

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT  
EDUCATIONAL AND TREATMENT, 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 2-16-05

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# Langley, Williams & Company, L.L.C.

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TEXAS STATE BOARD  
OF PUBLIC ACCOUNTANCY  
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ACCOUNTING OVERSIGHT BOARD  
CENTER FOR PUBLIC  
COMPANY AUDIT FIRMS

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Educational and Treatment Council, Inc.  
Lake Charles, Louisiana

We have audited the accompanying statement of financial position of Educational and Treatment Council, 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 Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

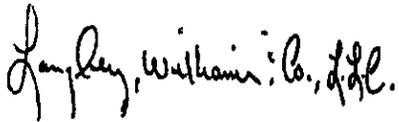
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 Educational and Treatment Council, 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 the *Government Auditing Standards*, we have also issued a report dated November 15, 2004 on our consideration of the Organization'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.

Board of Directors  
Educational and Treatment Council, Inc.  
Page 2

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Educational and Treatment Council, Inc. 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.

A handwritten signature in black ink, reading "Joseph W. Walker, III, CPA". The signature is written in a cursive style with a large initial 'J' and 'W'.

November 15, 2004

EDUCATIONAL AND TREATMENT COUNCIL, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 358,636	\$ 189		\$ 358,825
Investments	429,306			429,306
Grants receivable	287,654			287,654
Prepaid expenses	14,937			14,937
Total current assets	1,090,533	189	-	1,090,722
Fixed Assets at cost (net of accumulated depreciation of \$764,779)	867,198		55	867,253
<b>TOTAL ASSETS</b>	<b>\$1,957,731</b>	<b>\$189</b>	<b>\$55</b>	<b>\$1,957,975</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current Liabilities</b>				
Accounts payable	\$13,206	\$ -	\$ -	\$ 13,206
Interest payable	15,205			15,205
Accrued liabilities	8,900			8,900
Total current liabilities	37,311			37,311
Long-Term note payable	500,000			500,000
<b>Net Assets</b>				
<b>Unrestricted:</b>				
Operations	324,237			324,237
Appropriated-land, buildings and equipment	867,253			867,253
Board designated	228,930			228,930
Total unrestricted net assets	1,420,420			1,420,420
Temporarily restricted		189		189
Permanently restricted			55	55
Total net assets	1,420,420	189	55	1,420,664
<b>Total liabilities and net assets</b>	<b>\$1,957,731</b>	<b>\$ 189</b>	<b>\$ 55</b>	<b>\$1,957,975</b>

See accompanying notes to financial statements

EDUCATIONAL AND TREATMENT COUNCIL, INC.

STATEMENT OF ACTIVITIES

June 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>PUBLIC SUPPORT, REVENUES AND RECLASSIFICATIONS</b>				
Contributions	\$ 8,957	\$ -	\$ -	8,957
In-kind contributions	19,447			19,447
Grants and contracts	1,456,653			1,456,653
Service taxes	432,447			432,447
Interest	6,780			6,780
Unrealized depreciation investment	(15,510)			(15,510)
Miscellaneous	5,173			5,173
Special event (net of direct benefit costs)	10,751			10,751
Net assets released from restrictions:				
Expiration of time restrictions	661		(661)	
<b>Total public support, revenues and reclassifications</b>	<b>1,925,359</b>	<b>-</b>	<b>(661)</b>	<b>1,924,698</b>
<b>Expenses</b>				
Residential Services	907,867		-	907,867
Community Program Services	1,071,186			1,071,186
<b>Total expenses</b>	<b>1,979,054</b>	<b>-</b>	<b>-</b>	<b>1,979,054</b>
<b>Change in net assets</b>	<b>(53,695)</b>	<b>-</b>	<b>(661)</b>	<b>(54,356)</b>
<b>Net assets, beginning</b>	<b>1,474,115</b>	<b>185</b>	<b>716</b>	<b>1,475,020</b>
<b>New assets, ending</b>	<b>\$ 1,420,420</b>	<b>\$ 185</b>	<b>\$ 55</b>	<b>\$ 1,420,664</b>

EDUCATIONAL AND TREATMENT COUNCIL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2004

	Program Services		Total
	Residential Services	Community Program Services	
Salaries	\$ 561,156	\$ 670,881	\$ 1,232,037
Payroll taxes and fringe benefits	78,635	101,530	180,165
Total personnel	639,791	772,411	1,412,202
Advertising	1,855	568	2,423
Client activities	134	14,663	14,797
Contractual Services	7,315	29,292	36,607
Data Processing	2,793	4,790	7,583
Dues and subscriptions	881	832	1,713
Educational	532	-	532
Food	45,906	-	45,906
Housekeeping supplies	11,357	-	11,357
In-kind services	3,275	-	3,275
In-kind supplies	16,172	-	16,172
Insurance-Workman's Compensation	8,302	8,132	16,434
Insurance-Commercial Property	8,354	6,938	15,292
Insurance-Liability	10,410	16,978	27,388
Insurance-Motor Vehicle	6,519	14,649	21,168
Insurance-Other	1,165	1,165	2,330
Interest	7,000	18,000	25,000
Janitorial services	16,230	8,154	24,384
Licenses	303	602	905
Medical services	4,425	-	4,425
Miscellaneous	1,419	1,602	3,021
Motor vehicle	1,216	10,031	11,247
Office supplies	5,085	11,215	16,300
Personal client needs/clothing	6,964	-	6,964
Printing	152	534	686
Postage	1,558	2,347	3,905
Professional services	6,340	6,340	12,680
Public relations	48	148	196
Recreational	3,748	1,324	5,072
Rent		24,000	24,000
Repairs & maintenance-building and grounds	7,484	1,240	8,724
Repairs & maintenance-equipment	5,455	4,791	10,246
Supplies	2,333	470	2,803
Telephone	6,028	17,766	23,794
Therapeutic supplies	429	1,552	1,981
Travel and training	9,355	43,078	52,433
Utilities	25,634	13,293	38,927
Total expenses before depreciation	875,966	1,036,905	1,912,872
Depreciation	31,901	34,281	66,182
Total expenses	\$ 907,867	\$ 1,071,186	\$ 1,979,054

See accompanying notes to financial statements

EDUCATIONAL AND TREATMENT COUNCIL, INC.

STATEMENT OF CASH FLOW

June 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Decrease in net assets	\$ (54,356)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:	
Depreciation	66,183
Increase in accounts receivable	(85,784)
(Increase) in prepaid expenses	(8,801)
Decrease in interest receivable	1,490
Increase in accounts payable	9,897
(Decrease) in accrued expenses	(17,119)
(Decrease) in deferred revenue	(13,323)
Net cash (used in) operating activities	<u>\$ (101,813)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds certificate of deposits matured	432,918
Purchase of equipment	<u>(5,244)</u>
Net cash provided by investing activities	<u>427,674</u>

Net (increase) in cash and cash equivalents 325,861

Cash and cash equivalents, beginning of year 32,964

Cash and cash equivalents, end of year \$ 358,825

SUPPLEMENTAL DATA

Interest paid \$ 25,000

See accompanying notes to financial statements

EDUCATIONAL AND TREATMENT COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Educational and Treatment Council, Inc. (ETC) is a nonprofit corporation organized in 1974 under the laws of the State of Louisiana, for the purpose of serving children, adolescents, families, individuals, and communities within the five parish area of Southwest Louisiana, through comprehensive counseling services, crisis services, prevention services, community education and residential services for youth. Educational and Treatment Council, Inc. provides prevention and intervention services that address issues affecting at-risk youth and their families. All services are available at no cost to clients.

Harbour House, a program of Educational and Treatment Council, Inc., is a 20-bed emergency shelter for children and youth ages 3-17 years old. The shelter serves abused and neglected children, foster children, runaway and homeless youth, status offenders, and other youth in need of a safe place to stay. Harbour House also provides brief respite for children of families in crisis to ensure safety and reduce stress. In addition to short-term residential care, other services provided include education, counseling, assessment, and referral. Established in 1985, Harbour House is licensed by the State of Louisiana as an emergency shelter for children. The average length of stay for residents is 14 days; the maximum length of stay is 105 days.

Community-based services of Educational and Treatment Council, Inc. include in-home crisis counseling, child abuse prevention and intervention, home visitation, case management, planned respite, and outpatient substance abuse treatment for juveniles.

Basis of Accounting

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

Support and Revenue

Contributions directly from the public are generally available for unrestricted use unless specifically restricted by the donor.

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, restricted net assets are reclassified to unrestricted net assets.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are

EDUCATIONAL AND TREATMENT COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

recorded at their fair values in the period received. Donated services of \$3,275, have been reflecting in the financial statements for June 30, 2004. However, substantial number of volunteers have donated significant amounts of time to the Council's program services and to its fund raising activities, have not been reflected in the financial statements inasmuch no objective basis is available to measure the value of such services.

Endowment contributions and investments are permanently restricted by the donor. Investment earnings available for distribution are recorded in unrestricted net assets. Investment earnings with donor restrictions are recorded in temporarily or permanently restricted net assets based on the nature of the restrictions.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable at June 30, 2004 of \$287,654 represents receivables from federal and state grants.

Cash Deposits

At various time during the fiscal year, the Council's cash in bank balances exceeded the federally insured limits. At June 30, 2004, the Council's uninsured cash balances totaled \$1,402.

Investments

Investments consist of cash deposits with maturities of greater than three month at time of purchase.

EDUCATIONAL AND TREATMENT COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the Council considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents.

Income tax status

Educational and Treatment Council, Inc. is a nonprofit organization as described under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. In addition, the organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

Property and equipment

Property and equipment is stated at cost or fair market value at date of donation for in-kind contributions. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Depreciation amounted to \$ 66,182 for the year ended June 30, 2004, and is calculated on the straight-line method based on the estimated useful lives below:

Buildings	30 years
Furniture, fixtures and equipment	5 – 10 years
Transportation equipment	5 years
Leasehold improvements	15 years

The Organization follows the practice of capitalizing all property and equipment in excess of \$500.

Functional Allocation of Expenses

Expenses were allocated in the accompanying financial statements to program and supporting service functional expense groups. The methods of allocation were based on several factors such as utilization of office space as well as the Council estimates of the relative proportion of various staff members' time and effort between programming and administrative functions.

EDUCATIONAL AND TREATMENT COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE B – DONATED MATERIALS AND SERVICES

Included in contributions revenue and program expenses is the estimated value of donated materials, equipment and volunteer hours of \$ 19,447. Contributed services were used for shelter program activities and clerical activities.

NOTE C – FIXED ASSETS

The following is a summary of property and equipment as of June 30, 2004:

	<u>Cost</u>
Land.	\$ 25,000
Buildings	1,109,832
Improvements	31,481
Transportation equipment	91,476
Furniture and fixtures	319,384
Equipment	<u>54,859</u>
	1,632,032
Less Accumulated Depreciation	<u>764,779</u>
	<u>\$ 867,253</u>

NOTE D – BOARD DESIGNATED UNRESTRICTED NET ASSETS

Board designated unrestricted net assets as of June 30, 2004 are funds set aside for future payments of long-term debt.

NOTE E – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of June 30, 2004 are available for the following purposes or periods:

Runaway Youth Act Program	\$ <u>189</u>
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EDUCATIONAL AND TREATMENT COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE F – PERMANENTLY RESTRICTED NET ASSETS

Property acquired with federal and community development grants is considered owned by the Council while used in the program for which it was purchased or in other future authorized programs; however, the United States and other grantor agencies have reversionary interests in certain property. Its disposition as well as the ownership of any proceeds therefrom is subject to government regulations. The total carrying value of property and equipment in which the United States and other grantor agencies have reversionary interest is \$55 at June 30, 2004.

NOTE G – COMMITMENTS AND CONTINGENCIES

The Council receives a substantial amount of its support from state and local government. A significant reduction in the level of this support, if this were to occur, may have an effect of the programs and activities.

The Council is a defendant in a lawsuit. The Council maintains a million dollar liability insurance policy to cover such events. The plaintiffs have agreed to settle the lawsuit. The settlement of \$55,000 will be equally split between the State of Louisiana and the insurance company.

NOTE H – RETIREMENT COMMITMENTS

All employees of the Council are members of the Federal Social Security System. The Program contributes 7.65% of gross salaries up to appropriate statutory limits to that system. The Federal Social Security System administers the plan and pays benefits.

NOTE I – TAX-DEFERRED ANNUITY PLAN

The Organization participated in a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers full-time and thirty-two hour part-time employees who have completed three months of service. The Organization contributes for each eligible participant in an amount determined by the employee. Employees who have completed one year of service are eligible for the employer match contribution. On January 1, 2002, the Board of Directors adopted an employer contribution of 25% of an employee's contributions not to exceed 5% of the employee's annual salary. Employees may make contributions to the plan up the maximum allowed by the Internal Revenue Code if they wish. Plan expenses were \$8,104 for the year ended June 30, 2004

EDUCATIONAL AND TREATMENT COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE J – SICK AND VACATION PAY

The first six months of employment are considered a probationary period during which time sick and vacation leave accrues at one day per month worked. Any days missed during this period are treated as noncompensatory leave. Termination of service with the Council during this period results in forfeiture of all accrued sick and vacation leave.

After the probationary period, full time employees begin accruing sick leave at the rate of one day per month. This accrual of sick leave shall continue until the employee has accrued a maximum of 30 days sick leave. After this maximum has been achieved, no further sick leave shall be accrued until the balance is reduced below 30 days. Any employee terminating agency service shall not be compensated in any form for any unused accrued sick leave. Therefore, no liability has been accrued for these benefits.

After the probationary period, full time employees begin accruing annual leave at the rate of one day per month up to twelve (12) days annual leave each year of employment. After three years of service, the annual leave increases one day for each additional year of service up to a maximum of twenty (20) days per year.

Any unused annual leave at June 30<sup>th</sup> of each year shall be reduced to zero unless carryover is authorized by the Board. The dollar value of accrued leave at June 30, 2004 amounted to \$7,705.

NOTE K – LONG-TERM DEBT

Long-term debt at June 30, 2004 consists of:

Note payable to Brown Foundation, Inc. due November 11, 2018, plus interest payable annually at 5%, secured by a building	<u>\$ 500,000</u>
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A requirement of this note is that a sinking fund must be established by year 2002. Annual payments are payable into the sinking fund for years 2002 through 2017 in a sum sufficient to insure, when the final payment becomes due, the sinking fund will be able to repay the entire principal sum due. An investment designated by the Board as the sinking fund with a balance of \$ 228,930 at June 30, 2004 has been made to pay off this debt at maturity (see Note D). The investment is a zero coupon bond set to mature for \$500,000 at November 8, 2018 and to fully pay the long-term debt. There are no future sinking fund nor debt service funding requirements.

EDUCATIONAL AND TREATMENT COUNCIL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE L – OPERATING LEASE COMMITMENT

The Council leases office space under an operating lease expiring August 31, 2005.

Minimum future rental payments under a noncancellable operating lease having remaining terms in excess of one year as of June 30, 2004 are as follows:

<u>Year</u>	<u>Amount</u>
June 30, 2005	\$ 24,000
June 30, 2006	4,000

Rental expense under this operating lease as of June 30, 2004 was \$24,000.

NOTE M – JUVENILE SERVICES TAX

On May 5, 1984, the property owners of Calcasieu Parish passed the Juvenile Detention, Probation and Services Tax. The Juvenile Services tax was approved by voters for 2.4 mills. The Calcasieu Parish Policy Jury shall pay as soon as ad valorem taxes are received by the Calcasieu Parish Police Jury a sum equal to the stated contract amount. For and in consideration of the payment of the foregoing lease sums, Educational and Treatment Council, Inc. shall provide juvenile services without further cost to the Court of the Calcasieu Parish Police Jury for emergency shelter to children as described in the purpose above.

Amounts paid under the contract for the year ended June 30, 2004 were \$420,150.

NOTE N – LETTER OF CREDIT

Educational and Treatment Council, Inc. entered into an agreement with the Bank One Louisiana, NA to obtain a stand-by letter of credit and security agreement. The letter of credit is secured by assignment of certificate of deposits with the Bank One Louisiana, NA in an amount of \$ 21,189, The letter of credit became active on September 2, 2002 and expires on September 1, 2004, is available in an amount not to exceed \$19,294.



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

To the Board of Directors  
Educational and Treatment Council, Inc.  
Lake Charles, Louisiana

We have audited the financial statements of Educational and Treatment Council, Inc. (a nonprofit organization) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 15, 2004. 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 Organization'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 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 our audit, we considered the Organization'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 matter involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Directors  
Educational and Treatment Council, Inc.  
Page 2

This report is intended for the information of the board of directors, management, the legislative auditor, and federal awarding agencies and pass-through entities. However, this report is a matter of public record, and its distribution is not limited.

*Langley, William C., III.*

November 15, 2004



# Langley, Williams & Company, L.L.C.

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

To the Board of Directors  
Educational and Treatment Council, Inc.  
Lake Charles, Louisiana

### Compliance

We have audited the compliance of Educational and Treatment Council, Inc., (a nonprofit organization) 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 June 30, 2004. The Organization'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 Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards of the United States; 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 Organization's compliance with those requirements and perform in 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 of the Organization's compliance with those requirements.

In our opinion, Educational and Treatment Council, Inc. 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 June 30, 2004.

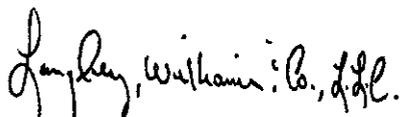
To the Board of Directors  
Educational and Treatment Council, Inc.  
Page 2

Internal Control Over Compliance

The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization'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.

Our consideration of the internal control over compliance 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 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the board of directors, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



November 15, 2004

EDUCATIONAL AND TREATMENT COUNCIL, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2004

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Educational and Treatment Council, Inc.
2. One reportable condition, segregation of duties, disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Educational and Treatment Council, Inc. were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of the major federal award programs.
5. The auditor's report on compliance for major federal award programs for Educational and Treatment Council, Inc. expresses an unqualified opinion on all major federal programs.
6. The audit disclosed no audit findings relating to major programs.
7. The programs tested as major programs included:
  - U.S. Department of Health and Human Services  
Title IV-B Part 2  
CFDA 93.556
  - Children's Trust Fund  
CFDA 93.590
  - Adoption Respite  
CFDA 93.652
8. The threshold for distinguishing Types A and B programs was \$500,000.
9. Educational and Treatment Council, Inc. was determined to be a low-risk auditee.

EDUCATIONAL AND TREATMENT COUNCIL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

June 30, 2004

FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

No reportable conditions were disclosed during the audit.

Total questioned costs

\$        -

PRIOR YEAR FINDINGS

No findings or reportable conditions were noted in the prior year.

EDUCATIONAL AND TREATMENT COUNCIL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Year Ended June 30, 2004

We have audited the financial statements of Educational and Treatment Council, Inc as of and for the year ended June 30, 2004, and have issued our report thereon dated November 15, 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 in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the financial statements as of June 15, 2004 resulted in an unqualified opinion.

Section I – Summary of Auditor’s Results

Report on Internal Control and Compliance Material to the Financial Statements

Internal control

Material weaknesses  Yes  No

Other conditions  Yes  No

Compliance

Compliance material to financial statements  Yes  No

(continued on next page)

EDUCATIONAL AND TREATMENT COUNCIL, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

Year Ended June 30, 2004

Internal Control Findings:

2003-01

**Criteria:** *Effective internal control requires adequate segregation of duties among client personnel.*

**Condition:** *Because of the entity's size and the limited number of accounting personnel, it is not feasible to maintain a complete segregation of duties to achieve effective internal control.*

**Effect:** *Without proper segregation of duties, errors within the financial records or fraud could go undetected.*

**Recommendation:** *To the extent cost effective, duties should be segregated and management should attempt to mitigate this weakness by supervision and review procedures.*

**Response:** *Management has responded that it does not believe that it is cost effective to employ adequate personnel to achieve an adequate level of segregation of responsibilities. Management has implemented supervision and review procedures such as review and approval of supporting documents related to expenditures and periodic review of bank reconciliations. Management has engaged an independent accounting firm to reconcile the operating bank accounts monthly.*

## SUPPLEMENTAL INFORMATION

EDUCATIONAL AND TREATMENT COUNCIL, INC.

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

June 30, 2004

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR PROGRAM OR CLUSTER TITLE</u>	<u>FEDERAL CDFA NUMBER</u>	<u>PASS- THROUGH GRANTOR'S NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<b>United States Department of Agriculture</b>			
Passed through Louisiana Department of Education			
Child Nutrition Cluster:			
National School Lunch Program	10.555	N/A	25,309
<b>United States Department of Housing and Urban Development</b>			
Passed through Louisiana Department of Social Services and City of Lake Charles:			
Emergency Shelter Grants Program	14.231	12714	10,053
<b>United States Department of Justice</b>			
Passed through Calcasieu Parish Police Jury			
Drug Program	16.585	N/A	100,518
<b>United States Department of Education</b>			
Passed through Lafayette Parish School Board			
Homeless Children & Youth Education Pr	84.196A	N/A	672
<b>United States Department of Health and Human Services</b>			
Basic Center Program for Runaway & Homeless Youth			
	93.623	G064224	115,000
Passed through Louisiana Department of Health and Hospitals			
Office of Mental Health	93.958	594748	134,005
Office of Public Health	93.994	601734	21,021
Passed through Louisiana Department of Social Services, Office of Community Development			
Title IV-B Part 2	93.556	587440	389,354
Office of Child Support	93.558	594290	25,223
Children's Trust Fund	93.590	600288 & 600287	21,188
Adoption Respite	93.652	604286	25,425
Total Federal Awards			<u>867,768</u>

See accompanying notes to financial statements