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The Arc of DeSoto
(a nonprofit corporation)
Mansfield, Louisiana

FINANCIAL STATEMENTS
June 30, 2004 and 2003

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 2-2-05

Deborah D. Dees, MBA, CPA
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The Arc of DeSoto
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Deborah D. Dees, MBA, CPA



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CERTIFIED PUBLIC ACCOUNTANT

Independent Auditor's Report

To the Board of Directors
The Arc of DeSoto
Mansfield, LA 71052

I have audited the accompanying statements of financial position of The Arc of DeSoto (a nonprofit corporation) 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 entity's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those Standards require that I 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 amount 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion the financial statements referred to above present fairly, in all material respects, the financial position of DeSoto Association for Retarded Citizens, Inc. at June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 25, 2004, on my consideration of The Arc of DeSoto's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of any audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Deborah D. Dees, CPA

Mansfield, Louisiana

September 25, 2004

The Arc of DeSoto
Statements of Financial Position
June 30, 2004 and 2003

Assets	<u>2004</u>	<u>2003</u>
Current Assets		
Cash	\$ 94,514	\$ 76,729
OCDD Vocational & Habilitative Services receivable	24,821	21,517
Employee receivable	-	44
Medicaid receivable	2,332	-
Restitution receivable	1,000	-
United Way receivable	3,106	-
Total current assets	<u>125,773</u>	<u>98,290</u>
Property, plant & equipment		
Land	8,000	8,000
Building	282,072	286,821
Furniture and fixtures	3,856	3,856
Machinery and equipment	24,164	17,915
Vans	136,722	177,974
Sheltered workshop equipment	28,452	28,452
Total property, plant & equipment	<u>483,266</u>	<u>523,018</u>
Less: accumulated depreciation	<u>(162,077)</u>	<u>(167,813)</u>
Net property, plant & equipment	<u>321,189</u>	<u>355,205</u>
Prepaid Insurance	5,013	-
Deposits	50	50
Total Assets	<u>\$ 452,025</u>	<u>\$ 453,545</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable-trade	\$ 3,311	\$ 6,345
Payroll taxes payable	4,521	4,341
Total current liabilities	<u>7,832</u>	<u>10,686</u>
Net Assets		
Unrestricted:		
Board operating fund	6,523	7,784
Designated for programs	116,481	79,870
Fixed assets	321,189	355,205
Total unrestricted net assets	<u>444,193</u>	<u>442,859</u>
Total Liabilities and Net Assets	<u>\$ 452,025</u>	<u>\$ 453,545</u>

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

The Arc of DeSoto
Statements of Activities
For the years ended June 30, 2004 and 2003

	2004	2003
Unrestricted Net Assets		
Revenues and other support:		
Contracts with governmental agencies	\$ 249,703	\$ 249,703
Community Homes-contractual	40,992	25,620
Medicaid income	16,712	9,962
United Way	9,818	7,109
Membership dues	40	1,245
Interest and dividend income	353	450
DOTD van grant	-	29,191
Contributions	-	1,080
Service income-sheltered workshop	50,070	55,542
Gain on assets	1,640	0
Miscellaneous income	1,830	4,144
Total revenues and other support	371,158	384,046
Expenses:		
Program Services		
Adult habilitation services	323,715	316,883
Sheltered workshop	42,903	47,341
Other programs	3,206	2,646
Total program services	369,824	366,870
Increase in unrestricted net assets	1,334	17,176
Unrestricted net assets, beginning of year	442,859	425,683
Unrestricted net assets, end of year	\$ 444,193	\$ 442,859

The Arc of DeSoto
Statement of Functional Expenses
For the year ended June 30, 2004

	Adult Habilitation Services	Sheltered Workshop	Other Programs
Advertising	\$ 271	\$	\$
Bank charges	214		
Client expense			1,784
Depreciation	32,628	2,887	
Drug Testing	55		
Dues	75		
Employee benefits	2,807		
Fuel	19,524		
Insurance	44,091		
License	72		
Maintenance-vehicles	6,470		
Office supplies	8,646		
Payroll taxes	14,615		
Professional fees	9,842		
Repairs	1,270	1,026	
Salaries & wages	168,885	23,385	
Security	1485		
Staff training	55		
Supplies		15,605	
Telephone	3,440		
Travel	559		
Utilities	8,203		
Other expense	508		1,422
Total program services expenses	<u>\$ 323,715</u>	<u>\$ 42,903</u>	<u>\$ 3,206</u>

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

The Arc of DeSoto
Statement of Functional Expenses
For the year ended June 30, 2003

	Adult Habilitation Services	Sheltered Workshop	Other Programs
Advertising	\$ 163	\$	\$
Bank charges	204		
Client expense			2,361
Depreciation	32,490	3,445	
Drug Testing	78		
Dues	179		
Employee benefits	1,164		
Fuel	18,260		
Insurance	44,875		
License	10		
Maintenance-vehicles	9,491		
Office supplies	4,381		
Payroll taxes	12,363		
Postage	0		
Professional fees	8,535		
Repairs	6,374		
Salaries & wages	157,371	26,849	
Security	855		
Staff training	595		
Supplies		17,047	
Telephone	2,878		
Travel	606		
Utilities	8,015		
Yard maintenance	6,290		
Other expense	1706		285
Rent	0		
Total program services expenses	<u>\$ 316,883</u>	<u>\$ 47,341</u>	<u>\$ 2,646</u>

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

The Arc of DeSoto
Statement of Cash Flows
For the year ended June 30, 2004 and 2003

	<u>2,004</u>	<u>2003</u>
Cash flows from operating activities		
Change in unrestricted net assets	\$ 1,334	\$ 17,176
Adjustment to reconcile change in net assets to net cash provided by operations:		
Depreciation expense	35,515	35,935
DOTD noncash grant	-	(29,191)
(Increase)Decrease in accounts receivable	(8,697)	4,639
(Increase)Decrease in prepaids	(5,013)	-
(Increase)Decrease in other assets	39,752	-
Increase(Decrease) in accounts payable	(3,034)	2,432
Increase(Decrease) in payroll taxes payable	180	(460)
Net cash provided by operating activities	<u>58,703</u>	<u>13,355</u>
 Cash flows from investment activities		
Investment in fixed assets	<u>(41,252)</u>	<u>(8,415)</u>
Net cash used in investing activities	<u>(41,252)</u>	<u>(8,415)</u>
 Net increase in cash	18,785	22,116
 Cash at beginning of period	<u>76,729</u>	<u>54,613</u>
Cash at end of period	<u>\$ 95,514</u>	<u>\$ 76,729</u>

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

The Arc of DeSoto.
Notes to Financial Statements
June 30, 2004 and 2003

Note A. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The Arc of DeSoto is a nonprofit corporation under the laws of the State of Louisiana. The Arc of DeSoto (The Arc) was established to provide vocational and habilitation services to developmental disabled persons ages 22 years and older within DeSoto Parish, Louisiana. The organization is supported primarily through a Louisiana Department of Health and Hospitals contract. Approximately 67% and 65% of the Arc's support for the years ended June 30, 2004 and 2003, respectively, came from this state department.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

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 for Not-for-Profit Organizations*. Under SFAS No. 117, The Arc 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. The Arc has not received any revenues or contributions with restrictions that would result in permanently restricted net assets. SFAS No. 117 also requires a not-for-profit organization to provide information about expenses by functional classifications. The Statement of Activities presents the expenses charged directly to program or supporting services based on specific identification.

Cash and/or Cash Equivalents

For the purposes of the statement of cash flows, The Arc of DeSoto considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The carrying value of cash approximates fair-value because of the liquidity of those financial instruments. The Federal Deposit Insurance Corporation as of June 30, 2004 insures the checking accounts at each institution. The Board has a checking account for contributions that are used solely for client expenses that are not allowed under the state's contract.

Property and Equipment

Property and equipment are carried at cost or if donated, at the approximate fair value at the date of donation. The State of Louisiana has a reversionary interest in property purchased with state funds. Its disposition as well as the ownership of any proceeds therefore is subject to state regulations.

The Arc of DeSoto follows the practice of capitalizing, at cost, all expenditures for fixed assets in excess of \$500. Depreciation is computed using the straight-line method over the estimated useful life of each asset generally as follows:

Buildings and improvements	31.5 years
Furniture and equipment	7 years
Vans	5 years

The net fixed asset balance has been recorded as a separate component in unrestricted net assets. Depreciation expense for June 30, 2004 and 2003 is \$35,515 and \$35,935, respectively.

The Arc of DeSoto.
Notes to Financial Statements
June 30, 2004 and 2003

Income Taxes

The Arc of DeSoto is a nonprofit corporation and is exempt from state and federal income taxes under Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes has been made in these financial statements. However, income from certain activities not directly related to the tax-exempt purposes of the Association is subject to taxation as unrelated business income. The Arc of DeSoto had no such income for this audit period.

Revenue and Support

The Arc of DeSoto receives its contract support primarily from the State of Louisiana Department of Health and Hospitals, Office for Citizens with Developmental Disabilities. Contractual revenue is reported as unrestricted support due to the restrictions placed on those funds by the funding sources being met in the same reporting period as the revenue is earned. The Arc of DeSoto receives other contractual revenue from local community homes for the services provided to their clients.

Contributions of donated non-cash assets are recorded at their fair value in the period received. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Arc had no temporarily or permanently restricted net assets for year ended June 30, 2004.

Retirement Obligations

The employees of The Arc of DeSoto participate in a 401(k) thrift plan. The Arc will match 50% of the first 6% of salary contributed by the employee, and the employee is fully vested in five years. The Arc of DeSoto's contributions for 2004 and 2003 were \$2,807 and \$1,164, respectively.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Compensated Absences

Compensated absences are not recorded in the financial statements because all employees take the same week vacation in June and 10-day vacation in December. Leave is accumulated but if not used, is only paid if the employee is terminated; therefore the amount cannot be reasonably estimated.

Note B. Transactions with Related Parties

The Arc of DeSoto has purchased lawn equipment and repair work for years ending June 30, 2004 and 2003, of approximately \$73 and \$4,385, respectively, from Mansfield Lawn and Garden, a company owned by a member of the Board of Directors.

Deborah D. Dees, MBA, CPA



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CERTIFIED PUBLIC ACCOUNTANT

**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 DeSoto
Mansfield, LA 71052

I have audited the financial statements of The Arc of DeSoto (a nonprofit corporation) as of and for the years ended June 30, 2004 and 2003, and have issued my report thereon dated September 25, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether The Arc of DeSoto's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that is required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered The Arc of DeSoto's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial reporting and not to provide assurance on the internal control over financial reporting. My 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. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting, which I have reported to management of the Arc of DeSoto in a separate letter dated September 25, 2004.

This report is intended solely for the information and use of the board of directors, management, others within the organization, the Legislative Auditor, and the cognizant agencies and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Deborah D. Dees, CPA

Mansfield, Louisiana
September 25, 2004

The Arc of DeSoto
Schedule of Finding and Questioned Costs
For the Year ended June 30, 2004

SUMMARY OF AUDITOR'S REPORTS

INDEPENDENT AUDITOR'S REPORT:

An unqualified opinion was issued on the financial statements of the Arc of Desoto.

REPORT ON INTERNAL CONTROL AND COMPLIANCE OVER FINANCIAL REPORTING:

The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

I noted no matters involving the internal control over financial reporting and its operation that I consider to be a material weakness.

A management letter was issued.

The Arc of DeSoto
Summary Schedule of Prior Audit Findings
For the Year ended June 30, 2002

Prior Year Findings:

Compliance Finding

2002-1 Misappropriation of funds. Resolved. The District Attorney issued a letter that when restitution was received the matter would be closed. Restitution was made to the organization in September, 2004.

To the Board of Directors
The Arc of DeSoto
Mansfield, LA 71052

I have audited the accompanying statements of financial position of The Arc of DeSoto (a nonprofit corporation) as of June 30, 2004 and 2003, and the related statements of activities, functional expenses and cash flows for the years then ended. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing my audit of the financial statements of The Arc of DeSoto, I considered the Organization's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during my audit, I became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. I previously reported on the Organization's internal control in my report dated September 25, 2004. This letter does not affect my report.

Cash receipts

While testing revenue receipts for the client activities, it was noted that the receipt books and the summary register report did not always agree. This test also revealed that the register reconciliation summary report and deposit slips were completed by one person. Subsequently, this deposit was also being made by the same person. To properly control the cash receipts in this area, receipts should be completed for every transaction and initialed by the responsible person. These receipts should be compared to the summary report in which they are recorded. To be assured of the necessary separation of duties for control over the cash receipts, the register reconciliation summary report and the deposit slip should be completed by TWO people and then be deposited into the bank by still another. The bank deposit receipt should be compared to the register reconciliation summary report and initialed.

Payroll

While checking cash disbursements, it was noted a check for \$508.20 was made out to an employee and posted into Miscellaneous Expense. Further inquiry indicated that an employee was granted back pay retroactive to an anniversary date of employment. The disbursement of this back pay was not treated as wages whereas payroll taxes would have been withheld and paid on behalf of the employee. Any monies paid to employees as a form of compensation should be treated as payroll and taxes should be withheld and paid.

Client Activities

Although client activities are not profit motivated, knowing whether the activity is generating enough revenue to sustain the costs of the program is necessary to determine whether it is advisable for the activity to continue. During the review of these client activities it was noted that the costs to revenue ratio for Yards was high. Upon further review it was noted that 1) Yard work revenue at the Health Unit was recorded as janitorial revenue, yet the expenses are recorded in yard expenses. 2) Fuel costs for all client activities (yard, janitorial & deliveries) are being recorded as yard expenses. 3) The yard work performed on the Arc's premises is not being reimbursed from General operations, yet the costs are recorded as yard expenses. 4) When comparing labor time sheets to invoices (that list crew members on the job) there were discrepancies in the number of members on the crew and the number of clients with recorded time for the jobs. The first two explanations can be corrected with better allocations in the bookkeeping system. The Arc should reimburse yard activity for the work performed as they would an outside contractor. The fourth finding needs to be addressed with the supervisors of the crews.

Members

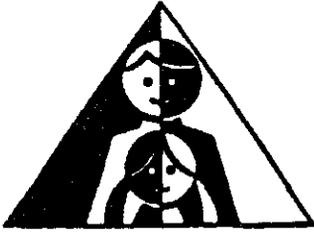
The membership dues collected for the year end June 30, 2004 were \$40. This number was compared to the amount of dues collected for the year ended June 30, 2003 of \$1,245. A membership list for 2003-2004 was obtained. This membership list was compared to the board members of the Arc. It was not evident from the list that all board members were members of the Arc of DeSoto. Since the Board is to be elected from its members each June, it is suggested that the Board review the Bylaws of the Arc to assure themselves that they are in compliance with *Article 1 Membership*.

I wish to thank Ms. Warmley, Robert Smith and the employees of Arc of DeSoto for their support, assistance, and patience during the audit.

This report is intended solely for the information and use of the Board of Directors and management. I recommend management address the foregoing issues as an improvement to operations and the administration of public programs. I am available to further explain the suggestions.



Deborah D. Dees, CPA
September 25, 2004



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FAX (318) 872-3233

The Arc of DeSoto

1528 OLD JEFFERSON HIGHWAY
MANSFIELD, LOUISIANA 71052

MARVA M. WARMSLEY, DIRECTOR
Telephone (318) 872-3255

November 18, 2004

Corrective Action Taken

Cash Receipts:

Suggestions were taken under advisement.

Payroll:

Bookkeeping Service over sight

He's aware of the situation

Client Activities ~ Has been corrected

Members:

Checked into this matter will make sure all Board Members pay membership dues.

Marva Warmsley