9590

THE ARC OF GREATER NEW ORLEANS, INC.

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

YEARS ENDED JUNE 30, 2004 AND 2003

The ARC of Greater New Orleans, Inc.

Financial Statements and Report of
Independent Certified Public Accountants
Years Ended June 30, 2004 and 2003

TABLE OF CONTENTS

Bain, Freibaum, Sagona & Co., L.L.P.
Certified Public Accountants and Consultants

Gus Freibaum, Jr., CPA*
Elliott M. Bain, CPA*
Nick O. Sagona, Jr., CPA*
David J. Bourg, CPA*
William F. Matthew, CPA*
Barry Lee, CPA*

* A Professional Accounting Corporation

MEMBER
American Institute of CPAs
Society of Louisiana CPAs
Accounting Group International
(Associates in Principal Cities)

Report of Independent Certified Public Accountant

To the Board of Directors
The Arc of Greater New Orleans, Inc.

We have audited the accompanying statements of financial position of The Arc of Greater New Orleans, Inc. (a nonprofit organization) 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 Arc of Greater New Orleans, Inc.'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 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 policies 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 of Greater New Orleans, Inc. 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.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 15, 2004 on our consideration of The Arc of Greater New Orleans, Inc.'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.

Bain, Freibaum, Sagona & Co., L.L.P.

Certified Public Accountants
October 15, 2004

Bain, Freibaum, Sagona & Co., L.L.P.
Certified Public Accountants and Consultants

Gus Freibaum, Jr., CPA*
Elliott M. Bain, CPA*
Nick O. Sagona, Jr., CPA*
David J. Bourg, CPA*
William F. Matthew, CPA*
Barry Lee, CPA*

* A Professional Accounting Corporation

MEMBER
American Institute of CPAs
Society of Louisiana CPAs
Accounting Group International
(Associates in Principal Cities)

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
The Arc of Greater New Orleans, Inc.

We have audited the financial statements of The Arc of Greater New Orleans, Inc. (a nonprofit organization) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 Arc of Greater New Orleans, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective or 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 Greater New Orleans, Inc.'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. 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 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 the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management and federal and state regulatory bodies. However, this report is a matter of public record and its distribution is not limited.

Bain, Freibaum, Sagona & Co., L.L.P.

Certified Public Accountants
October 15, 2004

The Arc of Greater New Orleans, Inc.

Statements of Financial Position
Years Ended June 30, 2004 and 2003

June 30,	**2004**	2003
Assets		
Current Assets:		
Cash	$ **218,364**	$ 165,848
Accounts receivable		
Grants and contracts	**144,498**	322,171
Trade	**1,348,963**	870,456
Unconditional promises to give	**173,384**	192,502
Prepaid expenses	**23,082**	2,017
Deposits	**1,975**	24,082
Total current assets	**1,910,266**	1,577,076
Property and equipment, net	**779,264**	818,539
Total Assets	**2,689,530**	2,395,615
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	**256,077**	237,640
Current portion of long-term debt	**24,125**	21,668
Line of credit	**125,000**	132,000
Total current liabilities	**405,202**	391,308
Long-term debt, less current portion	**27,523**	52,186
Total liabilities	**432,725**	443,494
Net Assets:		
Unrestricted	**2,083,421**	1,759,619
Temporarily restricted	**173,384**	192,502
Total net assets	**2,256,805**	1,952,121
Total Liabilities and Net Assets	$ **2,689,530**	$ 2,395,615

See notes to financial statements

The Arc of Greater New Orleans, Inc.

Statements of Activities
Years Ended June 30, 2004 and 2003

	2004			
	Unrestricted	Temporarily Restricted	Total	2003
Support and Revenue				
Support:				
Grants and contracts	$ 2,521,886	$ -	$ 2,521,886	$ 2,371,595
Contributions	237,756	-	237,756	243,371
Other:				
United Way Allocations	-	173,384	173,384	192,502
United Way Designations	19,002	-	19,002	16,644
CFC Designations	7,867	-	7,867	7,328
Total support	2,786,511	173,384	2,959,895	2,831,440
Revenue:				
Client fees	2,160,440	-	2,160,440	1,944,777
Medicaid	4,957,453	-	4,957,453	3,934,607
Group home	656,740	-	656,740	590,429
Interest income	805	-	805	2,283
Other income	192,451	-	192,451	198,592
Total revenue	7,967,889	-	7,967,889	6,670,688
Net assets released from restrictions	192,502	(192,502)	-	-
Total support and revenue	10,946,902	(19,118)	10,927,784	9,502,128
Expenses:				
Program services:				
Children's services	1,412,967	-	1,412,967	1,265,328
Employment services	247,352	-	247,352	313,979
Individual options	899,132	-	899,132	880,824
Project H.E.L.P.	3,744,564	-	3,744,564	3,092,040
Operations department	3,282,260	-	3,282,260	2,986,990
Family service coordination	378,602	-	378,602	355,401
Supporting services:				
Management and general	627,917	-	627,917	581,249
Fund-raising	16,095	-	16,095	8,307
Payments to affiliates	14,211	-	14,211	11,822
Total expenses	10,623,100	-	10,623,100	9,495,940
Increase in net assets	323,802	(19,118)	304,684	6,188
Net assets at beginning of year	1,759,619	192,502	1,952,121	1,945,933
Net assets at end of year	$ 2,083,421	$ 173,384	$ 2,256,805	$ 1,952,121

See notes to financial statements

The Arc of Greater New Orleans, Inc.

Statement of Functional Expenses
Year Ended June 30, 2004

	Program Services								
	Children's Services	Employment Services	Individual Options	Project H.E.L.P.	Operations Department	Family Service Coordination	Management & General	Fund Raising	Total Program & Supporting Services
Salaries	$ 861,253	$ 187,102	$ 545,870	$ 3,127,290	$ 1,880,972	$ 185,522	$ 379,176	$ 20	$ 7,167,205
Employee benefits	44,941	10,220	39,919	29,213	61,890	11,952	35,869	-	234,004
Payroll taxes	78,980	23,626	51,405	301,045	304,778	14,774	40,837	-	815,445
Total Salaries and Benefits	985,174	220,948	637,194	3,457,548	2,247,640	212,248	455,882	20	8,216,654
Professional fees	183,331	524	1,124	4,651	5,013	613	7,266	-	202,522
Supplies	43,992	1,197	4,847	15,440	284,922	120,557	16,201	7,201	494,357
Telephone	3,157	1,852	8,089	8,744	21,224	2,199	5,732	-	50,997
Postage	2,115	344	730	4,609	4,273	591	421	300	13,383
Occupancy	105,284	9,426	90,022	61,427	212,496	10,224	40,292	2,678	531,849
Repairs and maintenance	19,658	6,836	29,287	19,030	106,694	14,119	5,332	-	200,956
Local transportation	29,237	4,193	86,087	143,289	234,629	16,756	13,173	-	527,364
Travel, conferences and meetings	8,067	272	464	9,187	4,361	712	7,052	-	30,115
Printing and publications	44	84	727	1,819	2,496	60	-	3,141	8,371
Membership dues	17	25	-	25	-	-	3,099	-	3,166
Other expenses	27,275	1,511	4,802	12,958	33,328	471	26,567	2,687	109,599
Payments to affiliate	-	-	-	-	-	-	14,211	-	14,211
Public relations	-	-	-	-	-	-	44,228	68	44,296
Depreciation	5,616	140	35,759	5,837	125,184	52	2,672	-	175,260
Total expenses	$ 1,412,967	$ 247,352	$ 899,132	$ 3,744,564	$ 3,282,260	$ 378,602	$ 642,128	$ 16,095	$ 10,623,100

See notes to financial statements

The Arc of Greater New Orleans, Inc.

Statement of Functional Expenses
Year Ended June 30, 2003

	Program Services								
	Children's Services	Employment Services	Individual Options	Project H.E.L.P.	Operations Department	*Family* Service Coordination	Management & General	Fund Raising	Total *Program &* Supporting Services
Salaries	$ 692,090	$ 242,996	$ 531,856	$ 2,628,703	$ 1,618,302	$ 188,010	$ 339,367	$ -	$ 6,241,324
Employee benefits	40,443	10,773	34,237	26,964	41,265	9,996	29,027	-	192,705
Payroll taxes	58,401	23,528	43,866	224,371	161,992	13,458	32,620	-	558,236
Total Salaries and Benefits	790,934	277,297	609,959	2,880,038	1,821,559	211,464	401,014	-	6,992,265
Professional fees	261,661	581	1,399	4,888	150,048	2,039	22,775	-	443,391
Supplies	69,200	1,208	5,690	19,653	349,900	106,741	13,970	5,275	571,637
Telephone	3,489	1,987	8,213	7,268	20,528	2,414	7,054	-	50,953
Postage	1,277	396	876	4,434	4,223	484	566	-	12,256
Occupancy	91,318	8,713	105,231	50,258	238,453	9,095	40,782	2,197	546,047
Repairs and maintenance	21,027	5,510	34,122	12,378	94,847	7,729	6,825	-	182,438
Local transportation	8,579	6,456	66,608	89,767	145,630	13,432	5,642	-	336,114
Travel, conferences and meetings	3,764	701	2,435	11,296	9,747	734	13,097	-	41,774
Printing and publications	606	14	34	1,829	2,135	997	92	-	5,707
Membership dues	17	125	-	25	25	-	3,201	-	3,393
Other expenses	7,835	1,198	7,720	1,384	72,220	218	13,656	835	105,066
Payments to affiliate	-	-	-	-	-	-	11,822	-	11,822
Public relations	-	-	-	-	-	-	49,899	-	49,899
Depreciation	5,621	9,793	38,537	8,822	77,675	54	2,676	-	143,178
Total expenses	$ 1,265,328	$ 313,979	$ 880,824	$ 3,092,040	$ 2,986,990	$ 355,401	$ 593,071	$ 8,307	$ 9,495,940

See notes to financial statements

The Arc of Greater New Orleans, Inc.

Statements of Cash Flows
Years Ended June 30, 2004 and 2003

June 30,		**2004**		2003
Cash Flows from Operating Activities:				
Increase in net assets	$	**304,684**	$	6,188
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:				
Depreciation		**175,260**		143,178
(Gain) on disposal of fixed assets		**-**		(1,690)
(Increase) decrease in operating assets:				
Accounts receivable		**(281,716)**		113,827
Prepaid expenses		**(21,065)**		18,559
Deposits		**22,107**		(15,525)
Increase (decrease) in operating liabilities:				
Accounts payable		**18,437**		(10,227)
Net cash provided by operating activities		**217,707**		254,310
Cash Flows from Investing Activities:				
Acquisition of property and equipment		**(135,985)**		(303,476)
Proceeds from disposal of property and equipment		**-**		7,300
Net cash (used) by investing activities		**(135,985)**		(296,176)
Cash Flows from Financing Activities:				
Payments on long-term debt		**(22,206)**		(24,160)
Net advances (repayments) on line of credit		**(7,000)**		110,000
Net cash provided (used) by financing activities		**(29,206)**		85,840
Net increase in cash		**52,516**		43,974
Beginning cash		**165,848**		121,874
Ending cash	$	**218,364**	$	165,848
Supplemental Disclosures:				
Interest paid	$	**9,228**	$	10,199

See notes to financial statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Arc of Greater New Orleans, Inc. is a nonprofit organization committed to securing for all people with mental retardation the opportunity to develop, function, and live to their fullest potential. Current services include: Children's Services (Early Intervention, Child Care, and Family Service Coordination), Employment Services (Rehabilitation Services), Individual Options (formerly Transitional Work Center), Operations Department (Affirmative Businesses), and Project H.E.L.P. (Respite/Personal Care and Supported Living). All services are provided throughout the four-parish area (Orleans, Jefferson, Plaquemines, and St. Bernard). The majority of the organization's revenue is derived from grants and contracts for services with the State of Louisiana, Jefferson Parish and various private contracts with businesses in the four-parish area.

Basis of Accounting

The Arc of Greater New Orleans, Inc. prepares its financial statements in accordance with generally accepted accounting principles, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. As permitted by the statement, the Organization does not use fund accounting.

Contributed Services

During the years ended June 30, 2004 and 2003, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Accounts Receivable

All receivables at June 30, 2004 and 2003 are considered collectible; accordingly, an allowance for doubtful accounts is not presented. Balances that are still outstanding after management has used reasonable collection efforts are written off. Accounts receivable with balances past due ninety days or more amounted to approximately $70,270 on June 30, 2004.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. All contributions are considered to be available for unrestricted use unless specifically restricted by donors. Contributions that are restricted by the donor are reported as increases of 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 the restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. No allowance for doubtful accounts has been established as all promises to give are considered collectible. These amounts are due in less than one year.

Property and Equipment

It is the Organization's policy to capitalize property and equipment over $1,000. Lesser amounts are expensed. Purchased property and equipment are stated at cost or, if donated, at the fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The useful lives of buildings and improvements range from 10 to 31 years; and those of equipment range from 3 to 10 years.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

2. CASH – CONCENTRATION OF RISK

Financial instruments that potentially subject the Organization to risk include cash on deposit with financial institutions. These balances are insured by the Federal Deposit Insurance Corporation up to $100,000. At June 30, 2004 and 2003, the Organization's uninsured cash balances totaled $92,632 and $0, respectively. To provide additional protection against financial loss, the Organization has their daily balance in excess of $55,000 placed into a nightly high-grade bond purchase fund. This nightly fund provides protection against financial institution closure by allowing invested funds to be available to the Organization immediately in response to a closure.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2004	2003
Buildings and improvements	$ 1,024,439	$ 1,024,439
Furniture and equipment	489,154	408,237
Autos, trucks and tractors	663,429	608,360
Land	20,000	20,000
	2,197,022	2,061,036
Less accumulated depreciation	1,417,758	1,242,497
	$ 779,264	$ 818,539

Depreciation expense was $175,260 and $143,178 for 2004 and 2003, respectively. At June 30, 2004 the above included $829,489 of assets that were fully depreciated.

4. INCOME TAXES

The Organization is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. Accordingly, income taxes are not presented in these financial statements.

5. NOTES PAYABLE

The Organization's obligation under notes payable consists of the following:

	2004	2003
8.9% note payable, due on demand, if no demand is made, due in monthly installments of $964, including interest, secured by a Deed of Trust on land and building and maturing November 2006	**$ 24,487**	$ 33,347
7.8% note payable, due on demand, if no demand is made due in monthly installments of $1,336, including interest, secured by three vans and maturing in April 2006	**27,161**	40,507
	$ 51,648	$ 73,854

Principal installments for the next five years are as follows:

Year ending June 30,	
2005	$ 24,125
2006	23,349
2007	4,174
2008	-
2009	-
Thereafter	-
	$ 51,648

Interest paid during the year ended June 30, 2004 and 2003 was $9,228 and $10,199, respectively, all of which was charged to operations.

6. LINE OF CREDIT

The Organization has available a line of credit with a bank for $300,000. The unpaid principal balance shall bear interest at the Prime Rate. Interest payments are due monthly. Any outstanding principal is due on demand or September 26, 2004. At June 30, 2004, the Organization had drawn $125,000 on the line of credit. The line of credit is secured by all inventory, goods, and other items of personal property and receivables.

7. PENSION PLAN

Effective July 1, 1999, the Organization adopted a 401(k) pension plan that covers most of its employees. The Organization matches fifty percent of employee salary reduction contributions up to six percent of compensation. These matching contributions amounted to $50,794 and $43,336 in 2004 and 2003, respectively.

8. RENT-FREE USE OF FACILITIES

During 2004 and 2003, the Organization was furnished free use of facilities at three locations from unrelated parties. The aggregate fair market value of the use of these facilities is approximately $15,800 per month. These amounts are recorded as contributions in Revenue and Support and also in Occupancy expenses. The fair market value of the rent-free use of facilities amounted to $189,995 for 2004 and 2003. The commitments for the use of these facilities expire at various times from 2005 through 2018.

Additionally, the Organization has entered into a five-year lease on a building used in providing program services. Consideration for the lease is the mutual benefits, advantages, and conveniences to be derived by the public in the operation of a public education facility. The Organization has made improvements to the building, which amount to approximately $30,000. These improvements will revert to the lessor at the end of the lease term which expires in February 2007.

9. MAJOR SUPPORT

For the year ended June 30, 2004, the Organization earned 45% of its support and revenue from Medicaid reimbursement arrangements and 19% of its support and revenue from contracts with the State of Louisiana. At June 30, 2004, accounts receivable included $911,039 from these two sources.

For the year ended June 30, 2003, the Organization earned 41% of its support and revenue from Medicaid reimbursement arrangements and 17% of its support and revenue from contracts with the State of Louisiana. At June 30, 2003, accounts receivable included $815,662 from these two sources.

10. ECONOMIC DEPENDENCY

The organization receives state funding on a per diem per client/unit basis as well as state and parish grants on a per diem basis. If significant budget cuts are made at the state and/or local levels, the amount of the funds the organization receives could be reduced significantly and have an adverse impact on its operations. Management is not aware of any actions that will adversely affect the amount of funds the organization will receive in the next fiscal year.

11. RESTRICTIONS ON ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

		2004		2003
Unconditional promises to give	$	**173,384**	$	192,502

12. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents, short-term unconditional promises to give, and notes payable: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.

SUPPLEMENTAL INFORMATION

The Arc of Greater New Orleans, Inc.

Schedule of Federal Awards
Year Ended June 30, 2004

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Grant Number	Federal Expenditures
U.S. Department of Education				
NONE				

The Arc of Greater New Orleans, Inc.

Schedule of State and Local Awards
Year Ended June 30, 2004

State Programs	Pass-through Grantor's Number	Grant Number	State Awards
State Department of Health and Hospitals/ Office of Mental Retardation/ Developmental Disabilities:			
Vocational and Habilitative Services	594988		$ 648,756
Early Intervention	599817		102,969
Respite Care Services	595168		73,000
Family Support	595360		148,178
Family Training	603716		70,000
PCA Services	596596		26,000
Total State awards			1,068,903
Jefferson Parish Human Services Authority/Division of Mental Retardation and Developmental Disabilities:			
Early Intervention	322		$ 64,624
Professional Services	359		24,480
Vocational and Habilitative Services	332		142,383
Respite Care	332		31,944
Supported Living	332		5,610
STEP Program Grant	331		195,083
Total Local awards			464,124
Total State and Local awards			$ 1,533,027

The Arc of Greater New Orleans, Inc.

Schedule of Federal Awards
Year Ended June 30, 2003

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's Number	Grant Number		Federal Expenditures
U.S. Department of Education					
State Department of Education:					
Infants/Families with Disabilities – DS	84.181A		03-C3-TD-C	$	333,635
Infants/Families with Disabilities - FSC	84.181A		03-C4-TD-C		222,153
Total Federal Grants				$	555,788

State Programs	Pass-through Grantor's Number	Grant Number	State Awards
State Department of Health and Hospitals/ Office of Mental Retardation/ Developmental Disabilities:			
Vocational and Habilitative Services	587413		$ 625,612
Early Intervention	588204		257,423
Respite Care Services	583018		105,000
Crisis Intervention	585136		142,178
Total State awards			1,130,213
Jefferson Parish Human Services Authority/Division of Mental Retardation and Developmental Disabilities:			
Early Intervention	321		$ 199,206
Professional Services	322		18,700
Vocational and Habilitative Services	320		108,298
Respite Care	320		15,191
Supported Living	320		-
STEP Program Grant	368		268,497
Total Local awards			609,892
Total State and Local awards			$ 1,740,105

Bain, Freibaum, Sagona & Co., L.L.P.

Certified Public Accountants and Consultants

Gus Freibaum, Jr., CPA*
Elliott M. Bain, CPA*
Nick O. Sagona, Jr., CPA*
David J. Bourg, CPA*
William F. Matthew, CPA*
Barry Lee, CPA*

* A Professional Accounting Corporation

MEMBER
American Institute of CPAs
Society of Louisiana CPAs
Accounting Group International
(Associates in Principal Cities)

Writer's direct dial 504-680-6772
Email - dbourg@bfscpa.com

October 15, 2004

To the Board of Directors of
The Arc of Greater New Orleans, Inc.

In planning and performing our audit of the financial statements of The Arc of Greater New Orleans, Inc. for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. Our consideration of internal control was for the limited purpose described above and would not necessarily disclose all matters that might be reportable conditions.

Management is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that the internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the Company's internal control that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the Board of Directors, management and others within the organization, certain funding sources and the Company's bonding company.

Bain, Freibaum, Sagona & Co., L.L.P.

Certified Public Accountants