

**The Arc Baton Rouge
Baton Rouge, Louisiana
June 30, 2017**

Table of Contents

Independent Auditor's Report	Page	3
Financial Statements		
Statements of Financial Position	Page	5
Statements of Activities	Page	6
Statements of Functional Expenses	Page	7
Statements of Cash Flows	Page	9
Notes to Financial Statements	Page	10
Supplementary Information		
Schedule of Compensation, Benefits and Other Payments to Agency Head or Chief Executive Officer	Page	23
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 <i>Government Auditing Standards</i>	Page	24
Schedule of Current Year Audit Findings	Page	26
Schedule of Prior Year Audit Findings	Page	27



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

Independent Auditor's Report

Board of Directors
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, 2017 and 2016, 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 opinions.

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, 2017 and 2016, 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 19, 2017 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 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 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.



December 19, 2017

**The Arc Baton Rouge
Statements of Financial Position
June 30, 2017 and 2016**

A s s e t s

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 113,812	\$ 188,217
Investments	21,588	22,173
Receivables		
Trade	12,774	30,494
State contracts	41,839	57,972
Federal contracts	227,339	264,524
Inventory	-	8,738
Property and equipment, net	772,964	788,293
Deposits	<u>20,769</u>	<u>20,769</u>
 Total assets	 <u>\$1,211,085</u>	 <u>\$1,381,180</u>

Liabilities and Net Deficit

Liabilities		
Accounts payable	42,089	45,921
Accrued expenses	120,289	226,344
Line of credit	154,300	168,092
Deferred income	83,300	41,352
Accrued pension cost	<u>1,390,241</u>	<u>1,635,741</u>
Total liabilities	<u>1,790,219</u>	<u>2,117,450</u>
 Net Deficit		
Unrestricted	(725,219)	(736,270)
Temporarily restricted	<u>146,085</u>	<u>-</u>
Total net deficit	<u>(579,134)</u>	<u>(736,270)</u>
 Total liabilities and net deficit	 <u>\$1,211,085</u>	 <u>\$1,381,180</u>

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

**The Arc Baton Rouge
Statements of Activities
Years Ended June 30, 2017 and 2016**

	June 30, 2017			June 30, 2016		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Operating Activities:						
Revenue and Gains						
Federal and state contracts	\$ 3,333,539	\$ -	\$3,333,539	\$ 4,062,240	\$ -	\$ 4,062,240
Federal grants	82,141	-	82,141	61,657	-	61,657
Private and public grants	114,852	-	114,852	92,693	-	92,693
Residential facilities	50,549	-	50,549	74,100	-	74,100
Program sales and service fees	153,667	-	153,667	222,723	-	222,723
Allocations from Capital Area United Way	377,984	-	377,984	322,150	-	322,150
Contributions	96,967	146,085	243,052	44,252	-	44,252
Plane Pull	21,236	-	21,236	35,042	-	35,042
Other income	7,569	-	7,569	17,020	-	17,020
Net assets released from restrictions	-	-	-	14,808	(14,808)	-
Total revenue and gains	<u>4,238,504</u>	<u>146,085</u>	<u>4,384,589</u>	<u>4,885,028</u>	<u>(14,808)</u>	<u>4,870,220</u>
Expenses						
Program services	3,799,094	-	3,799,094	4,301,229	-	4,301,229
General and administrative	665,946	-	665,946	654,037	-	654,037
Fundraising	6,702	-	6,702	12,688	-	12,688
Total expenses	<u>4,471,742</u>	<u>-</u>	<u>4,471,742</u>	<u>4,967,954</u>	<u>-</u>	<u>4,967,954</u>
Increase in Net Deficit from Operating Activities	<u>(233,238)</u>	<u>146,085</u>	<u>(87,153)</u>	<u>(82,926)</u>	<u>(14,808)</u>	<u>(97,734)</u>
Non-Operating Activities:						
Pension-related changes other than net periodic pension cost	244,289	-	244,289	(472,243)	-	(472,243)
(Increase) Decrease in Net Deficit	11,051	146,085	157,136	(555,169)	(14,808)	(569,977)
Net Assets (Deficit), beginning of year	<u>(736,270)</u>	<u>-</u>	<u>(736,270)</u>	<u>(181,101)</u>	<u>14,808</u>	<u>(166,293)</u>
Net Assets (Deficit), end of year	<u>\$ (725,219)</u>	<u>\$146,085</u>	<u>\$ (579,134)</u>	<u>\$ (736,270)</u>	<u>\$ -</u>	<u>\$ (736,270)</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**

	<u>Metro Enterprises Business</u>	<u>Metro Enterprises Habilitation</u>	<u>Children's Services</u>	<u>Respite Care Programs</u>	<u>Baton Rouge Vocational Services</u>	<u>Communit Services</u>	<u>Community Life</u>	<u>Total Program Services</u>	<u>General and Admin- istrative</u>	<u>Fund Raising</u>	<u>2016 Totals</u>
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	-	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	206,737	-	336,963
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	30,252	15,290	11,204	1,375	240	10,853	81,629	30,509	-	112,138
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	10,601	7,211	1,049	448	8,954	31,212	5,736	-	36,948
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	6,794	14,075	20,436	6,702	41,213
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	\$ 683,955	\$ 361,255	\$ 767,363	\$ 64,420	\$ 246,398	\$ 1,512,418	\$ 3,799,094	\$ 665,946	\$ 6,702	\$ 4,471,742

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

The Arc Baton Rouge
Statement of Functional Expenses
Year Ended June 30, 2016

	Metro Enterprises Business	Metro Enterprises Habilitation	Children's Services	Respite Care Programs	Louisiana Career Development Center	Baton Rouge Vocational Services	Community Services	Community Life	Total Program Services	General and Admin- istrative	Fund Raising	2015 Totals
Compensation and Related Benefits												
Salaries	\$ 134,338	\$ 445,740	\$ 184,803	\$ 828,084	\$ -	\$ 42,966	\$ 68,855	\$ 1,390,970	\$ 3,095,756	\$ 209,833	\$ -	\$3,305,589
Payroll taxes	10,396	33,312	11,980	63,527	-	3,138	5,286	106,767	234,406	5,204	-	239,610
Employee health	-	36,448	8,033	26,687	-	4,313	1,490	49,196	126,167	15,132	-	141,299
Retirement plan	-	12,764	11,701	13,828	-	-	2,127	12,764	53,184	94,388	-	147,572
Total compensation and related benefits	144,734	528,264	216,517	932,126	-	50,417	77,758	1,559,697	3,509,513	324,557	-	3,834,070
Contractual services	29,663	164	-	-	-	-	-	-	29,827	-	-	29,827
Professional services	-	1,839	111,701	3,169	-	3,669	406	7,801	128,585	143,424	-	272,009
Supplies	89	6,087	7,533	4,935	-	30	4,979	6,694	30,347	16,392	-	46,739
Utilities and telephone	15,187	30,123	20,812	12,996	-	743	240	10,894	90,995	32,511	-	123,506
Maintenance and equipment rental	4,328	13,686	9,498	7,873	-	114	-	3,263	38,762	8,620	-	47,382
Membership dues	-	-	-	-	-	-	-	-	-	13,097	-	13,097
Travel and transportation	2,074	1,928	11,714	12,275	-	1,524	112	15,024	44,651	6,996	-	51,647
Office expenses	-	17	98	356	-	-	260	619	1,350	2,025	-	3,375
General insurance	290	83,590	4,715	10,216	-	-	-	3,929	102,740	53,377	-	156,117
Worker's compensation	5,127	11,417	5,547	39,842	-	288	1,916	73,035	137,172	5,433	-	142,605
Vehicle expenses	2,464	5,612	-	178	-	-	-	20	8,274	-	-	8,274
Program transportation	-	10,598	-	-	-	-	-	-	10,598	-	-	10,598
Interest expense	268	450	-	-	-	-	-	-	718	11,078	-	11,796
Other expenses	672	1,860	2,415	4,478	-	57	1,187	7,807	18,476	22,247	12,688	53,411
Assistance to individuals	-	-	-	-	-	-	104,871	321	105,192	-	-	105,192
Depreciation	-	3,920	10,221	6,696	-	876	-	2,316	44,029	14,280	-	58,309
Total functional expenses	\$ 204,896	\$ 719,555	\$ 400,771	\$ 1,035,140	\$ -	\$ 57,718	\$ 191,729	\$ 1,691,420	\$ 4,301,229	\$ 654,037	\$ 12,688	\$4,967,954

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

**The Arc Baton Rouge
Statements of Cash Flows
Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
(Increase) decrease in net deficit	\$ 157,136	\$(569,977)
Adjustments to reconcile (increase) decrease in net deficit to net cash provided by (used in) operating activities		
Depreciation	60,416	58,309
Loss on disposal of fixed assets	3,193	-
Net unrealized (gain) loss on investments	843	(2,109)
Pension cost	(245,500)	525,427
(Increase) decrease in assets:		
Accounts receivable	71,038	24,206
Inventory	8,738	(280)
Increase (decrease) in liabilities:		
Accounts payable	(3,832)	(9,837)
Accrued expenses	(106,055)	(19,031)
Deferred income	<u>41,948</u>	<u>6,352</u>
Net cash provided by (used in) operating activities	<u>(12,075)</u>	<u>13,060</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	(48,280)	(31,342)
Purchase of investments	<u>(258)</u>	<u>(269)</u>
Net cash used in investing activities	<u>(48,538)</u>	<u>(31,611)</u>
Cash Flows From Financing Activities		
Increase (decrease) in line of credit	<u>(13,792)</u>	<u>17,165</u>
Net cash provided by (used in) financing activities	<u>(13,792)</u>	<u>17,165</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(74,405)	(1,386)
Cash and Cash Equivalents, beginning of year	<u>188,217</u>	<u>189,603</u>
Cash and Cash Equivalents, end of year	<u>\$ 113,812</u>	<u>\$ 188,217</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest	<u>\$ 6,688</u>	<u>\$ 11,796</u>

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

The Arc Baton Rouge
Notes to Financial Statements
June 30, 2017

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 Arc Baton Rouge primarily serves East Baton Rouge Parish as well as the surrounding parishes: Ascension, East & West Feliciana, Pointe Coupee, West Baton Rouge and Iberville. The Organization's funding sources include the Capital Area United Way agency, philanthropic grants and federal and state fees for service, contracts and grants.

The Arc Baton Rouge offers the following service programs:

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 our 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.

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.

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.

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.

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.

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

The Arc Baton Rouge
Notes to Financial Statements
June 30, 2017

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, 2017 and 2016, 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 revenues 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 funds on hand and with financial institutions 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.

The Arc Baton Rouge
Notes to Financial Statements
June 30, 2017

Note 2-Summary of Significant Accounting Policies (Continued)

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.

As of June 30, 2017 and 2016, the Organization considered its receivables to be fully collectible; therefore, no allowance for doubtful accounts was recorded.

G. Inventory

Inventory is stated at the lower of cost or market using the first-in first-out method.

H. Property and Equipment

Property and equipment are recorded at cost. 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 \$500 are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

I. 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.

The Arc Baton Rouge
Notes to Financial Statements
June 30, 2017

Note 2-Summary of Significant Accounting Policies (Continued)

J. Accrued Vacation

Vacation and sick pay are not vested. Vacation and sick pay runs from September 1st to August 31st for all The Arc Baton Rouge employees, except for employees of the Children's Services program, where it runs from January 1st to December 31st. Accrued vacation was \$18,847 and \$35,050 at June 30, 2017 and 2016, respectively.

K. Contributed Services

The Arc Baton Rouge receives a significant amount of donated services from unpaid volunteers who assist in fund-raising 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.

L. 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. Recognized income tax positions are recorded at the largest amount that is greater than 50% likely of being realized. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs.

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.

M. 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.

N. 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 increase in net deficit of the prior year.

The Arc Baton Rouge
Notes to Financial Statements
June 30, 2017

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

The asset 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. There have been no changes in the methodologies used at June 30, 2017:

<i>Mutual Funds:</i>	Valued at the quoted net asset value of shares held by the Organization at year end.
<i>Money Market Funds:</i>	Valued using amortized cost, which approximates fair value.
<i>Common Stocks:</i>	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 Arc Baton Rouge
Notes to Financial Statements
June 30, 2017

Note 3-Fair Value Measurements (Continued)

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 and 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2017				
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>
June 30, 2016				
Mutual Funds	\$ 5,224	\$ -	\$ -	\$ 5,224
Money Market Funds	-	615	-	615
Common Stocks	<u>16,334</u>	<u>-</u>	<u>-</u>	<u>16,334</u>
	<u>\$ 21,558</u>	<u>\$ 615</u>	<u>\$ -</u>	<u>\$ 22,173</u>

Income (loss) on investments is comprised of the following for the years ended June 30, 2017 and 2016, which is included in other income on the statement of activities:

	<u>2017</u>	<u>2016</u>
Dividends and interest	\$ 578	\$ 542
Net unrealized gain (loss)	<u>(843)</u>	<u>2,109</u>
	<u>\$ (265)</u>	<u>\$ 2,673</u>

Note 4-Property and Equipment

A summary of property and equipment at June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$2,371,420	\$ 2,419,942
Furniture and equipment	366,235	624,579
Vehicles	<u>129,464</u>	<u>147,485</u>
	2,867,119	3,192,006
Less depreciation to date	<u>2,304,152</u>	<u>2,613,710</u>
	562,967	578,296
Land	<u>209,997</u>	<u>209,997</u>
Property and equipment, net	<u>\$ 772,964</u>	<u>\$ 788,293</u>

The Arc Baton Rouge
Notes to Financial Statements
June 30, 2017

Note 5-Line of Credit

The Arc Baton Rouge has a \$200,000 line of credit with a financial institution, due on demand, of which \$154,300 and \$168,092 was drawn at June 30, 2017 and 2016, respectively. The interest rate was 4.00 % and 3.50 % at June 30, 2017 and 2016, respectively. The line is secured by a building located on Kelwood Avenue.

Note 6-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 will stop earning benefits beginning July 1, 2015.

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 for the years ended June 30, 2017 and 2016.

	<u>Pension Benefits</u>	
	<u>2017</u>	<u>2016</u>
Changes in Benefit Obligations		
Benefit obligations at beginning of year	\$ 4,277,168	\$ 4,283,067
Service cost	8,705	16,452
Interest cost	120,167	160,924
Change due to assumption changes	6,574	306,102
Actuarial (gain) loss	(120,305)	53,195
Benefits disbursed	(160,162)	(637,516)
Expense charges	(12,705)	(16,452)
Effect of settlement on PBO	(15,245)	111,396
Benefit obligations at end of year	<u>4,104,197</u>	<u>4,277,168</u>
Changes in Plan Assets		
Fair value of plan assets at beginning of year	2,641,427	3,172,753
Actual return on plan assets	195,396	63,754
Employer contributions	50,000	58,888
Benefits disbursed (including expense charges)	(172,867)	(653,968)
Fair value of plan assets at end of year	<u>2,713,956</u>	<u>2,641,427</u>
Accrued pension costs	<u>\$ 1,390,241</u>	<u>\$ 1,635,741</u>

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 Arc Baton Rouge
Notes to Financial Statements
June 30, 2017

Note 6-Pension Plan (Continued)

Pension related changes other than net periodic cost under FASB ASC 715 are as follows:

	Pension Benefits	
	<u>2017</u>	<u>2016</u>
Net actuarial gain (loss)	\$ 270,416	\$ (498,305)
Total	\$ 270,416	\$ (498,305)

Items not yet recognized as a component of net periodic benefit costs:

Unrecognized net actuarial (loss)	\$ (747,049)	\$ (1,017,465)
Total	\$ (747,049)	\$ (1,017,465)

The accumulated benefit obligation for the pension plan was approximately \$4.1 and \$4.3 million as of June 30, 2017 and 2016, respectively.

The significant actuarial assumptions used in the valuations as of June 30, 2017 and 2016 are as follows:

1. Measurement Date	06/30/2017	06/30/2016
2. Assumptions:		
a) Discount Rate	3.25%	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.	
h) Mortality Rates		
Pre-retirement mortality:	<u>06/30/17</u> : Adjusted RP2014 Total Dataset Employee Table, separate for Males and Females projected by Scale-MP 2016.	

**The Arc Baton Rouge
Notes to Financial Statements
June 30, 2017**

Note 6-Pension Plan (Continued)

2. Assumptions (Continued):

	<u>06/30/16</u> : Adjusted RP2014 Total Dataset Employee Table, separate for Males and Females projected by Scale MP-2016.	
Post-retirement mortality:	<u>06/30/17</u> : 2017 Unisex Mortality Table specified in IRS Notice 2016-50.	
	<u>06/30/16</u> : 2016 Unisex Mortality Table specified in IRS Notice 2015-53.	
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	07/01/2016	07/01/2015

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 5.75% to 8.30%. A rate of 6.00% which is within the best estimate range was selected.

**The Arc Baton Rouge
Notes to Financial Statements
June 30, 2017**

Note 6-Pension Plan (Continued)

The components of net periodic benefit costs for the years ended June 30, 2017 and 2016 are as follows:

	<u>Pension Benefits</u>	
	<u>2017</u>	<u>2016</u>
Service cost	\$ 8,705	\$ 16,452
Interest cost	120,167	160,924
Expected return on plan assets	(195,396)	(191,638)
Amount of unrecognized net (gains) or losses	48,634	15,531
Amount of (gain) or loss recognized due to settlement	-	115,803
Asset gain (loss) deferred	<u>61,679</u>	<u>-</u>
Net periodic benefit costs	<u>\$ 43,789</u>	<u>\$ 117,072</u>

The Organization expects to contribute approximately \$60,000 to the plan from July 1, 2017 to June 30, 2018. Benefits expected to be paid during the ensuing five years and thereafter, are approximately as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Pension Benefits</u>
2018	\$ 893,000
2019	407,000
2020	31,000
2021	257,000
2022	220,000
2023 - 2027	1,854,000

Plan Assets by Category

	<u>As of June 30, 2017</u>		<u>As of June 30, 2016</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Equity	\$1,156,095	42.60	\$1,040,409	39.39
Fixed Income	1,252,640	46.15	1,329,433	50.33
General Account	<u>305,221</u>	<u>11.25</u>	<u>271,585</u>	<u>10.28</u>
Total	<u>\$2,713,956</u>	<u>100.00</u>	<u>\$2,641,427</u>	<u>100.00</u>

All investments are categorized 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.

The Arc Baton Rouge
Notes to Financial Statements
June 30, 2017

Note 7-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.

Note 8-Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 and June 30, 2016 are as follows:

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

Note 9-Concentration of Risk

Receivables have significant concentrations of credit risk in the governmental sector. At June 30, 2017 and 2016, the portion of these receivables related to this sector was approximately 95% and 91%, respectively.

Note 10-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 11-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.

The Arc Baton Rouge
Notes to Financial Statements
June 30, 2017

Note 12-Management's Plan Regarding Net Deficit

The action outlined in the previous year regarding the organization's Defined Benefit Plan has been implemented to varying degrees during the course of the fiscal year. Although that action has had a significant impact, further steps have been identified.

Specifically, the efforts to reduce the number of beneficiaries has been expanded to provide participants with assets up to \$25,000 the option to withdraw from the plan. The intent being to reduce the total number of plan participants below 100 and thereby reduce administrative cost related to audit requirements and insurance.

Definitive steps have been taken, and will continue, to increase revenue by increasing the number of individuals served. A significant increase is anticipated once rehabilitation and reconstruction of facilities that were flooded in August 2016 is completed in early 2018.

Expenses have been reduced as a result of the following actions:

1. Administrative operations of Children's Services and Baton Rouge Vocational Services have been relocated and now share space with Community Life, In-home Respite and the Respite Care Center.
2. Reduction of one fulltime position with the Respite Care Center in addition to several part-time Respite Care Center and In-home Respite positions.
3. Reduction of one part-time direct support staff position with Metro Enterprises.
4. Reduced Children's Services professional services expenditures by 33%.
5. Reduced cost of annual driver's background checks with the Department of Motor Vehicles by 100%.

Note 13-Subsequent Events

The Organization evaluated all subsequent events through December 19, 2017, 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, 2017**

Agency Head Name: Barry Meyer, Executive Director

Purpose	Amount
Salary	\$102,624
Benefits - insurance	4,688
Benefits - retirement	0
Car allowance	0
Vehicle provided by agency	0
Per diem	0
Reimbursements	1,289
Travel	2,049
Continuing professional education fees	0
Housing	0
Unvouchered expenses	0
Special meals	0



**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***

Board of Directors
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 statement of financial position as of June 30, 2017 and 2016, 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 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit 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 Organization'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.

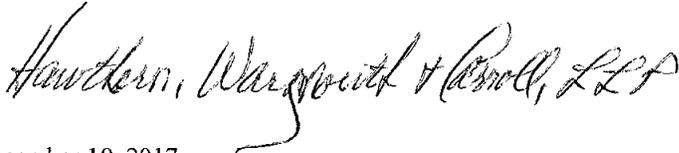
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 audit, 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.

A handwritten signature in cursive script that reads "Hawthorn, Wainwright & Carroll, LLP". The signature is written in black ink and is positioned above the date.

December 19, 2017

**The Arc Baton Rouge
Schedule of Current Year Audit Findings
Year Ended June 30, 2017**

Findings - Financial Statement Audit

None.

**The Arc Baton Rouge
Schedule of Prior Year Audit Findings
Year Ended June 30, 2017**

Findings - Financial Statement Audit

None.