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*Financial Report*  
*The Magnolia School Inc.*  
*June 30, 2004*

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 1-26-05

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Jefferson, Louisiana

June 30, 2004

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Bourgeois Bennett

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Governors,  
The Magnolia School, Inc.,  
Jefferson, Louisiana.

We have audited the accompanying statement of financial position of The Magnolia School, Inc. (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 School'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 Magnolia School, Inc. as of June 30, 2004, 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 our report dated August 20, 2004 on our consideration of the School's internal control over financial reporting and 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 Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

*Bouges & Bennett, L.L.C.*

Certified Public Accountants.

New Orleans, Louisiana,  
August 20, 2004.

## STATEMENT OF FINANCIAL POSITION

**The Magnolia School, Inc.**  
Jefferson, Louisiana

June 30, 2004

### ASSETS

#### **Current**

Cash and cash equivalents	\$ 1,619,511
Restricted cash	258,004
Accounts receivable:	
Medicaid, net of allowance for doubtful accounts of \$ 16,396	479,010
Tuition, net of allowance for doubtful accounts of \$72,332	-
Other	48,196
Interest receivable	10,647
Inventory	18,104
Prepaid expenses and deposits	254,271
Investments	3,164,365
	<hr/>
Total current assets	5,852,108

#### **Property and Equipment**

Land	226,930
Buildings and improvements	6,718,805
Equipment and fixtures	1,917,607
	<hr/>
	8,863,342
Less accumulated depreciation	<u>(3,598,923)</u>
	<hr/>
Net property and equipment	5,264,419

#### **Other Assets**

Bond issuance costs - net	62,005
	<hr/>
Total assets	<u>\$ 11,178,532</u>

See notes to financial statements.

**LIABILITIES AND NET ASSETS**

**Current**

Trade accounts payable and accrued expenses	\$ 116,080
Accrued payroll and related taxes	30,349
Accrued pension obligation	19,200
Deposits held in custody	<u>93,432</u>
Total current liabilities	259,061

**Long-Term**

Accrued pension obligation	58,429
Bonds payable	<u>3,153,894</u>
Total liabilities	<u>3,471,384</u>

**Net Assets**

Unrestricted:	
Net investment in property and equipment	5,264,419
Undesignated	<u>2,398,029</u>
Total unrestricted net assets	7,662,448
Temporarily restricted	<u>44,700</u>
Total net assets	<u>7,707,148</u>
Total liabilities and net assets	<u><u>\$ 11,178,532</u></u>

**STATEMENT OF ACTIVITIES**

**The Magnolia School, Inc.**  
Jefferson, Louisiana

For the year ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
<b>Support and Revenue</b>			
Support:			
Medicaid	\$ 6,992,645		\$ 6,992,645
Jefferson Parish Human Services Authority	117,453		117,453
Contributions	86,913	\$ 55,300	142,213
Other	339		339
Total support	<u>7,197,350</u>	<u>55,300</u>	<u>7,252,650</u>
Revenue:			
Tuition	33,323		33,323
Interest and dividend income	123,965		123,965
Net realized and unrealized gains on investments	165,542		165,542
Other	158,079		158,079
Total revenue	<u>480,909</u>		<u>480,909</u>
Subtotal	7,678,259	55,300	7,733,559
Net assets released from restrictions	<u>92,785</u>	<u>(92,785)</u>	<u>-</u>
Total support and revenue	<u>7,771,044</u>	<u>(37,485)</u>	<u>7,733,559</u>
<b>Expenses</b>			
Program services:			
Residential programs	3,843,548		3,843,548
Vocational programs	1,263,675		1,263,675
Total program services	<u>5,107,223</u>		<u>5,107,223</u>

**Exhibit B  
(Continued)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
Supporting services:			
Administrative and other	1,401,808		1,401,808
Nursing	479,906		479,906
Plant operation and maintenance	170,762		170,762
Total supporting services	<u>2,052,476</u>		<u>2,052,476</u>
Total expenses	<u>7,159,699</u>		<u>7,159,699</u>
<b>Increase (Decrease) in Net Assets</b>	611,345	(37,485)	573,860
<b>Net Assets</b>			
Beginning of year	<u>7,051,103</u>	<u>82,185</u>	<u>7,133,288</u>
End of year	<u>\$ 7,662,448</u>	<u>\$ 44,700</u>	<u>\$ 7,707,148</u>

See notes to financial statements.

**STATEMENT OF FUNCTIONAL EXPENSES**

**The Magnolia School, Inc.**  
Jefferson, Louisiana

For the year ended June 30, 2004

	<u>Residential Programs</u>	<u>Vocational Programs</u>	<u>Totals</u>
<b>Program Services</b>			
Salaries	\$ 1,847,046	\$ 794,972	\$ 2,642,018
Employee health and retirement benefits	91,556	53,899	145,455
Payroll taxes	<u>138,764</u>	<u>58,904</u>	<u>197,668</u>
Total salaries and related expenses	2,077,366	907,775	2,985,141
Advertising	1,255	2,848	4,103
Automobile	26,456	10,242	36,698
Bed fee - Louisiana Department of Health and Hospitals	499,271	-	499,271
Client personal needs	35,842	191	36,033
Contract services	155,777	7,320	163,097
Depreciation	90,982	92,862	183,844
Food	195,001	1,297	196,298
Insurance	196,741	83,013	279,754
Laundry, linen and bedding	9,200	-	9,200
Miscellaneous	17,887	9,707	27,594
Office supplies	5,314	4,473	9,787
Postage and printing	4,956	5,026	9,982
Purchases - retail store	-	19,918	19,918
Rent	244,750	-	244,750
Repairs and maintenance:			
Buildings and grounds	19,246	3,470	22,716
Furniture	25,605	1,619	27,224
Supplies	431	18	449
Supplies and other	66,324	63,152	129,476
Taxes and licenses	12,863	1,200	14,063
Telephone	29,286	7,781	37,067
Travel	3,467	1,483	4,950
Utilities	<u>125,528</u>	<u>40,280</u>	<u>165,808</u>
Total program services expenses	<u>\$ 3,843,548</u>	<u>\$ 1,263,675</u>	<u>\$ 5,107,223</u>

**Exhibit C  
(Continued)**

	Adminis- trative and Other	Nursing	Plant Operation and Maintenance	Totals
<b>Supporting Services</b>				
Salaries	\$ 550,049	\$ 362,119	\$ 110,939	\$ 1,023,107
Employee health and retirement benefits	30,631	16,434	9,936	57,001
Payroll taxes	50,143	27,480	8,078	85,701
Total salaries and related expenses	630,823	406,033	128,953	1,165,809
Advertising	797	1,108	-	1,905
Automobile	9,776	407	4,302	14,485
Bad debts	12,923	-	-	12,923
Bond interest	38,168	-	-	38,168
Bond fees	58,575	-	-	58,575
Contract services	70,692	11,276	2,626	84,594
Depreciation and amortization	151,468	9,353	12,143	172,964
Development	25,383	-	-	25,383
Food	1,663	1,246	-	2,909
Insurance	172,390	22,374	19,226	213,990
Legal and accounting	20,607	-	-	20,607
Miscellaneous	104,795	2,120	110	107,025
Office supplies	11,582	2,609	51	14,242
Pension expense	19,200	-	-	19,200
Postage and printing	844	373	-	1,217
Repairs and maintenance:				
Buildings and grounds	1,764	161	732	2,657
Furniture	8,591	1,285	131	10,007
Supplies	225	156	904	1,285
Supplies and other	15,564	10,200	119	25,883
Taxes and licenses	225	25	-	250
Telephone	10,961	3,263	1,122	15,346
Travel	1,652	3,560	-	5,212
Utilities	33,140	4,357	343	37,840
Total supporting services expenses	<u>\$ 1,401,808</u>	<u>\$ 479,906</u>	<u>\$ 170,762</u>	<u>\$ 2,052,476</u>

See notes to financial statements.

**STATEMENT OF CASH FLOWS**

**The Magnolia School, Inc.**  
Jefferson, Louisiana

For the year ended June 30, 2004

<b>Cash Flows From Operating Activities</b>	
Medicaid, JPHSA and tuition	7,203,641
Miscellaneous income	132,800
Contributions and support	192,213
Interest and dividend income	123,965
Cash payments for expenses	<u>(7,008,150)</u>
Net cash provided by operating activities	<u>644,469</u>
<b>Cash Flows From Investing Activities</b>	
Net purchases of investments	(154,777)
Purchases of property and equipment	<u>(195,469)</u>
Net cash used in investing activities	<u>(350,246)</u>
<b>Cash Flows From Financing Activities</b>	
Repayment of bonds	<u>(91,406)</u>
Net cash used in financing activities	<u>(91,406)</u>
<b>Net Increase In Cash and Cash Equivalents</b>	202,817
<b>Cash and Cash Equivalents</b>	
Beginning of year	<u>1,416,694</u>
End of year	<u><u>\$ 1,619,511</u></u>

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**Reconciliation of Increase In Net Assets To Cash Flows  
Provided By Operating Activities**

Increase in net assets	\$ 573,860
Adjustments to reconcile increase in net assets to cash provided by operating activities:	
Depreciation and amortization	356,808
Net realized and unrealized gains on investments	(165,542)
(Increase) decrease in operating assets:	
Accounts receivable	84,602
Inventory	876
Prepaid expenses and deposits	(154,248)
Decrease in operating liabilities:	
Accounts payable and accrued expenses	<u>(51,887)</u>
Net cash provided by operating activities	<u>\$ 644,469</u>

Interest paid and expensed for the year ended June 30, 2004 totaled \$38,168.

See notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS**

**The Magnolia School, Inc.**  
Jefferson, Louisiana

June 30, 2004

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Organization**

The Magnolia School, Inc. (the School) is a non-profit corporation founded in 1935 for the purpose of providing housing, training and education for developmentally delayed adults.

**b. Basis of Accounting**

The financial statements of the School have been prepared on the accrual basis of accounting.

**c. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**d. Cash and Cash Equivalents**

The School classifies as cash and cash equivalents all highly liquid debt instruments with a maturity of three months or less.

Restricted cash consists of amounts credited to the School's bank accounts from deposits held in custody for the students of the program and bond proceeds for construction projects (see Note 5).

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**e. Allowance for Doubtful Accounts**

The School uses the reserve method to recognize uncollectible accounts. The reserve is based on certain tuition accounts receivable balances that are greater than 120 days old.

**f. Inventory**

Inventory is stated at the lower of cost, as determined by the first-in, first-out (FIFO) method, or market.

**g. Property and Equipment**

The School records purchases of property and equipment at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method.

**h. Amortization of Bond Issuance Costs**

Certain costs related to a bond issue (see Note 7) have been capitalized and are being amortized over the estimated life of the bond issue. Accumulated amortization was \$10,651 at June 30, 2004.

**i. Investments**

Investments in marketable securities, mutual funds, and other investments are generally carried at fair market value.

**j. Contributions**

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

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**j. Contributions (Continued)**

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is 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 ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions

**k. Tax Matters**

The School is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, and qualifies as an organization that is not a private foundation as defined in Section 509(a) of the Code. It is exempt from Louisiana income tax under the authority of R.S. 47:121(5).

**l. Allocated Expenses**

The costs of providing the various programs and other activities are summarized in the Statement of Functional Expenses. Certain expenses have been allocated among the programs and supporting services based on management's estimate of the costs involved.

**m. Financial Statement Presentation**

Financial statement presentation follows the recommendations of the Statement of Financial Accounting Standards, (SFAS) No. 117, "Financial Statements of Not-For-Profit Organizations". Under SFAS No. 117, the School classified its net assets, revenues, and expenses based on the existence or absence of donor-imposed restrictions.

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**m. Financial Statement Presentation (Continued)**

Accordingly, net assets and changes therein are classified and reported as follows:

**Unrestricted Net Assets** - Support, revenue, and expenses for the general operation of the School.

**Temporarily Restricted Net Assets** - Contributions specifically authorized by the grantor or donor to be used for a certain purpose or to benefit a specific accounting period.

**Note 2 - CONCENTRATION OF CREDIT RISK**

The School maintains cash accounts at certain financial institutions located in southeast Louisiana. The Federal Deposit Insurance Corporation insures accounts at each institution up to \$100,000. The School also has cash equivalent accounts with a brokerage firm. The Securities Investor Protection Corporation insures these accounts up to \$500,000. Uninsured cash and cash equivalent balances are approximately \$910,188 at June 30, 2004.

**Note 3 - RESTRICTIONS ON ASSETS**

Temporarily restricted net assets are restricted by donors for specific programs, purposes, or to assist specific departments of the School. These restrictions are considered to expire when payments for restricted purposes are made. None of the temporarily restricted net assets are time-restricted by donors.

**Note 4 - CUSTODIAL FUNDS**

For the year ended June 30, 2004, personal funds of the students totaling \$93,432 are reported as deposits held in custody in the accompanying financial statements.

**Note 5 - ASSETS WHOSE USE IS LIMITED - TRUSTEE HELD FUNDS**

Pursuant to the issuance of the bonds (as described in Note 7) and various agreements between the School, the Louisiana Public Facilities Authority (the "Authority"), and Hancock Bank of Louisiana (the "Trustee"), the School is required to establish certain accounts and maintain deposits with the Trustee. Funds held by the Trustee, which are subject to the terms of a Trust Indenture, are restricted primarily to fund the construction of education-related facilities, the payment of debt services, and related capital expenses.

Trustee - held funds are invested in various short-term investments and are recorded at their fair value. The fair value of these investments at June 30, 2004 is as follows:

Cash and cash equivalents	<u>\$164,572</u>
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**Note 6 - INVESTMENTS**

Investments at June 30, 2004 are composed of the following:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gains/ (Losses)</u>
Equity securities	\$1,207,087	\$1,471,783	\$264,696
Debt securities	775,000	743,472	(31,528)
Certificates of deposit	<u>953,044</u>	<u>949,110</u>	<u>(3,934)</u>
Totals	<u>\$2,935,131</u>	<u>\$3,164,365</u>	<u>\$229,234</u>
	<u>Cost</u>	<u>Market</u>	<u>Excess of Market Over Cost</u>
Balance, June 30, 2004	<u>\$2,935,131</u>	<u>\$3,164,365</u>	\$229,234
Balance, June 30, 2003	<u>\$2,728,970</u>	<u>\$2,844,046</u>	<u>115,076</u>
Increase in unrealized appreciation			114,158
Net realized gain			51,384
Interest and dividend income			<u>123,965</u>
Investment income			<u>\$289,507</u>

**Note 7 - BONDS PAYABLE**

The School financed the construction of new buildings by issuing tax-exempt Louisiana Public Facilities Authority Equipment and Capital Facilities Pooled Loan Program Revenue Bonds (Series 2002A and 2002C) in the aggregate principal amount of \$3,860,000. The Bonds were issued pursuant to two separate Trust Indenture agreements (the "Indenture") dated January 1, 2002 and March 24, 2003 between the Authority and the Trustee. In conjunction with these issues, the School maintains a letter of credit with a financial institution and draws funds as the construction projects are being completed. The letter of credit is secured by a first mortgage on all the property and equipment of the School.

The Bonds bear interest, payable monthly, at an adjustable rate of interest (1.62% at June 30, 2004) and mature on various dates through January 1, 2024.

The Bonds are subject to mandatory redemption prior to maturity, pursuant to the terms of the Indenture. The redemption price equals the principal amount to be redeemed, plus accrued interest, without premium, on the dates and in the respective principal amounts as defined in the Indenture. The Bonds may be redeemed at either the option of the School or the bondholders, under certain conditions, pursuant to the terms of the Indenture.

Future minimum bond principal payments at June 30, 2004 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 260,992
2006	260,992
2007	260,992
2008	260,992
2009	260,992
Later years	<u>1,848,934</u>
Total	<u>\$3,153,894</u>

**Note 8 - LEASE COMMITMENTS**

The School leases several of its residential facilities under separate operating leases. Rent expense incurred under these leases totaled \$ 244,750 for the year ended June 30, 2004.

**Note 8 - LEASE COMMITMENTS (Continued)**

Minimum future lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2005	\$ 236,400
2006	234,600
2007	234,600
2008	234,600
2009	234,600
2010	<u>38,600</u>
Total	<u>\$1,213,400</u>

**Note 9 - EMPLOYEE BENEFIT PLANS**

The School maintains a 401(k) Retirement Plan. Under the terms of this plan, employees who are age 21 or older and have at least one year of service with the School may elect to contribute a percentage of their annual compensation not to exceed statutory limits. The School may make discretionary contributions of 50% of the first 6% of each participant's compensation, subject to a maximum annual contribution of \$2,000 for any employee. The School's contributions totaled \$ 26,370 for the year ended June 30, 2004.

The School makes retirement payments to a former employee of the School. While an actuary has not been engaged to project the estimated benefit obligation to this employee, management estimates the benefit obligation to be \$77,629 as of June 30, 2004. For the year ended June 30, 2004, retirement payments made under the terms of this plan totaled \$19,200.

**Note 10 - ECONOMIC DEPENDENCY**

The School's residential programs are licensed by the State of Louisiana Department of Health and Hospitals and are certified Title XIX facilities. The School receives the majority of its support and revenue from Medicaid which is administered through the State of Louisiana Department of Health and Hospitals. If significant budget cuts are made at the federal and/or state levels, the amount of funds the School receives could be reduced significantly and which would have an adverse impact on its operations. Management is not aware of any actions that will adversely affect the amount of funds the School will receive in the next fiscal year.

**Note 11 - RISK MANAGEMENT**

The School is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. There were no settled claims that exceeded this commercial coverage during the year ended June 30, 2004.

**SPECIAL REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**



Bourgeois Bennett

**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 Governors,  
The Magnolia School, Inc.,  
Jefferson, Louisiana.

We have audited the financial statements of The Magnolia School, Inc. (a nonprofit organization) as of and for the year ended June 30, 2004, and have issued our report thereon dated. 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.

**Compliance**

As part of obtaining reasonable assurance about whether The Magnolia School, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provision 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 Magnolia School, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

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. 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 general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operating that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management, and the Legislative Auditor of the State of Louisiana and various Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

*Bourgeois Bennett, L.L.C.*

Certified Public Accountants.

New Orleans, Louisiana,  
August 20, 2004.

## **SCHEDULE OF FINDINGS**

**The Magnolia School, Inc.**  
Jefferson, Louisiana

For the year ended June 30, 2004

### **Section I - Summary of Auditor's Report**

#### a) Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

Material weakness(es) identified?                     yes    no

Reportable condition(s) identified that are  
not considered to be material weakness                     yes    none reported

Noncompliance material to financial statements noted?    yes    no

#### b) Federal Awards

The Magnolia School, Inc. did not receive any Federal awards during the year ended June 30, 2004.

### **Section II - Financial Statement Findings**

There were no financial statement findings noted during the audit of the year ending June 30, 2004.

### **Section III - Federal Award Findings and Questioned Costs**

Not applicable.

**REPORTS BY MANAGEMENT**

**SCHEDULE OF PRIOR YEAR FINDINGS**

**The Magnolia School, Inc.**  
Jefferson, Louisiana

For the year ended June 30, 2004

**Section I - Internal Control and Compliance Material to the Financial Statements**

**Internal Control**

No material weaknesses were noted during the audit for the year ended June 30, 2003. No reportable conditions were reported during the audit for the year ended June 30, 2003.

**Compliance**

No compliance findings material to the financial statements were noted during the audit for the year ended June 30, 2003.

**Section II - Internal Control and Compliance Material To Federal Awards**

The Magnolia School, Inc. did not receive any Federal awards during the year ended June 30, 2003.

**Section III - Management Letter**

A management letter was not issued in connection with the audit for the year ended June 30, 2003.

## **MANAGEMENT'S CORRECTIVE ACTION PLAN**

**The Magnolia School, Inc.**  
Jefferson, Louisiana

For the year ended June 30, 2004

### **Section I - Internal Control and Compliance Material to the Financial Statements**

#### **Internal Control**

No material weaknesses were noted during the audit for the year ended June 30, 2004. No reportable conditions were reported during the audit for the year ended June 30, 2004.

#### **Compliance**

No compliance findings material to the financial statements were noted during the audit for the year ended June 30, 2004.

### **Section II - Internal Control and Compliance Material To Federal Awards**

The School did not receive any Federal awards during the year ended June 30, 2004.

### **Section III - Management Letter**

A management letter was not issued in connection with the audit for the year ended June 30, 2004.