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Financial Report
The Magnolia School, Inc.
June 30, 1999

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, 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 1-19-00 .

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Jefferson, Louisiana

June 30, 1999

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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, 1999, 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 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 presented. 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, 1999, and the changes in its net assets and its cash flows 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 August 26, 1999 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.

Bourgeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, La.,
August 26, 1999.

STATEMENT OF FINANCIAL POSITION

The Magnolia School, Inc. Jefferson, Louisiana

June 30, 1999

ASSETS

Current

Cash and cash equivalents	\$ 884,582
Restricted cash	114,089
Accounts receivable:	
Medicaid (net of allowance for doubtful accounts of \$10,000)	586,422
Tuition (net of allowance for doubtful accounts of \$95,420)	15,568
Other	67,043
Inventory	66,217
Prepaid expenses	152,728

Total current assets 1,886,649

Property and Equipment

Land	226,930
Buildings and improvements	3,871,729
Equipment and fixtures	1,489,873

5,588,532

Less accumulated depreciation (3,386,353)

Net property and equipment 2,202,179

Other

Investments	572,250
Deposits	2,503

Total other assets 574,753

Total assets \$ 4,663,581

See notes to financial statements.

LIABILITIES AND NET ASSETS**Current**

Trade accounts payable	\$ 128,720
Bed fee payable - State of Louisiana Department of Social Services	36,075
Accrued payroll and related taxes	86,419
Accrued expenses	9,860
Accrued pension obligation	19,200
Deposits held in custody	<u>114,089</u>
 Total current liabilities	 394,363

Long-Term

Accrued pension obligation	<u>80,458</u>
 Total liabilities	 <u>474,821</u>

Net Assets

Unrestricted:	
Net investment in property and equipment	2,202,179
Undesignated	<u>1,981,081</u>
 Total unrestricted net assets	 4,183,260
 Temporarily restricted	 <u>5,500</u>
 Total net assets	 <u>4,188,760</u>
 Total liabilities and net assets	 <u>\$ 4,663,581</u>

STATEMENT OF ACTIVITIES

The Magnolia School, Inc.
Jefferson, Louisiana

For the year ended June 30, 1999

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
Support and Revenue			
Support:			
Medicaid	\$ 6,081,507		\$ 6,081,507
Jefferson Parish Human Services Authority	169,492		169,492
Contributions	43,097	\$ 2,250	45,347
Other	11,087		11,087
	<u>6,305,183</u>	<u>2,250</u>	<u>6,307,433</u>
Net assets released from restrictions	<u>22,210</u>	<u>(22,210)</u>	<u>-</u>
Total support	<u>6,327,393</u>	<u>(19,960)</u>	<u>6,307,433</u>
Revenue:			
Tuition	190,470		190,470
Investment income	46,227		46,227
Net realized gain on sale of investment in real estate	125,000		125,000
Net unrealized gains on investments	36,946		36,946
Other	213,206		213,206
Total revenue	<u>611,849</u>		<u>611,849</u>
Total support and revenue	<u>6,939,242</u>	<u>(19,960)</u>	<u>6,919,282</u>
Expenses			
Program services:			
Therapeutic and training	2,871,114		2,871,114
Medical and nursing	338,767		338,767
Recreational	42,346		42,346
Total program services	<u>3,252,227</u>		<u>3,252,227</u>

**Exhibit B
(Continued)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
Supporting services:			
Administrative and general	2,294,877		2,294,877
Dietary	420,733		420,733
Housekeeping	118,376		118,376
Plant operation and maintenance	363,832		363,832
Other	71,255		71,255
Total supporting services	<u>3,269,073</u>		<u>3,269,073</u>
Total expenses	<u>6,521,300</u>		<u>6,521,300</u>
Increase (Decrease) in Net Assets	417,942	(19,960)	397,982
Net Assets			
Beginning of year	<u>3,765,318</u>	<u>25,460</u>	<u>3,790,778</u>
End of year	<u>\$4,183,260</u>	<u>\$ 5,500</u>	<u>\$4,188,760</u>

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES

The Magnolia School, Inc. Jefferson, Louisiana

For the year ended June 30, 1999

	<u>Therapeutic and Training</u>	<u>Medical And Nursing</u>	<u>Recreational</u>	<u>Totals</u>
Program Services				
Salaries	\$ 2,350,549	\$ 241,770	\$ 12,731	\$ 2,605,050
Employee health and retirement benefits	156,330	12,331		168,661
Payroll taxes, etc.	<u>185,629</u>	<u>18,495</u>	<u>974</u>	<u>205,098</u>
Total salaries and related expenses	2,692,508	272,596	13,705	2,978,809
Contract services	25,161	49,791		74,952
Freight	8,481			8,481
Purchases - retail store	137,541			137,541
Supplies and other	<u>7,423</u>	<u>16,380</u>	<u>28,641</u>	<u>52,444</u>
Total program services expenses	<u>\$ 2,871,114</u>	<u>\$ 338,767</u>	<u>\$ 42,346</u>	<u>\$ 3,252,227</u>

See notes to financial statements.

	Adminis- trative and General	Dietary	House- keeping	Plant Operation and Maintenance	Other	Totals
Supporting Services						
Salaries	\$ 607,460	\$ 136,224	\$ 53,201	\$ 129,576		\$ 926,461
Employee health and retirement benefits	30,646	9,633	6,219	10,619		57,117
Payroll taxes, etc.	48,336	10,421	4,070	9,913		72,740
Total salaries and related expenses	686,442	156,278	63,490	150,108		1,056,318
Advertising	3,929					3,929
Automobile	71,639					71,639
Bad debts	56,187					56,187
Bed fee - Louisiana Department of Health and Hospitals	440,654					440,654
Client personal needs					\$ 67,819	67,819
Contract services				61,188		61,188
Depreciation	333,948					333,948
Dues and subscriptions	14,698					14,698
Food		262,976				262,976
Insurance	187,479					187,479
Interest	1,328					1,328
Laundry, linen and bedding					3,436	3,436
Legal and accounting	32,306					32,306
Miscellaneous	29,475					29,475
Office supplies	79,297					79,297
Pension expense	19,200					19,200
Postage	3,895					3,895
Printing	4,337					4,337
Rent	111,528					111,528
Repairs and maintenance:						
Buildings and grounds				84,406		84,406
Supplies				10,791		10,791
Other				57,339		57,339
Supplies and other		1,479	54,886			56,365
Taxes and licenses	11,399					11,399
Telephone	38,194					38,194
Travel	26,277					26,277
Utilities	142,665					142,665
Total supporting services expenses	\$2,294,877	\$ 420,733	\$ 118,376	\$ 363,832	\$ 71,255	\$3,269,073

See notes to financial statements.

STATEMENT OF CASH FLOWS

The Magnolia School, Inc.
Jefferson, Louisiana

For the year ended June 30, 1999

Cash Flows From Operating Activities	
Increase in net assets	\$ 397,982
Adjustments to reconcile increase in net assets to cash provided by operating activities:	
Depreciation	333,948
Net realized gain on sale of investment in real estate	(125,000)
Net unrealized gains on investments	(36,946)
Decrease (increase) in operating assets:	
Accounts receivable	68,212
Inventory	19,455
Prepaid expenses and deposits	(3,475)
Increase (decrease) in operating liabilities:	
Accounts payable	(20,910)
Accrued expenses and other	(97,588)
Net cash provided by operating activities	<u>535,678</u>
Cash Flows From Investing Activities	
Proceeds from sale of real estate	125,000
Purchases of investments	(300,000)
Purchases of property and equipment, net of related accounts payable of \$20,420	<u>(288,753)</u>
Net cash used in investing activities	<u>(463,753)</u>
Net Increase In Cash and Cash Equivalents	71,925
Cash and Cash Equivalents	
Beginning of year	<u>812,657</u>
End of year	<u>\$ 884,582</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

The Magnolia School, Inc.

Jefferson, Louisiana

June 30, 1999

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 mentally retarded children and 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 generally accepted accounting principles 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.

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. Promises to Give

Contributions are recognized when the donor makes a promise to give to the School that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Unconditional promises are recorded net of any allowance for uncollectible amounts estimated by the management of the School. At June 30, 1999, all unconditional promises to give had been collected.

g. Inventory

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

h. 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.

i. Investments

Investments, which consist of marketable securities and certificate of deposits, are stated at fair value.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, PPLA classified its nets 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 - 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 3 - INVESTMENTS

The following summarizes investments at June 30, 1999:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gains</u>
Investments - corporate stocks and certificates of deposit			
June 30, 1999	<u>\$341,661</u>	<u>\$572,250</u>	\$230,589
June 30, 1998	<u>\$41,661</u>	<u>\$235,304</u>	<u>193,643</u>
Net unrealized gain on investments			<u>\$ 36,946</u>

Note 4 - CUSTODIAL FUNDS

For the year ended June 30, 1999, personal funds of the students totaling \$114,089 are reported as deposits held in custody in the accompanying financial statements.

Note 5 - LEASE COMMITMENTS

The School leases several of its residential facilities under separate operating leases, ten of which are leased from the Magnolia Foundation, an affiliated entity. Lease payments made to this affiliate totaled \$91,128 for the year ended June 30, 1999. Rent expense incurred under all leases totaled \$111,528 for the year ended June 30, 1999.

Minimum future lease payments are as follows:

Year Ending <u>June 30,</u>	
2000	\$ 179,250
2001	189,300
2002	179,100
2003	179,100
2004	179,100
Later years	<u>925,350</u>
Total	<u>\$1,831,200</u>

Note 6 - EMPLOYEE BENEFIT PLANS

The School has established a non-contributory profit sharing plan for all employees who are age 21 or older and have one or more years of service. Under the plan, the School makes discretionary contributions to the plan which become fully vested to employees after five years of participation in the plan. The School did not fund a contribution to the plan during the year ended June 30, 1999.

Note 6 - EMPLOYEE BENEFIT PLANS (Continued)

Subsequent to June 30, 1999, the School terminated the non-contributory profit sharing plan and replaced it with the Magnolia School, Inc. 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 participants compensation.

The School has established a flexible benefit plan (cafeteria plan) to provide supplemental health and certain other employee benefits. Contributions to the plan will be paid by the participants. The School benefits from the plan by realizing a reduction of payroll taxes for those employees who elect to participate in this plan.

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 \$99,658 as of June 30, 1999. For the year ended June 30, 1999, retirement payments made under the terms of this plan totaled \$19,200.

Note 7 - ECONOMIC DEPENDENCY

The School's residential and adult day programs are licensed by the State of Louisiana Department of Social Services and are certified Title XIX facilities. The education program is certified by the Louisiana State Department of Education. The School receives the majority of its support and revenue from Medicaid which is administered through the State of Louisiana Department of Social Services. 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.

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, 1999, and have issued our report thereon dated August 26, 1999. 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 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 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 operation 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. However, this report is a matter of public record, and its distribution is not limited.

Bourgeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, La.,
August 26, 1999.

SCHEDULE OF FINDINGS

The Magnolia School, Inc.
Jefferson, Louisiana

For the year ended June 30, 1999

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 X no
- Reportable condition(s) identified that are
not considered to be material weakness ___ yes X none reported

Noncompliance material to financial statements noted? ___ yes X no

b) Federal Awards

The Magnolia School, Inc. did not receive any Federal awards during the year ended June 30, 1999.

Section II Financial Statement Findings

There were no financial statement findings required to be reported for the year ended June 30, 1999.

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, 1999

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, 1998. No reportable conditions were reported during the audit for the year ended June 30, 1998.

Compliance

No compliance findings material to the financial statements were noted during the audit for the year ended June 30, 1998.

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, 1998.

Section III - Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 1998.

MANAGEMENT'S CORRECTIVE ACTION PLAN

The Magnolia School, Inc.
Jefferson, Louisiana

For the year ended June 30, 1999

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, 1999. No reportable conditions were reported during the audit for the year ended June 30, 1999.

Compliance

No compliance findings material to the financial statements were noted during the audit for the year ended June 30, 1999.

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, 1999.

Section III - Management Letter

A management letter was not issued in connection with the audit for the year ended June 30, 1999.