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RED RIVER ASSOCIATION
FOR RETARDED CITIZENS, INC.

FINANCIAL STATEMENTS

JUNE 30, 1999

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the audited, or reviewed, entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date MAR 0 1 2000

YOUNGBLOOD & HODGES

A PROFESSIONAL ACCOUNTING CORPORATION

4700 LINE AVENUE

P. O. BOX 5926

SHREVEPORT, LOUISIANA 71135-5926

THOMAS P. YOUNGBLOOD, CPA

RANDLE R. HODGES, CPA

(318) 869-1275

FAX (318) 869-1278

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Red River Association for
Retarded Citizens, Inc.
Coushatta, Louisiana

We have audited the accompanying statement of financial position of the Red River Association for Retarded Citizens, Inc. (a nonprofit organization) as of June 30, 1999, and the related statements of activities and cash flows for the year 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 audit.

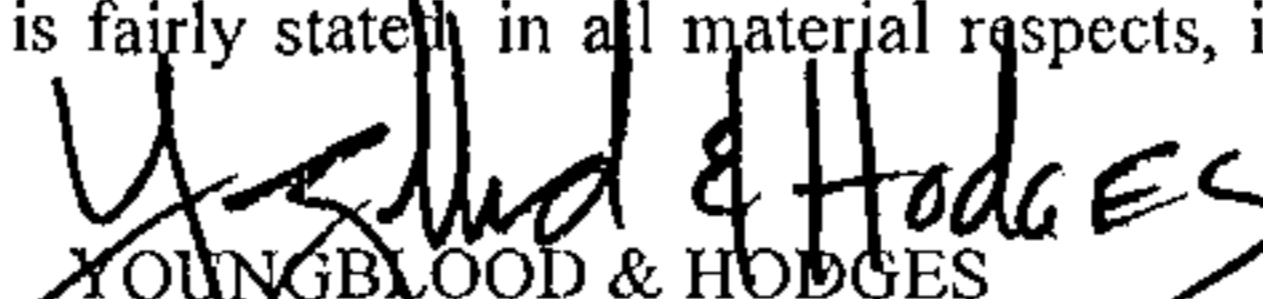
We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain to 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 the 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 the Red River Association for Retarded Citizens, Inc. as of June 30, 1999, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 5 to the financial statements, the Association has incurred significant liabilities related to unpaid payroll taxes that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 5. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2000, on our consideration of the Red River Association for Retarded Citizens, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Red River Association for Retarded Citizens, Inc. taken as a whole. The accompanying schedule of state contracts is presented for the purposes of additional analysis 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.


YOUNGBLOOD & HODGES
A Professional Accounting Corporation

January 20, 2000

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 1999

ASSETS

Current assets

Cash on hand and in bank, including \$16,538 bearing interest	\$ 20,589
Accounts receivable	<u>20,573</u>
Total current assets	<u>41,162</u>

Property and equipment at cost (Note 1)

Furniture, fixtures and equipment	26,642
Automobile	<u>9,910</u>
Total property and equipment	36,552
Less: Accumulated depreciation	<u>18,959</u>
Net property and equipment	<u>17,593</u>

Total Assets	<u>\$ 58,755</u>
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LIABILITIES AND NET ASSETS

Current liabilities

Accounts Payable	\$ 2,500
Sales Tax Payable	1,147
Payroll liabilities	<u>37,356</u>
Total current liabilities	<u>41,003</u>

Net assets

Net assets - Unrestricted	<u>17,752</u>
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Total liabilities and net assets	<u>\$ 58,755</u>
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See accountant's report and notes to financial statements

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
STATEMENT OF ACTIVITIES
JUNE 30, 1999

<u>Revenues</u>	
C-Barc	\$ 28,385
Coke Money	3,773
Cookies! Cookies! Cookies!	9,550
Ironing! Ironing! Ironing!	13,551
Interest Income	575
Key Employment Services	9,227
Meat Pie Company	36,500
OCDD	248,071
Sales	62,962
Supported Employment	<u>21,057</u>
Total revenues	<u>433,651</u>
 <u>Expenses</u>	
Accounting Services	2,600
Auto Expense & Travel	8,241
Building Maintenance	2,495
Building Rent	21,950
Client Payroll	75,801
COA Transportation	1,348
Contract Labor	8,700
Depreciation Expense	4,646
Food Supplies	30,815
Insurance	11,877
Miscellaneous	2,979
Office Expenses	2,024
Other	2,871
Payroll Expense	220,967
Payroll Expense-Penalties	7,272
Pest Control	286
Postage & Delivery	870
Rainbow Shop Expense	22,712
Repairs	1,576
Supplies	17,192
Telephone	2,134
Utilities	<u>6,297</u>
Total Expenses	<u>455,653</u>
 Increase (decrease) in net assets	 (22,002)

See accountant's report and notes to financial statements

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
STATEMENT OF ACTIVITIES
(Continued)
JUNE 30, 1999

Increase (decrease) in net assets	(22,002)
Net assets - June 30, 1998	<u>39,754</u>
Net assets - June 30, 1999	<u>\$ 17,752</u>

See accountant's report and notes to financial statements

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
STATEMENT OF CASH FLOWS
JUNE 30, 1999

Cash flows from operating activities	
Net Income	\$ (22,002)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	4,647
(Increase) decrease in accounts receivable	(20,573)
Increase (decrease) in accounts payable	2,500
Increase (decrease) in accrued liabilities	27,196
Increase (decrease) in sales taxes payable	<u>1,147</u>
Total adjustments	<u>14,917</u>
Net cash provided (used) by operating activities	<u>(7,085)</u>
Net increase (decrease) in cash and equivalents	(7,085)
Cash and equivalents, beginning of year	<u>27,674</u>
Cash and equivalents, end of year	<u>\$ 20,589</u>
<u>Supplemental disclosures of cash flow information</u>	
Cash paid during the year for:	
Interest expense	<u>\$ 0</u>
Income Tax	<u>\$ 0</u>

See accountant's report and notes to financial statements

RED RIVER ASSOCIATION FOR RETARDED CITIZENS
SCHEDULE OF STATE CONTRACTS
AWARDED BY THE STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS
OFFICE FOR CITIZENS WITH DEVELOPMENTAL DISABILITIES
FOR THE YEAR ENDED JUNE 30, 1999

<u>Contract Number</u>	<u>Contract Term</u>	<u>Contract Amount</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>
<u>Social Services</u> 65146	07/01/98-06/30/99	\$228,555	\$228,555	\$228,555

See accountant's report and notes to financial statements

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999

(1) SIGNIFICANT ACCOUNTING POLICIES

Organization and Operation

Red River Association for Retarded Citizens, Inc. (RRARC) was incorporated in 1976 as a non-profit corporation under the laws of Louisiana. Among the purposes of the organization are promotion of the general welfare of the mentally retarded and development of programs in their behalf.

RRARC sponsors a work program for its clients which operates under the name Red River Industries (RRI).

Depreciation and capitalization policy

Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on the straight-line basis. The basis of valuation of depreciable assets is the asset's cost or fair market value.

Provision for Income Taxes

No provision for income taxes is reflected in the statements as the Association files a tax-exempt return under IRS Section 501(c)(3).

Basis of Accounting

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

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase.

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.

(2) FUNDING FROM DEPARTMENT OF HEALTH AND HOSPITALS

RRARC receives funding from the State of Louisiana Department of Health and Hospitals Office for Citizens with Developmental Disabilities. Funding is provided under terms of a contract, which requires that RRARC provide adult day services to developmentally disabled citizens.

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)
JUNE 30, 1999

(3) LEASES

RRARC leases the building that houses its operations from one of its employees on a month-to-month basis. The monthly rent is \$1,450, which is the amount for which the building was being leased prior to it being owned by the aforementioned employee. The Louisiana Board of Ethics issued a letter dated June 19, 1998, in which it ruled that this transaction is not in violation of the Code of Governmental Ethics.

(4) CONCENTRATIONS

Approximately 60% of RRARC's total revenue comes from one source. Although not anticipated, the loss of this source of revenue could have an adverse effect upon RRARC.

(5) GOING CONCERN

RRARC has incurred significant liabilities related to unpaid payroll taxes that raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Events which led to the going concern include (a) loss of a contract two years ago that had provided substantial work and revenue to the Association, (b) maintaining the full staff required for operations prior to the loss of the contract, (c) cash flow problems as a result of not cutting the staff and expenses, and (d) not paying payroll taxes in a timely manner.

The results of the above have caused RRARC to incur decreases in net assets over the past two years. Also, as a result of not paying payroll taxes in a timely manner, RRARC had a liability for payroll taxes (including an estimate for penalties and interest) at June 30, 1999, of \$37,356. As of December 31, 1999, that liability had grown to approximately \$66,500. The period of unpaid payroll taxes spans January 1999 to November 1999.

RRARC's management has developed a plan to address these issues. That plan includes a reduction in staff, cutting expenses, and promoting the services that the Association has to offer. Management has begun to implement these plans.

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)
JUNE 30, 1999

(5) GOING CONCERN (Continued)

Subsequent to December 31, 1999, two employees were terminated whose combined salaries were approximately \$38,000 annually. This action will reduce expenses by approximately \$3,200 per month. Management also plans to cut all other expenses across the board by at least 5%.

Finally, management plans to promote the services which RRARC can provide to the community and its businesses in order to increase the revenue generated by the Association's existing programs.

It is anticipated that RRARC will enter into an agreement with the Internal Revenue Service to make monthly payments in the range of \$2,000 to \$2,500 per month on the outstanding payroll tax liability. RRARC has timely paid its payroll taxes for December 1999 and plans to remain current on upcoming payroll liabilities.

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SHREVEPORT, LOUISIANA 71135-5926

THOMAS P. YOUNGBLOOD, CPA

RANDLE R. HODGES, CPA

(318) 869-1275

FAX (318) 869-1278

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

Board of Directors
Red River Association for
Retarded Citizens, Inc.
Coushatta, Louisiana

We have audited the financial statements of the Red River Association for Retarded Citizens, Inc. (a nonprofit organization) as of and for the year ended June 30, 1999, and have issued our report thereon dated January 20, 2000. 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 Red River Association for Retarded Citizens, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Compliance Findings.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Red River Association for Retarded Citizens, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Red River Association for Retarded Citizens, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Reportable Conditions and 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control

that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider several of the reportable conditions described above to be material weaknesses as detailed in the accompanying Schedule of Reportable Conditions and Material Weaknesses.

This report is intended solely for the information and use of the audit committee, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.


YOUNGBLOOD & HODGES
A Professional Accounting Corporation

January 20, 2000

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
SCHEDULE OF COMPLIANCE FINDINGS
JUNE 30, 1999

The results of our tests disclosed the following instance of noncompliance:

- (1) Failure to comply with state law.

Instance of Noncompliance

Red River Association for Retarded Citizens, Inc. failed to comply with state law since the engagement was issued after the six-month statutory issue date.

Reason for Noncompliance

During the course of the annual audit, test work disclosed that Red River Association for Retarded Citizens, Inc. had become delinquent in payment of payroll taxes. This situation required additional time which extended beyond the statutory due date of the audit report in order to (a) apply audit procedures to determine the full extent of nonpayment, (b) to gather sufficient information for proper disclosure in the financial statements and (c) for the management of the Association to develop a plan of action to address the issue.

This schedule is provided as supplemental information to the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*" dated January 20, 2000.

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
SCHEDULE OF REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES
JUNE 30, 1999

We noted the following matters involving Red River Association for Retarded Citizens, Inc.'s internal control over financial reporting and its operation that we consider to be reportable conditions:

- (1) Lack of segregation of accounting duties.

Effect

There are fewer checks and balances on accounting transactions which can lead to conditions such that misstatements in amounts that would be material in relation to the financial statements would occur and not be detected in a timely manner.

Cause

Due to the Association's small staff, segregation of most accounting functions is not possible.

Recommendation/Conclusion

The small size of the Association's staff limits the extent of segregation of duties. This is a constraint which will always be present in the Association.

- (2) Payroll taxes not paid timely and payroll reports not filed timely

Effect

Creation of a substantial liability as of June 30, 1999.

Cause

Due to lack of segregation of duties and proper oversight.

Recommendation

Require the Executive Director to sign all payroll tax reports and be responsible for timely filing of all such reports. By separating this function from the bookkeeper, there would be a "check system" in place to ensure proper filing of reports. In addition, the at the time the Executive Director signs the payroll reports, she can review the payment status of the payroll taxes. Also, use of services provided by the audit firm could be utilized more than once a year to ensure that payroll taxes are being paid properly and the forms are filed in a timely manner.

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
SCHEDULE OF REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES
(Continued)
JUNE 30, 1999

- (3) Payment made directly to an employee's credit card company as reimbursement for expenses incurred on behalf of the Association.

Effect

Payments made in such a manner do not clearly indicate the business purpose of the transaction.

Cause

Use of expense report forms not strictly enforced.

Recommendation

Payment for reimbursement of expenses should be made directly to the employee. Use of an expense report form should be utilized to facilitate this payment.

- (4) Payment made from statement of account rather than from invoices.

Effect

Payments made in such a manner could result in duplicate payment for goods and services.

Cause

Invoices for goods and services not always matched to the statement of account before payment is issued on the account.

Recommendation

Payment should be made from invoices only. Any discrepancy between the statement of account and detail invoices should be investigated and resolved before payment is made.

Of the reportable conditions described above, we consider item (1) to be a material weakness.

This schedule is provided as supplemental information to the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*" dated January 20, 2000.

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
MANAGEMENT'S PLAN OF CORRECTIVE ACTION
FOR COMPLIANCE FINDINGS
JUNE 30, 1999

The results of audit tests disclosed the following instance of noncompliance:

- (1) Failure to comply with state law.

Instance of Noncompliance

Red River Association for Retarded Citizens, Inc. failed to comply with state law since the engagement was issued after the six-month statutory issue date.

Management's Plan of Corrective Action

Management plans to have the accounting records ready to be audited at an earlier time after the fiscal year end.

Contact Person Responsible for Corrective Action:

Betty Sullivan
Executive Director
Red River Association for Retarded Citizens, Inc.
2303 East Carroll Street
Coushatta, LA 71019
(318) 932-6520

Anticipated Completion Date for Plan of Action:

Management anticipates complying with the statutory due date of the audit by providing the audit firm the accounting records within 60 to 90 days after fiscal year end.

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
MANAGEMENT'S PLAN OF CORRECTIVE ACTION
FOR REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES
JUNE 30, 1999

The results of audit tests disclosed the following reportable conditions:

- (1) Lack of segregation of accounting duties.

Effect

There are fewer checks and balances on accounting transactions which can lead to conditions such that misstatements in amounts that would be material in relation to the financial statements would occur and not be detected in a timely manner.

Cause

Due to the Association's small staff, segregation of most accounting functions is not possible.

Management's Plan of Corrective Action

Management acknowledges that the small size of the Association's staff limits the extent of segregation of duties and that this is a constraint which will always be present in the Association. Management also acknowledges that this is a material weakness in the accounting control. Management has determined that the most effective way to deal with this constraint is to have oversight of the accounting functions by the Executive Director and, where necessary, oversight by the Board of Directors. Such involvement will provide additional checks and balances within the accounting functions of the Association.

- (2) Payroll taxes not paid timely and payroll reports not filed timely

Effect

Creation of a substantial liability as of June 30, 1999.

Cause

Due to lack of segregation of duties and proper oversight.

Management's Plan of Corrective Action

Management has implemented the requirement to have the Executive Director sign all payroll tax reports and be responsible for timely filing of all such reports. Also, at the time the Executive Director signs the payroll reports, she is to review the payment status of the payroll taxes. Management also plans to utilize the services of the audit firm more than once a year to ensure that payroll taxes are being paid properly and the forms are filed in a timely manner.

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
MANAGEMENT'S PLAN OF CORRECTIVE ACTION
FOR REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES
(Continued)
JUNE 30, 1999

- (2) Payroll taxes not paid timely and payroll reports not filed timely (continued)

Management's Plan of Corrective Action (continued)

Management has developed a plan to pay the outstanding liability for payroll taxes. First, management plans to pay all currently accruing payroll tax liabilities as they come due. This plan was implemented in December 1999. Second, management plans a reduction in staff, cutting expenses, and promoting the services that the Association has to offer. Management has already begun to implement these plans.

In January 2000, Management implemented the plan to pay currently accruing payroll tax liabilities as they come due by paying the December 1999 payroll tax liability in full. Also, the January 2000 payroll tax liability has been paid in full by the February 15, 2000, due date.

Subsequent to December 31, 1999, two employees were terminated whose combined salaries were approximately \$38,000 annually. This action is expected to reduce expenses by approximately \$3,200 per month. Management also plans to cut all other expenses across the board by at least 5%. These actions will reduce monthly cash requirements. The cash generated by these cuts will be applied to paying the outstanding payroll liability.

Finally, management plans to promote the services which the Association can provide to the community and its businesses in order to increase the revenue generated by the Association's existing programs. This plan has been implemented and has resulted in negotiation for a new contract for services to be provided by the Association which would provide an estimated \$5,000 additional gross monthly revenue.

It is anticipated that RRARC will enter into an agreement with the Internal Revenue Service to make monthly payments in the range of \$2,000 to \$2,500 per month on the outstanding payroll tax liability.

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
MANAGEMENT'S PLAN OF CORRECTIVE ACTION
FOR REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES
(Continued)
JUNE 30, 1999

- (3) Payment made directly to an employee's credit card company as reimbursement for expenses incurred on behalf of the Association.

Effect

Payments made in such a manner do not clearly indicate the business purpose of the transaction.

Cause

Use of expense report forms not strictly enforced.

Management's Plan of Corrective Action

Management has implemented the use of an expense report form required to filled out by employees seeking reimbursement for expenses. Payment for reimbursement of expenses is made directly to the employee.

- (4) Payment made from statement of account rather than from invoices.

Effect

Payments made in such a manner could result in duplicate payment for goods and services.

Cause

Invoices for goods and services not always matched to the statement of account before payment is issued on the account.

Management's Plan of Corrective Action

Management has implemented the policy of making payments on accounts payable from invoices only. Invoices are now matched to the statement of account and any discrepancies between the statement and the detail invoices is investigated and resolved before payment is made.

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
MANAGEMENT'S PLAN OF CORRECTIVE ACTION
FOR REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES
(Continued)
JUNE 30, 1999

Contact Person Responsible for Corrective Action:

Betty Sullivan
Executive Director
Red River Association for Retarded Citizens, Inc.
2303 East Carroll Street
Coushatta, LA 71019
(318) 932-6520

Anticipated Completion Date for Plan of Action:

Many aspects of the plan of corrective action have already been completed and are currently in effect and have been identified in the preceding report.

The anticipated completion date of entering into a payment plan with the Internal Revenue Service for the outstanding payroll tax liability is within the next 60 to 90 days. The Association is already making deposits in excess of the currently accruing payroll tax liability.