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**The ARC Baton Rouge
Baton Rouge, Louisiana
June 30, 2004**

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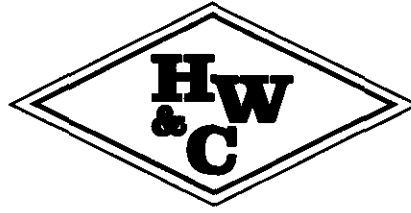
Release Date 2-2-04

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December 10, 2004

Independent Auditor's Report

The Officers and Board of Directors
The ARC Baton Rouge
Baton Rouge, Louisiana

Members of the Board:

We have audited the accompanying statements of financial position of the

**The ARC Baton Rouge
(A Non-Profit Organization)
Baton Rouge, Louisiana**

as of June 30, 2004 and 2003, and the related statements of activities, functional expenses 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 The ARC Baton Rouge as of June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years 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 our report dated December 10, 2004, on our consideration of The ARC Baton Rouge'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.

Yours truly,

Hawthorn, Waymouth, & Carroll L.L.P.

**The ARC Baton Rouge
Statements of Financial Position
June 30, 2004 and 2003**

A s s e t s	<u>2004</u>	<u>2003</u>
Current Assets		
Cash and cash equivalents		
Unrestricted	<u>\$111,412</u>	<u>\$354,889</u>
	<u>111,412</u>	<u>354,889</u>
Receivables		
Accounts receivable		
Trade	51,684	109,434
State contracts	283,745	263,475
Federal contracts	35,134	27,424
Notes receivable, current portion	<u>2,234</u>	<u>2,032</u>
	<u>372,797</u>	<u>402,365</u>
Inventory	<u>14,722</u>	<u>8,273</u>
<u>Total current assets</u>	<u>498,931</u>	<u>765,527</u>
Noncurrent Assets		
Property, plant and equipment, net	<u>1,387,226</u>	<u>1,479,525</u>
Investments		
Certificates of deposit	65,508	169,121
Equity investments	<u>9,780</u>	<u>7,134</u>
	<u>75,288</u>	<u>176,255</u>
Notes receivable, net of current portion	<u>40,736</u>	<u>42,970</u>
Deposits	<u>19,646</u>	<u> </u>
<u>Total noncurrent assets</u>	<u>1,522,896</u>	<u>1,698,750</u>
<u>Total assets</u>	<u>2,021,827</u>	<u>2,464,277</u>

The accompanying notes are an integral part of these statements.

Liabilities and Net Assets

	<u>2004</u>	<u>2003</u>
Liabilities		
Notes payable - letter of credit	\$198,121	\$299,098
Accounts payable	40,258	30,832
Accrued payroll	153,854	162,520
Note payable - vehicle	29,254	15,599
Capital lease	22,014	32,120
Accrued pension cost	<u>276,543</u>	<u>141,843</u>
<u>Total liabilities</u>	<u>720,044</u>	<u>682,012</u>
Net Assets		
Unrestricted	<u>1,301,783</u>	<u>1,782,265</u>
<u>Total net assets</u>	1,301,783	1,782,265
	_____	_____
<u>Total liabilities and net assets</u>	<u>2,021,827</u>	<u>2,464,277</u>

**The ARC Baton Rouge
Statements of Activities
Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
Unrestricted Net Assets		
Unrestricted revenue and gains		
State contracts	\$4,379,558	\$4,301,241
Federal awards	446,825	275,440
Program sales and service fees	586,010	551,538
Capital Area United Way	301,421	290,505
Contributions	72,427	127,589
Investment return	13,046	12,686
Other	<u>38,180</u>	<u>4,912</u>
Total unrestricted revenue and gains	<u>5,837,467</u>	<u>5,563,911</u>
Expenses		
Program services		
Metro Enterprises - Business	472,889	509,974
Metro Enterprises - Rehabilitation	922,829	909,432
Early Intervention Programs	1,035,723	1,136,139
Respite Care Programs	1,706,463	1,573,131
Vocation Services - Job Placement	506,808	580,498
Louisiana Career Development Center	200,695	200,356
Other	<u>1,037,215</u>	<u>922,003</u>
	5,882,622	5,831,533
Supporting services		
Management, general and other expenses	<u>435,327</u>	<u>397,111</u>
Total expenses	<u>6,317,949</u>	<u>6,228,644</u>
Transferred to unrestricted		<u>34,509</u>
Decrease in Unrestricted Net Assets	<u>(480,482)</u>	<u>(630,224)</u>
Changes in Temporarily Restricted Net Assets		
Interest income		147
Transferred to unrestricted	<u> </u>	<u>(34,509)</u>
Increase in Temporarily Restricted Net Assets	<u> </u>	<u>(34,362)</u>
Increase (Decrease) in Net Assets	(480,482)	(664,586)
Net Assets, beginning of year	<u>1,782,265</u>	<u>2,446,851</u>
Net Assets, end of year	<u>1,301,783</u>	<u>1,782,265</u>

The accompanying notes are an integral part of these statements.

Association for Retarded Citizens - Baton Rouge
Statement of Functional Expenses
Year Ended June 30, 2004

	Metro Enterprises Business	Metro Enterprises Rehabilitation	Early Intervention Programs	Respite Care Programs	Vocational Services Placement	Louisiana Career Development Center	All Other Programs	Total Program Services	Management, General and Other	2003 Totals
Compensation & related benefits										
Salaries	\$291,010	\$581,434	\$697,710	\$1,189,584	\$318,673	\$132,120	\$652,029	\$3,862,560	\$190,938	\$4,053,498
Payroll taxes and insurance	43,077	54,488	65,368	168,584	29,322	11,918	64,308	437,065	15,476	452,541
Employee health	10,960	105,463	78,190	181,073	43,987	18,087	106,492	544,252	5,105	549,357
Retirement and life plans	5,915	59,913	58,063	68,255	33,703	12,702	29,427	267,978	32,101	300,079
	350,962	801,298	899,331	1,607,496	425,685	174,827	852,256	5,111,855	243,620	5,355,475
Contractual service	53,466		44,698				364	53,466	17,461	62,523
Professional services	4,098	4,585	16,314	10,678	2,292	1,052	825	39,844	6,808	46,652
Supplies	13,967	31,371	18,764	15,559	20,529	10,994	1,240	112,424	13,023	125,447
Utilities	6,462	10,811	15,564	8,960	3,800	3,521	232	49,350	8,009	57,359
Maintenance & equipment rental	131	33		171	222	65	33	655	19,240	19,895
Membership dues										
Travel, conferences & meetings		18,058						18,058		18,058
Office expenses	236	145	1,411	793	911	148	1,319	4,963	8,969	13,932
General insurance	264							264	67,256	67,520
Vehicle expenses	11,410	4,834		5,206				21,450	143	21,593
Program transportation	1,742	3,132	27,625	37,365	23,394	3,506	23,196	119,960	23,024	142,984
Interest expense		6,605						6,605	18,144	24,749
Other expenses	2,942	3,813	5,544	3,492	1,837	351	1,383	19,362	9,630	28,992
Assistance to individuals				6	20		156,367	156,393		156,393
Depreciation	27,209	38,144	6,472	16,737	28,118	6,231		122,911		122,911
Totals	472,889	922,829	1,035,723	1,706,463	506,808	200,695	1,037,215	5,882,622	435,327	6,317,949

The accompanying notes are an integral part of these statements.

Association for Retarded Citizens - Baton Rouge
Statement of Functional Expenses
Year Ended June 30, 2003

	<u>Metro</u> <u>Enterprises</u> <u>Business</u>	<u>Metro</u> <u>Enterprises</u> <u>Rehabilitation</u>	<u>Early</u> <u>Intervention</u> <u>Programs</u>	<u>Respite</u> <u>Care</u> <u>Programs</u>	<u>Vocational</u> <u>Services</u> <u>Placement</u>	<u>Louisiana</u> <u>Career</u> <u>Development</u> <u>Center</u>	<u>All</u> <u>Other</u> <u>Programs</u>	<u>Total</u> <u>Program</u> <u>Services</u>	<u>Management,</u> <u>General</u> <u>and Other</u>	<u>2003</u> <u>Totals</u>
Compensation & related benefits										
Salaries	\$310,951	\$574,515	\$770,604	\$1,119,215	\$381,128	\$130,277	\$639,818	\$3,926,508	\$178,793	\$4,105,301
Payroll taxes and insurance	33,913	44,947	60,969	116,382	29,936	10,048	51,542	347,737	15,327	363,064
Employee health	13,148	96,465	74,732	165,777	50,337	18,793	81,278	500,530	17,340	517,870
Retirement and life plans	9,399	64,425	72,406	66,360	33,667	15,158	33,610	295,025	27,858	322,883
	<u>367,411</u>	<u>780,352</u>	<u>978,711</u>	<u>1,467,734</u>	<u>495,068</u>	<u>174,276</u>	<u>806,248</u>	<u>5,069,800</u>	<u>239,318</u>	<u>5,309,118</u>
Contractual service	67,287	50						67,337		67,337
Professional services	235	4,435	49,717	40	285	185	368	55,265	20,940	76,205
Supplies	3,419	5,235	23,946	16,499	6,509	767	2,439	58,814	8,950	67,764
Utilities	16,215	29,781	19,273	16,701	16,516	10,973	1,925	111,384	14,160	125,544
Maintenance & equipment rental	10,427	11,829	17,631	5,995	2,989	2,828	109	51,808	7,368	59,176
Membership dues	150	80	287	130	923	185	60	1,815	22,624	24,439
Travel, conferences & meeting:								23,763		23,763
Office expenses	235	183	1,697	1,216	967	113	307	4,718	6,253	10,971
General insurance		264	212					476	53,454	53,930
Vehicle expenses	10,329	2,231		8,735				21,295	10	21,305
Program transportation	2,646	6,229	33,146	35,245	24,858	4,061	32,108	138,293	11,130	149,423
Interest expense		1,175						1,175	2,352	3,527
Other expenses	2,736	3,335	4,649	3,019	2,262	354	1,451	17,805	10,552	28,357
Assistance to individuals				50	272		76,988	77,310		77,310
Depreciation	28,883	40,491	6,870	17,767	29,849	6,615		130,475		130,475
Totals	<u>509,974</u>	<u>909,432</u>	<u>1,136,139</u>	<u>1,573,131</u>	<u>580,498</u>	<u>200,356</u>	<u>922,003</u>	<u>5,831,533</u>	<u>397,111</u>	<u>6,228,644</u>

The accompanying notes are an integral part of these statements.

**The ARC Baton Rouge
Statements of Cash Flows
Years Ended June 30, 2004 and June 30, 2003**

	<u>2004</u>	<u>2003</u>
Cash Flows From Operating Activities		
Decrease in net assets	(\$480,482)	(\$664,586)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	122,911	130,475
Changes in operating assets and liabilities		
(Increase) decrease in:		
Accounts receivable	29,770	404,800
Accrued interest receivable		4,278
Inventory	(6,449)	8,935
Deposits	(19,646)	
Market value of investments	(2,646)	1,156
Increase (decrease) in:		
Accounts payable	9,426	(64,183)
Accrued payroll	(8,666)	48,069
Accrued pension cost	<u>134,700</u>	<u>141,843</u>
<u>Net cash provided by operating activities</u>	<u>(221,082)</u>	<u>10,787</u>
Cash Flows From Investing Activities		
Purchase of property and equipment, net	(30,612)	(76,686)
Maturity of investments	<u>103,613</u>	<u>98,821</u>
<u>Net cash provided (used) by investing activities</u>	<u>73,001</u>	<u>22,135</u>
Cash Flows From Financing Activities		
Proceeds on notes payable - vehicle	21,600	
Payments on notes payable - vehicle	(7,945)	(3,495)
Collections on notes receivable	2,032	2,292
Capital lease	(10,106)	32,120
Payments on notes payable - line of credit	<u>(100,977)</u>	<u>213,410</u>
<u>Net cash provided (used) by financing activities</u>	<u>(95,396)</u>	<u>244,327</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(243,477)	277,249
Cash and Cash Equivalents, beginning of year	<u>354,889</u>	<u>77,640</u>
Cash and Cash Equivalents, end of year	<u>111,412</u>	<u>354,889</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for		
Interest	<u>\$24,749</u>	<u>\$3,527</u>

The accompanying notes are an integral part of these statements.

The ARC Baton Rouge
Notes to Financial Statements
June 30, 2004

Note 1-Nature of Organization

The ARC Baton Rouge (Association), formally known as Association for Retarded Citizens - Baton Rouge, is a not-for-profit organization which promotes, develops, monitors, supports and directly provides services to improve the well being of people with disabilities and their families from East Baton Rouge and surrounding parishes. Major programs include Infant Habitation Services to assist families with children through three years of age who have or who are at risk of developmental disabilities, providing support/training/services that are needed to achieve self-identified employment and habilitative outcomes for adults with developmental disabilities, and to provide special instruction, *speech therapy, occupational therapy, physical therapy, nursing services, travel and transportation*, related material and supplies, family counseling and home visits and Child Specific Property for Infants and Toddlers with Special Needs, for whom insurance, Medicaid and OCDD funds are not available. Funding to provide these services and programs comes from the Capital Area United Way Agency and various federal and state contracts and grants.

Note 2-Significant Accounting Policies

A. Cash and Cash Equivalents

Cash equivalents are considered to be highly liquid investments with maturities of three months or less for the purpose of statement of financial position presentation. At various times during the year cash and cash equivalents on deposit with one banking institution exceeded the \$100,000 insured by the Federal Deposit Insurance Corporation. Management monitors the financial condition of the financial institution on a regular basis, along with their balances in cash and cash equivalents to minimize this potential risk.

B. Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position.

C. Support and Expenses

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Association reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. 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 and reported in the statement of activity as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The ARC Baton Rouge
Notes to Financial Statements
June 30, 2004

Note 2-Significant Accounting Policies (Continued)

C. Support and Expenses (Continued)

The Association reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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

D. Uncollectible Receivables

The Association considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

E. Concentration of Credit Risk

Credit receivables have significant concentrations of credit risk in the governmental sector in the Baton Rouge, Louisiana area. At June 30, 2004 and 2003, the portion of these receivables related to this sector was approximately 86% and 92%, respectively.

F. Inventory

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

G. Depreciation

Fixed assets are recorded at cost and depreciated using the straight-line method over their estimated useful lives. Useful lives range from 3 to 30 years.

H. Retirement Plan

The retirement plan is a defined benefit plan which covers substantially all full-time employees.

I. Income Taxes

The Association is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation.

**The ARC Baton Rouge
Notes to Financial Statements
June 30, 2004**

Note 2-Significant Accounting Policies (Continued)

J. Grant Contracts

The Association depends significantly on grant contract reimbursements to carry out its program activities. This revenue is disclosed as program revenue on the statement of support, revenue and expenses.

Grant revenue is recorded as related expenses are incurred, and reimbursement requests are submitted to the grantor agency.

K. Functional Expenses

The Association allocates functional expenses primarily by specific identification of program expenses which include salaries of personnel assigned to specific programs. However, certain administrative salaries and related expenses and other general expenses are allocated using percentages which are adjusted annually. These percentages coincide with grant agreements and budgets.

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

M. Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform with the current year's financial statement presentation.

Note 3-Investments

Investments in certificates of deposits are stated at cost and other investments are stated at market value as quoted by national publications. At June 30, 2004 and 2003 investments are as follows:

<u>Unrestricted</u>	<u>2004</u>	<u>2003</u>
Investments in certificates of deposit with maturities from one to two years and interest rates from 4.15% to 4.8%.	<u>\$65,508</u>	<u>\$169,121</u>
Equity investments - corporate stock	<u>\$9,380</u>	<u>\$7,134</u>

The ARC Baton Rouge
Notes to Financial Statements
June 30, 2004

Note 3-Investments (Continued)

Investment income from cash equivalents and investments is comprised of the following for the year ended June 30, 2004.

	<u>2004</u>		<u>2003</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>
Dividends and interest	\$13,046	—	\$18,568	\$147
Net unrealized gains (loss)	—	—	(1,156)	—
<u>Total</u>	<u>13,046</u>	<u>—</u>	<u>17,412</u>	<u>147</u>

Note 4-Note Receivable

The Association sold facilities on Wayne Drive for \$57,000 in 1995 and financed the sale. Terms are monthly installments of \$500, and include 9% interest per annum maturing January, 2016. Maturities of note receivable for the five years following June 30, 2004 are as follows:

2005	\$2,234
2006	2,443
2007	2,673
2008	2,924
2009	3,198
Thereafter	<u>27,264</u>
	<u>40,736</u>

Note 5-Property and Equipment

A summary of property and equipment at June 30, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
Buildings and improvements	\$2,167,627	\$2,164,637
Furniture and equipment	577,260	571,239
Vehicles	<u>149,229</u>	<u>127,629</u>
	2,894,116	2,863,505
Less depreciation to date	<u>1,826,887</u>	<u>1,703,977</u>
	1,067,229	1,159,528
Land	<u>319,997</u>	<u>319,997</u>
<u>Property and equipment, net</u>	<u>1,387,226</u>	<u>1,479,525</u>

The ARC Baton Rouge
Notes to Financial Statements
June 30, 2004

Note 6-Temporarily Restricted Net Assets

Temporarily restricted net assets from the Building Fund was eliminated in 2002.

Note 7-Letter of Credit Agreement

The Association entered into a standby letter of credit agreement with a financial institution originally for \$300,000, however, this amount was lowered to \$200,000 in 2004 after paying down the balance significantly. The amount due on the letter of credit at June 30, 2004 and 2003 was \$198,121 and \$299,098, respectively, and is classified as notes payable - letter of credit, on the statements of financial position. The interest rate at December 31, 2004 was 4.25%. The obligation is secured by the building on Kelwood Ave. and payable on demand.

Note 8-Note Payable - Vehicle

The Association obtained a vehicle loan in April of 2002 for \$19,927 with monthly payments of \$397 for 5 years at an annual interest rate of 7.25%. The balance at June 30, 2004 and 2003, was \$11,844 and \$15,599.

The Association financed three vehicles in September of 2003 for \$21,600 with monthly payments of \$681 for 3 years at a annual interest rate of 8.10%. The balance at June 30, 2004 was \$17,410.

Future maturities of these notes are as follows:

2005	\$10,968
2006	11,855
2007	<u>6,431</u>
	<u>29,254</u>

The Association entered into a capital lease agreement for the purchase of major air conditioning equipment in May 2003. The terms are monthly payments of \$1,208 for 33 months as an implied interest rate of 15.89%. Minimum lease payments are as follows:

2005	\$14,495
2006	<u>10,865</u>
	25,360
Amount representing interest	<u>3,346</u>
Present value of lease payments	<u>22,014</u>

The ARC Baton Rouge
Notes to Financial Statements
June 30, 2004

Note 9-Pension Plan

The Association has a pension plan which covers substantially all of its employees who meet eligibility requirements. Benefits under the plan are generally based on the employee's compensation during the highest five consecutive calendar years' salary during the last ten completed calendar years of service before retirement. The pension plan is funded in accordance with the requirements of the Employee Retirement Income Security Act of 1974.

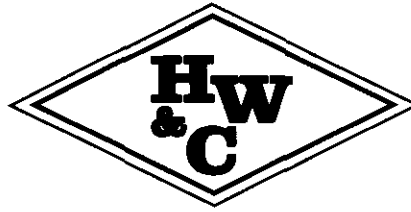
Pension expense for the years ended June 30, 2004 and 2003 was \$300,080 and \$325,779, respectively.

The following sets forth the plan's funding status and the amounts recognized in the Company's statement of financial position at June 30, 2004 and 2003 as prepared by Mutual of America.

	<u>2004</u>	<u>2003</u>
Funded Status		
Benefit obligation at June 30	\$3,230,448	\$3,071,168
Fair value of plan assets at June 30	<u>2,466,443</u>	<u>2,247,736</u>
<u>Funded status (deficit)</u>	<u>764,005</u>	<u>823,432</u>
Prepaid (accrued) benefit cost recognized in the Statement of Financial Position	(\$276,543)	(\$142,470)
Change in benefit obligation due to plan amendments	\$0	\$0
Change due to assumption changes	(\$78,396)	\$123,783
Assumptions as of June 30		
Discount rate	6.5%	6.5%
Expected long-term rate of return on plan assets	8.0%	8.0%
Rate of compensation increase per year	5.0%	5.0%
Other Data		
Benefit cost	\$300,080	\$325,779
Employer contribution	\$166,007	\$183,936
Employee contribution	None	None
Benefits paid	\$139,922	\$38,612

HAWTHORN, WAYMOUTH & CARROLL, L.L.P.

J. CHARLES PARKER, C.P.A.
LOUIS C. MCKNIGHT, III, C.P.A.
ANTHONY J. CRISTINA, III, C.P.A.
CHARLES R. PEVEY, JR., C.P.A.
DAVID J. BROUSSARD, C.P.A.



CERTIFIED PUBLIC ACCOUNTANTS

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December 10, 2004

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

Board of Directors
The ARC Baton Rouge
Baton Rouge, Louisiana

Members of the Board:

We have audited the financial statements of

**The ARC Baton Rouge
(A Non-Profit Organization)
Baton Rouge, Louisiana**

as of and for the year ended June 30, 2004, and have issued our report thereon dated December 10, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The ARC Baton Rouge's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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 The ARC Baton Rouge'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 findings and questioned costs as item 2004-01.

A material weakness is a reportable condition in which the design or operations of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The ARC Baton Rouge's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

This report is intended solely for the information and use of management, Board of Directors, federal awarding agencies, pass-through entities, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Yours truly,

Hawthorn, Waymouth & Carroll L.L.P.

The ARC Baton Rouge
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Findings - Financial Statement Audit

2004-1 Audit Report

Condition

Accounts receivable subsidiary ledgers are not being reconciled to the general ledger.

Recommendation

We recommend that the subsidiary ledgers and the general ledger be reconciled in a timely manner.

Management's Response

Management agrees with the recommendation and it will be implemented.

The ARC Baton Rouge
Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2003

Findings - Financial Statement Audit

2003-1 Audit Report

Condition

The audit report is to be submitted no more than six months after the end of the fiscal year. The report has been delayed due to the unexpected scheduling conflicts with the auditing firm.

Recommendation

Planning and preparations should be made to anticipate circumstances which would delay reports beyond the required filing date and plan accordingly.

Management's Response

Management agrees with the recommendation.

Corrective Action

Proper planning and scheduling was implemented and the June 30, 2004 audit report will be filed timely.