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COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

Baton Rouge, Louisiana

FINANCIAL REPORT

June 30, 2000

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 _____

Curtis Michael Johnston
Certified Public Accountant

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
Baton Rouge, Louisiana

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June 30, 2000

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CURTIS MICHAEL JOHNSTON, C.P.A.

2491 Oak Manor Court • Baton Rouge, LA 70810 • (504) 766-6932

November 19, 2000

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Community Independent Living Systems, Inc.

I have audited the accompanying Balance Sheet of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. as of June 30, 2000, and the related Statements of Revenues, Expenses and Changes in Equity, and Cash Flows for the year then ended. These financial statements are the responsibility of the company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. as of June 30, 2000, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 7 to the financial statements, COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. is a defendant in a lawsuit filed by one of its former employees for alleged harassment. The suit asks for back pay, front pay, punitive damages, attorney fees, litigation expenses and other relief entitled to along with legal interest. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements.

In accordance with Government Auditing Standards, I have also issued a report dated November 19, 2000 on my consideration of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts.

My audit was made for the purpose of forming an opinion on the general purpose financial statements of the company taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the 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 general purpose financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Respectfully submitted,

Curtis Michael Johnston, CPA

Curtis Michael Johnston
Certified Public Accountant

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

Baton Rouge, Louisiana

BALANCE SHEET

June 30, 2000

ASSETS**CURRENT**

Cash		\$	104,485
Investments (cost)	\$	500,437	
Add: Valuation allowance		<u>52,058</u>	
Net (market value)			552,495
Prepaid expenses			13,829
Employee advances			3,090
Accounts receivable			<u>103,439</u>
Total current assets			<u>777,338</u>

PROPERTY AND EQUIPMENT

Equipment			121,469
Less: Accumulated Depreciation			<u>(76,249)</u>
Total property and equipment			<u>45,220</u>
Total assets		\$	<u><u>822,558</u></u>

LIABILITIES AND EQUITY**Current Liabilities**

Accounts payable		\$	8,270
Wages payable			3,306
Accrued payroll taxes payable			15
Federal income taxes payable			1,155
State income taxes payable			1,126
Deferred income tax			<u>40,614</u>
Total current liabilities			54,486

Equity

			<u>768,072</u>
Total liabilities and equity		\$	<u><u>822,558</u></u>

The accompanying notes are an integral part of this statement.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

Baton Rouge, Louisiana

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN EQUITY

For the year ended June 30, 2000

Revenues

Client services	\$	836,753
Realized gain on sale of investments		28,099
Unrealized gain on investments		3,845
Dividends		2,526
Loss on sale of equipment		(3,482)
Interest income		317
		<hr/>
Total revenues		868,058

Expenses

Salaries and related benefits		394,624
Professional services		26,726
Office supplies		9,703
Operating expenses		75,213
Travel		16,663
Telephone and utilities		49,118
Building and furniture rent		216,218
Equipment rent		914
Insurance		6,451
Dues and subscriptions		460
Maintenance and repairs		2,617
Payroll taxes		31,426
Depreciation		11,142
Advertising		53
Miscellaneous		6,818
		<hr/>
Total expenses		848,146

Net income before taxes		19,912
Income tax expense		4,824
		<hr/>
Net income		15,088
Equity at beginning of year		702,740
Prior year adjustment		50,244
		<hr/>
Equity at end of year	\$	768,072

The accompanying notes are an integral part of this statement.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

Baton Rouge, Louisiana

STATEMENT OF CASH FLOWS

For the year ended June 30, 2000

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$ 15,088
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	11,142
Loss on sale of equipment	3,482
Change in operating assets and liabilities:	
Accounts receivable	89,981
Prepaid expenses	6,971
Accounts payable	2,172
Wages payable	(3,259)
Accrued payroll taxes	(1,933)
Deferred income tax	(19,838)
Income tax payable	1,191
Net cash provided by operating activities	<u>104,997</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Equipment acquisitions	(1,808)
Equipment sold	<u>800</u>

Net increase (decrease) in cash and cash equivalents	103,989
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CASH AND CASH EQUIVALENTS

Beginning of year	550,300
Prior year adjustment (investment account)	<u>2,692</u>
End of year	<u><u>\$ 656,981</u></u>

The accompanying notes are an integral part of this statement.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
Baton Rouge, Louisiana

NOTES TO FINANCIAL STATEMENTS

June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Activities

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. is a human service provider corporation. The company provides case management, independent living skills and counseling to individuals in the community including, but not limited to the following:

- develop job skills,
- develop personal and work adjustment,
- provide, develop and promote employment opportunity,
- promote independent learning skills

B. Basis of Accounting

The accompanying general purpose financial statements of *COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.* have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

C. Income Tax Status

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. was originally formed as a non-profit Louisiana corporation in July 1988. However, the corporation has actually operated as a for-profit corporation since its formation. The corporation has not elected to apply for tax-exempt organization status under Section 501(c)(3) of the Internal Revenue Code and, therefore, it must pay federal and state income taxes on any profits realized by the organization.

The provision for income tax expense for the period ended June 30, 2000 was \$4,824. The deferred tax liability at June 30, 2000 was \$40,614, which represents a future tax liability to the organization caused by timing differences between income and expenses reported for tax purposes and income and expenses reported under generally accepted accounting principles.

D. Investment Securities

Investments are presented in the financial statements at their fair market value. Unrealized gains and losses for the year ended June 30, 2000 are included in the Statement of Revenue, Expenses and Changes in Equity.

E. Accounts receivable

Accounts receivable represent amounts due from the Louisiana Department of Social Services for services rendered by COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. under fee for service contracts and cost-reimbursement contracts.

F. Property, equipment and depreciation

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated service lives of the assets.

G. 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 and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - PROPERTY AND EQUIPMENT

Property and equipment, related service lives, and accumulated depreciation at June 30, 2000 are as follows:

	Estimated <u>Service Lives</u>	
Furniture and equipment	8 years	\$ 83,517
Vehicles	9 years	<u>37,952</u>
Property and equipment		\$121,469
Less: accumulated depreciation		<u>(76,249)</u>
Total Property and equipment		<u>\$ 45,220</u>

Depreciation expense was \$11,142 for the year ended June 30, 2000.

NOTE 3 - ECONOMIC DEPENDENCY

During the year ended June 30, 2000, the company received a significant portion of its revenues through the State of Louisiana. The amounts applicable to the year ended June 30, 2000 are as follows:

Receivable, beginning of year	\$ 193,420
Revenues earned and invoiced	836,753
Collections	<u>(926,734)</u>
Receivable, end of year	<u>\$ 103,439</u>

NOTE 4 - RELATED PARTY TRANSACTIONS

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. used computer equipment owned by its former Executive Director to help train participants of the Project Independence Program located in Hammond, Louisiana. The equipment was furnished to COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. and the Project Independence Program at no cost for the 1999-2000 fiscal year.

NOTE 5 - COMPENSATED ABSENCES

Vacation and sick leave are earned by employees at varying rates from 8 to 16 hours per month depending on length of service. A maximum of 24 hours of unused leave may be carried over at December 31. Accordingly, amounts related to such leave have been accrued at June 30, 2000.

NOTE 6 - BOARD OF DIRECTORS

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. 's board of directors consists of two (2) members. One of the current board members is also the Executive Director of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

NOTE 7 - LOSS CONTINGENCY

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. is a defendant in a lawsuit filed by one of its former employees for alleged harassment. The suit asks for back pay, front pay, punitive damages, attorney fees, litigation expenses and other relief entitled to along with legal interest. The company believes the suit is completely without merit and intends to vigorously defend its position. According to COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. 's outside legal counsel, the ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability that may result upon adjudication has been made in the accompanying financial statements.

NOTE 8 - OPERATING LEASES

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. had no operating leases with remaining noncancelable lease terms in excess of one year as of June 30, 2000.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
Baton Rouge, Louisiana

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2000

<u>Federal Grantor</u> Pass-through Grantor Program Title	Federal CFDA Number		Federal Awards Expended
<u>Department of Health and Human Services</u>			
<i>Department of Social Services:</i>			
Project Independence	93.561	*	\$ 206,078
Foster Care - Supervised Apartments	93.645	*	<u>630,675</u>
Total Federal Assistance			<u><u>\$ 836,753</u></u>

* Represents a major program.

The accompanying notes are an integral part of this statement.

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

CURTIS MICHAEL JOHNSTON, C.P.A.

2491 Oak Manor Court • Baton Rouge, LA 70810 • (504) 766-6932

November 19, 2000

To the Board of Directors
Community Independent Living Systems, Inc.

I have audited the financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., as of and for the year ended June 30, 2000, and have issued my report thereon dated November 19, 2000. I conducted my audit in accordance with generally accepted auditing standards and the standards for financial and compliance audits of Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 my audit and, accordingly, I do not express such an opinion. The results of my 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 my audit, I considered COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting.

My 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.

I noted no matters involving the internal control over financial reporting that I consider to be material weaknesses.

This report is intended for the Board of Directors, management, the Office of the Louisiana Legislative Auditor and any cognizant agency and should not be used for any other purpose.

Curtis Michael Johnston, CPA

Curtis Michael Johnston
Certified Public Accountant

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

CURTIS MICHAEL JOHNSTON, C.P.A.

2491 Oak Manor Court • Baton Rouge, LA 70810 • (504) 766-6932

November 19, 2000

To the Board of Directors
Community Independent Living Systems, Inc.

Compliance

I have audited the compliance of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. 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 its major federal programs for the year ended June 30, 2000.

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'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, and contracts applicable to its major federal programs is the responsibility of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s management. My responsibility is to express an opinion on COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s compliance based on my audit.

I conducted my audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I 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 COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s compliance with those requirements. The results of my tests disclosed no instances of noncompliance that are required to be reported.

In my opinion, COMMUNITY INDEPENDENT LIVING SYSTEMS, 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, 2000.

Internal Control Over Compliance

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

My consideration of 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, and contracts 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.

I noted no matters involving the internal control over compliance and its operations that I consider to be material weaknesses.

This report is intended for the Board of Directors, management, the Office of the Louisiana Legislative Auditor and any cognizant agency and should not be used for any other purpose.

Curtis Michael Johnston, CPA

Curtis Michael Johnston
Certified Public Accountant

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
Baton Rouge, Louisiana

Schedule of Findings and Questioned Costs
For the fiscal year ended June 30, 2000

Section I -- Summary of Auditors ResultsFinancial Statements

Type of auditor's report issued:	UNQUALIFIED
Internal control over financial reporting:	
Material weaknesses identified?	NO
Reportable conditions identified not considered to be material weaknesses?	NO
Noncompliance material to financial statements noted?	NO

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	NO
Reportable conditions identified not considered to be material weaknesses?	NO
Type of auditor's report issued on compliance for major programs:	UNQUALIFIED
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	NO

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
93.561	Project Independence
93.645	Foster Care

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	NO

Section II -- Financial Statement Findings

None

Section III -- Federal Award Findings and Questioned Costs

None

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
Baton Rouge, Louisiana

Summary Schedule of Prior Audit Findings
For the fiscal year ended June 30, 2000

Financial Statement Findings:

Reference No. 99-1

Statement of Condition: The functions of billing, cash receipts, cash disbursements, recording transactions in the accounting records and reconciling bank accounts are performed by the same employee.

Status of Finding: Corrective action was taken.

Federal Award Findings and Questioned Costs:

Reference No. 99-2

Statement of Condition: The functions of billing, cash receipts, cash disbursements, recording transactions in the accounting records and reconciling bank accounts are performed by the same employee.

Status of Finding: Corrective action was taken.

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COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.

BATON ROUGE, LOUISIANA

MANAGEMENT LETTER

November 19, 2000

Curtis Michael Johnston, CPA

November 19, 2000

CONFIDENTIAL

To the Board Members
Community Independent Living Systems, Inc.

Dear Board Members:

I have audited the general purpose financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. as of and for the year ended June 30, 2000. In planning and performing my audit of the financial statements of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC., I considered internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on internal control.

During my audit, I noted a certain matter involving an operational matter that is presented for your consideration. This comment and recommendation, has been discussed with appropriate members of management, and is intended to result in improving operations:

Reference No. 1: Time Sheets are Consistent with Hours Worked on each Program.

The time sheet for one employee showed that she worked on two different programs, yet the payroll register showed all of her hours were charged to one program. Time sheets should match the hours worked on each program.

My procedures are designed primarily to enable me to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. I am, however, to use my knowledge of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s organization gained during my work to make comments and suggestions that I hope will be useful to you.

I would like to take this opportunity to acknowledge the courtesy and assistance extended to me by the personnel of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC. during the course of my audit.

This report is intended solely for the information and use of COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.'s board members and management. However, this report is a matter of public record and its distribution is not limited.

Very truly yours,

Curtis Michael Johnston, CPA

Curtis Michael Johnston, CPA

COMMUNITY INDEPENDENT LIVING SYSTEMS, INC.
8261 SUMMA AVENUE, SUITE H
BATON ROUGE, LA 70810

January 8, 2001

Office of Legislative Auditor
Daniel G. Kyle, CPA, CFE
P. O. Box 94397
Baton Rouge, LA 70804-9397

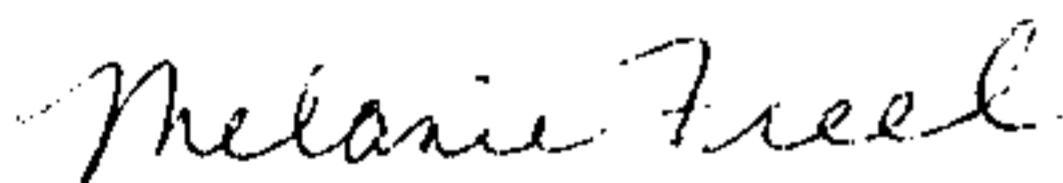
Re: Audit of Community Independent Living Systems, Inc.
As of and for the Year Ended June 30, 2000

Dear Dr. Kyle:

Per your letter of January 3, 2001, management's corrective action plan to the 6/30/00 fiscal year management letter comments:

Reference No. 1: Time sheets are Consistent with Hours Worked on each Program

Management concurs in the comment, and will review the time sheets each pay period to ensure that employees are charging their time to the correct program.



Melanie Freel
Executive Director

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