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ARC OF IBERIA

FINANCIAL REPORT

JUNE 30, 1997

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Release Date ____

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
ARC of Iberia
New Iberia, Louisiana 70560

We have audited the accompanying statements of financial position of ARC of Iberia (a nonprofit organization) as of June 30, 1997 and 1996 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and 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 audits provide 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 ARC of Iberia as of June 30, 1997 and 1996, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 13 to the financial statements, in 1996 the Association changed its method of accounting for contributions and its method of financial reporting and financial statement presentation.

In accordance with Government Auditing Standards, we have also issued a report dated September 29, 1997, on our consideration of ARC of Iberia's internal control structure and a report dated September 29, 1997, on its compliance with laws and regulations.

Broussard, Poche', Lewis & Breaux

New Iberia, Louisiana
September 29, 1997

ARC OF IBERIA

STATEMENTS OF FINANCIAL POSITION
June 30, 1997 and 1996

ASSETS	1997	1996
CURRENT ASSETS		
Cash	$ 354,699	$ 260,012
Investments	186,451	177,389
Receivables	19,635	65,052
Due from other agencies	236,837	215,726
Inventory	2,750	4,475
Prepaid expenses	2,345	4,432
Other current assets	22,260	4,117
Total current assets	$ 824,977	$ 731,203
FIXED ASSETS		
Property and equipment, net	$1,151,384	$1,023,615
Total assets	$1,976,361	$1,754,818
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 85,525	$ 39,304
Accrued liabilities	61,478	45,820
Current maturities of long-term debt	36,486	51,571
Current portion of capital lease obligations	14,202	5,231
Total current liabilities	$ 197,691	$ 141,926
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	$ 353,910	$ 335,289
Capital lease obligations, less current portion	14,064	19,871
Total long-term liabilities	$ 367,974	$ 355,160
Total liabilities	$ 565,665	$ 497,086
NET ASSETS		
Unrestricted	$1,372,510	$1,221,833
Temporarily restricted	38,186	35,899
Total net assets	$1,410,696	$1,257,732
Total liabilities and net assets	$1,976,361	$1,754,818

See Notes to Financial Statements.

ARC OF IBERIA

STATEMENT OF ACTIVITIES
Year Ended *June* 30, 1997

	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT:			
Contributions	$ 30,599	$ 65,210	$ 95,809
Program revenue	2,610,311	-	2,610,311
Interest revenue	15,524	-	15,524
Membership revenue	2,010	-	2,010
Miscellaneous revenue	8,989	-	8,989
Gain on sale of fixed assets	6,400	-	6,400
Net assets released from restrictions:			
Satisfaction of program restrictions	55,272	(55,272)	-
Expiration of time restrictions	7,651	(7,651)	-
Total revenues and other support	$ 2,736,756	$ 2,287	$ 2,739,043
EXPENSES:			
ARC *Unlimited* program	$ 1,071,484	$ -	$ 1,071,484
Outreach Services program	14,027	-	14,027
Independent Living program	283,766	-	283,766
Residential Services program	680,458	-	680,458
Respite Services program	338,601	-	338,601
Management and general	197,743	-	197,743
Total expenses	$ 2,586,079	$ -0-	$ 2,586,079
Changes in net assets	$ 150,677	$ 2,287	$ 152,964
Net assets at beginning of year	1,221,833	35,899	1,257,732
Net assets at end of year	$ 1,372,510	$ 38,186	$ 1,410,696

See Notes to Financial Statements.

ARC OF IBERIA

STATEMENT OF ACTIVITIES
Year Ended June 30, 1996

	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT:			
Contributions	$ 31,556	$ 111,620	$ 143,176
Program revenue	2,339,958	-	2,339,958
Interest revenue	15,115	-	15,115
Membership revenue	2,470	-	2,470
Miscellaneous revenue	12,102	-	12,102
Net assets released from restrictions:			
Satisfaction of program restrictions	92,114	(92,114)	-
Expiration of time restrictions	13,603	(13,603)	-
Total revenues and other support	$ 2,506,918	$ 5,903	$ 2,512,821
EXPENSES:			
ARC Unlimited program	$ 1,004,762	$ -	$ 1,004,762
Outreach Services program	111,406	-	111,406
Independent Living program	231,789	-	231,789
Residential Services program	611,274	-	611,274
Respite Services program	218,462	-	218,462
Management and general	208,420	-	208,420
Total expenses	$ 2,386,113	$ -0-	$ 2,386,113
Changes in net assets	$ 120,805	$ 5,903	$ 126,708
Net assets at beginning of year	1,101,028	29,996	1,131,024
Net assets at end of year	$ 1,221,833	$ 35,899	$ 1,257,732

See Notes to Financial Statements.

ARC OF IBERIA

STATEMENTS OF CASH FLOWS
Years Ended June 30, 1997 and 1996

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 152,964	$ 126,708
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	118,512	80,669
Gain on sale of fixed assets	(6,400)	-
(Increase) decrease in receivables	45,417	(44,640)
(Increase) decrease in due from other agencies	(21,111)	74,270
Decrease in inventories and prepaids	3,812	599
(Increase) decrease in other current assets	(18,143)	8,360
Increase (decrease) in accounts payable	46,221	(28,457)
Increase (decrease) in accrued liabilities	15,658	(18,897)
Increase (decrease) in due to other agencies	-	(29,157)
Net cash provided by operating activities	$ 336,930	$ 169,455
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	$ (236,527)	$ (168,887)
Proceeds from sales of fixed assets	6,400	-
Proceeds from return of equipment	645	-
Purchase of investments	(9,062)	(37,819)
Net cash used in investing activities	$ (238,544)	$ (206,706)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	$ 71,647	$ 63,323
Principal payments on long-term debt	(68,110)	(84,248)
Principal payments on lease obligations	(7,236)	(4,582)
Net cash used in financing activities	$ (3,699)	$ (25,507)
Net increase (decrease) in cash	$ 94,687	$ (62,758)
Cash at beginning of year	260,012	322,770
Cash at end of year	$ 354,699	$ 260,012

See Notes to Financial Statements.

ARC OF IBERIA

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization:

ARC of Iberia (the "Association") is a Louisiana nonprofit corporation chartered in August 1954. Its purpose is to promote the general welfare of mentally retarded, physically handicapped and incapacitated citizens in Iberia Parish and to aid their parents and families. The following is a description of the various programs.

Operating Fund

The operating fund is used to account for all financial transactions except those required to be accounted for separately by program.

ARC Unlimited

ARC Unlimited is a school for the mentally retarded citizens of the community.

Residential Services

Residential Services provides three homes for mentally retarded adults.

Respite Services

Respite Services allows parents and guardians of the mentally retarded to leave them for short periods of time.

Outreach Services

Included in Outreach Services is Family Service Coordination for infants/toddlers which is a family-focus/family-driven program with a primary goal of helping to empower and strengthen families who have infants/toddlers with special needs. These services were terminated during July 1996.

Outreach Services also includes a program to provide prenatal education for young expecting mothers along with parenting skills with a long-term goal of child abuse prevention.

Independent Living

The Association supervises mentally retarded adults that live in Village Du Teche Apartments. These clients require considerably less care than clients living in the residential homes.

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

Significant accounting policies:

Support and expenses:

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor 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 in the statement of activities as net assets released from restrictions.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Investments:

Investments which consists of certificates of deposits, are presented in the financial statements at cost which approximates fair market value.

Inventory:

Inventory is stated at the lower of cost or market, with cost determined by the first-in first-out method.

Allowance for doubtful accounts:

The Association considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required.

Property and equipment:

Purchased property and equipment is recorded at cost at the date of acquisition. Contributed property and equipment is recorded at fair value at the date of donation. In the absence of donor stipulations regarding how long the contributed assets must be used, the Association has adopted a policy of implying a time restriction on contributions of such assets that expires over the assets' useful lives. As a result, all contributions of property and equipment, and of assets contributed to acquire property and equipment, are recorded as restricted support. Depreciation is computed by the straight-line method at rates based on the following estimated useful lives:

	Years
Furniture and equipment	5 - 25
Building and improvements	10 - 30
Transportation equipment	3 - 5

Note 3. Property and Equipment

Property and equipment at June 30, 1997 consisted of:

	Historical Costs	Donated Value	Total
Land	$ 56,585	$ 91,750	$ 148,335
Buildings and improvements	1,014,095	25,000	1,039,095
Furniture and equipment	351,516	3,600	355,116
Vehicles	294,944	92,034	386,978
Livestock	850	-	850
	$1,717,990	$ 212,384	$1,930,374
Less accumulated depreciation	(677,891)	(101,099)	(778,990)
	$1,040,099	$ 111,285	$1,151,384

Total depreciation expense for the year ended June 30, 1997 was $118,512 of which $10,839 was related to donated assets and $1,695 was related to capital lease assets.

For the year ended June 30, 1997, the Association has capital lease assets of $48,929, included in equipment, and related accumulated amortization of $5,551, which is included in accumulated depreciation.

Property and equipment at June 30, 1996 consisted of:

	Historical Costs	Donated Value	Total
Land	$ 56,585	$ 91,750	$ 148,335
Buildings and improvements	858,576	25,000	883,576
Furniture and equipment	290,372	3,600	293,972
Vehicles	315,233	92,034	407,267
Livestock	850	-	850
	$1,521,616	$ 212,384	$1,734,000
Less accumulated depreciation	(620,124)	(90,261)	(710,385)
	$ 901,492	$ 122,123	$1,023,615

Total depreciation expense for the year ended June 30, 1996 was $80,669 of which $9,268 was related to donated assets and $1,510 was related to capital lease assets.

For the year ended June 30, 1996, the Association had capital lease assets of $38,529, included in equipment, and related accumulated amortization of $3,856 which is included in accumulated depreciation.

Note 4. Long-Term Debt

Long-term debt at June 30, 1997 and 1996 consisted of the following:

	1997	1996
ARC Unlimited:		
Note payable to Ford Motor Credit, due in monthly installments of $539, bearing interest at 9.50%, collateralized by a security interest in a 1994 Ford truck, maturing October 25, 1997.	$ 2,155	$ 8,624
Mortgage note payable to bank, due in monthly installments of $596, bearing interest at 6.15%, secured by collateral mortgage on 434 Charles Street, maturing May 30, 2000.	-	14,819
Mortgage note payable to bank, due in monthly installments of $830, bearing interest at 6.89%, secured by collateral mortgage on Walton Street, maturing March 17, 1999.	70,365	-
Residential Services:		
Mortgage note payable to bank, due in monthly installments of $650, bearing interest at 9.00%, secured by collateral mortgage on the ARC Haven home, maturing February 28, 2002.	31,333	36,293
Mortgage note payable to bank, due in monthly installments of $818, bearing interest at 7.00%, secured by collateral mortgage on the Kramer home, maturing August 31, 1998.	-	19,383
Mortgage note payable to bank, due in monthly installments of $962, bearing interest at 7.00%, secured by collateral mortgage on the Northside home, maturing January 31, 2001.	37,128	45,826
Note payable to bank, due in monthly installments of $388, bearing interest at 9.95%, collateralized by a security interest in a 1995 Chevrolet van, maturing July 13, 1999.	8,699	11,974

Note 4. Long-Term Debt (Continued)

	1997	1996
Note payable to bank, due in monthly installments of $388, bearing interest at 9.95%, collateralized by a security interest in a 1995 Chevrolet van, maturing July 13, 1999.	8,698	11,974
Note payable to bank, due in monthly installments of $410, bearing interest at 9.95%, collateralized by a security interest in a 1996 Chevrolet van, maturing July 13, 1999.	9,205	12,669
Respite Services:		
Mortgage note payable to FHA, due in monthly installments of $1,028, bearing interest at 5.25%, secured by collateral mortgage on the Respite home, maturing April 11, 2025.	181,214	182,618
Mortgage note payable to FHA, due in monthly installments of $212, bearing interest at 5.225%, secured by collateral mortgage on the Respite home, maturing April 11, 2025.	38,599	38,680
Note payable to bank, bearing interest at 9.00%, unsecured, maturing July 8, 1996.	-	4,000
Note payable to bank, bearing interest at 9.00%, unsecured, maturing July 22, 1997.	3,000	-
	$ 390,396	$ 386,860
Less current maturities	(36,486)	(51,571)
Long-term debt, less current maturities	$ 353,910	$ 335,289

Aggregate maturities required on long-term debt, including interest of $239,362, are as follows at June 30, 1997:

June 30	
1998	$ 63,765
1999	58,406
2000	45,275
2001	40,470
2002	32,640
Thereafter	389,202
	$ 629,758

Cash paid for interest during the years ended June 30, 1997 and 1996 was $28,093 and $22,089, respectively.

Note 5. Operating Leases

The Association had entered into two noncancellable operating leases for vehicles which expired during 1997, therefore, there are no future minimum lease payments under the operating leases as of June 30, 1997.

Rent expense for the years ended June 30, 1997 and 1996 was $3,360 and $8,914, respectively.

Note 6. Capital Lease Obligations

The Association has entered into a noncancellable lease agreement for the acquisition of property including building and improvements. The lease provides for monthly payments of $500 through January 2001.

Additionally, the Association has entered into a noncancellable lease agreement for the acquisition of a copy machine. The lease provides for monthly payments of $100 through September 1998.

Furthermore, the Association has entered into a noncancellable lease agreement for the acquisition of a telephone system. The lease provides for monthly payments of $943 through March 1998.

These leases have been capitalized in accordance with Financial Accounting Standards Statement No. 13. The following is a schedule by years of the future minimum lease payments under these capital leases together with the value of the net minimum lease payments as of June 30:

Year Ending	1997	1996
1997	$ -	$ 7,200
1998	16,630	7,200
1999	6,290	6,287
2000	6,000	6,000
2001	3,500	3,500
Total minimum lease payments	$ 32,420	$ 30,187
Less amount representing interest	4,154	5,085
Present value of net minimum lease payments	$ 28,266	$ 25,102
Less obligations under capital leases - current portion	14,202	5,231
Obligations under capital leases, long-term	$ 14,064	$ 19,871

Note 7. Detail of Program Revenue

Program revenue included the following for the years ended June 30, 1997 and 1996:

	Total	Program: ARC Unlimited	Outreach Services	Independent Living	Residential Services	Respite Services
1997:						
Medicaid	$1,455,309	$ 157,696	$ 5,022	$ 229,613	$ 789,154	$ 273,824
Office of Citizens with Developmental Disabilities	404,796	288,073	-	49,776	-	66,947
Louisiana Rehab Services	216,053	216,053	-	-	-	-
Department of Health and Hospitals	1,336	-	1,336	-	-	-
Children's Trust Fund	5,000	-	5,000	-	-	-
Sales	139,943	139,943	-	-	-	-
Client billings	136,734	5,242	-	15,606	107,016	8,850
Other residential facilities:						
Normal Life	160,096	160,096	-	-	-	-
Gulf States Health Care	77,374	77,374	-	-	-	-
Res-Care Health Services	13,690	13,690	-	-	-	-
	$2,610,311	$1,058,167	$ 11,358	$ 294,995	$ 896,170	$ 349,[illegible]

	Total	Program: ARC Unlimited	Family Services	Independent Living	Residential Services	Respite Services
1996:						
Medicaid	$1,214,065	$ 150,605	$ 43,334	$ 202,790	$ 676,339	$ 140,99[illegible]
Office of Citizens with Developmental Disabilities	398,297	288,073	-	44,336	-	65,888
Louisiana Rehab Services	153,700	153,700	-	-	-	-
Department of Health and Hospitals	50,615	-	50,615	-	-	-
Sales	138,499	138,499	-	-	-	-
Client billings	147,981	3,244	-	8,525	125,818	10,394
Other residential facilities:						
Normal Life	155,089	155,089	-	-	-	-
Gulf States Health Care	13,543	13,543	-	-	-	-
Res-Care Health Services	68,169	68,169	-	-	-	-
	$2,339,958	$ 970,922	$ 93,949	$ 255,651	$ 802,157	$ 217,27[illegible]

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following periods or purposes as of June 30, 1997 and 1996:

	1997	1996
ARC Unlimited program:		
Remaining estimated useful lives of contributed property and equipment	$ 28,248	$ 35,89[illegible]
Unexpended food bank contributions	9,938	-
	$ 38,186	$ 35,89[illegible]

Note 9. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or the expiration of time for the year ended June 30:

	1997	1996
Purpose restrictions accomplished:		
ARC Unlimited program -		
Projects with industry grant	$ -	$ 45,333
Department of Natural Resources grant	39,858	42,176
Contributions	15,084	1,400
Residential Services program -		
Contributions	-	20
Respite Services program -		
Contributions	330	3,185
	$ 55,272	$ 92,114
Time restriction expired:		
ARC Unlimited program -		
Expired portion of estimated useful lives of contributed property and equipment	7,651	13,603
Total restrictions released	$ 62,923	$ 105,717

Note 10. Natural Classification of Expenses

Expenses were incurred for the following for the years ended June 30, 1997 and 1996:

	Total	Programs: ARC Unlimited	Programs: Outreach Services	Programs: Independent Living	Programs: Residential Services	Programs: Respite Services	Support: Management and General
1997:							
Cost of sales	$ 108,052	$ 108,052	$ -	$ -	$ -	$ -	$
Salaries, wages, benefits and payroll taxes	1,534,580	570,772	12,117	245,811	317,130	250,870	137,880
Office and occupancy	363,028	143,360	193	21,195	135,442	33,769	29,069
Supplies and travel	145,687	53,424	70	2,117	71,782	9,769	8,525
Services and professional fees	105,507	21,111	1,388	5,391	54,374	13,555	9,888
Depreciation	118,512	58,918	-	375	42,133	11,192	5,894
Repairs and maintenance	182,620	111,310	259	9,077	49,805	5,682	6,487
Interest	28,093	4,537	-	-	9,792	13,764	-
	$2,586,079	$1,071,484	$ 14,027	$ 283,766	$ 680,458	$ 338,601	$ 197,743

	Total	Programs: ARC Unlimited	Programs: Family Services	Programs: Independent Living	Programs: Residential Services	Programs: Respite Services	Support: Management and General
1996:							
Cost of sales	$ 106,283	$ 106,283	$ -	$ -	$ -	$ -	$
Salaries, wages, benefits and payroll taxes	1,406,997	541,069	73,948	203,432	285,322	150,218	153,008
Office and occupancy	365,983	163,568	4,280	18,917	131,067	26,658	21,493
Supplies and travel	229,725	113,111	3,071	4,704	88,109	9,602	11,128
Services and professional fees	112,744	10,076	29,828	3,387	46,469	8,332	14,652
Depreciation	80,668	44,230	-	-	20,387	10,229	5,822
Repairs and maintenance	55,909	18,958	279	1,349	30,657	2,349	2,317
Interest	27,804	7,467	-	-	9,263	11,074	-
	$2,386,113	$1,004,762	$ 111,406	$ 231,789	$ 611,274	$ 218,462	$ 208,420

Note 11. Fiduciary Funds

Residential Services acts as a fiduciary agent for its residents. Additionally, there is one client of the Independent Living program for which the Association acts as a fiduciary agent. Checking accounts are maintained for each resident in the homes. Deposits include the resident's social security benefits, their payroll checks if employed and miscellaneous gifts from family members. Disbursements consist of day-to-day living expenses and are based on the individual resident's needs. The balance in these checking accounts at June 30, 1997 and 1996 was $19,063 and $12,895, respectively. These funds are not included in the balance sheet of the ARC of Iberia.

Note 12. Concentration of Credit Risk

The Association maintains cash balances in excess of $100,000 and time deposits in excess of $100,000 in banks, which are insured by the Federal Deposit Insurance Corporation up to $100,000 for cash balances and $100,000 for time deposits. At June 30, 1997, the Association's uninsured cash balances totaled $224,747.

The Association also receives a considerable amount of its total support and revenues from Medicaid for payments of medical services provided to clients. During the years ended June 30, 1997 and 1996, the Association received $1,455,309 and $1,214,065, respectively, from Medicaid, which was 53% and 43%, respectively, of total revenues.

Note 13. Change in Accounting Method

During the fiscal year ended June 30, 1996, the Association adopted the provisions of Statement on Financial Accounting Standards (SFAS) No. 116, "Accounting for Contributions Received and Contributions Made" and SFAS No. 117, "Financial Statements for Not-for-Profit Organizations."

In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions. As permitted by SFAS No. 116, the Association has retroactively applied the provisions of this statement. The adoption of SFAS No. 116 had no effect on the Association's change in net assets as of June 30, 1995.

Under SFAS No. 117, the Association is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Association is required to present a statement of cash flows. As permitted by this new statement the Association has discontinued its use of fund reporting and has accordingly, reclassified its financial statements to present the three classes of net assets required. This reclassification had no effect on the change in net assets for the year ended June 30, 1996.

Note 14. Fair Values of Financial Instruments

The Association's financial instruments, none of which are held for trading purposes, include cash, investments, and notes payable. The Association estimates that the fair value of all financial instruments at June 30, 1997 and 1996 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position. The estimated fair value amounts have been determined by the Association using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and accordingly, the estimates are not necessarily indicative of the amounts that the Association could realize in a current market exchange.

Note 15. Non-Cash Investing and Financing Activities

A capital lease obligation of $10,400 was incurred during 1997 when the Association entered into a lease agreement for a new telephone system.

A capital lease obligation of $2,392 was incurred during 1996 when the Association entered into a lease agreement for a new copy machine.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>

To the Board of Directors
ARC of Iberia
New Iberia, Louisiana

We have audited the financial statements of ARC of Iberia (a nonprofit organization) for the year ended June 30, 1997, and have issued our report thereon dated September 29, 1997.

We conducted our audits in accordance with generally accepted auditing standards and <u>Government Auditing Standards</u>, 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.

The management of ARC of Iberia is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors, or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of ARC of Iberia for the year ended June 30, 1997, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the Association's ability to record, process, summarize, and report financial data consistently with the assertions of management in the financial statements.

Billings and Contracts

Finding:

When performing the test of billings, it was noted that an incorrect number of days were billed for two clients. The invoices prepared from attendance sheets were not reviewed for accuracy.

Recommendation:

Once the invoices are prepared, a designated person should review and agree the invoices to the supporting documentation. All review processes should be evidenced by initials.

Response:

A review procedure based on the above recommendation has been established to ensure accuracy in the preparation of invoices.

Cash in Bank

Finding:

Deposits in financial institutions are insured by the Federal Deposit Insurance Corporation. The coverage is $100,000 for each type of deposit. ARC of Iberia maintains deposits in excess of the covered amounts. At June 30, 1997, the uninsured cash balances totaled $224,747.

Recommendation:

Management should review and monitor this situation. Available investing options should be researched and a decision made as to feasibility.

Response:

We agree with this recommendation and are researching the available options to invest all uninsured deposits.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of the board of directors, management, all applicable Federal agencies, and those other governments from which financial assistance was receivec. However, this report is a matter of public record and its distribution is not limited.

Broussard, Poche', Lewis & Breaux

New Iberia, Louisiana
September 29, 1997

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BROUSSARD, POCHE', LEWIS & BREAUX

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
ARC of Iberia
New Iberia, Louisiana

We have audited the financial statements of ARC of Iberia (a nonprofit organization) as of and for the year ended June 30, 1997, and have issued our report thereon dated September 29, 1997.

We conducted our audits in accordance with generally accepted auditing standards and 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.

Compliance with laws, regulations, contracts, and grants applicable to ARC of Iberia is the responsibility of the Association's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Association's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions. 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.

This report is intended for the information of the board of directors, management, all applicable Federal agencies, and those other governments from which financial assistance was received. However, this report is a matter of public record and its distribution is not limited.

Broussard, Poché, Lewis & Breaux

New Iberia, Louisiana
September 29, 1997