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SERENITY 67

ANNUAL FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED

JUNE 30, 2004

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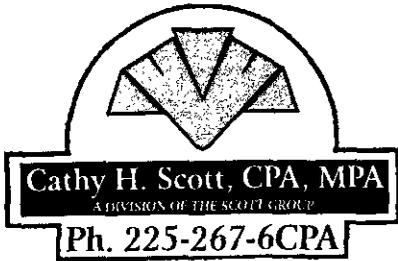
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Cathy H. Scott, CPA, LLC
(225) 267-6CPA

**SERENITY 67
ANNUAL FINANCIAL REPORT
JUNE 30, 2004**

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Cathy H. Scott, CPA, LLC

"Service With A Personal Touch"

INDEPENDENT AUDITORS REPORT

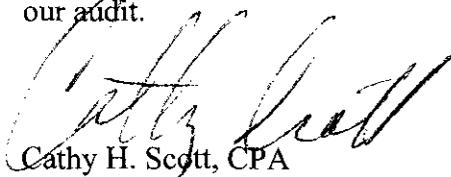
To the Board of Directors of
Serenity 67

We have audited the accompanying statement of financial position of Serenity 67 (a nonprofit organization) as of June 30, 2004 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Serenity 67, Inc. as of June 30, 2004, and the changes in its net assets for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2005, on our consideration of Serenity 67, Inc.'s internal control over financial reporting and our tests of its compliance with certain laws, regulations, and contracts. 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 our audit.



Cathy H. Scott, CPA
Baton Rouge, LA

May 11, 2005

**SERENITY 67
STATEMENT OF FINANCIAL POSITION
JUNE 30,2004**

	Unrestricted
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 875
Employee Advances	\$ 5,620
Prepaid rent	\$ 700
Miscellaneous receivable	<u>\$ 41,203</u>
Total Current Assets	<u>\$ 48,398</u>
Non-current Assets:	
Office furniture and fixtures	\$ 20,841
Office machinery and equipment	\$ 74,493
Vehicles	\$ 52,990
Leasehold Improvements	\$ 8,507
(Accumulated depreciation & Amortization)	<u>\$ (138,698)</u>
Net Fixed Assets	\$ 18,133
Deposits	<u>\$ 10,000</u>
Total Non-current Assets	<u>\$ 28,133</u>
TOTAL ASSETS	<u>\$ 76,531</u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable	\$ 2,410
Accrued payroll	\$ 6,235
Accrued and withheld payroll taxes	\$ 18,748
Bank overdrafts	\$ 13,977
Other payroll withholding	\$ 4,740
Notes Payable	<u>\$ 21,913</u>
Total Current liabilities	<u>\$ 68,023</u>
TOTAL LIABILITIES	<u>\$ 68,023</u>
NET ASSETS (Unrestricted)	\$ 8,508
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 76,531</u>

See accompanying notes to financial statements

**SERENITY 67
STATEMENT OF ACTIVITIES
JUNE 30,2004**

	Unrestricted
SUPPORT AND REVENUE	
Support:	
Contributions	\$ 21,397
Revenue:	
Grant funds	\$ 347,782
Interest income	\$ 5
Miscellaneous income	<u>\$ 10,371</u>
 TOTAL REVENUE	 <u>\$ 379,555</u>
 EXPENSES	
Program Services:	
Drug-free and tutorial services	\$ 288,443
Elderly and youth services	<u>\$ 87,148</u>
Supporting services	
Administrative and general	<u>\$ 56,917</u>
 TOTAL EXPENSES	 \$ 432,508
 CHANGE IN NET ASSETS	 <u>\$ (52,953)</u>
 NET ASSETS, BEGINNING OF YEAR	 \$ 61,461
 NET ASSETS, END OF YEAR	 <u>\$ 8,508</u>

See accompanying notes to financial statements

**SERENITY 67
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2004**

	Drug-free and Tutorial Youth Services	Elderly and Youth Services	Total Program Services	Management and General	Totals
Accounting	\$ 11,024	\$ 3,262	\$ 14,286	\$ -	\$ 14,286
Advertising/public awareness	\$ 500	\$ -	\$ 500	\$ 1,012	\$ 1,512
Amortization	\$ -	\$ -	\$ -	\$ 218	\$ 218
Auto expense	\$ 922	\$ 6,594	\$ 7,516	\$ -	\$ 7,516
Bank charges	\$ 43	\$ 161	\$ 204	\$ 1,523	\$ 1,727
Building maintenance	\$ 622	\$ -	\$ 622	\$ 225	\$ 847
Contract labor	\$ 122,653	\$ 17,023	\$ 139,676	\$ 5,200	\$ 144,876
Depreciation	\$ -	\$ -	\$ -	\$ 13,076	\$ 13,076
Interest expense	\$ 1,614	\$ -	\$ 1,614	\$ 1,480	\$ 3,094
Grant assistance	\$ 8,070	\$ -	\$ 8,070	\$ 1,450	\$ 9,520
Insurance	\$ 4,473	\$ 4,503	\$ 8,976	\$ 1,429	\$ 10,405
Licenses	\$ 600	\$ -	\$ 600	\$ 5	\$ 605
Miscellaneous	\$ 30	\$ 50	\$ 80	\$ -	\$ 80
Payroll taxes	\$ 5,598	\$ 2,336	\$ 7,934	\$ 1,175	\$ 9,109
Legal	\$ 400	\$ -	\$ 400	\$ -	\$ 400
Postage	\$ 481	\$ -	\$ 481	\$ -	\$ 481
Rent	\$ 12,073	\$ 2,417	\$ 14,490	\$ 5,857	\$ 20,347
Repairs	\$ 2,120	\$ 112	\$ 2,232	\$ -	\$ 2,232
Salaries	\$ 89,940	\$ 44,656	\$ 134,596	\$ -	\$ 134,596
Security	\$ 733	\$ 41	\$ 774	\$ 431	\$ 1,205
Supplies	\$ 15,861	\$ 1,297	\$ 17,158	\$ 433	\$ 17,591
Telephone	\$ 3,638	\$ 2,658	\$ 6,296	\$ 1,375	\$ 7,671
Travel and conferences	\$ 3,325	\$ -	\$ 3,325	\$ 21,980	\$ 25,305
Utilities	\$ 3,723	\$ 2,038	\$ 5,761	\$ 48	\$ 5,809
TOTALS	\$ 288,443	\$ 87,148	\$ 375,591	\$ 56,917	\$ 432,508

See accompanying notes to financial statements

SERENITY 67
STATEMENT OF CASH FLOWS
JUNE 30,2004

CASH FROM OPERATING ACTIVITIES

Excess of support and revenues over expense.	(52,953)
Adjustments to reconcile excess of support and revenues over Expenses to cash provided by operating activities:	
Depreciation	13,076
Amortization	218
(Increase) decrease in receivables	(27,898)
(Decrease) increase in accounts payable	383
(Decrease) increase in other payables	<u>16,898</u>
Net cash provided by operating activities	<u>(50,276)</u>

CASH PROVIDED (USED IN) FINANCING ACTIVITIES

Increase in notes payable	21,913
Net cash provided (used) in financing activities	<u>21,913</u>

Net increase (decrease) in cash and cash equivalents (28,363)

Cash and cash equivalents, beginning of year 15,262

Cash and cash equivalents, end of year (\$13,101)

See accompanying notes to financial statements

SERENITY 67
Notes to Financial Statements
June 30, 2004

Organization and Nature of Activities

Serenity 67 was organized in Louisiana in 1993 as a non-profit corporation for the purpose of providing human services to the residents of Louisiana House of Representatives District 67 and surrounding areas. Services provided include medical transportation services for the elderly, a day program for senior citizens, camps for youth, tutoring, self-esteem programs, personal hygiene programs, and drug abuse prevention/awareness counseling for the youth.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

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, Serenity 67 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. Accordingly, net assets of Serenity 67 and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations as of the end of the year. Temporarily restricted revenues for which the restriction expires in the same year in which the revenue is recorded, is included as an increase of unrestricted net assets.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of Serenity 67 and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that Serenity 67 maintains them permanently. During the period under audit, there were no such permanently restricted donations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities 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. Accordingly, actual results could differ from those estimates.

Fixed Assets

Serenity 67 follows the practice of capitalizing, at cost, all expenditures for fixed assets. Depreciation is computed on a straight-line basis over the useful lives of the assets generally as follows:

Furniture & Fixtures	7 years
Equipment	5 years
Autos & Trucks	5 years

The net fixed asset balance has been recorded as a separate component in unrestricted net assets. Fixed assets are carried at cost or, if donated, at the approximate fair value at the date of donation. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

A summary of property and equipment at June 30, 2004 follows:

Furniture & Fixtures	\$ 20,841
Equipment	74,493
Autos & Trucks	52,990
Less depreciation	<u>(136,783)</u>
Equipment, net	\$ 11,541

Depreciation expense for the year ended June 30, 2004 amounted to \$ 13,076

Leasehold Improvements

Leasehold Improvements are carried at cost. Amortization is computed using the straight-line method over the estimated useful lives of the respective improvements. When improvements are abandoned or otherwise disposed of, the cost and related accumulated amortization are removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

Leasehold Improvements	\$ 8,507
Less amortization	<u>(1,915)</u>
	\$ 6,592

Revenue Recognition

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

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction end 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.

Contributions

Financial Statement presentation follows the recommendation of the Financial Accounting Standards Board in SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets.

Grant Revenue

Serenity 67's primary sources of revenue are from grants administered by the State of Louisiana. During the year presented, approximately 94% of the Organization's revenues were derived from these sources. Grant revenue includes revenues from governmental and other nonprofit entities.

Long Term Debt

The company had the following unsecured notes payables outstanding

Date of Loan	06/30/04 Bal.	Provider	Rate	Payment	Maturity Date
07/08/03	11,903	LES FCU	16%	Varies	11/08/03
08/20/03	10,010	Liberty Bank	9.5%	\$ 277	06/25/04

Maturities of Long-Term Debt

Aggregate maturities of long-term debt are as follows:

Year Ending	Amount
June 30, 2004	\$ 21,913
2005-2007	0

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents is fair value because of the short maturities of those financial instruments.

Income Taxes

Income taxes are not provided for in the financial statements since the Organization is exempt from federal and state income taxes under Section 501©3 of the Internal Revenue Code and similar state provisions. In addition, the organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 501(9) of the code.

Functional Expenses

Functional expenses have been allocated between program services and supporting services based on an analysis of personnel time and space utilized for the related activities.

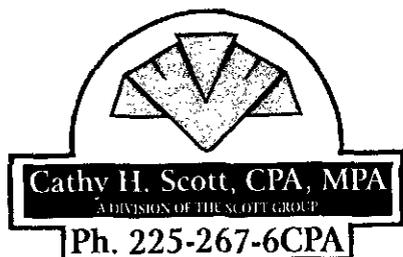
Operating Leases

The Organization had two non-cancelable operating leases for facilities it occupied during the years ended June 30, 2004.

The first lease was for the period beginning August 1, 2002, and was renewable on a monthly basis. The organization exercised the option to renew. The second lease was for the period September 1, 2003, through June 30, 2004. The lease provided for a one year renewal at the lessee's option. The organization exercised the option to renew. Total rental expense was of \$20,347 for the year ended June 30, 2004.

Related Party

Louisiana Hope Institute was housed at one of the locations of Serenity 67. This organization leased space from Serenity 67 and had an informal agreement to share costs in programs and events for the constituents served by both organizations. Serenity 67 issued checks directly to and on behalf of LA Hope Institute as a loan to the organization until grant funds were received by LA Hope Institute. This relationship was temporary.



Cathy H. Scott, CPA, Llc

"Service With A Personal Touch"

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 of
Serenity 67

I have audited the financial statements of Serenity 67 as of and for the year ended June 30, 2004, and have issued my report thereon dated May 11, 2005. I conducted my audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

Compliance

As part of obtaining reasonable assurance about whether Serenity 67's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statements 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 item F-1. We also noted certain immaterial instances of noncompliance, which we have reported to management of Serenity 67 in a separate letter dated May 11, 2005.

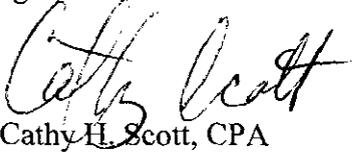
Internal Control over Financial Reporting

In planning and performing our audit, we considered Serenity 67'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 the internal control over financial reporting

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 Serenity 67's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. I noted no matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. However, I noted other matters involving the internal control over financial reporting, which I have reported to management of Serenity 67 in a separate letter dated May 11, 2005.

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. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 Board of Directors, management, and awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "Cathy H. Scott".

Cathy H. Scott, CPA

Baton Rouge, LA
May 11, 2005

SERENITY 67
SUMMARY OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004

SUMMARY OF AUDIT RESULTS

1. An unqualified opinion was issued on the financial statements of Serenity 67.
2. Reportable conditions disclosed during the audit of the financial statements are reported in a separate letter to management.
3. The audit disclosed no instances of noncompliance that were material to the financial statements of Serenity 67.
4. The statement that reportable conditions in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses is not applicable.
5. Serenity 67 was not determined to be a low-risk auditee.

FINDINGS

- F-1. Organization did not timely file the audited financial statements to the Legislative Auditors office in accordance with grantees requirements and Louisiana Revised Statutes LA 24:513, no later than 6 months after the end of the fiscal year in which the audit funds were received.

PRIOR YEAR FINDINGS

There were prior year management letter issues which were not addressed.

**SERENITY 67
BATON ROUGE, LOUISIANA**

**CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

Finding 1: Failure to submit audited financial statements in compliance with Louisiana Revised Statute 24:513.

Serenity 67 experienced an unusually high turnover of key personnel during the period of time prior to and after the end of the fiscal year. This turnover caused the organization to fall behind in its efforts to maintain the accounting function. Once the organization replaced the personnel involved, it took longer than anticipated to become current and provide the auditor with the data necessary to complete the audit timely.

Serenity 67 is confident that the situation that caused this has been remedied and that future audits will be completed and submitted in a timely manner.

Management Letter Recommendations:

Compliance with Contractual Requirements of Funding Sources

Many of the delays in filing the grantee reports referred to in this comment were a direct result to the turnover in personnel referred to in Finding 1. The organization has currently replaced those individuals and feels that this comment will be resolved.

New procedures will be implemented to insure that this grantor's funds will be kept in a separate account and not co-mingled with other funds belonging to Serenity 67.

Board Meetings and Corporate Governance

The board has already addressed this issue and is currently meeting on a monthly basis. Serenity 67 acknowledges the importance of these meetings and the oversight provided by the board in monitoring the activities of the Organization.

Accounting Policy and Procedure Manual

Serenity 67 will make the auditor's suggested changes to its accounting policies and procedures.

Bank Reconciliations

Serenity 67 believes this deficiency is being addressed by its actions relative to the turnover of personnel. Bank reconciliations will be performed monthly and reconciling items addressed timely.

Interim Reporting

Serenity 67, with the exception of the year ended June 30, 2004, has always had monthly financial statements. These statements are prepared on the cash basis without disclosures. While the Organization agrees with the auditor's recommendation, it feels that the cost involved in converting the cash basis financial statements to full accrual basis financial statements with disclosures would be too costly. Generally, the adjustments necessary to

SERENITY 67
BATON ROUGE, LOUISIANA

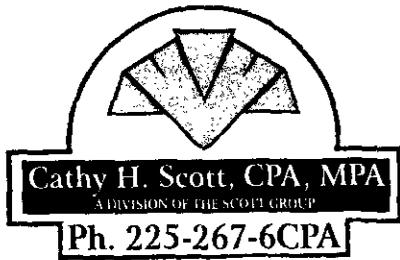
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

convert the cash basis statements to accrual basis statements are the recording of grants receivable, miscellaneous accounts receivable, accounts payable, accrued payroll taxes, and depreciation expense. Serenity 67 is aware that these adjustments need to be made at yearend.

Organizational Structure

Serenity 67 agrees with the auditor's recommendation and has taken steps to insure that the board of directors meets regularly and exercises oversight over the Organization's financial affairs.

The contact person is Serenity 67's Executive Director. The position is currently vacant, but will be filled by July 1, 2005.



Cathy H. Scott, CPA, Llc

"Service With A Personal Touch"

May 11, 2005

To the Senior Management and
The Board of Directors of
Serenity 67

In planning and performing our audit of the financial statements of Serenity 67, Inc. for the year ended June 30, 2004; we considered the Organization'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 internal controls and operating efficiency. (We previously reported on the Organization's internal control in our report dated May 11, 2005.) This letter does not affect our report dated May 11, 2005, on the financial statements of Serenity 67, Inc.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Organization personnel, and we will be pleased to discuss these comments in further details at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Compliance with Contractual Requirements of Funding Sources

While testing Serenity 67's compliance with various requirements of its grantor agencies, it was noted that the organization did not comply with two program-related requirements of one grantor. The contract called for *monthly reporting of program expenditures by a specified date*. While all reports were filed, not all of the reports were filed in a timely manner. Also, this grantor required the use of a separate bank account for the deposit and expenditure of the grant funds and also prohibited the co-mingling of its grant funds with other organization funds. Although a separate bank account was maintained and used for grant funds, the funds were co-mingled with other funds.

Board meetings and corporate governance

The Board of Directors does not meet regularly, which limits the Board's effectiveness. I recommend that monthly board meetings are held until the organization addresses all instances of noncompliance with grantor requirements and any recommendations made here. After such time, it is recommended that the Board meet at least quarterly to review interim reports.

Accounting Policy and Procedure Manual

The Organization does have written accounting procedures, however this manual needs to document all procedures for fiscal operations to ensure that transactions are treated in a standardized manner and that proper

internal controls exist in the accounting system. **We recommend** that additional guidelines for fiscal activities be prepared including a description of maintenance of accounts receivable and accounts payable subsidiary records, payroll procedures, capitalization policy, and procedures for accounting estimates. Procedures should also be adopted to ensure that financial statements are prepared according to Generally Accepted Accounting Principles.

Bank Reconciliation

Bank reconciliations are an important internal control used by management to ensure that all cash transactions are recorded in the accounting records and to help identify errors. To be effective, they need to be performed timely, reconciling items need to be investigated and adjustments made to the accounting records where necessary and management should review such reconciliations to ensure their completion.

During our audit procedures, we noted that bank reconciliations were not being completed on a timely basis. We recommend that all bank accounts be reconciled monthly and reconciling items be investigated and adjustments made to the accounting records on a timely basis. Timely reconciliations will help safeguard company assets and result in more accurate financial reporting.

Interim Reporting

Financial Statements including the Cash Flow Statement and disclosing notes should be presented to the Board of Directors on a regular basis during the fiscal year (quarterly, monthly, etc). This will allow an opportunity to improve the accuracy and reliability of the financial reports at yearend. This will also greatly reduce additional cost that may result from financial statement preparation during the audit engagement.

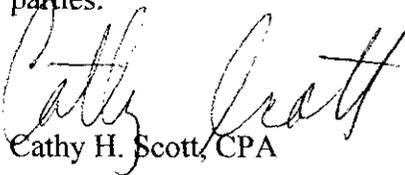
Organizational Structure

The size of the Organization'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 remains involved in the financial affairs of the Organization to provide oversight and independent review functions.

The comments regarding Board Meetings, Contractual Requirements and Organizational Structure are identical to the ones made upon completion of the 06/30/2002 & 06/30/2003 audit.

We wish to thank Management and the Independent Accountant for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Cathy H. Scott, CPA

Baton Rouge, LA
May 11, 2005