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THE CHURCH UNITED FOR COMMUNITY DEVELOPMENT

FINANCIAL REPORT

December 31, 2002

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date _____

Provost
Salter
Harper
Alford LLC

Certified
Public
Accountants

Business
Advisors

8550 United Plaza Boulevard, Suite 600, Baton Rouge, Louisiana 70809, Phone: (225) 924-1772 / Facsimile: (225) 927-9075

THE CHURCH UNITED FOR COMMUNITY DEVELOPMENT

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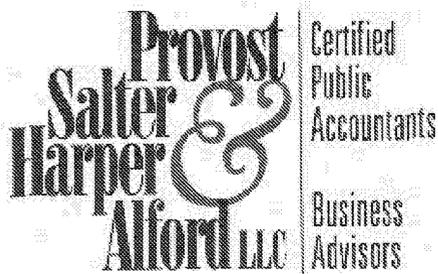
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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Board of Directors
The Church United for Community Development
Baton Rouge, Louisiana

We have audited the accompanying statements of financial position of The Church United for Community Development (a nonprofit organization) as of December 31, 2002 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 auditing standards generally accepted in the United States of America 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 The Church United for Community Development as of December 31, 2002, and the changes in its 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*, we have also issued a report dated January 22, 2003 on our consideration of The Church United for Community Development's internal control over financial reporting and on our 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 Accounting Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of The Church United for Community Development taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

PROVOST, SALTER, HARPER & ALFORD, L.L.C.

Provost, Salter, Harper & Alford, L.L.C.

January 22, 2003

THE CHURCH UNITED FOR COMMUNITY DEVELOPMENT

Statement of Financial Position

December 31, 2002

ASSETS

Current Assets

Cash and cash equivalents	\$ 105,207
Contractual reimbursements receivable	60,130
Prepaid and other	<u>7,075</u>

Total current assets 172,412

Land, Buildings and Equipment

Net of accumulated depreciation and amortization	<u>242,693</u>
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Total Assets \$ 415,105

LIABILITIES AND NET ASSETS

Current Liabilities

Note payable	\$ 150,000
Accounts payable	19,884
Accrued expenses	11,627
Deferred revenue	<u>75,910</u>

Total current liabilities 257,421

Net Assets

Unrestricted net assets	
Undesignated, available for general activities	(105,009)
Net investment in fixed assets	<u>242,693</u>

Total unrestricted 137,684

Temporarily restricted 20,000

Total net assets 157,684

Total Liabilities and Net Assets \$ 415,105

THE CHURCH UNITED FOR COMMUNITY DEVELOPMENT

Statement of Activities

Year Ended December 31, 2002

	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue			
Public support			
Contractual governmental support	\$ -	\$ 349,510	\$ 349,510
Contributions and other	106,946	20,300	127,246
In kind contributions	233,287	-	233,287
Net assets released from restrictions	349,810	(349,810)	-
Total public support	690,043	20,000	710,043
Revenue			
Interest income	549	-	549
Total Public Support and Revenue	690,592	20,000	710,592
Expenses			
Program services			
Residential center	37,230	-	37,230
Dream Center	268,569	-	268,569
Character clubs	155,991	-	155,991
Character camps	44,172	-	44,172
Other community outreach	44,850	-	44,850
Total program services	550,812	-	550,812
Supporting services			
Management and general	140,274	-	140,274
Fund raising	12,898	-	12,898
Total support services	153,172	-	153,172
Total Expenses	703,984	-	703,984
Change in Net Assets	(13,392)	20,000	6,608
Net Assets, Beginning of Year	151,076	-	151,076
Net Assets, End of Year	\$ 137,684	\$ 20,000	\$ 157,684

THE CHURCH UNITED FOR COMMUNITY DEVELOPMENT

Statement of Functional Expenses

Year Ended December 31, 2002

	Program Services						Supporting Services		Totals
	Residential Center	Dream Center	Character Clubs	Character Camps	Community Outreach	Program Services	Management and General	Fund Raising	
Salaries and Related Benefits									
Salaries	\$ 5,843	\$ 108,332	\$ 99,184	\$ 15,079	\$ 22,513	\$ 250,951	\$ 105,492	-	\$ 356,443
Employee health and retirement benefits	-	-	3,658	2,400	1,076	7,134	-	-	7,134
Payroll taxes and other	444	8,237	5,270	1,147	1,712	16,810	-	-	16,810
Total salaries and related benefits	6,287	116,569	108,112	18,626	25,301	274,895	105,492	-	380,387
Other Expenses									
Supplies	3,654	3,859	2,910	-	1,553	11,976	5,000	-	16,976
Travel and meetings	773	4,716	-	-	-	5,489	-	-	5,489
Rent and utilities	4,858	70,500	-	-	-	75,358	5,625	-	80,983
Telephone	2,218	5,205	1,088	-	564	9,075	-	-	9,075
Insurance	4,137	7,861	2,434	-	-	14,432	16,800	-	31,232
Other expenses	14,303	47,470	41,447	25,546	17,432	146,198	7,357	12,898	166,453
Total other expenses	29,943	139,611	47,879	25,546	19,549	262,528	34,782	12,898	310,208
Total Expenses Before Depreciation and Amortization	36,230	256,180	155,991	44,172	44,850	537,423	140,274	12,898	690,595
Depreciation and amortization	1,000	12,389	-	-	-	13,389	-	-	13,389
Total Expenses	\$ 37,230	\$ 268,569	\$ 155,991	\$ 44,172	\$ 44,850	\$ 550,812	\$ 140,274	\$ 12,898	\$ 703,984

THE CHURCH UNITED FOR COMMUNITY DEVELOPMENT

*Statement of Cash Flows**Year Ended December 31, 2002*

Cash Flows From Operating Activities

Change in net assets	\$ 6,608
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Depreciation and amortization	13,389
Increase (decrease) in:	
Accounts receivable	(47,150)
Prepaid expense	(7,075)
(Increase) decrease in:	
Accounts payables	16,574
Accrued expenses	11,628
Deferred revenue	75,910
	<hr/>
Net Cash Provided By Operating Activities	69,884

Cash Flows From Investing Activities

Purchase of equipment and buildings	<u>(174,022)</u>
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Cash Flows From Financing Activities

Proceeds of long term debt	<u>150,000</u>
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Net Increase In Cash And Cash Equivalents**45,862****Cash And Cash Equivalents**

Beginning	<u>59,345</u>
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Ending	<u><u>\$ 105,207</u></u>
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SUPPLEMENTAL DATA

Interest Paid	<u><u>\$ 4,982</u></u>
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THE CHURCH UNITED FOR COMMUNITY DEVELOPMENT

Notes to Financial Statements

December 31, 2002

1. Nature of Activities and Significant Accounting Policies

Nature of Activities. The Church United for Community Development is a nonprofit Organization organized under the laws of the State of Louisiana to partner with government, schools, businesses and community organizations to improve the quality of life for its citizens by building strong families, providing education and training and teaching integrity, character and leadership. It operates principally in East Baton Rouge and Ascension Parishes, Louisiana.

Program services are supported through allocations received from contractual governmental support and grants from the State of Louisiana which amounted to \$349,510 for the year ended December 31, 2002. This amounted to 73% of total support and revenue excluding in kind contributions for the year ended December 31, 2002. As the Organization depends primarily on contractual governmental support and in kind contributions, future operating results are contingent on the Organization's continuing ability to secure contracts and grants from the State of Louisiana and others.

A summary of the Organization's significant accounting policies follows.

Public Support and Revenue. The financial statements are prepared on the accrual basis of accounting. Financial statements presentation follows the recommendations of the Financial Accounting Standards Board Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, non-profit organizations are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets. Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted Net Assets. Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and /or the 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 they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. There are no permanently restricted assets recorded in these financial statements.

THE CHURCH UNITED FOR COMMUNITY DEVELOPMENT

Notes to Financial Statements, Continued

December 31, 2002

Expenses. Program services expenses are the direct and indirect costs related to accomplishing the Organization's objectives. Supporting services are expenses for activities not directly related to the purpose for which the organization exists.

Functional Allocation of Expenses. The cost of providing various programs and supporting services have been reported on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the various programs and supporting services based on estimates made by management.

Cash and Cash Equivalents. For purposes of reporting the statement of cash flows, the Organization includes all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less as cash and cash equivalents on the accompanying statement of financial position.

Concentration of Credit Risk. The Organization maintains cash in bank deposit accounts at high credit quality financial institutions. The balances, at times, may exceed federally insured limits. At December 31, 2002, the Organization's bank balances were not in excess of insured limits.

Recognition of Contractual Reimbursements From State Government. The Organization receives most of its program support from state government. The program recovers its costs on a contracted basis with the State of Louisiana based on budgets approved by the State. Revenues are recognized when services are performed.

Deferred Income. Deferred income represents advance payments on grants from the State of Louisiana. These payments are recognized as income over the period earned.

Income Taxes. The Organization qualifies for taxation as a nonprofit Organization under §501(c)(3) of the Internal Revenue Code. Accordingly, no provision has been made for income taxes. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of §509(a) of the Internal Revenue Code.

Land, Buildings and Equipment. Expenditures for the acquisition of land, buildings and equipment are capitalized at cost. The fair value of donated furniture and equipment is similarly capitalized. Depreciation is computed by the straight line and accelerated methods over the following useful lives.

	<u>Years</u>
Equipment	3 - 7
Vehicles	3
Buildings and improvements	25 - 40

THE CHURCH UNITED FOR COMMUNITY DEVELOPMENT

Notes to Financial Statements, Continued

December 31, 2002

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires the Organization's management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Donated Services and Non-Cash Assets. A significant portion of the Organizations functions are conducted by unpaid board members and volunteers. The value of this contributed time is not reflected in the accompanying financial statements since the volunteers' time does not meet the criteria necessary for recognition. Contributions of donated non-cash assets are recorded at their fair values when received.

2. Contractual Reimbursements

	Contract Number	Contract Period	Total Contract	Recognized Support
State Office of Social Services	571819	9/1/01-8/31/02	\$ 74,832	\$ 46,877
	572234	9/1/01-8/31/02	74,473	35,349
	590262	10/1/02-9/30/03	76,076	11,414
	590316	10/1/02-9/30/03	308,939	26,649
	590718	9/1/02-8/31/03	204,000	57,301
State Department of Education	590489	10/1/02-8/31/03	383,199	23,559
U.S. Department of Education	V341A010658	10/1/01-12/31/02	208,611	148,361
Total				<u>\$ 349,510</u>

3. Accounts Receivable and Deferred Revenue on Contracts

As of December 31, 2002, accounts receivable and deferred revenue for contracts was composed of:

	Accounts Receivable	Deferred Revenue
State of Louisiana – Dept. of Education	\$ 23,559	\$ 38,320
State of Louisiana – Office of Social Services	<u>36,571</u>	<u>37,590</u>
	<u>\$ 60,130</u>	<u>\$ 75,910</u>

THE CHURCH UNITED FOR COMMUNITY DEVELOPMENT

Notes to Financial Statements, Continued

December 31, 2002

4. Land, Buildings and Equipment

A summary of land, buildings and equipment at December 31, 2002 is as follows.

	Cost	Depreciation Allowed	Net Book Value
Office Equipment	\$ 73,541	\$ 13,105	\$ 60,436
Buildings	171,832	2,075	169,757
Land	12,500	-	12,500
Total	<u>\$ 257,873</u>	<u>\$ 15,180</u>	<u>\$ 242,693</u>

5. Note Payable – Hibernia National Bank

The Organization, along with Healing Place Church (co-maker), has a credit line at Hibernia National Bank for \$150,000 with interest at 7% due March 25, 2003. The proceeds were used to renovate a building in Donaldsonville, Louisiana which will house the “Dream Center” program. Subsequent to year end this amount was refinanced at Regions Bank on a permanent loan at 6.5% interest for five years and a 15 year amortization collateralized by the land and improvements and bank accounts of the organization.

6. Program Services

The Church United for Community Development operates a half way house for men in Gonzales called the “Ascension House”. The program is designed to help men get reacquainted into society after being incarcerated or because of addiction to drugs or alcohol. The program teaches fathering skills, financial management, literacy, job skills and life skills

The Organization also operates the “Donaldsonville Dream Center” in Donaldsonville, Louisiana and the “Melrose East Dream Center” in Baton Rouge, Louisiana. The “Dream Center” program teaches computer skills, financial management, adult literacy, provides after school tutoring, a GED program, a wellness program, parenting and child development, music and sewing and other programs for mothers and children.

The Organization also operates character clubs in high schools and middle schools. The clubs teach the “Character First” curriculum to 5,000 students in East Baton Rouge and Ascension Parish. The “Character First” program teaches teen pregnancy prevention. As a part of the character club program, the Organization operates “Character Camps” during the summer months. The camps are designed to help “high risk” children make healthy life choices and prevent teen pregnancy. The camp operates for two weeks in summer and serves about 100 children each week.

THE CHURCH UNITED FOR COMMUNITY DEVELOPMENT

Notes to Financial Statements, Continued

December 31, 2002

The Organization also operates a "Support Through Employment Program" (STEP). The program is designed to provide educational and vocational job training and job placement, to teach parenting and character development to improve family connections, and to increase the percentage of fathers who are supporting their children financially.

7. Related Party Transactions

The Organization is a ministry of the Healing Place Church of Baton Rouge, Louisiana. The Church provides office space for the administrative staff and provides telephone, copier, fax and related items at no charge to the Organization. In addition, an associate pastor of the Church manages the day to day operations of the Organization and his salary is paid by the Church. Also, the Organization's program manager and an instructor in the "Character First" program are paid by the Church. Included in unrestricted contributions is \$27,700 of cash contributions from The Healing Place Church.

The Organization also has the free use of other facilities that are used in the various programs. The Ascension Parish School Board is allowing the Organization to use a facility on a temporary basis to operate the "Donaldsonville Dream Center". The Organization has purchased a building which will house the program after renovations are completed.

The Organization also uses facilities in Gramercy, Louisiana and Baton Rouge, Louisiana which are provided at no charge.

The value of all these in kind donations has been estimated by management to be \$233,287. This is reflected on the statement of activities as in kind revenue and expense.

8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

Restricted for administrative assistant	\$ 20,000
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THE CHURCH UNITED FOR COMMUNITY DEVELOPMENT

*Notes to Financial Statements, Continued**December 31, 2002*

Net assets were released from restrictions by incurring expenses satisfying the purpose specified as follows:

Residential Center	
Family Formation	\$ 11,414
Dream Center	
Literacy Training	23,559
Technology Training	148,361
Character clubs	104,178
Character camps	35,349
Other Community Outreach	
Fatherhood Initiative	26,649
Boy Scouts	<u>300</u>
	<u>\$ 349,810</u>

THE CHURCH UNITED FOR COMMUNITY DEVELOPMENT

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2002

Federal Grants/Program Title	Contract Number	Federal CFDA Number	Program or Award Amount	Accrued Revenue at January 1, 2002	Cash Received	Revenue Recognized	Expenditures	(Deferred) Accrued Revenue at December 31, 2002
U.S. Department of Health and Human Services (HHS)								
Pass-Through - State of Louisiana								
Department of Social Services	571819	93.558	\$ 74,832	\$ 10,271	\$ 57,148	\$ 46,877	\$ 46,877	\$ -
	572234	93.558	74,473	2,708	38,057	35,349	35,349	-
	589718	93.558	204,000	-	57,301	57,301	57,301	-
	590262	93.558	76,076	-	1,492	11,414	11,414	9,922
	590316	93.558	308,939	-	37,590	26,649	26,649	26,649
				12,979	191,588	177,590	177,590	(37,590)
U.S. Department of Education								
Department of Education								
Pass-Through - State of Louisiana	V341A010658	84.341A	208,611	-	148,361	148,361	148,361	-
Department of Education	590489	93.558	383,199	-	38,320	23,559	23,559	(38,320)
				-	186,681	171,920	171,920	(38,320)
				\$ 12,979	\$ 378,269	\$ 349,510	\$ 349,510	\$ (75,910)
								\$ 60,130

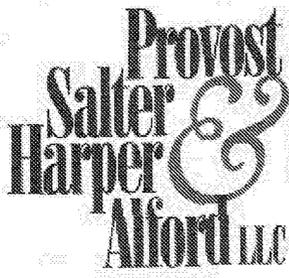
THE CHURCH UNITED FOR COMMUNITY DEVELOPMENT

Notes to Schedule of Expenditures of Federal Awards

December 31, 2002

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The Church United for Community Development 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.



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

Board of Directors
The Church United for Community Development
Baton Rouge, Louisiana

We have audited the financial statements of The Church United for Community Development (a nonprofit organization) as of and for the year ended December 31, 2002 and have issued our report thereon dated January 22, 2003. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether The Church United for Community Development'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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Church United for Community Development's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect The Church United for Community Development's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-1 to 2002-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition 2002-1 described above is a material weakness.

This report is intended solely for the information and use of the Board of Directors, management, the State of Louisiana 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. However, this report is a matter of public record and its distribution is not limited.

PROVOST, SALTER, HARPER & ALFORD, L.L.C.

Provost, Salter, Harper & Alford, L.L.C.

January 22, 2003

THE CHURCH UNITED FOR COMMUNITY DEVELOPMENT

Schedule of Findings and Questioned Costs

Year Ended December 31, 2002

Section I – Summary of Auditor’s Results

Financial Statements.

Type of auditor’s report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>Yes</u>
Reportable condition identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards.

Internal Control over major programs:	
Material weakness identified?	<u>Yes</u>
Reportable condition identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditor’s report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, § 510(a)?	<u>No</u>
Identification of major programs:	

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.558	Temporary Assistance for Needy Families (TANF)

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low risk auditee?	<u>No</u>

THE CHURCH UNITED FOR COMMUNITY DEVELOPMENT

Schedule of Findings and Questioned Costs, Continued *Year Ended December 31, 2002*

Section II – Financial Statement Findings

Reportable Conditions

Item 2002-1.

Condition. The Organization did not have adequate segregation of duties over cash disbursements.

Criteria. The Organization should have adequate segregation of duties so that one person is not able to initiate and record a transaction.

Effect. Failure to adequately safeguard assets could result in their loss due to theft.

Cause. The Organization's accountant was authorized to sign checks.

Recommendation. The Organization should remove the accountant from the list of authorized check signers.

Management's Response. We agree with the finding and have changed the authorized check signers.

Item 2002-2.

Condition. Good internal control requires that documentation exist to support transactions entered in the financial records. On some occasions, checks were issued without sufficient documentation to substantiate the expenditure.

Criteria. All disbursements should have an invoice to substantiate the nature and authorization for the expenditure.

Effect. Insufficient documentation could result in unauthorized or inappropriate use of the organizations resources.

Cause. Management made payments based on vendor statements and approved requisitions and did not require a copy of an invoice prior to payment.

Recommendation. Management should establish procedures to require a vendor invoice to substantiate any expenditure.

THE CHURCH UNITED FOR COMMUNITY DEVELOPMENT

Schedule of Findings and Questioned Costs, Continued *Year Ended December 31, 2002*

Management's Response. All of the expenditures of the organization were for legitimate organizational purposes and were properly authorized. We will implement policies to obtain written documentation to assist the audit process and to improve our system of internal control.

Item 2002-3.

Condition. Good internal control requires that documentation exist to support transactions entered in the financial records. On some occasions payroll checks were issued that were not substantiated by approved timesheets.

Criteria. All payroll transactions should be substantiated by a timesheet from the employee that has been approved by a supervisor.

Effect. Insufficient documentation could result in unauthorized or inappropriate payroll expenditures.

Cause. Management made some payments based on verbal approval of supervisors and some payments based on employee timesheets that did not have a supervisor's approval.

Recommendation. Management should require approved timesheets from all employees prior to issuing paychecks.

Management's Response. All of the payroll transactions were for legitimate purposes and were authorized. We will implement procedures to require timesheets from all employees and we will also require supervisory approval on all timesheets.

THE CHURCH UNITED FOR COMMUNITY DEVELOPMENT

Schedule of Findings and Questioned Costs, Continued *Year Ended December 31, 2002*

Section III – Federal Award Findings

The findings also relate to federal awards.

Section IV – Independent Auditor’s Comment on Resolution of Prior Audit Findings

This is the first audit of the Organization.



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

Board of Directors
The Church United for Community Development
Baton Rouge, Louisiana

Compliance.

We have audited the compliance of The Church United for Community Development, 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, 2002. The Church United for Community Development'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 each of its major federal programs is the responsibility of The Church United for Community Development's management. Our responsibility is to express an opinion on The Church United for Community Development's compliance based on our audit.

We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Church United for Community Development's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on The Church United for Community Development's compliance with those requirements.

In our opinion, The Church United for Community Development 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, 2002.

Internal Control Over Compliance.

The management of The Church United for Community Development is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered The Church United for Community Development's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Organization's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-1 to 2002-3.

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. Our 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, we believe the reportable condition item 2002-1 is a material weakness.

This report is intended for the information of the Board of Directors, management and federal and state awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

PROVOST, SALTER, HARPER & ALFORD, L.L.C.

Provost, Salter, Harper & Alford, L.L.C.

January 23, 2003