	5,500	-	-	500	156,958	-	-	-	162,958	146,213
Repair & Maintenance	1,099	-	-	-	47,195	-	-	-	48,294	43,543
Others	38,889	-	9,819	33,262	153,379	-	-	-	235,349	292,451
Depreciation	5,224	-	-	-	33,079	-	-	-	38,303	21,514
Bad Debts		956	-	-	-	-			956	-
Interest	3,708	-	-	-	11,970	-	-	-	15,678	3,782
Youth	10,367	-	-	-	-	-	-	3,467	13,834	-
Total Expenses	$ 99,119	$ 956	$ 36,822	$ 84,965	$ 1,565,353	$ 88,863	$ 25,242	$ 3,467	$ 1,904,787	$ 1,585,145

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

SOUTHSIDE DEVELOPMENT CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003
(with comparative totals as of June 30, 2002)

	2003	2002
OPERATING ACTIVITIES:		
Change in net assets	$ (58,804)	$ 150,889
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	38,303	21,514
Incr/Decr in Bad Debt Allowance	(6,419)	-
Incr/Decr in Accts.Receivable	(45,898)	(20,079)
Incr/Decr in Revolving loans & Notes Receivable	5,703	-
Contributed Asset		(35,450)
Incr/Decr in Accts.Pay and accrued liabilities	4,943	44,078
Interest restricted for reinvestment	(12,342)	(13,137)
Net cash provided by operating activities	$ (74,514)	$ 147,815
INVESTING ACTIVIITES:		
Purchases of equipment	$ (61,287)	$ (304,904)
Net cash used in investing activities	$ (61,287)	$ (304,904)
FINANCING ACTIVITIES:		
Proceeds from long-term borrowing	$ 104,734	$ 255,808
Repayments of note payable	(30,000)	(45,000)
Interest restricted for reinvestment	12,342	13,137
Net cash used in financing activities	$ 87,076	$ 223,945
Net increase in cash and cash equivalents	$ (48,725)	$ 66,856
Cash and cash equivalents as of beginning of year	73,317	6,461
Cash and cash equivalents as of end of year	$ 24,592	$ 73,317

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

SOUTHSIDE DEVELOPMENT CORPORATION
Notes to Financial Statements
June 30, 2003

(1) SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

(a) Organization and Nature of Activities

Southside Development Corporation was established and incorporated in 1993 . The sole funding support of SDC for the first three (3) years was personal resources of the Board of Directors. The Southside Development Corporation (SDC) is an emerging Community Development Corporation. SDC is a private non-profit organization dedicated to serving the community by stimulating and improving the local economy through economic development, human development, education, and community services. The programs administered by SDC provide mentoring for youth, capacity building, leadership enhancement, business development, and affordable housing.

In 2002 SDC was awarded a grant to administer the Headstart program in Jennings and Elton, Louisiana. This program provides benefits to low-income children and their families in the parish. These benefits include, but are not limited to, early childhood development and health services, education, nutrition and mental health services.

(b) Public Support and Revenue

Southside Development Corporation received grant and support revenue from the City of Jennings, other local agencies, fund-raising activities, and board member contributions. In addition, a grant award from the Department of Health and Human Services was received for the operation of the Headstart program.

SDC participated in two reimbursement programs, Beau-Care and Healthy Marriage-Family Strengthening. The Beau-Care program offers structural recreation and educational programs for pre-teens and teens in rural and high-risk areas of S.W. Louisiana. The program allows participants and their parents an opportunity to become more educated regarding teen pregnancy issues. The Healthy Marriage-Family Strengthening program exists to ensure that the foundations necessary to promote healthy marriage and strong families are instilled in program participants. Expenses for each program are submitted and reimbursed by the respective program.

SOUTHSIDE DEVELOPMENT CORPORATION
Notes to Financial Statements
June 30, 2003

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(c) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates.

(d) Cash and Cash Equivalents

Cash and Cash Equivalents consist of Southside Development Corporation's monies in banks with maturity dates of less than three months . The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. Separate accounts are maintained, as required, for the federal programs that are operated by Southside Development Corporation.

(e) For the twelve (12) months ending June 30, 2003, Southside Development Corporation paid $ 15,678.00 in interest.

(f) Furniture, Equipment and Leasehold Improvements

Furniture, equipment and leasehold improvements are capitalized at cost. Acquisitions of property and equipment in excess of $500.00 are capitalized. Property and equipment are carried at cost or, if contributed, at the approximate fair value at the date of the contribution. Depreciation is computed using primarily the straight-line method. Furniture and equipment are being depreciated over estimated useful lives. Leasehold improvements are being amortized over the shorter of the lease term or useful life.

(g) Income Taxes

Southside Development Corporation is exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue code and did not conduct unrelated business activities. Therefore, Southside Development Corporation had made no provision for federal income taxes in the accompanying financial statements.

(h) Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, Southside Development Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

SOUTHSIDE DEVELOPMENT CORPORATION
Notes to Financial Statements
June 30, 2003

(2) FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

The following is a summary of furniture, equipment, and leasehold improvements as of June 30, 2003:

Transportation Equipment (at fair value)		$	35,450
Transportation Equipment (at cost)			255,808
Furniture and Fixtures	(at cost)		46,154
Equipment	(at cost)		6,490
Computer Equipment	(at cost)		59,729
Office Equipment	(at cost)		13,435
Buildings	(at cost)		6,864
Leasehold improvements	(at cost)		10,307
Total Furniture, Equipment, and Leasehold Improvements		$	434,237
Less accumulated depreciation and amortization			(70,857)
Total		$	363,380

Depreciation expense for the period was $ 38,303.00.

Included in the above figures are (2) two capital leases. The gross amount of assets recorded under the capital leases is $ 39,128.00 and the accumulated depreciation for the capital leases is $ 5,429.00.

(3) PERMANENTLY RESTRICTED NET ASSETS

The permanently restricted net assets-revolving loans are permanent and are related to grants received from the Rural Business Cooperative Service (RBS). The USDA-Rural Development office administers the grants. The funds from the grants are to be used exclusively for a revolving loan fund, which is meant to service business start-ups and business expansion projects.

The permanently restricted net assets-HeadStart is related to a contributed asset recorded as of June 20, 2002.

Permanently Restricted Net Assets -Revolving Loans	$ 172,814
Permanently Restricted Net Assets- HeadStart	$ 26,587

SOUTHSIDE DEVELOPMENT CORPORATION
Notes to Financial Statements
June 30, 2003

(4) L/T DEBT, CAPITAL LEASES AND NOTES PAYABLE

Long-Term Debt

The following is a listing of long-term debt payable to The Bank, Jennings, La. as of June 30, 2003. In addition, SDC entered in to capital leases with Xerox Copier and Dell Computer.

Note#	Principal Balance	Interest Rate	Collateral	Current Maturity	Term
100114900	$ 40, 589.87	9.00 %	R/Estate/Pers. Guaranty	$ 1,195.43	18 years
702309162	4,355.30	16.50%	Xerox Copier	$ 626.29	5 years
18173996	17,070.14	5.94%	Dell Computers	$ 12,675.46	23 months
	$ 62,015.31			$ 14,497.18	

The (5) year maturity of The Bank note # 100114900 is as follows:

Year	Principal Maturity	Loan Balance
6-30-04	$ 1,195.43	$ 39,394.44
6-30-05	$ 1,307.56	$ 38,086.88
6-30-06	$ 1,430.22	$ 36,656.66
6-30-07	$ 1,564.39	$ 35,092.27
6-30-08	$ 1,711.14	$ 33,381.13

The (5) year minimum lease payments of Xerox copier account # 702309162 is as follows:

Year	Principal Maturity	Loan Balance
5-31-04	$ 626.29	$ 3,729.01
5-31-05	$ 737.82	$ 2.991.19
5-31-06	$ 869.19	$ 2,122.00
5-31-07	$ 1023.98	$ 1,098.02
5-31-08	$ 1,098.02	$ 0.00

The (23) month minimum lease payments of Dell Computer account # 18173996 is as follows:

Year	Principal Maturity	Loan Balance
5-31-04	$ 12,675.46	$ 4,394.68
9-30-04	$ 4,394.68	$ 0.00

Notes Payable

The notes referenced below are dated May 17, 2003 and June 4, 2003. Principal and interest were due to The Bank, Jennings, La. on October 1, 2003 and July 8, 2003.

Note#	Principal Balance	Interest Rate	Collateral	Due Date Term	Payee
160513700	$ 185,180.00	5.0 %	Motor Vehicle (Buses)	Oct.15, 2003	The Bank
160992200	$ 80,030.00	5.0%	Unsecured-S/Term	Jul. 8, 2003	The Bank
	$ 265,210.00				

SOUTHSIDE DEVELOPMENT CORPORATION
Notes to Financial Statements
June 30, 2003

(5) OPERATING LEASE COMMITMENT

As of June 30, 2003, Southside Development Corporation entered into the following operating leases:

Lessor	Property Description	Monthly Lease Amount	Lease Term	Lease Option
David Capdeville	409 S.Main St.Jennings	$ 500.00	1 year	1-yr. renewable
J.D.Par.Sch Board	Southside School	$ 0.00	1 year	1-yr. renewable
St.Joseph Cath.Church	Diocese of LC,Elton	$ 425.00	1 year	N/A

Future and minimum rental amounts are $ 3,000.00 for the lease with David Capdeville,which had six (6) months remaining at June 30, 2003. Future and minimum rental amounts are $ 2,550.00 for the lease with St. Joseph Catholic Church, which had six (6) months remaining at June 30, 2003.

(6) EMPLOYEE RETIREMENT PLAN

Southside Development Corporation has a 403(b) Thrift Plan for its employees. Under the plan Southside Development Corporation matches the employee contributions up to 3% of each eligible employee's salary. Plan expenses incurred by the Southside Development Corporation during 2003 were $ 5,345.09.

(7) DONATED SERVICES AND FACILITIES

Southside Development Corporation receives a significant amount of donated services from unpaid volunteers who assist in child services. These volunteers include, but are not limited to, parents and professional consultants. Southside Development Corporation has a lease agreement with the local school board to use the the Southside building and land located in Jennings for the operation of the Headstart program. There is a required minimum monthly maintenance provision.

The in-kind revenue and expenses that are recognized for the services and facilities totals as follows:

	Value
Facility	$ 150,112.80
Services	133,610.12
Supply/Transportation	53,226.78
Total Value	$ 336,949.70

SOUTHSIDE DEVELOPMENT CORPORATION
Notes to Financial Statements
June 30, 2003

(8) FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumption were used by the Southside Development Corporation in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents, and notes payable: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

The estimated fair values of the Southside Development Corporation's financial instruments, none of which are held for trading purposes, are as follows:

	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 24,592	$ 24,592
Financial liabilities:		
Notes payable	$ 327,225	$ 327,225

(9) FUNCTIONAL ALLOCATION OF EXPENSES

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

(10) REVOLVING LOANS AND NOTE RECEIVABLE

	Revolving Loan Amount	Note Receivable Amount	Allowance
Current	$ 17,689.00	$ 703.00	$ (4,757.00)
Long-Term	171,152.00	21,963.00	(46,031.00)
Total	$ 188,841.00	$ 22,666.00	$ (50,788.00)

The Allowance for Doubtful Accounts is provided based upon the performance of the loan portfolio. An analysis is done on an individual loan basis with an evaluation of payments made, the timeliness of the payments, extraordinary circumstances relevant to the customer's business and the customer's ability and effort to make timely loan payments.

(11) CONCENTRATIONS

Because the functioning of the Headstart program is predicated upon receiving the yearly grant from the Department of Health and Human Services it should be noted that this is considered a concentration of resources. If the grant were not given there would be a material affect on the operation of the major federal program.

SOUTHSIDE DEVELOPMENT CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2003

Federal Grantor/Pass-through Grantor/Program of Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S.Departmentof Health and Human Services:			
Direct Programs:			
Headstart	93.600		$ 1,218,809
U.S. Department of Agriculture:			
Child and Adult Care Food Program	10.558		88,863
Total expenditures of federal awards			$ 1,307,672

See accompanying notes to schedule of expenditures of federal awards.

SOUTHSIDE DEVELOPMENT CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2003

NOTE A-BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Southside Development Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

William V. Trimm
Certified Public Accountant
4909 Common Street Ste 2A
Lake Charles, La. 70607

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASES ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Southside Development Corporation
Jennings, Louisiana

I have audited the financial statements of Southside Development Corporation as of and for the year ended June 30, 2003, and have issued my report thereon dated May 23, 2004. I conducted the audit in accordance with auditing standards generally accepted in the United States of American 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 Southside Development Corporation's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my test disclosed 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 2003-3, 2003-4, and 2003-5.

Internal Control Over Financial Reporting

In planning and performing the audit , I considered Southside Development Corporation's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Southside Development Corporation'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 2003-1 and 2003-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that could 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. My 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, I believe that none of the reportable conditions described above is a material weakness.

This report is intended soley for the information and use of the audit committee, management, the Office of the Legislative Auditor, 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.

William V. Trimm
Certified Public Accountant

Lake Charles, Louisiana
May 23, 2004

William V. Trimm
Certified Public Accountant
4909 Common Street Ste 2A
Lake Charles, La. 70607

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

To the Board of Directors
Southside Development Corporation
Jennings, Louisiana

Compliance

I have audited the compliance of Southside Development Corporation 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, 2003. Southside Development Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Southside Development Corporation's management. My responsibility is to express an opinion on Southside Development Corporation's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 I 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 federal program occurred. An audit includes examining, on a test basis, evidence about Southside Development Corporation's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Southside Development Corporation's compliance with those requirements.

As described in items 2003-3,2003-4, and 2003-5, in the accompanying schedule of findings and questioned costs, Southside Development Corporation did not comply with requirements regarding unallowable costs, annual review performance standards, policy council performance standards and equipment record-keeping performance standards that are applicable to its major federal program. Compliance with such requirements is necessary, in our opinion, for Southside Development Corporation to comply with the requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraph, Southside Development Corporation complied, in all material respects, with the requirements referred to above that are applicable to it major federal program for the year ended June 30, 2003.

Internal Control over Compliance

The management of Southside Development Corporation 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 my audit, I considered Southside Development Corporation's internal control over compliance with requirements that could have a direct and material effect on its major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted a certain matter involving the internal control over compliance and its operation that I consider to be a reportable condition. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect Southside Development Corporation's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-1, and 2003-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grant 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. My consideration of the internal control over compliance 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, I believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the audit committee, management, Office of the Legislative Auditor, 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.

William V. Trimm
Certified Public Accountant

Lake Charles, Louisiana
May 23, 2004

SOUTHSIDE DEVELOPMENT CORPORATION
Jennings, Louisiana

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2003

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Southside Development Corporation.

2. One (1) reportable condition relating to the audit of financial statements is reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards.*

3. No instances of noncompliance material to the financial statements of Southside Development Corporation were disclosed during the audit.

4. One (1) reportable condition disclosed during the audit of internal control over major federal award programs is reported in the Report on Compliance with Requirements Applicable to the Federal Program and on on Internal Control over Compliance in Accordance with the program-specific audit option under OMB Circular A-133. The condition is not reported as a material weakness.

5. The auditor's report on compliance for the major federal award programs for Southside Development Corporation expresses an unqualified opinion on all major federal programs.

6. Audit findings relative to the major federal award programs for Southside Development Corporation are reported in this Schedule.

7. The programs tested as major programs included: DHHS-Headstart / CFDA# 93.600.

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

9. Southside Development Corporation did not qualify as a low-risk auditee.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2003

FINDINGS-FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

2003-1 General

Condition: There was an absence of appropriate segregation of duties consistent with appropriate control objectives.

Criteria: There should be an adequate amount of segregation of duties to ensure that assets are safeguarded, and to insure that misclassifications and misappropriations do not take place.

Effect: Because of the lack of segregation there are inefficiencies in the accounting system that lead to misclassifications and to the lack of supporting documentation.

Recommendation: Increase supervisory review of accounting functions. This could be accomplished by the Board of Directors, CEO or the external accountant.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2003

FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL PROGRAMS AUDIT

Department of Health and Human Services

2003-2

Headstart Program-CFDA No. 93.600; Grant # A2307G1: Grant Period-year ended June 30, 2003

Reportable Condition: The reportable condition at Finding 2003-1 also applies to this grant.

2003-3

Headstart Program-CFDA No. 93.600; Grant # A2307G1: Grant Period-year ended June 30, 2003

Finding: Evidence of expensing and paying a penalty charged by the Department of Revenue for state withholding taxes paid late. The penalty was relevant to payments made for the April and May 2003 state withholding taxes. The penalty amounted to $ 632.35. The penalty was imposed because SDC was supposed to be depositing state income taxes withheld on a monthly basis. This was a change from the quarterly basis requirement that had been used.

Criteria: Circular A-122 (Att.B) Item 16 specifically disallows *Fines and Penalties* to be expenditures for the federal program.

Effect: There could be reimbursements by the federal government for an unallowable cost.

Recommendation: Review detail of all payroll reports to ensure that reports tie to substantiating tax records and are filed on a timely basis to avoid penalties.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2003

FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL PROGRAMS AUDIT

Department of Health and Human Services

2003-4

Headstart Program-CFDA No. 93.600; Grant # A2307G1: Grant Period-year ended June 30, 2003

Finding: Budgets and budget amendments were not approved by the Policy Council during the period under audit. It should be noted that the Policy Council did approve the 2003-2004 budget in their July 2003 meeting.

Criteria: DHHS Administrative Regulation 45CFR, 1304.50 and DHHS Performance Standard 1304.50(c) & (d) require that the Policy Council approve these documents.

Effect: Without the Policy Council involvement there may not be vehicle for parents to assume leadership roles in representing the collective interests of all families.

Recommendation: Insure that the Policy Council approves all budgets and budget amendments in the future. According to management this policy has been put in place.

Department of Health and Human Services

2003-5

Headstart Program-CFDA No. 93.600; Grant # A2307G1: Grant Period-year ended June 30, 2003

Finding: Equipment records are not maintained accurately.

Criteria: DHHS Administrative Regulation 45CFR, #74-34 requires that equipment records shall be maintained accurately and shall include the description of the equipment, manufacturer's serial number or other identification number, source of the equipment, including the award number, whether title vests in the recipient or the Federal Government, acquisition date and cost, and information from which one can calculate the percentage of DHHS's share in the cost of the equipment, location and condition of the equipment and the date the information was reported, unit acquisition cost, and ultimate disposition data.

Effect: Without this maintenance there would be an inability to maintain and safeguard equipment purchased with federal funds.

Recommendation: A procedure needs to be put in place immediately that achieves the objective of maintaining an accurate record of fixed assets. This process can begin with the current audit documentation that supports the acquisition of fixed assets during the first year of the Headstart operation. This subsidiary ledger can be updated with serial #'s as well as other required information. As assets are added during the year this list can be updated. The list should be balanced to the general ledger during interim reporting periods.

SOUTHSIDE DEVELOPMENT CORPORATION
Jennings, Louisiana

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2003

Reference Number	2002-1
Fiscal Year Finding	6-30-02
Description of Finding	Lack of segregation of duties
Corrective Action Taken	Cross-training process started but fiscal officer turnover interrupted process.
Planned Corrective Action	Cross-training process to ensue when fiscal officer replaced.
Reference Number	2002-2
Fiscal Year Finding	6-30-02
Description of Finding	Lack of segregation of duties
Corrective Action Taken	Cross-training process started but fiscal officer turnover interrupted process.
Planned Corrective Action	Cross-training process to ensue when fiscal officer replaced
Reference Number	2002-3
Fiscal Year Finding	6-30-02
Description of Finding	Paying of penalties on taxes paid late.
Corrective Action Taken	Review of payroll reports to ensure penalties not incurred.
Planned Corrective Action	Continued review of payroll tax reports.
Reference Number	2002-4
Fiscal Year Finding	6-30-02
Description of Finding	Evidence of expensing personal phone call usage.
Corrective Action Taken	System put in place to reimburse HeadStart for any calls deemed to be personal in nature.
Planned Corrective Action	Continue monitoring of cellular phone call usage.

SOUTHSIDE DEVELOPMENT CORPORATION
Jennings, Louisiana

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (cont'd)
For the Year Ended June 30, 2003

Reference Number	2002-5
Fiscal Year Finding	6-30-02
Description of Finding	Annual reviews not completed for Headstart staff.
Corrective Action Taken	Annual reviews completed for Headstart staff.
Planned Corrective Action	Continue review process for Headstart staff.
Reference Number	2002-6
Fiscal Year Finding	6-30-02
Description of Finding	Budgets not approved by the Policy Council.
Corrective Action Taken	Lack of parental participation delayed organization of the Policy Council. The budget for the period ending 6-30-03 was not approved by a Policy Council.
Planned Corrective Action	A Policy Council was put in place and the budget for the 2003-2004 budget period was approved by the Policy Council.
Reference Number	2002-7
Fiscal Year Finding	6-30-02
Description of Finding	Equipment records were not maintained accurately.
Corrective Action Taken	No corrective action was taken.
Planned Corrective Action	According to the CEO , there is a plan to get this process in place.

Supplemental Reports

William V. Trimm, CPA

(a professional corporation)

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Member: American Institute of Certified Public Accountants
Louisiana Certified Public Accountants

May 23, 2004

To the Senior Management and
The Board of Directors of
Southside Development Corporation

In planning and performing my audit of the financial statements of Southside Development Corporation for the year ended June 30, 2003, I considered Southside's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during the audit, I became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. (I previously reported on Southside's internal control in my report dated May 23, 2004.) This letter does not affect my report dated May 23, 2004, on the financial statements of Southside Development Corporation.

My comments are summarized as follows:

Organizational Structure

The size of Southside Development Corporation's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Board of Directors remain involved in the financial affairs of Southside to provide oversight and independent review functions.

Accounting Department

An integral part of any business is the accounting department and the accounting system therein. An accounting system must be more than mechanical in nature. In my opinion, SDC's accounting system functions in a mechanical manner. By that I mean , for the most part, the tasks are completed, but not at maximum accounting efficiency. Except for the involvement by the external CPA, there is not enough quality analysis of the financial operations of the organization. Financial Status Reports are prepared and reviewed at the Board meetings, but I do not believe that there is enough follow-up on these reports to correct accounting deficiencies. As of the date of this report there is no longer a fiscal officer. A person is performing the accounting function that does not have an accounting background.

Accounting Department (cont'd)

The point to the Accounting Department comments is that it is my opinion that there is not enough importance placed on the Accounting Department functions. The success of any organization is in part dependent on the success of the performance of accounting functions. A lack of attention to this importance leads to items like those noted in the current audit:

- a need for forty (40) adjusting journal entries
- classifications of assets in expense categories
- employee withholding for health insurance not posted to insurance expense
- substantial income not being recorded for reimbursement programs
- three (3) months of deposits not being keyed in to the accounting system
- property and equipment not being properly tracked according to Federal requirements
- different program expenses not being departmentalized for proper report processing
- travel and seminar expenses not being properly substantiated
- inaccurate information being reported to the Board of Directors.

Southside Development Corporation has become too large an organization to allow the accounting functions of the company to continue to operate in a purely mechanical way. There have been too many issues for the Board to, (as noted in the board minutes) simply, "accept the Financial Status Report."

Finally, SDC is currently operating its accounting functions with a Unilink software program that is not supported by Unilink anymore. It was not supported at all during the year 2003. The Creative Solutions software has been purchased but not converted to. There has been turnover and lack of attention to detail in the accounting department. This is part of the reason for the fact that the accounting system has not been converted yet.

My suggestion would be that Creative Solutions needs to be converted to, and in place, for the current year end, i.e. June 30, 2004. The purpose is two-fold. You have both a year-end cutoff for the general ledger and a quarterly cutoff for payroll. My firm has converted from Unilink to Creative Solutions so I am very familiar with the process, it will take some time. No conversion is easy, so time is of the essence.

In summary, I would highly recommend that the fiscal officer position be filled by someone with an accounting background. This person has a full-time job of making sure that financial statement information is keyed accurately, that support is maintained, payroll is properly processed and reports to agencies are filed accurately. All of this can , of course, be done with the guidance of the external CPA. But the CPA firm is not a substitute for the full-time employee needed.

There is entirely too much dependence on the CEO to perform this function as well as her normal responsibilities. The fiscal officer should be an intergral part of the organization who has the ability to present this financial information at board meetings. The financial statement information can then be accepted , with the confidence that the information is accurate. Having confidence in the accounting functions of the company will allow the CEO and the Board of Directors to focus their attention of the other aspects of the organization.

Financial Reports/Budget Analysis

Because of the afore-mentioned accounting department issues the information used to generate the internal Financial Status reports was inaccurate. The internal financial statements should be used to generate a budget vs. actual income and expense analysis. There should be no need to convert this information to a different format for the Board of Directors' analysis.

Late filing of Audit Report

As addressed in numerous communications between my firm, SDC , the Legislative Auditor and the Department of Health and Human Services there were issues that caused the audit report for the period ending June 30, 2003 to be filed after the December 31, 2003 and the March 31, 2004 deadlines. All efforts should be made to insure that accurate information is available to allow the audit to begin and end within the time frames established by the relevant entities..

Personnel Files

Although the personnel files were found to be in good order I still found problems with the I-9 (Immigration) forms. The old I-9 problems had been cleared up but there were several new instances where the I-9 was not completed properly .The I-9 requires identification to prove the status of a potential employee. Fines for inefficient handling of this form range from $ 1,000 to $ 10,000. I would recommend that all personnel files be reviewed immediately for I-9 problem instances. I have a specific list of those files that had I-9 issues.

General Organization

As suggested in last year's management letter a system needs to be developed that allows a simple review of travel and seminar expenditures. Every seminar should be well-documented and substantiated. By this I mean it should be noted on an "expense voucher" which seminar was attended, how much the accommodations were, the amount of meals, etc. In my opinion, there should be an "expense voucher" for each person on each trip.

Further support for the need of an expense voucher was evident by the new process of receiving "cash advances" for these seminars. There was not always appropriate support substantiating these advances. Nor were these advances properly tied to the seminar. Because of the high expenditures in the area of travel and seminars this process needs to be more organized. Entities reviewing these expenditures should see organized, well-documented and supported expense vouchers.

In-kind expenditures should be well-documented and supported. There were (3) instances of deductions for in-kind expenditures relating to professional services that were not appropriately documented. These particular deductions amounted to more than 9% of the deductions taken for in-kind expenditures. Support was provided upon discovery of the lack of documentation.

Management Letter-Prior Period Audit

Except as noted above, (General Organization), all other comments in the prior audit period management letter were handled in a proper manner and were not recurring items.

William V. Trimm
Certified Public Accountant

SOUTHSIDE DEVELOPMENT CORPORATION

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Harvey L. Williams Sr., President
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June 13, 2004

"Creating the Future Today"

Corrective Action Plan

Reportable Condition 2003-1 General

Condition: There was an absence of appropriate segregation of duties consistent with appropriate control objectives.

Response:

We disagree with this audit finding. This finding is vague, arbitrary, too general and lacks documentation to support the statement. We have adequate segregation of duties to protect the assets of the organization and assure that the financial statements are fairly presented. This finding does not meet the requirement of OMB A-133 Section 510 (b) 2 and 3. Section 510 (b) 2 and 3 states, audit findings shall be presented in sufficient detail for the auditee to prepare a corrective action plan and take corrective action and for Federal agencies and pass-through entities to arrive at a management decision…

- The criteria or specific requirements upon which the audit finding is base, including statutory, regulatory, or other citation.
- The condition found, including facts that support the deficiency identified in the audit findings.

Reportable Condition 2003-2:

The reportable condition at Finding 2003-1 also applies to this grant.

Response:

We do not agree with this findings because it is not supported and this does not meet the criteria of OMB A-133 Section 510 (b) 2 and 3. There was not a specific statutory or regulatory citation quoted.

Reportable Condition 2003-3:

Evidence of expensing and paying a penalty charged by the Department of Revenue for state withholding taxes paid late. The penalty was relevant to payments made for the April and May 2003 state withholding taxes. The penalty amounted to $632.35. The penalty was imposed because SDC was supposed to be depositing state income taxes withheld on a monthly basis. This was a change from the quarterly basis requirement that had been used.

Response:

This amount was not charged to the Head Start Grant. The amount of $632.35 does not meet the criteria in OMB A-133 Section 510 (a) (1-3) as a material weakness or the threshold for a questioned cost. OMB A-122 covers federal cost principles. This amount was expensed from non-federal funds.

Reportable Condition 2003-4:

Budgets and budget amendments were not approved by the Policy Council during the period under audit. It should be noted that the Policy Council did approve the 2003-2004 budget in their July 2003 meeting.

Response:

This audit period covered the period July 1, 2002 through June 30, 2003. Our records indicate that the policy council did approve the budget for the period above, The budget was required to be in the Regional office by April 1, 2002 for the year ending June 30, 2003. In accordance with OMB Section 315 Section b (4) (i) Two years have passed since the audit report in which the finding occurred was submitted to the Federal Clearinghouse, therefore this finding is no longer valid if it is ruled that the finding is substantiated.

Reportable Condition 2003-4:

Equipment records are not maintained accurately.

Response:

We disagree with this finding. We have submitted a complete fixed asset schedule to the Dallas Regional office and the Auditor. This schedule met the requirements of 45 CFR 74.

Sincerely,

H. L. Williams Sr.
Harvey L. Williams

"This Institution Is An Equal Opportunity Provider"

SOUTHSIDE DEVELOPMENT CORPORATION

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June 13, 2004

"Creating the Future Today"

Management Letter Response

Although the management letter is dated May 23, 2004, we did not receive the draft of this report until June 3, 2004. The auditor commenced his audit on or about October of 2003. Therefore there would have been enough time to take corrective action if warranted.

Organizational Structure.

The auditor stated "*This situation dictates that the Board of Directors remain involved in the financial affairs of Southside to provide oversight and independent review functions.*"

The Board is a policy group and they provide continual oversight without micromanaging the affairs of the organization. Oversight review is provided by the various funding sources and we have an annual independent audit.

Accounting Department.

The comments under this heading are quite lengthy but it is difficult to give a correct response because it is subjective in nature, does not list any statutory or authoritative source and seems to represent the personal preferences of the auditor. There are certain transactions that occur that are expenditures in nature. Thay naturally require a journal entry to properly record them in accordance with accounting principles generally accepted in the United States of America. The auditor alludes to the fact that the accounting department is mechanized (mechanical). The opposite of this is a manual system. The mechanical system is more effective. Please note the following exceptions to the report.

45 CFR 1304.52 (d) (8) requires the grantee must secure the regularly scheduled or ongoing services of a qualified fiscal officer. The grantee has an external CPA contracted for these services. There is no requirement for persons performing clerical accounting activities to possess and accounting degree or to have an accounting background or to possess prerequisite courses in accounting. The persons performing these duties possess a wide range of office, bookkeeping and clerical experience to perform accounting activities. The work product is reviewed by a CPA.

A need for (40) adjusting journal entries.

This represents less than 4 entries per month. This could hardly be noted as a deficiency or a lack of good internal control system.

Classifications of assets in expense categories.

We did not externally report assets as expenses in the financial statements or report assets as expense in the financial statements.

Employee withholding for health insurance not posted to insurance expense.

This should not be listed as a deficiency in the accounting department. Please note that at year-end June 30, 2003, Mr. Arthur Matte, CPA provided invaluable service to our accounting department. Any withholding for health insurance from the paychecks of employees should never be posted as an insurance expense. It becomes a liability of SDC. The insurance withholdings were properly posted.

Substantial income not being recorded for reimbursement programs.

In many instances, for certain programs, our support revenue cannot be determined until our reimbursements are approved by the funding sources. Therefore, we follow the legal criteria for recognizing income and in many instances this creates adjusting journal entries. The term "income" is applicable to for profit entities.

Three months of deposits not being keyed in to the accounting system.

This was not a breakdown in internal control because our external CPA, Mr. Art Matte included these amounts in the bank reconciliations. The financial statements and general ledger was manually adjusted for this period because there was a glitch in the software. This error did not go undetected for a long period of time. The software cannot handle a multifunded organization but it can handle multiple companies. It is not a non profit software, therefore, we must make adjustment to it as needed that necessitate adjusting journal entries.

<u>Property and equipment not being properly tracked according to Federal requirements</u>

To be brief, Federal requirements require us to adhere to standards for equipment acquisitions that exceeded $5,000.00 per unit. This statement is too general to give a response. Our fixed assets records are impeccable and quite detailed and in compliance with federal regulations. We furnished these records to the Federal review team and our independent CPA. The Federal review team found no exceptions to these records.

<u>Different program expense not being departmentalized for proper report processing</u>

This comment is too vague and broad to respond to as it is written. There is no Federal requirement or generally accepted accounting principle that requires us to departmentalize expenses for financial statement purposes or to present them to the Policy Council or the Governing Board. SDC does not have a policy that requires departmentalizing expenses either.

<u>Travel and seminar expenses not being properly substantiated.</u>

Our travel and seminar expenses were properly documented, necessary, reasonable and an allowable cost of the program. The auditor did not provide us with any specific occurrences, therefore we are unable to offer any additional information.

<u>Inaccurate information being reported to the Board of Directors</u>

We are sure on occasion human error can occur that would result in misinformation that was not intentionally given to the Board. As mentioned above, we cannot answer specifically because we do not know what the auditor is referring to regarding information that was given to the Board that was not accurate.

<u>Financial Reports/Budget Analysis</u>

The conclusion reached under this section was not based on an objective and quantified review. This conclusion was based on inaccurate information under the caption "Accounting Department". The phrase "budget vs. actual income and expense analysis" is no longer used in the non profit environment, FASB 117, and the Code of Federal Regulations 45 and accounting principles generally accepted in the United States of America.

Late filing of Audit Report

Our responsibility is to present fair financial information. The financial information was fairly presented to the auditor. We will put forth our best effort to guarantee that the next audit is timely presented. The report for the year ending June 30, 2002 required some major changes.

General Organization

It is very difficult to respond to the comments under this section as they are written. We do have policies in place to properly record travel and seminars, inkind services and advances. If the auditor determined that we have these policies in place but we are not adhering to these policies then it would help us to name the policies that we are violating or the policies that should be strengthened. Then we would make the necessary improvement. This was not a reportable condition listed under any grant program.

Sincerely,

H. L. Williams Sr.

Harvey L. Williams