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NEWCORP, INC.
FINANCIAL AND COMPLIANCE AUDIT
TOGETHER WITH
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2003

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 9-15-04

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Michael B. Bruno, CPA
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Paul K. Andoh, Sr., CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Newcorp, Inc.
New Orleans, Louisiana

We have audited the accompanying statement of financial position of **Newcorp, Inc.** (a non-profit organization) as of December 31, 2003 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of **Newcorp Inc.**'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 **Newcorp, Inc.** as of December 31, 2003, 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.

INDEPENDENT AUDITORS' REPORT
(CONTINUED)

To the Board of Directors
Newcorp, Inc.
New Orleans, Louisiana
Page 2

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2004, on our consideration of **Newcorp, Inc.**'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 Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of **Newcorp, Inc.** taken as a whole. The supplemental information included in the report (shown on page 12) is presented for the purpose of additional analysis and is not a required part of the financial statements of **Newcorp, Inc.** The information in the schedule 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.

Bruno & Tervalon LLP
BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS

June 25, 2004

NEWCORP, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2003

ASSETS

Cash and cash equivalents (NOTE 2)	\$ 412,236
Grant receivable	5,009
Certificates of deposit	138,738
Investments	167,213
Loans receivable	339,130
Allowance for loan loss (NOTE 8)	(15,000)
Furniture, equipment and software net of accumulated depreciation of \$49,525 (NOTES 2 & 3)	63,943
Prepaid rent	<u>500</u>
 Total assets	 <u>\$1,111,769</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 2,580
Notes payable (NOTE 6)	340,330
Due to others (NOTE 7)	<u>170,340</u>
 Total liabilities	 <u>513,250</u>
Net Assets (NOTE 2):	
Unrestricted	<u>598,519</u>
 Total net assets	 <u>598,519</u>
 Total liabilities and net assets	 <u>\$1,111,769</u>

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

NEWCORP, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2003

Revenues and Support:	
Contributions	\$187,500
Grant revenue (NOTE 9)	55,358
SBA intermediaries and loan fees	10,080
Interest income	3,275
Loan interest income	17,459
Unrealized gain on investments	39,096
Loss on sale of investments	(4,001)
Other income	<u>700</u>
 Total revenues and support	 <u>309,467</u>
 Expenses:	
Program services	211,259
Support services	<u>161,011</u>
 Total expenses	 <u>372,270</u>
 Change net assets	 (62,803)
 Net Assets:	
Beginning of year	<u>661,322</u>
 End of year	 <u>\$598,519</u>

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

NEWCORP, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2003

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in net assets	\$ (62,803)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	25,304
Unrealized gain on investment	(39,096)
Loss on sale of investment	4,001
Decrease in grant receivable	44,455
Increase in outstanding loans receivable	(202,405)
Decrease in accrued expenses	<u>2,225</u>
Net cash used in operating activities	<u>(228,319)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of fixed assets	(11,660)
Sale of certificate of deposits	92,039
Sale of investments	<u>12,495</u>
Net cash provided by investing activities	<u>92,874</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Notes payable	<u>327,367</u>
Net cash provided by financing activities	<u>327,367</u>
Net increase in cash and cash equivalents	191,922
Cash - January 1, 2003	<u>220,314</u>
Cash - December 31, 2003	<u>\$412,236</u>
Interest paid in cash	<u>\$ 6,890</u>

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

NEWCORP, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - Organization

Newcorp, Inc. is a non-profit organization, which serves as a small business development center whose primary focus is to fund, enhance, stimulate, and facilitate economic opportunity for the disadvantaged business community in the State of Louisiana by providing access to capital and technical assistance primarily to help increase wealth in depressed communities.

Financial Statement Presentation

Newcorp, Inc. has adopted the provisions of Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organization", which establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net assets categories according to external (donor) imposed restrictions.

A description of the three net asset categories is as follows:

Unrestricted net assets include funds not subject to donor-imposed stipulations. The revenues received and expenses incurred in conducting the missions of **Newcorp, Inc.** are included in this category.

Temporarily restricted net assets include realized gains and losses, investment income and gifts and contributions for which donor imposed restrictions (capital improvements, etc.) have not been met.

Permanently restricted net assets are contributions which are required by the donor-imposed restriction to be invested in perpetuity and only the income be made available for program operations in accordance with the donor restrictions. Such income is reflected in temporarily restricted net assets until utilized for donor-imposed restrictions.

At December 31, 2003, **Newcorp, Inc.** did not have any temporarily or permanently restricted net assets.

NEWCORP, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies

Functional Allocation of Expenses

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

Cash Equivalents

For purposes of the statement of cash flows, **Newcorp, Inc.** considers all investments purchased with a maturity of three months or less to be cash equivalents.

Economic Dependency

The primary source of revenue for **Newcorp, Inc.** is private contributions. The continued success of **Newcorp, Inc.** is dependent upon the continued receipt of private contributions and other revenue generating activities.

Revenue Recognition

Newcorp, Inc. recognizes all interest as income in the period earned.

Furniture, Equipment, and Capitalized Software Costs

Furniture and equipment are recorded at cost (or fair market value for donated assets) and are depreciated using the straight-line method over the estimated useful lives of the related assets, which varies from three to five years.

NEWCORP, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 2 - Summary of Significant Accounting Policies, Continued

Estimates

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

Fair Values of Financial Institutions

Generally accepted accounting principles require disclosure of fair value information about financial instruments for which it is practicable to estimate fair value, whether or not recognized in the statement of financial position. Cash and cash equivalents carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

NOTE 3 - Fixed Assets

Changes in the net book value of office furniture, computer equipment, and capitalized software costs during the year ended December 31, 2003 were as follows:

<u>Description</u>	<u>Balance January 1, 2003</u>	<u>Additions</u>	<u>Accumulated Depreciation/ Amortization</u>	<u>Balance December 31, 2003</u>
Furniture	\$ 5,771	\$ -0-	\$ (5,190)	\$ 581
Computer equipment	20,216	11,660	(19,170)	12,706
Computer software	<u>75,821</u>	<u>-0-</u>	<u>(25,165)</u>	<u>50,656</u>
Total	<u>\$101,808</u>	<u>\$11,660</u>	<u>\$(49,525)</u>	<u>\$63,943</u>

Depreciation/amortization expense was \$25,305 for the year ended December 31, 2003.

NEWCORP, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 4 - Income Taxes

Newcorp, Inc. is a tax exempt corporation under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provisions for federal or state income taxes have been recorded in the accompanying financial statements.

NOTE 5 - Certificate of Deposit Held in Escrow

Newcorp, Inc. administers a Microloan Program. The Microloan Program assists participants in starting up their businesses and provides assistance in obtaining start-up and expansion capital in the form of loans from a financial institution. **Newcorp, Inc.** has entered into an agreement with a financial institution to provide loans to participants of Newcorp's Microloan Program. The agreement provides that **Newcorp, Inc.** set up an escrow account to guarantee 80% of the loan balance. At December 31, 2003, there were two (2) loans outstanding totaling \$9,345 at the financial institution that were collateralized. **Newcorp, Inc.** maintains a certificate of deposit with the financial institution as collateral to cover 80% of the loan balance. At December 31, 2003, the certificate of deposit had a value of \$7,606.

NOTE 6 - Notes Payable

Newcorp, Inc. had outstanding note payables as of December 31, 2003 totaling \$340,330 as follows:

Newcorp, Inc. was approved to receive a loan under the U.S. Small Business Administration (SBA) Microloan Program in the amount of \$250,000. The loan is to be repaid in ten years at interest rates ranging from 2.375% to 4.375%. No payments are required during the first twelve months from the date of the note. The proceeds from the loan are to be utilized to award microloans to eligible small businesses. As of December 31, 2003, **Newcorp, Inc.** has disbursed \$179,972 to small businesses as microloans from the SBA loan funds. As of December 31, 2003, **Newcorp, Inc.** has a outstanding balance of \$240,330 on the note due to the SBA.

NEWCORP, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 6 - Notes Payable, Continued

Newcorp, Inc. received a loan from a local bank in the amount of \$100,000. The loan is to be repaid in ten years at an interest rate of 2.000%. Interest only payments are required to be made on an annual basis beginning June 25, 2003. The proceeds from the loan are to be utilized to award microloans to eligible small businesses. As of December 31, 2003, **Newcorp, Inc.** has disbursed \$81,935 to small businesses as microloans from the loan funds. As of December 31, 2003, **Newcorp, Inc.** has an outstanding balance of \$100,000 due to the local bank.

NOTE 7 - Due to Others

Newcorp, Inc. entered into a memorandum of understanding with the Louisiana Economic Development TANF Microlending Initiative to make and service loans to TANF eligible clients that have completed entrepreneurial training and/or one on one technical assistance.

The Louisiana Economic Development TNAF Microlending Initiative transferred \$185,850 to **Newcorp, Inc.** to make loans to eligible clients. During the year, **Newcorp, Inc.** made four (4) loans to clients totaling \$18,500. All principal payments remains in the revolving loan fund, while the interest reverts to **Newcorp, Inc.**

At December 31, 2003, **Newcorp, Inc.** had a remaining balance of \$170,340 to loan to TANF eligible clients.

NOTE 8 - Allowance for Losses

Allowances for estimated losses on loans are provided when in the opinion of management, such losses are expected to be incurred. Management evaluates the carrying value of these assets at least annually and the allowances are adjusted accordingly.

NEWCORP, INC.
NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 9 - Grant Revenue

Newcorp, Inc. is the recipient of a grant from the U.S. Small Business Administration to work with large businesses in the Greater New Orleans Area to identify contract opportunities for small businesses and to work with small businesses to build the capacity necessary to avail themselves of those opportunities. As of December 31, 2003, **Newcorp, Inc.** has incurred \$55,358 in grant expenditures.

NOTE 10 - Contingency

Newcorp, Inc. is the recipient of grant funds from various sources. The grant is governed by various guidelines, regulations, and contractual agreements. The administration of the programs and activities funded by the grants are under the control and administration of **Newcorp, Inc.** and are subject to audit and/or review by the applicable funding sources. Any grant funds found not to be properly spent in accordance with the terms, conditions, and regulations of the funding source may be subject to recapture.

SUPPLEMENTARY INFORMATION

NEWCORP, INC.
SUPPLEMENTAL SCHEDULE OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Program Services</u>	<u>Support Services</u>	<u>Total</u>
Salaries and payroll taxes	\$ 61,311	\$ 91,966	\$153,277
Retirement	1,829	2,743	4,572
Health insurance	6,090	9,134	15,224
Rent	5,189	7,783	12,972
Client support	1,296	1,296	2,592
Depreciation/amortization	19,084	6,221	25,305
Parking	-0-	2,784	2,784
Professional services	93,066	6,203	99,269
Marketing	6,493	6,492	12,985
Insurance	-0-	4,909	4,909
Bank fees	-0-	409	409
Office supplies	1,556	2,334	3,890
Postage	-0-	1,531	1,531
Telephone	1,437	1,436	2,873
Cellular telephone	-0-	2,125	2,125
Dues and subscriptions	1,055	-0-	1,055
Travel	5,144	5,143	10,287
Internet expenses	819	-0-	819
Office supplies	-0-	8,502	8,502
Interest expense	<u>6,890</u>	<u>-0-</u>	<u>6,890</u>
 Total expenses	 <u>\$211,259</u>	 <u>\$161,011</u>	 <u>\$372,270</u>

See Independent Auditors' Report on Supplemental Information.



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**INDEPENDENT AUDITORS' 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
Newcorp, Inc.
New Orleans, Louisiana

We have audited the financial statements of **Newcorp, Inc.** (a non-profit organization) as of and for the year ended December 31, 2003, and have issued our report thereon dated June 25, 2004. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether **Newcorp, Inc.'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 statements 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*.

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

(CONTINUED)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Newcorp, 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 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 operations that we consider to be material weaknesses.

This report is intended solely for the information and use of **Newcorp, Inc.**'s Board, management, the Legislative Auditor for the State of Louisiana, 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. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Bruno & Tervalon LLP
BRUNO & TERVALON LLP
CERTIFIED PUBLIC ACCOUNTANTS

June 25, 2004

NEWCORP, INC.
DECEMBER 31, 2003

EXIT CONFERENCE

An exit conference was held with the following individuals:

NEWCORP, INC.

Ms. Vaughn Fauria	-	Executive Director
Ms. Tri-nette Casimier	-	Office Manager

BRUNO & TERVALON LLP, CERTIFIED PUBLIC ACCOUNTANTS

Mr. Michael B. Bruno, CPA	-	Managing Partner
Mr. Sean M. Bruno, CPA	-	Manager

The audit report was discussed. This report is intended solely for the information and use of the Board of Directors, management and the State of Louisiana and is not intended to be and should not be used by anyone other than those specified parties.



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INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT

To the Board of Directors
Newcorp, Inc.
New Orleans, Louisiana

In planning and performing our audit of the financial statements of **Newcorp, Inc.**, we considered **Newcorp, Inc.**'s internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

As a part of our audit, we noted certain matters that we are opportunities for strengthening internal control and improving operating efficiency. We previously reported on **Newcorp, Inc.**'s internal control in our report dated June 25, 2004. This letter does not affect our report dated June 25, 2004, on **Newcorp, Inc.**'s internal control or its financial statements. Our comments regarding these matters are as follows:

NEWCORP, INC.
COMMENTS TO MANAGEMENT

1. FINANCIAL STATEMENTS

We noted the following conditions during our audit of **Newcorp, Inc.:**

- Management of **Newcorp, Inc.** does not follow the practice of recording receivables and payables in the general ledger on an annual basis as required by Generally Accepted Accounting Principles;
- Two (2) out of ten (10) bank reconciliations tested had account balances that did not reconcile to amounts per the general ledger;
- One (1) out of two (2) certificates of deposit accounts selected for testing had an account balance that did not agree with the balance per the financial institution; and
- Two (2) out of two (2) loan receivable account balances per the general ledger did agree with amounts per the subsidiary ledgers.

We recommend that management of **Newcorp Inc.** take immediate steps to correct the noted deficiencies.

MANAGEMENT'S RESPONSE

Management has determined that for the period in question, a temporary substitute was recording the transactions into general ledger. However, management will take immediate steps to strengthen policies and procedures to ensure that the noted deficiencies are corrected.

2. MARKETING AND CLIENT SUPPORT ACCOUNT

We noted during our audit that management has two expense accounts titled marketing and client support. Per review of the accounts and audit procedures performed, we noted that all types of transactions were recorded in the accounts.

We recommend that management identify which types of transactions will be recorded to the accounts, and establish additional accounts for transactions that are not related to the aforementioned accounts.

NEWCORP, INC.
COMMENTS TO MANAGEMENT, CONTINUED

MANAGEMENT'S RESPONSE

Management will enhance its chart of accounts and ensure that transactions are properly classified.

3. **INTERNAL REVENUE SERVICE FORM 1099s**

We noted during our audit that some contractors who received payments of \$600.00 or more during the year did not receive a Form 1099 Miscellaneous Income which is a requirement of the Internal Revenue Service.

We recommend that management issue 1099s to all non-employees and contractors who receive payments in excess of \$600.00 in order to maintain compliance with Internal Revenue Service Regulations.

MANAGEMENT'S RESPONSE

Management has implemented a policy that requires 1099s to be issued to all contractors receiving payments in excess of \$600.00.

4. **CASH DISBURSEMENTS**

We noted the following conditions during our test of cash disbursements:

- Supporting documentation could not be located for eleven (11) of twenty-six (26) transactions selected for testing.
- Twenty-two (22) of twenty-six (26) transactions selected for testing were not either stamped paid or canceled.
- Eight (8) of eight (8) travel expenses selected for testing did not have travel reports to support transactions.

We recommend that immediate steps be taken to correct the noted deficiencies.

NEWCORP, INC.
COMMENTS TO MANAGEMENT, CONTINUED

MANAGEMENT'S RESPONSE

Management will adhere to established procedures that require supporting documentation to be maintained for all transactions and that invoices are stamped paid prior to payment being made to vendors. Management has also implemented a policy that requires a travel report to be completed at the conclusion of all business related travel to document and support all expenses.

5. **SBA LOAN PROGRAM**

During our review of the SBA Loan program, it was noted that borrowed funds were used to fund the matching contribution. Per review of the contract, the matching funds can not be paid from borrowed or other federal funds.

We recommend that management transfer the funds used to make the matching contribution back to the borrowed funds' bank account and use general funds to fund the match.

MANAGEMENT'S RESPONSE

Management will take immediate steps to replenish the borrowed funds and utilize general funds to satisfy the matching requirement.

INDEPENDENT AUDITORS' COMMENTS TO MANAGEMENT
(CONTINUED)

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

This report is intended solely for the information and use of the Board of Directors, management and the Louisiana Legislative Auditor 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.

Bruno & Tervalon LLP
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June 25, 2004