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ARC OF IBERIA

FINANCIAL REPORT

JUNE 30, 2004

REPORT
ARC OF IBERIA
JUNE 30, 2004

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of ARC of Iberia (a nonprofit organization) as of June 30, 2004 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. The financial statements of ARC of Iberia as of June 30, 2003 were audited by other auditors whose report dated November 13, 2003, expressed an unqualified opinion on those statements.

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. 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 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 ARC of Iberia as of June 30, 2004 and the changes in its net assets and its 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 December 15, 2004, on our consideration of ARC of Iberia'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.

Castaing, Hussey & Lolan, LLC

New Iberia, Louisiana
December 15, 2004

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ARC OF IBERIA

STATEMENTS OF FINANCIAL POSITION

ASSETS

	2004	2003
CURRENT ASSETS:		
Cash	$ 1,158,571	$ 784,857
Investments	182,068	179,528
Receivables	56,706	53,403
Due from Other Agencies	666,186	389,749
Inventory	11,216	13,585
Prepaid Expenses	24,241	12,955
Other Current Assets	13,382	19,307
TOTAL CURRENT ASSETS	2,112,370	1,453,384
FIXED ASSETS:		
Property and Equipment, Net	1,733,932	1,712,157
OTHER ASSETS:		
Investment in Kramer Place, Inc.	240,885	–0–
Other Assets	12,204	–0–
TOTAL OTHER ASSETS	253,089	–0–
RESTRICTED CASH:		
Respite Building Fund	14,294	12,727
TOTAL ASSETS	$ 4,113,685	$ 3,178,268

The accompanying Notes to Financial Statements are an integral part of these statements.

ARC OF IBERIA

JUNE 30, 2004 AND 2003

LIABILITIES AND NET ASSETS

	2004	2003
CURRENT LIABILITIES PAYABLE FROM CURRENT ASSETS:		
Accounts Payable	$ 150,122	$ 162,884
Accrued Liabilities	276,354	224,747
Accrued Compensated Absences	92,205	94,617
Retainage Payable	–0–	10,362
Current Portion of Long-Term Debt	131,720	64,554
Current Portion of Capital Lease Obligations	1,934	3,414
TOTAL CURRENT LIABILITIES PAYABLE FROM CURRENT ASSETS	652,335	560,578
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Current Portion of Long-Term Debt	5,214	4,945
TOTAL CURRENT LIABILITIES	657,549	565,523
OTHER LIABILITIES:		
Notes Payable	608,995	580,413
Capital Lease Obligations	–0–	1,934
TOTAL OTHER LIABILITIES	608,995	582,347
TOTAL LIABILITIES	1,266,544	1,147,870
NET ASSETS:		
Unrestricted	2,717,109	2,004,821
Temporarily Restricted	130,032	25,577
TOTAL NET ASSETS	2,847,141	2,030,398
TOTAL LIABILITIES AND NET ASSETS	$ 4,113,685	$ 3,178,268

ARC OF IBERIA

STATEMENT OF ACTIVITIES — YEAR ENDED JUNE 30, 2004

REVENUES, GAINS AND OTHER SUPPORT:	Unrestricted	Temporarily Restricted	Total
Contributions	$ 268,132	$ 139,638	$ 407,770
Program Revenue	6,436,456	–	6,436,456
Grant Revenue	9,531	–	9,531
Interest Income	3,781	–	3,781
Membership Revenue	8,216	–	8,216
Miscellaneous Revenue	16,323	–	16,323
Net Assets Released From Restrictions:			
Expiration of Time Restrictions	35,183	(35,183)	–
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	6,777,622	104,455	6,882,077
EXPENSES AND LOSSES:			
Program Expenses:			
Employment Services	1,640,810	–	1,640,810
Community Services	3,151,758	–	3,151,758
Residential Services	859,042	–	859,042
General and Administrative Expenses	413,724	–	413,724
TOTAL EXPENSES AND LOSSES	6,065,334	–0–	6,065,334
CHANGE IN NET ASSETS	712,288	104,455	816,743
NET ASSETS, BEGINNING OF YEAR	2,004,821	25,577	2,030,398
NET ASSETS, END OF YEAR	$ 2,717,109	$ 130,032	$ 2,847,141

The accompanying Notes to Financial Statements are an integral part of these statements.

ARC OF IBERIA

STATEMENT OF ACTIVITIES — YEAR ENDED JUNE 30, 2003

REVENUES, GAINS AND OTHER SUPPORT:	Unrestricted	Temporarily Restricted	Total
Contributions	$ 201,482	$ 7,000	$ 208,482
Program Revenue	5,196,961	–	5,196,961
Interest Revenue	5,893	–	5,893
Membership Revenue	3,050	–	3,050
Miscellaneous Revenue	9,007	–	9,007
Gain on Sale of Fixed Assets	16,678	–	16,678
Net Assets Released from Restrictions:			
Expiration of Time Restrictions	21,506	(21,506)	–
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	5,454,577	(14,506)	5,440,071
EXPENSES AND LOSSES:			
Program Expenses:			
Employment Services	1,526,049	–	1,526,049
Independent Living	1,161,874	–	1,161,874
Residential Services	845,057	–	845,057
Respite Services	847,832	–	847,832
Personal Care Assistance	618,715	–	618,715
General and Administrative Expenses	384,157	–	384,157
TOTAL EXPENSES AND LOSSES	5,383,684	–0–	5,383,684
CHANGE IN NET ASSETS	70,893	(14,506)	56,387
NET ASSETS, BEGINNING OF YEAR	1,933,928	40,083	1,974,011
NET ASSETS, END OF YEAR	$ 2,004,821	$ 25,577	$ 2,030,398

The accompanying Notes to Financial Statements are an integral part of these statements.

ARC OF IBERIA

STATEMENTS OF CASH FLOWS	YEARS ENDED JUNE 30, 2004 AND 2003	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	$ 816,743	$ 56,387
Adjustments To Reconcile Change In Net Assets to Net Cash Provided By Operating Activities:		
Depreciation	204,183	184,599
(Gain) Loss on Sale of Fixed Assets	91	(16,678)
Donated Fixed Assets	(136,338)	(7,000)
(Increase) Decrease in Receivables	(3,303)	1,120
(Increase) Decrease in Due From Other Agencies	(276,437)	24,907
(Increase) Decrease in Inventories and Prepaids	(8,917)	25,622
Decrease (Increase) in Other Current Assets	5,925	(4,055)
Decrease in Accounts Payable	(23,124)	(14,199)
Increase in Accrued Liabilities	51,607	17,025
(Decrease) Increase in Accrued Compensated Absences	(2,412)	15,577
NET CASH PROVIDED BY OPERATING ACTIVITIES	628,018	283,305
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Equipment	(153,310)	(45,263)
Building Renovations	(183,880)	(50,759)
Net Proceeds from Sale of Fixed Assets	7,567	48,390
Purchase of Investments	(15,717)	(3,891)
NET CASH USED IN INVESTING ACTIVITIES	(345,340)	(51,523)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Issuance of Debt	390,249	-0-
Principal Payments on Long-Term Debt	(294,232)	(69,067)
Principal Payments on Lease Obligations	(3,414)	(2,889)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	92,603	(71,956)
NET INCREASE IN CASH	375,281	159,826
CASH, BEGINNING OF YEAR	797,584	637,758
CASH, END OF YEAR	$ 1,172,865	$ 797,584

(continued)

The accompanying Notes to Financial Statements are an integral part of these statements.

ARC OF IBERIA

STATEMENTS OF CASH FLOWS (continued)	YEARS ENDED JUNE 30, 2004 AND 2003	
	2004	2003
CASH AND CASH EQUIVALENTS SHOWN ON BALANCE SHEET AS:		
Current assets:		
Cash	$ 1,158,571	$ 784,857
Restricted assets:		
Cash	14,294	12,727
TOTAL	$ 1,172,865	$ 797,584
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS:		
Donated Fixed Assets	$ 136,338	$ 7,000
Investment in Kramer Place, Inc.	$ 240,885	$ –0–
Cash Paid For Interest	$ 46,962	$ 50,531

The accompanying Notes to Financial Statements are an integral part of these statements.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF 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 general and administrative expenses of the Association.

Employment Services – Employment Services is a day program for citizens of the community with mental retardation. Employment Services also operates several retail clothing stores. Sales from these stores account for approximately 6% of program revenue for the year ended June 30, 2004.

Residential Services – Residential Services provides three homes for adults with mental retardation.

During 2004, the programs listed below were consolidated into one program, Community Services.

Respite Services – Respite Services allows parents and guardians of those with mental retardation to leave them for short periods of time.

Independent Living – The Association supervises adults with mental retardation that live in their own home or apartment. These clients require considerably less care than clients living in the residential homes.

Personal Care Assistance – The Personal Care Assistance program provides the services of the Respite program and the Independent Living program on more of a "one on one" basis. This program is administered completely out of the clients' homes.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

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 statements of activities as net assets released from restrictions. Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Investments – Investments, which consist of certificates of deposit, are presented in the financial statements at cost, which approximates fair market value. Interest income is recorded as earned.

Allowance for Doubtful Accounts – The Association considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been recorded.

Restricted Cash – The Association is required to put in a separate reserve account at least 10% of the monthly payment to FHA under loan provisions for the building acquired for the Respite Services program. These reserved amounts are reflected as restricted cash on the statements of financial position.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

Interest on debt issued to finance the renovations to the Walton Street building has been capitalized as a part of the project. Fixed assets of the Association include capitalized interest totaling $10,527.

Compensated Absences – Employees of the Association earn annual leave per month depending on years of service at a minimum of twelve days per fiscal year. Annual leave is cumulative from one year to the next, up to a maximum of 240 hours. Upon resignation or termination of employment for cause, an employee may be paid for the value of any accrued leave up to a maximum of 240 hours.

Donated Services – The Association receives donated services from unpaid volunteers who assist in program services during the year; however, these donated services are not reflected in the statement of activities because the criteria for recognition under SFAS No. 116 have not been satisfied.

Federal Income Taxes – The Association qualifies for an exemption from federal income tax under Section 501 (c) (3) of the Internal Revenue Code. Therefore, no provision for income taxes is made in the accompanying financial statements.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Cash and Cash Equivalents – For the purposes of the statement of cash flows, the Association considers all highly liquid investments (including restricted assets) with an original maturity of three months or less to be cash equivalents.

Use of 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.

NOTE 2 – DUE FROM OTHER AGENCIES:

Due from Other Agencies at June 30, 2004 and 2003 consisted of the following:

	2004	2003
Due from O.C.D.D.	$ 16,463	$ 13,523
Due from Louisiana Rehabilitation Services	13,633	21,043
Due from Medicaid	595,337	284,389
Due from Other Facilities	40,753	70,794
	$ 666,186	$ 389,749

NOTE 3 – PROPERTY AND EQUIPMENT:

Property and Equipment at June 30, 2004 consisted of the following:

	Historical Costs	Donated Value	Total
Land	$ 56,585	$ 91,750	$ 148,335
Building and Improvements	1,655,238	–	1,655,238
Furniture and Equipment	607,150	35,900	643,050
Vehicles	454,572	288,183	742,755
Construction in Progress	13,457	–	13,457
Total	2,787,002	415,833	3,202,835
Less: Accumulated Depreciation	(1,270,401)	(198,502)	(1,468,903)
Net Property and Equipment	$ 1,516,601	$ 217,331	$ 1,733,932

Total depreciation expense for the year ended June 30, 2004 was $204,183 of which $34,787 was related to donated assets.

NOTE 3 – PROPERTY AND EQUIPMENT (Continued):

Property and Equipment at June 30, 2003 consisted of the following:

	Historical Costs	Donated Value	Total
Land	$ 56,585	$ 91,750	$ 148,335
Building and Improvements	1,595,329	25,000	1,620,329
Furniture and Equipment	572,727	10,600	583,327
Vehicles	412,849	213,877	626,726
Construction in Progress	153,013	–	153,013
Total	2,790,503	341,227	3,131,730
Less: Accumulated Depreciation	(1,190,825)	(228,748)	(1,419,573)
Net Property and Equipment	$ 1,599,678	$ 112,479	$ 1,712,157

Total depreciation expense for the year ended June 30, 2003 was $184,599 of which $21,110 was related to donated assets.

NOTE 4 – INVESTMENT IN KRAMER PLACE, INC.

In June, 2004 the building and contents located at 2217 Kramer Drive in New Iberia, LA were transferred out of ARC of Iberia at book value to Kramer Place, Inc., a non-profit corporation sponsored by ARC of Iberia. These assets were transferred to Kramer Place, Inc. as a capital contribution. The building is currently operated as a rental facility for three individuals with disabilities.

NOTE 5 – NOTES PAYABLE:

Notes Payable at June 30, 2004 and 2003 consisted of the following:

	2004	2003
General Fund:		
Note payable to bank, due in monthly installments of $512, bearing interest at 6.49%, collateralized by a security interest in a 2003 Ford Crown Victoria, maturing October 3, 2008.	$ 23,258	$ –0–
Employment Services:		
Note payable to bank, due in monthly installments of $584, bearing interest at 11.71%, collateralized by a security interest in a 2001 Ford E-350 van, maturing November 16, 2005.	9,184	14,687

NOTE 5 – NOTES PAYABLE (Continued):

	2004	2003
Note payable to bank, due in monthly installments of $415, bearing interest at 4.98%, collateralized by a security interest in a 2000 Ford Windstar van, maturing November 16, 2005.	$ 6,820	$ 11,308
Note payable to bank, due in monthly installments of $576, bearing interest at 11.72%, collateralized by a security interest in a 2001 Ford E-350 van, maturing December 23, 2005.	9,527	14,917
Note payable to bank, due in monthly installments of $459, bearing interest at 6.00%, collateralized by a security interest in a 2001 Ford E-350 van, maturing December 23, 2005.	8,346	13,161
Note payable to bank, due in monthly installments of $590, bearing interest at 11.71%, collateralized by a security interest in a 2001 Ford E-350 van, maturing February 8, 2006.	10,794	16,137
Note payable to bank, due in monthly installments of $2,700, bearing interest at 7.95%, secured by collateral mortgage on the Walton Street building, maturing October 3, 2013.	–0–	225,561
Note payable to bank due in monthly installments of $4,089, bearing interest at 6.25%, secured by collateral mortgage on the Walton Street building, maturing January 26, 2009.	353,209	–0–
Residential Services:		
Note payable to bank, due in monthly installments of $608, bearing interest at 10.72%, collateralized by a security interest in a 2001 Ford E-350 van, maturing June 5, 2005.	6,946	13,070
Note payable to bank, due in monthly installments of $693, bearing interest at .90%, collateralized by a security interest in a 2001 Ford Windstar van, maturing April 14, 2004.	–0–	6,896
Note payable to bank, due in monthly installments of $419, bearing interest at 10.359%, collateralized by a security interest in a 2002 Ford van, maturing March 15, 2004.	–0–	3,615
Community Services (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.	154,887	159,338

NOTE 5 – NOTES PAYABLE (Continued):

	2004	2003
Mortgage note payable to FHA, due in monthly installments of $215, bearing interest at 5.125%, secured by collateral mortgage on the Respite home, maturing April 11, 2025.	$ 32,759	$ 33,545
Mortgage note payable to bank, due in monthly installments of $920, bearing interest at 8.35%, secured by collateral mortgage on the Kramer home, maturing July 24, 2005.	72,046	76,623
Note payable to a bank, due in monthly installments of $500, bearing interest at 3.25%, secured by certificates of deposit, maturing December 28, 2004.	58,153	–0–
Note payable to bank, due in monthly installments of $500, bearing interest at 4.4%, secured by a certificate of deposit, maturing December 4, 2016.	–0–	61,054
Total	745,929	649,912
Less: Current Portion	(136,934)	(69,499)
Long-Term Portion	$ 608,995	$ 580,413

Maturities of notes payable are as follows as of June 30, 2004:

Year Ending:	
June 30, 2005	$136,934
June 30, 2006	122,886
June 30, 2007	42,707
June 30, 2008	45,406
June 30, 2009	239,078
After June 30, 2009	158,918
Total Notes Payable	$745,929

Interest expense for the years ended June 30, 2004 and 2003 was $46,962 and $50,531, respectively.

NOTE 6 – DETAIL OF PROGRAM REVENUE:

Program revenue included the following for the years ended June 30, 2004 and 2003:

		Program		
2004:	Total	Employment Services	Community Services	Residential Services
Medicaid	$ 5,044,079	$ 481,269	$ 3,618,762	$ 944,048
Office of Citizens With Developmental Disabilities	438,557	321,948	116,609	-
Louisiana Rehab Services	92,690	92,690	-	-
Sales	416,140	416,140	-	-
Client billings	204,487	5,642	70,503	128,342
Other residential facilities	240,503	240,503	-	-
	$ 6,436,456	$ 1,558,192	$ 3,805,874	$ 1,072,390

		Program				
2003:	Total	Employment Services	Independent Living	Respite Services	Personal Care Assistance	Residential Services
Medicaid	$ 3,751,035	$ 273,702	$ 1,073,989	$ 715,215	$ 718,271	$ 969,858
Office of Citizens with Developmental Disabilities	500,264	341,948	69,785	88,531	-	-
Louisiana Rehab Services	122,473	122,473	-	-	-	-
Sales	362,255	362,255	-	-	-	-
Client billings	222,184	9,888	62,543	26,757	-	122,996
Other residential facilities	238,750	238,750	-	-	-	-
	$ 5,196,961	$ 1,349,016	$ 1,206,317	$ 830,503	$ 718,271	$ 1,092,854

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following periods or purposes as of June 30, 2004 and 2003:

	2004	2003
Remaining Net Book Value of Contributed Property and and Equipment		
Employment Services Program	$ 104,754	$ 25,577
Community Services Program	25,278	–0–
Total	$ 130,032	$ 25,577

NOTE 8 – 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:

	2004	2003
Time Restriction Expired:		
Expired Portion of Net Book Value of Contributed Property and Equipment		
Employment Services Program	$ 33,696	$ 21,506
Community Services Program	1,487	–0–
Total	$ 35,183	$ 21,506

NOTE 9 – FIDUCIARY FUNDS:

Residential Services acts as a fiduciary agent for its residents and the Community Services Program through its Independent Living program acts as fiduciary agent for several of its clients. Checking accounts are maintained for each resident, as applicable. 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, 2004 and 2003 was $23,352 and $37,243, respectively. These funds are not included in the balance sheet of the ARC of Iberia.

NOTE 10 – CONCENTRATION OF CREDIT RISK:

The Association maintains cash and time deposit balances in excess of Federal Deposit Insurance Corporation (FDIC) coverage in banks. FDIC coverage is $100,000 per depositor per bank. At June 30, 2004, the Association's uninsured balances totaled $1,097,457.

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, 2004 and 2003, the Association received $5,044,079 and $3,751,035, respectively, from Medicaid, which was 73.29% and 68.95%, respectively, of total revenues.

NOTE 11 – NATURAL CLASSIFICATION OF EXPENSES:

Expenses were incurred for the following for the years ended June 30, 2004 and 2003:

		Program			Support
2004:	*Total*	Employment Services	Community Services	Residential Services	Management and General
Cost of sales	$ 362,847	$ 362,847	$ -	$ -	$ -
Salaries, wages, benefits and payroll taxes	4,259,322	735,320	2,804,888	456,303	262,811
Office and occupancy	704,350	256,441	191,103	176,171	80,635
Supplies and travel	226,280	47,168	50,155	112,847	16,110
Services and professional fees	103,590	10,958	22,088	46,253	24,291
Depreciation	204,183	120,648	41,749	29,079	12,707
Repairs and maintenance	157,800	81,846	22,788	37,446	15,720
Interest	46,962	25,582	18,987	943	1,450
	$ 6,065,334	$ 1,640,810	$ 3,151,758	$ 859,042	$ 413,724

		Program					Support
2003:	Total	Employment Services	Independent Living	Residential Services	Respite Services	Personal Care Assistance	Management and General
Cost of sales	$ 283,242	$ 283,242	$ -	$ -	$ -	$ -	$ -
Salaries, wages, benefits and payroll taxes	3,739,581	757,707	1,025,825	453,704	674,316	569,699	258,330
Office and occupancy	651,331	231,995	75,391	170,919	69,575	31,719	71,732
Supplies and travel	213,030	39,887	35,594	99,254	27,998	5,877	4,420
Services and professional fees	120,359	12,182	13,932	46,134	10,456	8,840	28,815
Depreciation	184,599	100,715	7,700	33,456	33,995	1,429	7,304
Repairs and maintenance	141,011	72,560	3,026	38,793	12,300	1,115	13,217
Interest	50,531	27,761	406	2,797	19,192	36	339
	$ 5,383,684	$ 1,526,049	$ 1,161,874	$ 845,057	$ 847,832	$ 618,715	$ 384,157

NOTE 12 – RETIREMENT PLAN:

During 1998, the Association established a 401 (k) retirement plan for all eligible employees. All full-time employees are eligible after one year of service. Eligible employees may elect to contribute up to 20% of their gross salary. The Association has chosen to make contributions to the Plan in an amount equal to 100% of the first 2% deferred by the employee. The amount contributed to the Plan for the years ended June 30, 2004 and 2003 was $13,080 and $11,653, respectively.

NOTE 13 – CAPITAL LEASE OBLIGATION:

During the fiscal year ended June 30, 2002, the Association entered into a noncancellable lease agreement for the acquisition of a phone system. The phone system is included in furniture and equipment at a cost of $9,510 and has related accumulated amortization in the amount of $1,257. The lease provides for monthly payments of $338 through December 2004. This lease has 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 this capital lease together with the value of the net minimum lease payments as of June 30, 2004.

2005	$	2,028
Total Minimum Lease Payments		2,028
Less: Amount Representing Interest		(94)
Present Value of Net Minimum Lease Payments	$	1,934
Less: Obligations Under Capital Leases – Current Portion		(1,934)
Obligations Under Capital Leases – Long-Term	$	–0–

NOTE 14 – OPERATING LEASES:

The Association leases facilities under non-cancelable operating leases which include renewal options. Rental expense under long-term operating leases of property for the years ended June 30, 2004 and 2003 was $36,250 and $25,720, respectively. Future minimum rental commitments are payable as follows as of June 30, 2004:

2005	$	33,650
2006		7,400
Total	$	41,050

NOTE 15 – COMMITMENTS:

The Association received short-term interim financing approval from the USDA Rural Development office for renovations to the Redwood office building. The total approved amount is $644,845 with interest rates ranging from 4.25% to 4.375%. As of June 30, 2004, no advances were received on this loan.

Castaing
Hussey &
Lolan, LLC
— Certified Public Accountants

Charles E. Castaing, CPA, Retired
Roger E. Hussey, CPA, Retired

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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, 2004, and have issued our report thereon dated December 15, 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 ARC of Iberia'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 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 ARC of Iberia'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 Association's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-1 through 2004-3.

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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, of the reportable conditions described above, we consider item 2004-1 to be a material weakness.

This report is intended solely for the information of management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Castaing, Hussey & Lolan, LLC

New Iberia, Louisiana
December 15, 2004

ARC OF IBERIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS JUNE 30, 2004

We have audited the financial statements of ARC of Iberia as of and for the year ended June 30, 2004, and have issued our report thereon dated December 15, 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. Our audit of the financial statements as of June 30, 2004 resulted in an unqualified opinion.

Section I – Summary of Auditor's Reports

A. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses	_X_ Yes	___ No
Reportable Conditions	_X_ Yes	___ None reported

Compliance

Compliance Material to Financial Statements	___ Yes	_X_ No

Section II – Financial Statement Findings

#2004-1 Segregation of Duties

Finding: The Association does not have an adequate segregation of duties at its Employment Services location. The same employee prepares invoices, collects payments, posts payments, makes deposits, etc. A system of internal control procedures contemplates a segregation of duties so that no one individual handles a transaction from its inception to its completion. While we recognize that the Association may not be large enough to permit an adequate segregation of duties for an effective system of internal control procedures, it is important that you be aware of this condition.

Recommendation: Keeping in mind the limited number of employees to which duties can be assigned, the Association should monitor assignment of duties to assure as much segregation of duties and responsibility as possible.

(continued)

#2004-2 Subsidiary Records of Due From Clients

Finding: Subsidiary records of amounts Due From Clients are not reviewed for collectibility or reconciled to the general ledger on a regular basis.

Recommendation: The Association should maintain detailed subsidiary records of amounts to be collected from clients and reconcile the subsidiary to the general ledger on a monthly basis. Amounts should also be reviewed for collectibility at least annually.

#2004-3 Controls Over Accounts Payable

Finding: ARC of Iberia has established purchasing policy procedures authorizing designated individuals within specific departments to sign purchase orders and approve invoices for payment. We tested twenty-four accounts payable expense checks, selected at random, to determine if the purchasing policy was being followed. Of those twenty-four expense checks selected, eleven contained purchase orders which had improper signatures. Those eleven items were signed by the assistant director, who is not an authorized signer, or personnel authorized for signature for a department other than the department requesting payment. Of the twenty-four invoices examined, ten did not have proper approval for payment by the department director, as stipulated in the purchasing policy. Those ten items were approved by the assistant director or had no approval at all.

Recommendation: The Association should consider updating the purchasing policy to include assistant directors as approved personnel for signing purchase orders and approving invoices for payment. The Association should also make certain that personnel signing purchase orders and approving invoices for payment are approved for the specific department requesting payment.

ARC OF IBERIA

SCHEDULE OF PRIOR YEAR FINDINGS JUNE 30, 2004

Section I – Internal Control and Compliance Material to the Financial Statements

#2003-1 Segregation of Duties

Recommendation: Keeping in mind the limited number of employees to which duties can be assigned, the Association should monitor assignment of duties to assure as much segregation of duties and responsibility as possible.

Current Status: The Association is monitoring the assignment of duties to assure as much segregation of duties and responsibility as possible with the limited number of employees.

Section II – Internal Control and Compliance Material to Federal Awards

Not Applicable

Section III – Management Letter

The prior year's report did not include a management letter.

ARC OF IBERIA

Section II—Financial Statement Findings

#2004-1 Segregation of Duties

Finding: The Association does not have an adequate segregation of duties at its Employment Services location. The same employee prepares invoices, collects payments, posts payments, makes deposits, etc. A system of internal control procedures contemplates a segregation of duties so that no one individual handles a transaction from its inception to its completion. While we recognize that the Association may not be large enough to permit an adequate segregation of duties for an effective system of internal control procedures, it is important that you be aware of this condition.

Recommendation: Keeping in mind the limited number of employees to which duties can be assigned, the Association should monitor assignment of duties to assure as much segregation of duties and responsibility as possible.

Plan of Corrective Action:

A limited number of employees to which these duties can be assigned prohibit the adequate segregation of duties at this time. However, management remains vigilant in monitoring the assignment and the performance of these duties to ensure segregation of duties as much as possible based on available resources.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

#2004-2 Subsidiary Records of Due From Clients

Finding: Subsidiary records of amounts Due From Clients are not reviewed for collectibility or reconciled to the general ledger on a regular basis.

Recommendation: The Association should maintain detailed subsidiary records of amounts to be collected form clients and reconcile the subsidiary to the general ledger on a monthly basis. Amounts should also be reviewed for collectibility at least annually.

Plan of Corrective Action:

Procedures are in place to maintain detailed subsidiary records of amounts to be collected from clients and reconcile the subsidiary to the general ledger on a monthly basis. Amounts will be reviewed for collectibility annually.

#2004-3 Controls Over Accounts Payable

Finding: ARC of Iberia has established purchasing policy procedures authorizing designated individuals within specific departments to sign purchase orders and approve invoices for payment. We tested twenty-four accounts payable expense checks, selected at random, to determine if the purchasing policy was being followed. Of those twenty-four expense checks selected, eleven contained purchase orders, which had improper signatures. Those eleven items were signed by the assistant director, who is not an authorized signer, or personnel authorized for signature for a department other than the department requesting payment. Of the twenty-four invoices examined, ten did not have proper approval for payment by the department director, as stipulated in the purchasing policy. Those ten items were approved by the assistant director or had no approval at all.

Recommendation: The Association should consider updating the purchasing policy to include assistant directors as approved personnel for signing purchase orders and approving invoices for payment. The Association should also make certain that personnel signing purchase orders and approving invoices for payment are approved for the specific department requesting payment.

Plan of Corrective Action:

We will update the purchasing policy to include assistant directors or approved personnel for signing purchase orders and approving invoices for payment. We will also make certain that personnel signing purchase orders and approving invoices for payment are approved for specific department requesting payment.