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THE ARC OF LOUISIANA

FINANCIAL STATEMENTS

JUNE 30, 2004

P&N

THE ARC OF LOUISIANA

FINANCIAL STATEMENTS

JUNE 30, 2004

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Postlethwaite & Netterville

A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
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INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Arc of Louisiana
Baton Rouge, Louisiana

We have audited the accompanying statement of financial position of the Arc of Louisiana (a not-for-profit organization) as of June 30, 2004 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 accordance with the terms of our agreement, we have not applied audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the balance sheet at June 30, 2003. Detailed property records have not been maintained and certain prior period records and supporting data were not available for our audit. A significant portion of the net assets of the Beneficial Interest in the Foundation includes property that was not audited by us. Additionally, other significant aspects of the balance sheet at June 30, 2003, including classification and amounts, materially affect the determination of the results of operations and cash flows for the year ended June 30, 2004.

Because of the matters discussed in the preceding paragraph, we were not able to satisfy ourselves about the investment in the Foundation and the amounts in fixed assets and related accumulated depreciation recorded in the accompanying statement of financial position at June 30, 2004 and the amount of the depreciation expense for the year then ended. Additionally, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the statement of activities and cash flows for the year ended June 30, 2004.

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In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had prior-year records concerning property and equipment and related accumulated depreciation been adequate for the Arc of Louisiana and the investment in the Arc Foundation, the accompanying statement of financial position referred to in the first paragraph presents fairly, in all material respects, the financial position of the Arc of Louisiana as of June 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

Postlethwaite & Netterville

Baton Rouge, Louisiana
December 29, 2004

THE ARC OF LOUISIANA
BATON ROUGE, LOUISIANA

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004

ASSETS

		2004
CURRENT ASSETS		
Cash and cash equivalents	$	12,809
Receivables - other		58,272
Total current assets		71,081
BENEFICIAL INTEREST IN THE FOUNDATION		1,109,586
PROPERTY AND EQUIPMENT		
Furniture and equipment		44,103
Less: accumulated depreciation		(32,798)
Net property and equipment		11,305
Total assets	$	1,191,972

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$	2,558
Other liabilities		14,968
Current portion of lease payable		1,651
Total current liabilities		19,177
LONG - TERM LIABILITIES		
Lease payable		3,164
Total liabilities		22,341
NET ASSETS		
Unrestricted		63,999
Permanently restricted		1,105,632
Total Net Assets		1,169,631
Total liabilities and net assets	$	1,191,972

The accompanying notes are an integral part of this statement.

THE ARC OF LOUISIANA
BATON ROUGE, LOUISIANA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

	2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE:				
Public support	$ 15,179	$ -	$ -	$ 15,179
Grant from governmental agency	166,746	-	-	166,746
Program service revenue	91,060	-	-	91,060
Interest income	91	-	-	91
Change in net assets of the Foundation	(15,902)	-	1,105,632	1,089,730
Building management income	5,876	-	-	5,876
Miscellaneous	11,580	-	-	11,580
Total support and revenue	274,630	-	1,105,632	1,380,262
Net assets released from restriction	-	-	-	-
Total revenue and other support	274,630	-	1,105,632	1,380,262
EXPENSES:				
Program services	181,722	-	-	181,722
Management and general	117,501	-	-	117,501
Fundraising	8,545	-	-	8,545
Total expenses	307,768	-	-	307,768
Changes in net assets	(33,138)	-	1,105,632	1,072,494
Net assets - beginning of year	97,137	-		97,137
Net assets - end of year	$ 63,999	$ -	$ 1,105,632	$ 1,169,631

The accompanying notes are an integral part of this statement.

THE ARC OF LOUISIANA
BATON ROUGE, LOUISIANA

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2004

	Program Services	Management and General	Fundraising	Total
EXPENSES				
Advertising	$ -	$ 130	$ -	$ 130
Bank Charges	-	180	-	180
Depreciation and Amortization	-	8,841	-	8,841
Dues and Subscriptions	-	5,909	-	5,909
Employee Benefits	13,141	3,214	-	16,355
Equipment	-	675	-	675
Insurance	804	711	-	1,515
Interest	-	122	-	122
Janitorial Services	40	1,141	-	1,181
Meals and Entertainment	-	385	-	385
Meetings	51	1,438	4,945	6,434
Miscellaneous	7,405	-	-	7,405
Payroll taxes	10,082	4,510	-	14,592
Postage	364	912	-	1,276
Printing	-	28	-	28
Professional Services	-	2,083	-	2,083
Rental Expense	3,372	19,241	-	22,613
Repairs and Maintenance	43	538	-	581
Salaries	106,385	45,582	3,600	155,567
Supplies	1,746	2,941	-	4,687
Telephone	4,272	5,356	-	9,628
Training	14,552	1,016	-	15,568
Travel	19,412	6,712	-	26,124
Utilities	53	5,836	-	5,889
	$ 181,722	$ 117,501	$ 8,545	$ 307,768

The accompanying notes are an integral part of this statement.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	1,072,494
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization		8,841
Change in beneificial interest of Foundation		(1,089,730)
Changes in operating assets and liabilities:		
Accounts receivable		3,896
Accounts payable and other accrued liabilities		(30,764)
Net cash used in operating activities		(35,263)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease		(2,406)
Net cash used in financing activities		(2,406)
Net decrease in cash and cash equivalents		(37,669)
Cash and cash equivalents - beginning of year		50,478
Cash and cash equivalents - end of year	$	12,809

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Activities

The Arc of Louisiana (the Organization) is an Organization of and for people with mental retardation and related developmental disabilities and their families. The Organization is devoted to promoting and improving supports and services for people with mental retardation and related disabilities and their families.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting. The significant accounting policies followed are described to enhance the usefulness of the financial statements to the reader.

The Financial statement presentation complies with the Financial Accounting Standards Board's 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. There were no temporarily restricted assets as of June 30, 2004, but the majority of the beneficial interest in the Foundation is permanently restricted as of June 30, 2004.

Contributions

The Organization complies with the Financial Accounting Standards Board's Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made.* In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

2. ***Summary of Significant Accounting Policies*** *(continued)*

Grant Revenue Recognition

Grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any restrictions. Support that is restricted by the grantee is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other grantee-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 Activities as net assets released from restrictions.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is based upon the estimated useful lives which range from 3 to 10 years, using the straight-line method.

Income Taxes

The Organization has been recognized by the Internal Revenue Service as a not-for-profit organization as described in Section 501(c) (3) of the Internal Revenue Code and is exempt from federal and state income taxes.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with maturities of three months or less at the date of acquisition to be "cash equivalents."

Membership Dues

The Organization receives membership dues from 24 local chapters through out Louisiana. These dues are recognized as revenue in the applicable membership period. Membership dues not received for the current year are recorded as a receivable in the accompanying financial statements. Management deemed all accounts to be collectible at June 30, 2004.

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 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

3. Donated Services

A significant portion of the Organization's functions are conducted by unpaid volunteers. The value of the contributed time is not reflected in the financial statements since the services do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

4. Beneficial Interest in the Arc Foundation

Due to the adoption of Financial Accounting Standard No. 136 (FAS 136), "Transfers of Assets to a Not-for-Profit Organization that Raises or Holds Contributions for Others", the net assets of the Foundation are treated as a beneficial interest asset on the Organization's financial statements. The effect of FAS 136 was for the Organization to recognize a beneficial interest in the net assets of the Foundation, similar to the equity method of accounting. As of June 30, 2004, the beneficial interest in the Foundation was $1,109,586. Of that amount, $1,105,632 is permanently restricted based on the terms of an endowment received by the Foundation.

5. Property and Equipment

A summary of property and equipment, accumulated depreciation and related service lives at June 30th, is as follows:

	Estimated Service Lives	2004
Equipment & Furniture	3 – 7 years	$ 44,103
Less accumulated depreciation		(32,798)
		$ 11,305

6. Related Party Transactions

The Arc of Louisiana and the Arc of Louisiana Foundation are affiliated organizations. Both organizations have common board members and they share office space and accounting personnel. The office building is owned by the Foundation. The Foundation received $21,684 of rent income from the Arc of Louisiana for the year ended June 30, 2004.

The Arc of Louisiana and the Foundation share the costs of some joint expenses. The types of expenses that are incurred by both organizations include salaries, payroll taxes, insurance, office supplies, telephone, postage, and printing. The organizations allocate expenses based on actual costs and an estimate of usage. The Arc of Louisiana received $ 5,876 of income from the Foundation for these expenses for the year ended June 30, 2004.

NOTES TO FINANCIAL STATEMENTS

7. Lease

The Organization committed to a capital lease for telephone equipment in May of 2003 for 48 months. Future minimum lease payments consist of the following as of June 30:

2005	$ 1,651
2006	1,651
2007	1,514
Total	$ 4,815

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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
The Arc of Louisiana
Baton Rouge, Louisiana

We have audited the financial statements of the Arc of Louisiana (a non-profit organization) as of and for the year ended June 30, 2004, and have issued our report thereon dated December 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America except that we have not applied audit procedures necessary to satisfy ourselves about the classifications and amounts comprising the balance sheet at June 30, 2003 and detailed property records have not been maintained and certain prior period records and supporting data were not available for our audit. A significant portion of the net assets of the Beneficial Interest in the Foundation includes property that was not audited by us. We also conducted out audit with 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 financial statements of the Arc of Louisiana 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*. The Arc of Louisiana did not comply with the deadline required by LSA-RS 24:513, which requires audited financial statements to be submitted to the Legislative Auditor's Office within six months after an entity's fiscal year-end.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Arc of Louisiana'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 statement 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 Organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are

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described in a separate letter to management dated December 29, 2004.

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 condition described above, we consider the condition to be a material weakness.

This report is intended solely for the information of the Board of Directors, Management, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Netterville

Baton Rouge, Louisiana
December 29, 2004

THE ARC OF LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

A. SUMMARY OF AUDITORS' RESULTS

Type of auditors' report issued: Qualified – scope limitation

• Material weakness(es) identified?	x_____ yes	______ no
• Reportable condition(s) identified that are not considered to be material weaknesses?	______ yes	X none reported
Noncompliance material to financial statements noted?	x_____ yes	______ no

A management letter was issued for the current year's audit.

B. FINDINGS AND QUESTIONED COSTS

1. Noncompliance with reporting deadline

Criteria: Louisiana Revised Statute 24:513 requires all quasi-public entities to complete an audit of the entity's financial statements and transmit to the Legislative Auditor within six months of the close of the entity's fiscal year.

Condition: The Arc of Louisiana did not submit their annual audited financial statements by December 31, 2004, which is six months after the close of their fiscal year.

Effect: The organization is not in compliance with the Louisiana Revised Statute 24:513.

Recommendation: The organization should comply with the Louisiana Revised Statute 24:513 for the year ended June 30, 2004, by having its annual audit complete and transmitted to the Legislative Auditor by December 31, 2004.

Management's Response

The board and management of the Arc of Louisiana are committed to meeting the deadline of December 31, 2005 for its June 30, 2005 audit. This was a first year audit for the Arc of Louisiana.

The Arc of Louisiana®

Affiliated Chapters of The Arc

The Arc of Assumption
The Arc Baton Rouge
The Arc of Beauregard
The Arc of Caddo-Bossier
The Arc of DeSoto
Donaldsonville Area Arc
Community Opportunities
The Arc of Iberia
The Arc of Iberville
Livingston Arc
Minden Arc
The Arc of Morehouse
The Arc of Greater New Orleans
The Arc of North Webster
Rapides Arc
Sabine Arc
The Arc of St. Charles
St. James Arc
St. John Arc
St. Martin Arc
St. Mary Arc
TARC - Hammond
TARC - Terrebonne
The Arc of Vermilion

People First, Visionary Leadership, Community Participation, Diversity, Integrity and Excellence

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February 10, 2005

Steve J. Theriot, CPA, Legislative Auditor
State of Louisiana
P.O. Box 94397
Baton Rouge, LA 70804-9397

Dear Mr. Theriot:

This letter is written in response to the summary audit results by Postlethwaite & Netterville for fiscal year ended June 30, 2004. We offer the following:

A. Summary of Audit Results

(1) One instance of noncompliance related to the financial statements of The Arc of Louisiana was disclosed during the audit as described in B below.

B. Non compliance with reporting deadline

Criteria: Louisiana Revised Statute 24:513 requires all quasi-public entities to complete an audit of the entity's financial statements and transmitted to the Legislative Auditor within six months of the close of the entity's fiscal year.

Condition: The Arc of Louisiana did not submit their annual audited statements by December 31, 2004, which is six months after the close of the entity's fiscal year.

Effect: The organization is not in compliance with the Louisiana Revised Statute 24:513.

Recommendation: The organization should comply with the Louisiana Revised Statute 24:513 for the year ended June 30, 2005 by having its annual audit complete and transmitted to the Legislative Auditor by December 31, 2005.

Management's Response

The board and management of The Arc of Louisiana are committed to meeting the deadline of December 31, 2005 for its June 30, 2005 audit.

365 North 4th Street, Baton Rouge, LA 70801; Phone (225) 383-1033 Fax (225) 383-1092

If there are any questions please contact me at 383-1033.

Sincerely,

Julia Kenny

Julia Kenny
Executive Director

P&N

Postlethwaite & Netterville

A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
www.pncpa.com

To the Board of Directors
The Arc of Louisiana
Baton Rouge, LA

We have audited the financial statements of the Arc of Louisiana for the year ended June 30, 2004 and have issued our report thereon. As part of our examination, we made a study and evaluation of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing, and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist the auditor in planning and performing his audit of the financial statements.

The objective of internal control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of the financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

No matter how good a system, there are inherent limitations that should be recognized in considering the potential effectiveness of internal accounting. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the degree of compliance with the procedures may deteriorate. We say this simply to suggest that any system needs to be constantly reviewed and improved where necessary.

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During the course of our audit, we made the following observations which we feel should be brought to your attention. Concerning these matters, we offer the following comments and recommendations:

Check signing

Per the accounting manual, P&N noted that dual signatures are required for checks in excess of $2,000. The authorized signers are the executive director and a board member. During our testwork for cash disbursements we noted an item that did not have a dual signature and the amount was greater than $2,000. P&N recommends that this policy of dual signatures on large checks be adhered to at all times as it does provide for strong control over the cash disbursements process.

Changes in the coding of cash disbursements

In the course of our audit, we noted various instances where the account coding of cash disbursements as noted on the approved supporting documentation was different from where the disbursements were actually recorded in the general ledger. Approval of vendor invoices for goods and services is a critical element of any internal control structure. We recommend that a policy be established requiring that any changes to the coding of cash disbursements from what was originally documented and approved be appropriately modified with evidence of the necessary authorization on the underlying supporting documentation.

Accounts receivable aging report

Strong and effective controls over accounts receivable is very important to a business. Poor practice allows situations in which accounts receivable balances are allowed to build up as accounts age. During our audit, we were not provided with a detail of the accounts receivable or an accounts receivable aging report. We recommend that a detail aging report be used as an effective tool for monitoring the collection and aging of the account receivable balance in order to prevent a negative impact on cash flow.

Items Considered Reportable Conditions:

Our examination disclosed the following condition, which we believe is a material weakness in the design of the internal control of the Organization in effect at June 30, 2004. The Organization has an inadequate system of maintaining fixed asset records. We believe such condition represents a material weakness. A material weakness is a condition that precludes the Organization's internal control from providing reasonable assurance that a material misstatement in the financial statements will be prevented or detected on a timely basis.

We recommend that detailed fixed asset records be maintained and reconciled to the general ledger on a timely basis to ensure accurate accounting for assets. Specifically, fixed asset records should include the following data:

- Description of the asset
- Cost, voucher number, and vendor name
- Date placed in service
- Estimated useful life
- Depreciation method
- Depreciation expense and accumulated depreciation for the year
- Date asset retired

The Organization has established and is implementing procedures and controls for the new fiscal year.

We want to thank the Arc of Louisiana for the courtesies extended to us during the audit. If you have any questions or need any assistance in the implementation of these recommendations, we would be pleased to offer our services.

Postlethwaite & Netterville

Baton Rouge, Louisiana
December 29, 2004

The Arc of Louisiana

People First, Visionary Leadership, Community Participation, Diversity, Integrity and Excellence

Affiliated Chapters of The Arc

The Arc of Assumption
The Arc Baton Rouge
The Arc of Beauregard
The Arc of Caddo-Bossier
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Livingston Arc
Minden Arc
The Arc of Morehouse
The Arc of Greater New Orleans
The Arc of North Webster
Rapides Arc
Sabine Arc
The Arc of St. Charles
St. James Arc
St. John Arc
St. Martin Arc
St. Mary Arc
TARC - Hammond
TARC - Terrebonne
The Arc of Vermilion

February 16, 2005

Ms. Candy Wright
Postlethwaite & Netterville
Certified Public Accounts
8550 United Plaza Blvd. Suite 1001
Baton Rouge, Louisiana 70809

Dear Ms. Wright:

The Arc of Louisiana had worked to develop sound accounting practices to safeguard the organization to ensure accountability and loss protection. We appreciate the staff at P & N for their thorough review and audit of our financial statement and the internal accounting controls in place. Below we have outlined how each of the recommendations will be addressed.

<u>Checking Signing</u>

The Arc of Louisiana accounting policy and procedures requires dual signatures over $2,000. An item was noted without a dual signature which appears to be an error. Staff and the independent CPA have reviewed and understand policy.

<u>Cash Disbursements</u>

The Arc of Louisiana policy and procedures have been edited to address the recommended internal control regarding changes in coding of cash disbursements.

"The Administrative Assistant will notify the independent C P A of any errors in initial coding. CPA will review original documentation and make necessary modifications as approved by the Executive Director."

<u>Accounts Receivable Aging Report</u>

The Arc of Louisiana's independent CPA will develop a detailed aging report that will tie into the accounting system.

<u>Maintain Fixed Asset Records</u>

Additions to the accounting policy manual have been made to address the recommendations regarding fixed asset record. See enclosed policy.

The Arc of Louisiana staff and the independent CPA have met, reviewed and discussed recommendations and internal accounting control.

Sincerely,

Julia Kenny

Julia Kenny
Executive Director

Cc Budget and Finance Committee

365 North 4th Street, Baton Rouge, LA 70801; Phone (225) 383-1033/ Fax (225) 383-1092

VIII. FIXED ASSETS

Because fixed assets represent a long-term investment of funds by The Arc, the following procedures have been established to provide additional controls:

1. The Administrative Assistant is responsible for maintaining a fixed asset log with the assistance of the independent CPA.. The log shall be maintained in a separate file for the auditor and vendor. The log should contain:

    a. Description of asset
    b. Cost, voucher number, and vendor name
    c. Dare placed in service
    d. Estimated useful life
    e. Funding source
    f. Restrictions or other limitations on use
    g. The Arc identification number
    h. Depreciation method
    i. Depreciation expense and accumulated description for the year
    j. Date asset retired

2. As soon as practical after each fiscal year-end, but no later than August 1st, the Administrative Assistant will conduct a physical inventory of all fixed assets. The Executive Director and Administrative Assistant must reconcile the physical inventory to the fixed asset log and document the reconciliation in a memorandum to the President.

3. The Executive Director must approve any sale or other disposition of any fixed assets.

4. The Executive Director is responsible for ensuring that all fixed assets are covered by The Arc property and casualty insurance policies.

5. Fixed assets with a cost or donated valued under $500 will be expensed rather than capitalized.