

THE ARC OF CADDO-BOSSIER
SHREVEPORT, LOUISIANA
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 12-8-04

THE ARC OF CADDO-BOSSIER

SHREVEPORT, LOUISIANA

TABLE OF CONTENTS

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Independent Auditor's Report	1
Consolidated Statement of Financial Position	2
Consolidated Statement of Activities	3
Consolidated Statement of Functional Expenses	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6-11

SUPPLEMENTARY INFORMATION

Independent Auditor's Report on Supplementary Information	12
Consolidated Change in Net Assets by Division	13

OTHER REPORTS

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14-15
Schedule of Findings and Questioned Costs	16
Schedule of Prior Year Findings	17
Management's Corrective Action Plan	18

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

**HEARD
McELROY
& VESTAL**
LLP
CERTIFIED PUBLIC ACCOUNTANTS

333 TEXAS STREET
15TH FLOOR
SHREVEPORT, LA 71101
318 429-1525
318 429-2070 FAX
POST OFFICE Box 1607
SHREVEPORT, LA
71165-1607

PARTNERS
J. PETER GAFFNEY, CPA, APC
SPENCER BERNARD, JR., CPA
H.Q. GAHAGAN, JR., CPA, APC
GERALD W. HEDGCOCK, JR., CPA, APC
TIM B. NIELSEN, CPA, APC
JOHN W. DEAN, CPA, APC
MARK D. ELDREDGE, CPA
ROBERT L. DEAN, CPA
STEPHEN W. CRAIG, CPA

ROY E. PRESTWOOD, CPA
A. D. JOHNSON, JR., CPA
RON W. STEWART, CPA, APC

OF COUNSEL
GILBERT R. SHANLEY, JR., CPA
C. CODY WHITE, JR., CPA, APC
WILLIAM L. HIGHTOWER, CPA

September 17, 2004

The Board of Directors
The Arc of Caddo-Bossier
Shreveport, Louisiana

Independent Auditor's Report

We have audited the accompanying consolidated statement of financial position of The Arc of Caddo-Bossier at June 30, 2004, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Arc's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the Arc's 2003 financial statements and, in our report dated September 22, 2003, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Arc of Caddo-Bossier at June 30, 2004, and the consolidated changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 17, 2004 on our consideration of the Arc'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.

Heard, McElroy + Vestal, LLP

HMV

A PROFESSIONAL SERVICES FIRM
SHREVEPORT • BOSSIER CITY
WEST MONROE

hmv@hmvcpa.com E-MAIL
www.hmvcpa.com WEB ADDRESS

THE ARC OF CADDO-BOSSIER

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT JUNE 30, 2004

<u>ASSETS</u>	<u>General Fund</u>	
	<u>Unrestricted</u>	<u>Restricted and Designated</u>
Cash and cash equivalents	(29,288)	122,674
Investments-Notes 9 and 10	2,540,391	1,664,576
Accounts receivable-Note 4	1,812,237	-
Prepaid expenses and other assets	192,598	-
Land, building and equipment-Note 5	-	-
<u>Less-accumulated depreciation</u>	<u>-</u>	<u>-</u>
Total assets	<u>4,515,938</u>	<u>1,787,250</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Bank overdraft	-	-
Accounts payable	88,187	-
Accrued payroll and bonus	312,447	-
Accrued expenses	19,895	-
Line of credit and borrowings-Note 10	<u>12,500</u>	<u>-</u>
Total liabilities	433,029	-
<u>Net assets-Note 3</u>	<u>4,082,909</u>	<u>1,787,250</u>
Total liabilities and net assets	<u>4,515,938</u>	<u>1,787,250</u>

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

Land, Building and Equipment Fund	Total All Funds (Memorandum Only)	
	June 30, 2004	June 30, 2003
-	93,386	121,582
-	4,204,967	3,513,688
-	1,812,237	1,570,098
-	192,598	190,745
5,651,072	5,651,072	5,524,745
<u>(3,573,394)</u>	<u>(3,573,394)</u>	<u>(3,322,875)</u>
<u>2,077,678</u>	<u>8,380,866</u>	<u>7,597,983</u>
-	-	63,350
-	88,187	143,635
-	312,447	171,576
-	19,895	295
-	<u>12,500</u>	<u>595,167</u>
-	433,029	974,023
<u>2,077,678</u>	<u>7,947,837</u>	<u>6,623,960</u>
<u>2,077,678</u>	<u>8,380,866</u>	<u>7,597,983</u>

THE ARC OF CADDO-BOSSIER
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

	<u>General Fund</u>	
	<u>Unrestricted</u>	<u>Permanently Restricted and Designated</u>
<u>Public support and revenue:</u>		
<u>Public support:</u>		
State of Louisiana	1,685,330	10,350
Title XIX	7,399,679	-
United Way	97,753	-
Contributions	157,188	13,875
Service fees	383,529	-
Other public support	<u>18,564</u>	<u>-</u>
Total public support	9,742,043	24,225
 <u>Revenue:</u>		
Sales revenue	4,065,525	26,268
Membership dues	12,327	-
Investment income-Note 9	635,557	56,174
Other income	<u>9,845</u>	<u>-</u>
Total revenue	<u>4,723,254</u>	<u>82,442</u>
 Total public support and revenue	 14,465,297	 106,667
 <u>Expenses:</u>		
Adult services	4,719,065	19,915
Children services	1,176,001	14,728
Residential services	5,771,948	-
Advocacy services	107,370	-
Management and general	<u>1,032,529</u>	<u>98,896</u>
Total expenses	<u>12,806,913</u>	<u>133,539</u>
 <u>Change in net assets</u>	 1,658,384	 (26,872)
 <u>Net assets-beginning of year</u>	 2,725,240	 1,696,850
Transfers	<u>(300,715)</u>	<u>117,272</u>
	<u>2,424,525</u>	<u>1,814,122</u>
 <u>Net assets-end of year</u>	 <u>4,082,909</u>	 <u>1,787,250</u>

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

Land, Building and Equipment Fund	Total All Funds (Memorandum Only)	
	June 30, 2004	June 30, 2003
-	1,695,680	2,067,319
-	7,399,679	6,813,474
-	97,753	102,099
-	171,063	191,534
-	383,529	355,469
-	18,564	46,060
-	<u>9,766,268</u>	<u>9,575,955</u>
-	4,091,793	4,273,289
-	12,327	13,400
-	691,731	31,492
-	9,845	11,927
-	<u>4,805,696</u>	<u>4,330,108</u>
-	14,571,964	13,906,063
161,282	4,900,262	5,412,973
21,961	1,212,690	1,383,259
57,431	5,829,379	5,518,492
213	107,583	111,974
66,748	<u>1,198,173</u>	<u>1,143,897</u>
<u>307,635</u>	<u>13,248,087</u>	<u>13,570,595</u>
(307,635)	1,323,877	335,468
2,201,870	6,623,960	6,288,492
183,443	-	-
<u>2,385,313</u>	<u>6,623,960</u>	<u>6,288,492</u>
<u>2,077,678</u>	<u>7,947,837</u>	<u>6,623,960</u>

THE ARC OF CADDO-BOSSIER

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Adult Services</u>	<u>Children Services</u>
Salaries	3,167,297	810,466
Payroll taxes	255,455	66,968
Other employee expenses-Note 8	<u>302,131</u>	<u>69,672</u>
Total salaries and payroll related expenses	3,724,883	947,106
Professional	19,697	145
Insurance	157,454	9,604
Licenses	666	254
Office expense	8,753	3,803
Postage and publication	8,123	79
Telephone	24,860	8,518
Repairs and maintenance	143,472	6,158
Building services	3,277	771
Training	1,937	19,638
Travel and conventions	7,486	23,617
Operating supplies	294,869	37,621
Utilities	125,928	12,973
Rent	16,800	-
Vehicle and equipment lease	53,453	10,109
Property tax	2,360	-
Food	14,823	24,386
Household supplies	-	2,564
Clothing	-	-
Personal necessities	-	-
Medical and therapy	-	-
Transportation and outing	-	-
Consultant fees	504	79,658
Interest	-	-
Other	<u>129,635</u>	<u>3,725</u>
Total other expenses before depreciation	<u>1,014,097</u>	<u>243,623</u>
Total expenses before depreciation	4,738,980	1,190,729
<u>Depreciation expense</u>	<u>161,282</u>	<u>21,961</u>
<u>Total expenses</u>	<u>4,900,262</u>	<u>1,212,690</u>

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

<u>Residential Services</u>	<u>Advocacy Services</u>	<u>Management and General</u>	<u>Total All Funds (Memorandum Only)</u>	
			<u>June 30, 2004</u>	<u>June 30, 2003</u>
4,060,114	91,052	489,335	8,618,264	8,729,702
361,694	7,009	40,190	731,316	757,630
<u>272,070</u>	<u>6,480</u>	<u>61,040</u>	<u>711,393</u>	<u>749,141</u>
4,693,878	104,541	590,565	10,060,973	10,236,473
794	-	136,412	157,048	175,328
70,899	486	52,612	291,055	157,300
226,603	-	-	227,523	232,564
3,831	148	99,887	116,422	139,828
-	-	14,530	22,732	19,058
33,211	254	8,109	74,952	87,550
118,466	-	19,389	287,485	277,858
534	-	19,638	24,220	43,416
1,790	85	3,933	27,383	23,912
75,219	893	18,529	125,744	141,163
29,754	442	59,037	421,723	554,518
61,796	521	5,744	206,962	272,842
-	-	-	16,800	20,318
104,059	-	28,578	196,199	218,947
-	-	3,933	6,293	7,476
99,156	-	14,281	152,646	155,049
23,834	-	66	26,464	26,944
4,505	-	-	4,505	10,827
11,904	-	-	11,904	15,094
53,966	-	2,500	56,466	63,152
12,796	-	-	12,796	12,415
100,892	-	35,593	216,647	148,945
-	-	7,162	7,162	26,603
<u>44,061</u>	<u>-</u>	<u>10,927</u>	<u>188,348</u>	<u>197,061</u>
<u>1,078,070</u>	<u>2,829</u>	<u>540,860</u>	<u>2,879,479</u>	<u>3,028,168</u>
5,771,948	107,370	1,131,425	12,940,452	13,264,641
<u>57,431</u>	<u>213</u>	<u>66,748</u>	<u>307,635</u>	<u>305,954</u>
<u>5,829,379</u>	<u>107,583</u>	<u>1,198,173</u>	<u>13,248,087</u>	<u>13,570,595</u>

THE ARC OF CADDO-BOSSIER

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2004

	<u>June 30,</u> <u>2004</u>	<u>June 30,</u> <u>2003</u>
<u>Cash flows from operating activities:</u>		
Change in net assets	1,323,877	335,468
Adjustments to reconcile change in net assets to net cash provided by operating expenses:		
Depreciation	307,635	305,954
Net realized and unrealized (gains) losses on investments	(639,997)	46,701
(Increase) in accounts receivable	(242,139)	(214,644)
(Increase) in prepaid expenses and other assets	(1,853)	(46,975)
Increase (decrease) in accounts payable	(55,448)	13,815
Increase (decrease) in payroll liabilities	140,871	(6,380)
Increase (decrease) in accrued expenses	<u>19,600</u>	<u>(18,155)</u>
Total adjustments	<u>(471,331)</u>	<u>80,316</u>
Net cash provided by operating activities	852,546	415,784
<u>Cash flows from investing activities:</u>		
Change in investments	(51,282)	(65,227)
Purchase of fixed assets	<u>(183,443)</u>	<u>(183,842)</u>
Net cash (used) by investing activities	(234,725)	(249,069)
<u>Cash flows from financing activities:</u>		
Bank overdraft	(63,350)	63,350
Proceeds from borrowings and line of credit	5,135,000	7,882,000
Payments on borrowings and line of credit	<u>(5,717,667)</u>	<u>(8,134,833)</u>
Net cash (used) by financing activities	<u>(646,017)</u>	<u>(189,483)</u>
<u>Net (decrease) in cash and cash equivalents</u>	(28,196)	(22,768)
<u>Cash and cash equivalents at beginning of year</u>	<u>121,582</u>	<u>144,350</u>
<u>Cash and cash equivalents at end of year</u>	<u>93,386</u>	<u>121,582</u>
<u>Supplemental disclosures:</u>		
Interest paid	<u>7,162</u>	<u>26,603</u>

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

THE ARC OF CADDO-BOSSIER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AT JUNE 30, 2004

1. Nature of Business.

The Arc of Caddo-Bossier is a not-for-profit public service Association exempt from federal income taxation under Internal Revenue Code Section 501(c)(3). Revenues are derived primarily from the following:

- a) State of Louisiana, generally under third-party reimbursement plans
- b) Title XIX
- c) United Way
- d) Contributions from the general public
- e) Contract work by the handicapped clients for various types of companies

The Arc provides education, shelter, training, and work opportunities for the mentally handicapped of all ages.

2. Summary of Significant Accounting Policies.

a) Financial Statement Presentation:

The Arc has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, The Arc is required to report information regarding its financial position and activities based on the absence or existence of donor-imposed restrictions. Accordingly, net assets of The Arc and changes therein may be classified and reported as follows:

Unrestricted net assets -Net assets that are not subject to donor-imposed stipulations. Some unrestricted net assets may be designated by the Board for specific purposes, as shown in Note 3.

Temporarily restricted net assets-Net assets subject to donor-imposed stipulations that may or will be met by actions of The Arc and/or by the passage of time. Temporarily restricted net assets are detailed in Note 3.

Permanently restricted net assets-Net assets subject to donor-imposed stipulations that they be maintained permanently by The Arc. Generally, donors permit all or part of the income earned on these assets to be used for general or specific purposes. Permanently restricted net assets are detailed in Note 3.

b) Contributions:

The Arc also has adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor-imposed restrictions.

c) Promises to Give:

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases

2. Summary of Significant Accounting Policies. (Continued)

in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Arc uses the allowance method to determine uncollectible unconditional promises receivable, when material. The allowance is based on prior years' experience and management's analysis of specific promises made.

d) Investments:

The Arc accounts for investments at fair value in accordance with Statement of Financial Accounting Standards No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations."

e) 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

f) Land, Building and Equipment:

Land, building and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Estimated Life</u>
Furniture and equipment	5-10 years
Vehicles	3-5 years
Buildings and improvements	10-40 years

All expenditures for fixed assets in excess of \$500 are capitalized.

g) Advertising Costs:

Costs of advertising are expensed as incurred.

h) Consolidation:

The financial statements include the accounts of The Arc; The Arc of Caddo-Bossier Foundation, a not-for-profit corporation formed in 1997; and Greenwood Equestrian Assisted Therapies (GREAT), a not-for-profit corporation that uses horseback riding as a therapeutic aid to handicapped children. GREAT merged with The Arc in 2001, with approximate net assets of \$25,000. All significant intercompany transactions have been eliminated in the consolidated financial statements.

i) Functional Expenses:

Certain functional expenses may be allocated based on the relative amount of direct expenses incurred within each division.

2. Summary of Significant Accounting Policies. (Continued)

j) Cash Equivalents:

For purposes of the statement of cash flows, The Arc considers all highly liquid investments purchased with maturities of three months or less to be cash equivalents. All cash on deposit with financial institutions is fully secured through a combination of deposit insurance and collateralization by sufficient U.S. Government securities owned by the institution.

k) Compensated Absences:

Annual leave is earned by employees as follows:

<u>Length of Service</u>	<u>Annual Leave Earned</u>
Less than six months	None
From six months to one year	Seven and one-half days
From one to five years	Eighteen days
From five to ten years	Twenty-one days
From ten to twenty years	Twenty-four days
Over twenty years	Twenty-seven days

Generally, no more than five days of unused leave may be carried forward to the next fiscal year.

Sick leave is included in annual leave.

l) Prior Year Financial Information:

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's consolidated financial statements for the year ended June 30, 2003, from which the summarized information was derived.

3. Net Assets.

Net assets include restricted and board-designated amounts and activity, summarized as follows:

	<u>2003</u>	<u>Income</u>	<u>Expenses</u>	<u>Transfers</u>	<u>2004</u>
<u>Permanently Restricted:</u>					
The Arc of Caddo-Bossier Foundation	50,000	-	-	-	50,000
<u>Temporarily Restricted:</u>					
Children's Services	5,258	11,769	12,665	-	4,362
GREAT	1,750	9,100	8,172	-	2,678
Adult Services	6,891	3,356	344	(2,206)	7,697
<u>Designated:</u>					
The Arc of Caddo-Bossier Foundation	515,149	56,174	8,237	-	563,086
Adult Services	89,738	26,268	19,571	(30,000)	66,435
Children's Services	10,121	-	2,063	-	8,058
Capital improvements	-	-	-	33,444	33,444
Growth	22,943	-	-	33,547	56,490
Worker's compensation	995,000	-	82,487	82,487	995,000
Totals	<u>1,696,850</u>	<u>106,667</u>	<u>133,539</u>	<u>117,272</u>	<u>1,787,250</u>

4. Accounts Receivable.

Accounts receivable due The Arc at year end are as follows:

	<u>2004</u>	<u>2003</u>
Contract work	593,291	566,454
State of Louisiana	174,180	161,191
Title XIX	823,064	605,999
Other	<u>221,702</u>	<u>236,454</u>
Total	<u>1,812,237</u>	<u>1,570,098</u>

Receivables from contract work arise from credit granted to various businesses located in the Shreveport and east Texas area. Receivables from the State of Louisiana arise from funds due The Arc under various grants, and which are unpaid as of the end of the fiscal year.

5. Land, Building and Equipment.

Land, building and equipment is composed of the following:

<u>June 30, 2004</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land	433,212	-	433,212
Buildings	2,321,203	1,510,118	811,085
Furniture and equipment	2,176,651	1,601,854	574,797
Vehicles	141,992	102,989	39,003
Improvements	<u>578,014</u>	<u>358,433</u>	<u>219,581</u>
Totals	<u>5,651,072</u>	<u>3,573,394</u>	<u>2,077,678</u>

<u>June 30, 2003</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land	433,212	-	433,212
Buildings	2,325,457	1,449,679	875,778
Furniture and equipment	2,069,736	1,411,623	658,113
Vehicles	158,748	142,413	16,335
Improvements	<u>537,592</u>	<u>319,160</u>	<u>218,432</u>
Totals	<u>5,524,745</u>	<u>3,322,875</u>	<u>2,201,870</u>

6. Commitments.

The Arc leases many of its vehicles and equipment, generally over one to five year terms, under operating lease arrangements. Future minimum lease payments for the years ending June 30 are as follows:

2005	192,896
2006	113,112
2007	37,982
2008 and thereafter	<u>-</u>
Total	<u>343,990</u>

7. Trust Funds.

The Arc is a beneficiary in various testamentary trusts. The terms of these trusts stipulate that the trust assets be invested in perpetuity, and that the annual income only be distributed to the beneficiaries. The Arc received approximately \$22,000 in distributions from these trusts during the fiscal year.

8. Other Employee Expenses.

The Arc participates in a profit sharing plan, which is available to all employees who have attained age 18 and have completed one year of service. The plan provides for no vesting until after two years of participation, at which time the employee is fully vested. All contributions by the employer are discretionary; employees may, but are not required to, contribute. A 401(k) funding feature was added to this plan in 1999, providing a 100% employer match for employee contributions up to 2% of employee salary. The Arc elected to make no contributions to the plan for the year ended June 30, 2004.

9. Investments.

Investments at June 30, 2004 and 2003, are summarized as follows:

<u>June 30, 2004</u>	<u>Cost</u>	<u>Approximate Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Bond funds	1,008,027	1,076,794	68,767
Equity funds	2,697,952	3,088,530	390,578
Money funds	<u>39,643</u>	<u>39,643</u>	<u>-</u>
	<u>3,745,622</u>	<u>4,204,967</u>	<u>459,345</u>
 <u>June 30, 2003</u>			
Bond funds	791,354	864,940	73,586
Equity funds	2,609,679	2,581,847	(27,832)
Money funds	<u>66,901</u>	<u>66,901</u>	<u>-</u>
	<u>3,467,934</u>	<u>3,513,688</u>	<u>45,754</u>

Investment income for 2004 and 2003 consists of the following:

	<u>2004</u>	<u>2003</u>
Interest and dividends	51,734	78,193
Net realized gains (losses)	226,406	(114,517)
Net unrealized gains	<u>413,591</u>	<u>67,816</u>
Total	<u>691,731</u>	<u>31,492</u>

10. Line of Credit and Borrowings.

The Arc has a line of credit with a local bank, with a maximum borrowing limit of \$1,000,000. The credit line is secured by an investment brokerage account having an estimated market value of \$4,010,000 at June 30, 2004. Interest is variable, based 2.00% plus LIBOR, as determined each consecutive month this loan is outstanding. There was no outstanding balance on this obligation at June 30, 2004.

10. Line of Credit and Borrowings. (Continued)

The Arc received an interest-free advance of \$50,000 in 2002 from NISH, the National Institute for the Severely Handicapped. The purpose of this loan is to help finance the expansion of certain services in the Adult Services Division that help provide employment for handicapped individuals. The loan is secured by the equipment and receivables used in the production of the expanded services. Future payments due on this obligation as of June 30, 2004 are as follows:

June 30, 2005	<u>12,500</u>
---------------	---------------

11. Conditional Promises.

Conditional promises consist of the unfunded portions of approved governmental grants, either currently in effect or approved for commencement after June 30, 2004. Future funding of such awards is conditioned upon the organization's operation of certain programs, incurrence of certain costs, and possibly meeting certain matching requirements. Because such awards represent conditional promises to The Arc, they have not been recognized in the financial statements. Such promises amounted to approximately \$1,200,000 at June 30, 2004.

SUPPLEMENTARY INFORMATION

**HEARD
McELROY
& VESTAL**
LLP
CERTIFIED PUBLIC ACCOUNTANTS

333 TEXAS STREET
15TH FLOOR
SHREVEPORT, LA 71101
318 429-1525
318 429-2070 FAX
POST OFFICE BOX 1607
SHREVEPORT, LA
71165-1607

PARTNERS
J. PETER GAFFNEY, CPA, APC
SPENCER BERNARD, JR., CPA
H.Q. GAHAGAN, JR., CPA, APC
GERALD W. HEDGCOCK, JR., CPA, APC
TIM B. NIELSEN, CPA, APC
JOHN W. DEAN, CPA, APC
MARK D. ELDRIDGE, CPA
ROBERT L. DEAN, CPA
STEPHEN W. CRAIG, CPA

ROY E. PRESTWOOD, CPA
A. D. JOHNSON, JR., CPA
RON W. STEWART, CPA, APC

OF COUNSEL
GILBERT R. SHANLEY, JR., CPA
C. CODY WHITE, JR., CPA, APC
WILLIAM L. HIGHTOWER, CPA

September 17, 2004

The Board of Directors
The Arc of Caddo-Bossier
Shreveport, Louisiana

Independent Auditor's Report on Supplementary Information

We have audited the consolidated financial statements of The Arc of Caddo-Bossier as of and for the year ended June 30, 2004, and have issued our report thereon dated September 17, 2004. These consolidated financial statements are the responsibility of the management of The Arc of Caddo-Bossier. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements of The Arc of Caddo-Bossier taken as a whole. The supplementary information on Page 13 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly presented in all material respects in relation to the consolidated financial statements taken as a whole.

Heard, McElroy + Vestal, LLP

HMV

A PROFESSIONAL SERVICES FIRM
SHREVEPORT • BOSSIER CITY
WEST MONROE

hmv@hmvcpa.com E-MAIL
www.hmvcpa.com WEB ADDRESS

THE ARC OF CADDO-BOSSIER

CONSOLIDATED CHANGE IN NET ASSETS BY DIVISION

FOR THE YEAR ENDED JUNE 30, 2004

	<u>Adult Services</u>	<u>Children Services</u>
<u>Public support and revenue:</u>		
<u>Public support:</u>		
State of Louisiana	666,428	760,885
Title XIX	192,388	12,179
United Way	-	-
Contributions	1,610	33,506
Service fees	138,552	229,860
Other public support	-	<u>18,326</u>
Total public support	<u>998,978</u>	<u>1,054,756</u>
<u>Revenue:</u>		
Sales revenue	4,088,007	3,577
Membership dues	-	-
Investment income	-	-
Other income	<u>(3,979)</u>	<u>60</u>
Total revenue	<u>4,084,028</u>	<u>3,637</u>
Total public support and revenue	5,083,006	1,058,393
Total salaries and payroll related expenses	3,724,883	947,106
Total other expenses before depreciation	<u>1,014,097</u>	<u>243,623</u>
Total expenses before depreciation	4,738,980	1,190,729
Depreciation expense	<u>161,282</u>	<u>21,961</u>
Total expenses	<u>4,900,262</u>	<u>1,212,690</u>
Change in net assets	<u>182,744</u>	<u>(154,297)</u>

<u>Residential Services</u>	<u>Advocacy Services</u>	<u>Management and General</u>	<u>Total</u>
268,367	-	-	1,695,680
7,195,112	-	-	7,399,679
-	97,753	-	97,753
31,808	20,570	83,569	171,063
2,125	-	12,992	383,529
-	<u>238</u>	-	<u>18,564</u>
<u>7,497,412</u>	<u>118,561</u>	<u>96,561</u>	<u>9,766,268</u>
-	401	(192)	4,091,793
-	-	12,327	12,327
-	-	691,731	691,731
<u>7,402</u>	-	<u>6,362</u>	<u>9,845</u>
<u>7,402</u>	<u>401</u>	<u>710,228</u>	<u>4,805,696</u>
7,504,814	118,962	806,789	14,571,964
4,693,878	104,541	590,565	10,060,973
<u>1,078,070</u>	<u>2,829</u>	<u>540,860</u>	<u>2,879,479</u>
5,771,948	107,370	1,131,425	12,940,452
<u>57,431</u>	<u>213</u>	<u>66,748</u>	<u>307,635</u>
<u>5,829,379</u>	<u>107,583</u>	<u>1,198,173</u>	<u>13,248,087</u>
<u>1,675,435</u>	<u>11,379</u>	<u>(391,384)</u>	<u>1,323,877</u>

OTHER REPORTS

September 17, 2004

The Board of Directors
The Arc of Caddo-Bossier
Shreveport, Louisiana

Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

We have audited the consolidated financial statements of The Arc of Caddo-Bossier as of and for the year ended June 30, 2004, and have issued our report thereon dated September 17, 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.

Compliance

As part of obtaining reasonable assurance about whether the consolidated financial statements of The Arc of Caddo-Bossier 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 consolidated 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 and performing our audit, we considered The Arc of Caddo-Bossier's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated 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 consolidated financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Head, M^cGray & Vental, LLP

THE ARC OF CADDO-BOSSIER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of The Arc of Caddo-Bossier.
2. No material weaknesses relating to the audit of the financial statements are reported; no reportable conditions are reported.
3. No instances of noncompliance material to the financial statements of The Arc of Caddo-Bossier were disclosed during the audit.
4. The Arc of Caddo-Bossier was not subject to a federal single audit.

B. Findings - Financial Statement Audit

None

C. Findings and Questioned Costs - Major Federal Award Programs

Not applicable

THE ARC OF CADDO-BOSSIER
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

No matters were reported in the prior year.

THE ARC OF CADDO-BOSSIER
MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR CURRENT YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

No matters were reported.