

**The Arc Baton Rouge  
Baton Rouge, Louisiana  
June 30, 2018**

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## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Arc Baton Rouge (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc Baton Rouge as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of compensation, benefits, and other payments to agency head or chief executive officer is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2018, on our consideration of The Arc Baton Rouge's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Arc Baton Rouge's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Arc Baton Rouge's internal control over financial reporting and compliance.

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

December 27, 2018

**The Arc Baton Rouge  
Statements of Financial Position  
June 30, 2018 and 2017**

	<b>Assets</b>	
	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 90,672	\$ 113,812
Investments	-	21,588
Receivables	212,987	281,953
Property and equipment, net	626,918	772,964
Deposits	26,059	20,769
Total assets	\$ 956,636	\$ 1,211,086
	<b>Liabilities and Net Deficit</b>	
<b>Liabilities</b>		
Accounts payable	\$ 21,347	\$ 42,089
Accrued expenses	102,730	120,290
Line of credit	171,147	154,301
Note payable	203,445	-
Deferred income	25,000	83,300
Accrued pension cost	1,395,373	1,390,241
Total liabilities	1,919,042	1,790,221
<b>Net Deficit</b>		
Unrestricted	(962,406)	(725,220)
Temporarily restricted	-	146,085
Total net deficit	(962,406)	(579,135)
Total liabilities and net deficit	\$ 956,636	\$ 1,211,086

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

**The Arc Baton Rouge  
Statements of Activities  
Years Ended June 30, 2018 and 2017**

	June 30, 2018			June 30, 2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Operating Activities:</b>						
<b>Revenue and Gains</b>						
Federal and state contracts	\$ 2,984,421	\$ -	\$ 2,984,421	\$ 3,333,538	\$ -	\$ 3,333,538
Federal grants	151,926	-	151,926	82,141	-	82,141
Private and public grants	107,594	-	107,594	114,852	-	114,852
Residential facilities	34,867	-	34,867	50,549	-	50,549
Program sales and service fees	136,747	-	136,747	153,667	-	153,667
Allocations from Capital Area United Way	385,662	-	385,662	377,984	-	377,984
Contributions	63,846	-	63,846	96,967	146,085	243,052
Plane Pull	31,827	-	31,827	21,236	-	21,236
Other income	9,196	-	9,196	7,566	-	7,566
Net assets released from restrictions	146,085	(146,085)	-	-	-	-
Total revenue and gains	4,052,171	(146,085)	3,906,086	4,238,500	146,085	4,384,585
<b>Expenses and Losses</b>						
Program services	3,323,917	-	3,323,917	3,795,900	-	3,795,900
General and administrative	623,094	-	623,094	665,945	-	665,945
Fundraising	2,589	-	2,589	6,702	-	6,702
Total expenses	3,949,600	-	3,949,600	4,468,547	-	4,468,547
Loss on disposal of fixed assets	319,459	-	319,459	3,192	-	3,192
Total expenses and losses	4,269,059	-	4,269,059	4,471,739	-	4,471,739
<b>(Increase) Decrease in Net Deficit from Operating Activities</b>	(216,888)	(146,085)	(362,973)	(233,239)	146,085	(87,154)
<b>Non-Operating Activities:</b>						
Pension-related changes other than net periodic pension cost	(20,298)	-	(20,298)	244,289	-	244,289
<b>(Increase) Decrease in Net Deficit</b>	(237,186)	(146,085)	(383,271)	11,050	146,085	157,135
<b>Net Assets (Deficit), beginning of year</b>	(725,220)	146,085	(579,135)	(736,270)	-	(736,270)
<b>Net Assets (Deficit), end of year</b>	\$ (962,406)	\$ -	\$ (962,406)	\$ (725,220)	\$ 146,085	\$ (579,135)

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

**The Arc Baton Rouge  
Statement of Functional Expenses  
Year Ended June 30, 2018**

	<b>Metro Enterprise Business</b>	<b>Metro Enterprise Habil- itation</b>	<b>Children's Services</b>	<b>Respite Care Programs</b>	<b>Baton Rouge Vocational Services</b>	<b>Community Services</b>	<b>Community Life</b>	<b>Total Program Services</b>	<b>General and Admin- istrative</b>	<b>Fund- raising</b>	<b>2018 Total</b>
Compensation and Related Benefits											
Salaries	\$ 85,762	\$ 399,293	\$ 194,906	\$ 379,165	\$ 47,517	\$ 29,337	\$ 1,176,197	\$ 2,312,177	\$ 199,690	\$ -	\$ 2,511,867
Payroll taxes	6,669	29,871	14,460	29,849	3,684	2,221	90,183	176,937	13,929	-	190,866
Employee health insurance	-	38,710	6,450	4,034	2,569	311	74,805	126,879	6,040	-	132,919
Retirement plan	-	-	-	-	-	-	-	-	21,834	-	21,834
Total compensation and related benefits	92,431	467,874	215,816	413,048	53,770	31,869	1,341,185	2,615,993	241,493	-	2,857,486
Contractual services	4,566	-	-	-	-	-	-	4,566	-	-	4,566
Professional services	-	919	77,785	2,732	48	200	10,022	91,706	172,675	-	264,381
Supplies	72	6,222	5,902	1,059	38	5,373	4,527	23,193	13,681	-	36,874
Utilities and telephone	6,003	32,415	7,216	9,272	1,325	170	13,209	69,610	38,578	-	108,188
Maintenance and equipment rental	371	5,051	2,000	2,878	306	-	3,671	14,277	8,843	-	23,120
Flood recovery expenses	-	2,500	-	2,768	-	1,696	-	6,964	-	-	6,964
Membership dues	-	-	255	11	-	-	-	266	13,870	-	14,136
Travel and transportation	43	1,502	6,816	6,999	1,443	117	8,085	25,005	2,135	-	27,140
Office expenses	-	50	-	80	-	1,053	214	1,397	1,139	-	2,536
General insurance	-	66,844	2,651	9,672	895	-	3,091	83,153	75,253	-	158,406
Worker's compensation	3,318	10,431	4,329	16,319	172	904	54,304	89,777	508	-	90,285
Vehicle expenses	74	5,696	-	-	-	-	-	5,770	-	-	5,770
Program transportation	-	-	700	-	-	-	-	700	-	-	700
Interest expense	92	35	-	11	-	-	34	172	11,317	-	11,489
Other expenses	977	3,043	19,105	1,687	51	339	5,455	30,657	16,772	2,589	50,018
Assistance to individuals	-	-	-	-	-	205,317	-	205,317	-	-	205,317
Depreciation	-	40,990	9,428	3,231	672	-	1,073	55,394	26,830	-	82,224
Total functional expenses	<u>\$ 107,947</u>	<u>\$ 643,572</u>	<u>\$ 352,003</u>	<u>\$ 469,767</u>	<u>\$ 58,720</u>	<u>\$ 247,038</u>	<u>\$ 1,444,870</u>	<u>\$ 3,323,917</u>	<u>\$ 623,094</u>	<u>\$ 2,589</u>	<u>\$ 3,949,600</u>

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

**The Arc Baton Rouge**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2017**

	<b>Metro Enterprise Business</b>	<b>Metro Enterprises Habil- itation</b>	<b>Children's Services</b>	<b>Respite Care Programs</b>	<b>Baton Rouge Vocational Services</b>	<b>Community Services</b>	<b>Community Life</b>	<b>Total Program Services</b>	<b>General and Admin- istrative</b>	<b>Fund- raising</b>	<b>2017 Total</b>
Compensation and Related Benefits											
Salaries	\$ 115,178	\$ 428,499	\$ 164,052	\$ 579,415	\$ 47,328	\$ 66,127	\$ 1,231,967	\$ 2,632,566	\$ 184,941	\$ -	\$ 2,817,507
Payroll taxes	8,951	33,401	11,970	45,941	3,633	5,123	97,271	206,290	14,450	-	220,740
Employee health insurance	-	45,342	10,543	46,781	5,299	3,828	70,133	181,926	14,572	-	196,498
Retirement plan	-	-	-	-	-	-	-	-	85,437	-	85,437
Total compensation and related benefits	124,129	507,242	186,565	672,137	56,260	75,078	1,399,371	3,020,782	299,400	-	3,320,182
Contractual services	14,883	-	-	-	-	-	-	14,883	-	-	14,883
Professional services	50	6,880	107,707	3,442	3,775	437	7,935	130,226	206,736	-	336,962
Supplies	1,109	9,406	9,412	3,459	339	3,876	4,904	32,505	16,932	-	49,437
Utilities and telephone	12,415	30,251	15,290	11,204	1,375	240	10,853	81,628	30,509	-	112,137
Maintenance and equipment rental	2,511	9,968	3,296	4,700	96	-	2,714	23,285	8,120	-	31,405
Flood recovery expenses	-	-	12	16,691	-	87,875	-	104,578	-	-	104,578
Membership dues	-	-	220	1,811	-	250	20	2,301	14,845	-	17,146
Travel and transportation	1,565	1,384	10,600	7,211	1,049	448	8,954	31,211	5,736	-	36,947
Office expenses	-	5	-	299	39	39	865	1,247	2,419	-	3,666
General insurance	-	62,975	18,496	14,144	-	-	6,528	102,143	35,832	-	137,975
Worker's compensation	4,659	11,643	4,810	29,761	440	1,960	62,440	115,713	1,176	-	116,889
Vehicle expenses	1,236	4,890	-	31	-	-	80	6,237	-	-	6,237
Program transportation	-	700	-	-	-	-	-	700	-	-	700
Interest expense	179	173	44	11	-	-	24	431	6,257	-	6,688
Other expenses	549	2,123	936	1,417	339	1,917	3,602	10,883	20,436	6,702	38,021
Assistance to individuals	-	-	-	-	-	74,278	-	74,278	-	-	74,278
Depreciation	-	36,314	3,866	1,045	708	-	936	42,869	17,547	-	60,416
Total functional expenses	\$ 163,285	\$ 683,954	\$ 361,254	\$ 767,363	\$ 64,420	\$ 246,398	\$ 1,509,226	\$ 3,795,900	\$ 665,945	\$ 6,702	\$ 4,468,547

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

**The Arc Baton Rouge  
Statements of Cash Flows  
Years Ended June 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Cash Flows from Operating Activities</b>		
(Increase) decrease in net deficit	\$ (383,271)	\$ 157,135
Adjustments to reconcile (increase) decrease in net deficit to net cash used in operating activities:		
Depreciation	82,224	60,416
Loss on disposal of fixed assets	319,459	3,192
Net unrealized loss on investments	-	843
Pension cost	5,132	(245,500)
(Increase) decrease in assets:		
Receivables	68,966	71,037
Inventory	-	8,738
Deposits	(5,290)	-
Increase (decrease) in liabilities:		
Accounts payable	(20,742)	(3,832)
Accrued expenses	(17,560)	(106,054)
Deferred income	(58,300)	41,948
Net cash used in operating activities	(9,382)	(12,077)
 <b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(255,637)	(48,279)
Purchase of investments	-	(258)
Proceeds from the sale of investments	21,588	-
Net cash used in investing activities	(234,049)	(48,537)
 <b>Cash Flows from Financing Activities</b>		
Increase (decrease) in line of credit	16,846	(13,791)
Proceeds from note payable	205,312	-
Principal payments on note payable	(1,867)	-
Net cash provided by (used in) financing activities	220,291	(13,791)
 <b>Net Decrease in Cash and Cash Equivalents</b>	(23,140)	(74,405)
 <b>Cash and Cash Equivalents, beginning of year</b>	113,812	188,217
 <b>Cash and Cash Equivalents, end of year</b>	\$ 90,672	\$ 113,812
 <b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the year for:		
Interest	\$ 11,489	\$ 6,688

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

**The Arc Baton Rouge**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 1-Nature of Organization**

The Arc Baton Rouge (the “Organization”) is a not-for-profit organization which promotes, develops, monitors, supports and directly provides services to improve the well-being of people with intellectual and developmental disabilities and their families. The Organization primarily serves East Baton Rouge Parish as well as the surrounding parishes: Ascension, East and West Feliciana, Pointe Coupee, West Baton Rouge and Iberville. The Organization’s funding sources include allocations from the Capital Area United Way, philanthropic grants, and federal and state fees for service, contracts and grants.

The Organization offers the following service programs:

*Metro Enterprises* (Business and Habilitation): Day program services offer opportunities for people with developmental disabilities to become more independent, integral and productive members of society. Services include work adjustment training, community life enrichment and paid work experience.

*Children’s Services*: Promotes the rights and full inclusion of children with special needs and their families. With community partners, the program provides services, support and advocacy that inspire the community and individuals. Early Intervention services are provided for children with disabilities and families in home and community settings. The program also supports inclusion through training and technical assistance projects to support Early Childhood teachers and child care providers to include children with disabilities in natural settings. The Arc Children’s Services also provides services to families of children with disabilities through parent support and training.

*Respite Care*: Provides relief for the primary care providers of children and adults with developmental disabilities, from the everyday care, whether it’s physical assistance, supervision, or accompanying on outings. The support may occur in the individual’s home or in the community or in the Respite Center. It may occur regularly or the family may only request assistance in an emergency situation. It is the primary objective of Respite to help prevent or delay institutionalization of individuals with developmental disabilities. The Respite Center also provides emergency placement for both children and adults when requested by protective services.

*Baton Rouge Vocational Services*: Develops and creates employment opportunities for individuals (age 16 and older) with disabilities through partnership with LRS. BRVS provides transition services, vocational assessments, job readiness training, job placement and follow up services.

*Community Services*: Provides disability education to the general public, service referral, advocacy, crisis assistance, and coordination of volunteer efforts.

*Community Life*: Provides supported living services to adults with developmental disabilities who require assistance or support to live in their own homes in the community. The goal of Community Life is to provide opportunities and support for individuals to live as independently as possible and to be successfully included in the community.

*Inclusive Sports & Recreation*: Works with established agencies to provide inclusive recreational opportunities for persons with and without developmental disabilities. The program works with other established agencies to coordinate recreational, special events and volunteer opportunities. For financial statement purposes, inclusive sports and recreation is included in community services.

**The Arc Baton Rouge**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 2-Summary of Significant Accounting Policies**

A. Basis of Accounting

The financial statements are prepared using the accrual basis of accounting, recording revenue when earned and expenses when incurred.

B. Basis of Presentation

Financial statement presentation follows the recommendations of FASB ASC 958, *Not-for-Profit Entities*. Under FASB ASC 958, 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. These net asset classifications are described as follows:

*Unrestricted Net Assets* - not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes or locations by action of the Board of Directors.

*Temporarily Restricted Net Assets* - subject to donor-imposed stipulations that may be fulfilled by actions of the Organization to meet the stipulations or become unrestricted at the date specified by the donor.

*Permanently Restricted Net Assets* - subject to donor-imposed stipulations that they be retained and invested permanently by the Organization.

At June 30, 2018 and 2017, the Organization had no permanently restricted net assets.

C. Use of Estimates

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

D. Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly-liquid investments with maturities of three months or less, when purchased, to be cash equivalents.

E. Investments

Investments in marketable securities with readily determinable fair values are reported in the Statement of Financial Position. Unrealized gains and losses are included in the Statement of Activities in other income.

F. Receivables

Grants, which are considered exchange transactions, are recognized as revenue when allowable costs are incurred to provide the service under the terms of the grant agreement. Advances under the grants are recorded as deferred income until such time as they can be recognized as revenue.

**The Arc Baton Rouge**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 2-Summary of Significant Accounting Policies (Continued)**

F. Receivables (Continued)

As of June 30, 2018 and 2017, the Organization considered its receivables to be fully collectible; therefore, no allowance for doubtful accounts was recorded.

G. Property and Equipment

Property and equipment are recorded at cost, if purchased by the Organization. Property and equipment donated for operations are recorded as additions to net assets at fair value at the date of receipt and depreciated using the straight-line method of depreciation over the estimated useful lives of the assets, which are as follows:

Buildings and improvements	3 - 35 years
Furniture and equipment	3 - 10 years
Vehicles	5 years

Expenditures for additions of property and equipment in excess of \$2,500 are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

H. Support

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period as received are reported as unrestricted revenue.

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

I. Accrued Vacation

Vacation and sick pay are not vested. Vacation and sick pay runs from September 1<sup>st</sup> to August 31<sup>st</sup> for all Organization employees, except for employees of the Children's Services program, where it runs from January 1<sup>st</sup> to December 31<sup>st</sup>. Accrued vacation was \$17,804 and \$18,847 at June 30, 2018 and 2017, respectively.

J. Contributed Services

The Organization receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. No amounts have been recognized in the statement of activities because the criteria for recognition under FASB ASC 958-605, *Not-for-Profit Entities - Revenue Recognition*, have not been satisfied.

**The Arc Baton Rouge**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 2-Summary of Significant Accounting Policies (Continued)**

K. Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. Accordingly, no provision for income taxes on related income has been included in the financial statements.

The Organization follows FASB ASC 740, *Income Taxes*, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The Organization recognizes the effect of income tax positions only if the positions are more likely than not of being sustained on examination by taxing authorities. Recognized income tax positions are recorded at the largest amount that is greater than fifty percent likely of being realized.

The Organization evaluated its position regarding the accounting for uncertain income tax positions and does not believe that it has any material uncertain tax positions.

From time to time, the Organization may be subject to interest and penalties assessed by various taxing authorities. These amounts have historically been insignificant and are classified as other expenses when they occur.

L. Functional Expenses

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

M. Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation. These reclassifications had no effect on the total net deficit or the decrease in net deficit of the prior year.

**Note 3-Fair Value Measurements**

FASB ASC 820, *Fair Value Measurements*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include:
  - quoted prices for similar assets or liabilities in active markets;
  - quoted prices for identical or similar assets or liabilities in inactive markets;
  - inputs other than quoted prices that are observable for the asset or liability; and
  - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**The Arc Baton Rouge**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 3-Fair Value Measurements** (Continued)

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

- Mutual Funds:* Valued at the quoted net asset value of shares held by the Organization at year end.
- Money Market Funds:* Valued using amortized cost, which approximates fair value.
- Common Stocks:* Valued at the closing price reported in the active market in which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Organization had no investments as of June 30, 2018. The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value measurements as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>June 30, 2017</b>				
Mutual Funds	\$ 5,228	\$ -	\$ -	\$ 5,228
Money Market Funds	-	869	-	869
Common Stocks	<u>15,491</u>	<u>-</u>	<u>-</u>	<u>15,491</u>
	<u>\$ 20,719</u>	<u>\$ 869</u>	<u>\$ -</u>	<u>\$ 21,588</u>

Income (loss) on investments is comprised of the following for the years ended June 30, 2018 and 2017, which is included in other income on the statement of activities:

	<u>2018</u>	<u>2017</u>
Dividends and interest	\$ 600	\$ 578
Net unrealized loss	-	(843)
Net realized gain	<u>2,922</u>	<u>-</u>
	<u>\$ 3,522</u>	<u>\$ (265)</u>

**The Arc Baton Rouge**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 4-Property and Equipment**

A summary of property and equipment at June 30, 2018 and 2017 is as follows:

	<u><b>2018</b></u>	<u><b>2017</b></u>
Buildings and improvements	\$ 2,078,400	\$ 2,371,420
Furniture and equipment	80,825	366,235
Vehicles	<u>105,647</u>	<u>129,464</u>
	2,264,872	2,867,119
Less depreciation to date	<u>1,747,951</u>	<u>2,304,152</u>
	516,921	562,967
Land	<u>109,997</u>	<u>209,997</u>
 Property and equipment, net	 <u><b>\$ 626,918</b></u>	 <u><b>\$ 772,964</b></u>

During the year ended June 30, 2018, the Organization transferred title for a building and the land on which it is situated to the State of Louisiana. The building and the land were originally purchased with federal grant funds by the State of Louisiana. This transfer resulted in a loss in the amount of \$310,251 that is included in the “Loss on disposal of fixed assets” reported on the Statements of Activities.

**Note 5-Line of Credit**

The Organization has a \$200,000 line of credit with a financial institution, due on demand, of which \$171,147 and \$154,301 was drawn at June 30, 2018 and 2017, respectively. The interest rate was 5.00% and 4.00% at June 30, 2018 and 2017, respectively. The line is secured by real estate.

**Note 6-Note Payable**

	<u><b>2018</b></u>	<u><b>2017</b></u>
Note payable to a financial institution, due in 59 monthly principal and interest installments totaling \$1,442, with a final payment of \$175,058 due on February 15, 2023, bearing interest at 5.75%, collateralized by real estate.	<u>\$203,445</u>	<u>\$ —</u>

Future maturities of the note payable for the years ending June 30 are as follows:

2019	\$	5,754
2020		6,094
2021		6,453
2022		6,834
2023		<u>178,310</u>
		<u><b>\$ 203,445</b></u>

**The Arc Baton Rouge**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 7-Pension Plan**

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

Effective, July 1, 2015, the Organization elected to do a hard freeze of the Defined Benefit Plan. Under the hard freeze, employees currently in the Plan stopped earning benefits beginning July 1, 2015.

The Organization follows FASB ASC 715, *Compensation-Retirement Benefits*, which requires companies to recognize an asset or liability for the overfunded or underfunded status of their benefit plans in their financial statements.

The following table presents the changes in benefit obligations, changes in Plan assets, and the composition of accrued benefit costs in the statements of financial position as of June 30, 2018 and 2017.

	<u>Pension Benefits</u>	
	<u>2018</u>	<u>2017</u>
<b>Changes in Benefit Obligations</b>		
Benefit obligations at beginning of year	\$ 4,104,197	\$ 4,277,168
Service cost	8,105	8,705
Interest cost	118,302	120,167
Change due to assumption changes	57,507	6,574
Actuarial (gain) loss	(21,640)	(120,305)
Benefits disbursed	(594,273)	(160,162)
Expense charges	(12,505)	(12,705)
Effect of settlement on PBO	15,690	(15,245)
Benefit obligations at end of year	<u>3,675,383</u>	<u>4,104,197</u>
<b>Changes in Plan Assets</b>		
Fair value of plan assets at beginning of year	2,713,956	2,641,427
Actual return on plan assets	137,832	195,396
Employer contributions	35,000	50,000
Benefits disbursed (including expense charges)	(606,778)	(172,867)
Fair value of plan assets at end of year	<u>2,280,010</u>	<u>2,713,956</u>
Accrued pension cost	<u>\$ 1,395,373</u>	<u>\$ 1,390,241</u>

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**The Arc Baton Rouge**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 7-Pension Plan** (Continued)

The following table presents a reconciliation of items not yet reflected in net periodic benefit cost under FASB ASC 715 as of June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Net Actuarial Loss, Beginning	\$ 747,049	\$ 1,017,465
Reclassified as Net Periodic Benefit Cost	(34,103)	(48,634)
Amounts Arising During Period	54,401	(190,655)
Effects of Settlement	<u>(107,429)</u>	<u>(31,127)</u>
Net Actuarial Loss, Ending	<u>\$ 659,918</u>	<u>\$ 747,049</u>

The estimated amount to be reclassified as Net Periodic Benefit Cost in the year ending June 30, 2019 is \$35,227.

The accumulated benefit obligation for the pension plan was approximately \$3.7 million and \$4.1 million as of June 30, 2018 and 2017, respectively.

The significant actuarial assumptions used in the valuations as of June 30, 2018 and 2017 are as follows:

1. Measurement Date	06/30/2018	06/30/2017
2. Assumptions:		
a) Discount Rate	3.75%	3.25%
b) Post-retirement Interest Rate	5.00%	5.00%
c) Expected Long-term Rate of Return on Plan Assets	6.00%	6.00%
d) Salary Increase	0.0% per year	0.0% per year
e) Social Security Wage Base Increase	0.0% per year.	0.0% per year.
f) Employee Withdrawal Rates	N o n e	N o n e
g) Retirement Age	Age 65; for employees over age 65, immediate retirement is assumed.	

**The Arc Baton Rouge  
Notes to Financial Statements  
June 30, 2018**

**Note 7-Pension Plan** (Continued)

2. Assumptions (Continued):

h) Mortality Rates

Pre-retirement mortality: 06/30/18: Adjusted RP-2014 Total Dataset Employee Table, separate for Males and Females projected by Scale-MP 2017.

06/30/17: Adjusted RP-2014 Total Dataset Employee Table, separate for Males and Females projected by Scale MP-2016.

Post-retirement mortality: 06/30/18: 2018 Unisex Mortality Table specified in IRS Notice 2017-60.

06/30/17: 2017 Unisex Mortality Table specified in IRS Notice 2016-50.

i) Pre-retirement Expense Loading Annual Estimated Administrative Charge.

j) Post-retirement Expense Loading 0.0% of estimated cost of annuity.

k) Spouse Age Females 3 years younger than males.

l) Marital Status 80% married.

m) Maximum Benefit and Maximum Includable Compensation Increase 3.75% per year 3.75% per year.

3. Census date 07/01/2017 07/01/2016

The Expected Long-Term Rate of Return on Plan Assets assumption of 6.00% was in accordance with Actuarial Standards Board in Actuarial Standards of Practice No. 27-Selection of Economic Assumptions for Measuring Pension Obligations. Based on the investment policy for the pension plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net of inflation and investment expense) and for inflation based on the long-term historical return on the applicable asset classes. An average inflation rate with the range equal to 3.00% was selected and added to the real rate of return range to arrive at a best estimate range of 5.80% to 8.31%. A rate of 6.00% which is within the best estimate range was selected.

**The Arc Baton Rouge  
Notes to Financial Statements  
June 30, 2018**

**Note 7-Pension Plan** (Continued)

The Organization does not anticipate making funding contributions to the Pension Plan from July 1, 2018 to June 30, 2019. The components of net periodic benefit costs for the years ended June 30, 2018 and 2017 are as follows:

	<u>Pension Benefits</u>	
	<u>2018</u>	<u>2017</u>
Service cost	\$ 8,105	\$ 8,705
Interest cost	118,302	120,167
Actual return on plan assets	(137,832)	(195,396)
Amount of unrecognized net losses	34,103	48,634
Asset gain (loss) deferred	<u>(2,844)</u>	<u>61,679</u>
Net periodic benefit cost	<u>\$ 19,834</u>	<u>\$ 43,789</u>

Benefits expected to be paid during the ensuing five years and thereafter, are estimated as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Pension Benefits</u>
2019	\$ 806,000
2020	31,000
2021	258,000
2022	178,000
2023	170,000
2024 - 2028	1,788,000

**Plan Assets by Category**

	<u>As of June 30, 2018</u>		<u>As of June 30, 2017</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Equity	\$ 641,717	28.14%	\$1,156,095	42.60%
Fixed Income	828,696	36.35%	1,252,640	46.15%
General Account	<u>809,597</u>	<u>35.51%</u>	<u>305,221</u>	<u>11.25%</u>
Total	<u>\$ 2,280,010</u>	<u>100.00%</u>	<u>\$2,713,956</u>	<u>100.00%</u>

All investments are categorized as Level 1 as defined in Note 3.

The Organization's investment strategy is a long-term investment mix of forty percent common stocks and sixty percent fixed income investments which include bonds and cash equivalents. The permitted range by investment category is 25% - 75% for common stock and bond funds and up to 40% for cash equivalent funds.

**Note 8-Pension Plan - Defined Contribution**

The Organization has a non-contributory defined contribution plan subject to Section 403(b) of the Internal Revenue Code. The plan covers all of its employees who meet eligibility requirements. Employees may contribute 100% of eligible compensation, not to exceed federal limits.

**The Arc Baton Rouge**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 9-Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
2016 Flood Recovery	<u>\$ -</u>	<u>\$ 146,085</u>

**Note 10-Concentration of Risk**

Receivables have significant concentrations of credit risk in the governmental sector. At June 30, 2018 and 2017, the portion of these receivables related to this sector was approximately 92% and 95%, respectively.

**Note 11-Economic Dependency**

The Organization receives a majority of its revenue from funds provided through programs administered by the State of Louisiana and Capital Area United Way. The program amounts are appropriated each year by the federal and state governments and Capital Area United Way. If significant budget cuts are enacted at the federal and/or state level, 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.

**Note 12-Contingencies - Federal and State Programs**

The Organization participates in federal and state programs, which are governed by various rules and regulations. Costs charged to the grant programs are subject to audit and adjustment by the grantor agency; therefore, to the extent that the Organization has not complied with the rules and regulations governing the grants, refunds of any money received and the collectibility of any related receivable at year end may be impaired.

In management's opinion, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies. Audits of prior years have not resulted in any significant disallowed costs or refunds. Any costs that would be disallowed would be recognized in the period agreed upon by the grantor agency and the Organization.

**Note 13-Management's Plan Regarding Net Deficit**

Management of the Organization considers the primary cause of the net deficit to be related to the Defined Benefit Plan. Although actions taken in previous years to curtail this financial strain on the Organization have had a significant impact, further action is needed. As a result, management is exploring all options, including termination of the Defined Benefit Plan.

Management is also continuing to implement changes in the Organization's structure and services as a measure to reduce expenses. Among these changes is the consolidation and elimination of program services. The Organization is also in the process of selling some of its real estate holdings with the intention of consolidating all administrative and program operations into one location.

**The Arc Baton Rouge**  
**Notes to Financial Statements**  
**June 30, 2018**

**Note 14-Subsequent Events**

The Organization evaluated all subsequent events through December 27, 2018, the date the financial statements were available to be issued. As a result, the Organization noted no subsequent events that required adjustment to, or disclosure in, these financial statements.

## **Supplementary Information**

**The Arc Baton Rouge  
Schedule of Compensation, Benefits and Other  
Payments to Agency Head or Chief Executive Officer  
Year Ended June 30, 2018**

**Agency Head Name: Barry Meyer, Executive Director  
(7/1/2017 - 3/13/2018)**

<b>Purpose</b>	<b>Amount</b>
Salary	\$ 94,500
Benefits - insurance	5,030
Benefits - retirement	-
Car allowance	-
Vehicle provided by agency	-
Per diem	-
Reimbursements	-
Travel	-
Continuing professional education fees	1,340
Housing	-
Unvouchered expenses	-
Special meals	-

**Agency Head Name: Susanne Romig, Executive Director  
(3/14/2018 - 6/30/2018)**

<b>Purpose</b>	<b>Amount</b>
Salary	\$ 18,585
Benefits - insurance	106
Benefits - retirement	-
Car allowance	-
Vehicle provided by agency	-
Per diem	-
Reimbursements	-
Travel	-
Continuing professional education fees	-
Housing	-
Unvouchered expenses	70
Special meals	-



**HAWTHORN  
WAYMOUTH  
& CARROLL, L.L.P.**  
Certified Public Accountants

Louis C. McKnight, III, CPA  
Charles R. Pevey, Jr., CPA  
David J. Broussard, CPA  
Neal D. King, CPA  
Brittany B. Thames, CPA

**Independent Auditor's Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

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

We have audited, in accordance with the 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, the financial statements of The Arc Baton Rouge (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated December 27, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audits of the financial statements, we considered The Arc Baton Rouge's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Arc Baton Rouge's internal control. Accordingly, we do not express an opinion on the effectiveness of The Arc Baton Rouge's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The Arc Baton Rouge's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

December 27, 2018

**The Arc Baton Rouge  
Schedule of Findings and Responses  
Year Ended June 30, 2018**

**Part I - Summary of Audit Results**

- 1) An unmodified opinion has been expressed on the financial statements of The Arc Baton Rouge as of and for the year ended June 30, 2018, and the related notes to the financial statements.
- 2) No deficiencies in internal control over financial reporting that we consider to be material weaknesses were identified.
- 3) No instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* were identified.
- 4) A single audit in accordance with *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* was not required.
- 5) A management letter was not issued.

**Part II - Financial Statement Findings**

No findings were noted.

**The Arc Baton Rouge  
Summary Schedule of Prior Year Audit Findings  
Year Ended June 30, 2018**

**Part I – Financial Statement Findings**

No findings were noted.

**Part II – Management Letter**

A management letter was not issued for the year ended June 30, 2017.