

**RED RIVER ASSOCIATION
FOR RETARDED CITIZENS, INC.**

FINANCIAL STATEMENTS

JUNE 30, 2000

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 _____

YOUNGBLOOD & HODGES

A PROFESSIONAL ACCOUNTING CORPORATION

4700 LINE AVENUE

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SHREVEPORT, LOUISIANA 71135-5926

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Red River Association for
Retarded Citizens, Inc.
Coushatta, Louisiana

We have audited the accompanying statement of financial position of the Red River Association for Retarded Citizens, Inc. (a nonprofit organization) as of June 30, 2000, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

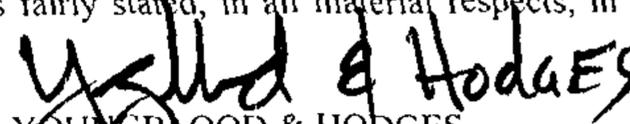
We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Red River Association for Retarded Citizens, Inc. as of June 30, 2000, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 5 to the financial statements, the Association has incurred significant liabilities related to unpaid payroll taxes that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 5. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2000, on our consideration of the Red River Association for Retarded Citizens, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Red River Association for Retarded Citizens, Inc. taken as a whole. The accompanying schedule of state contracts is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


YOUNGBLOOD & HODGES
A Professional Accounting Corporation

August 16, 2000

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2000

ASSETS

Current assets

Cash on hand and in bank, including \$6,950 bearing interest	\$ 10,031
Accounts receivable	<u>26,916</u>
Total current assets	<u>36,947</u>

Property and equipment at cost (Note 1)

Furniture, fixtures and equipment	26,642
Automobile	<u>9,910</u>
Total property and equipment	36,552
Less: Accumulated depreciation	<u>23,605</u>
Net property and equipment	<u>12,947</u>

Total Assets	<u>\$ 49,894</u>
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LIABILITIES AND NET ASSETS

Current liabilities

Accounts Payable	\$ 5,753
Sales Tax Payable	1,055
Payroll liabilities	<u>54,173</u>
Total current liabilities	<u>60,981</u>

Net assets

Net assets - Unrestricted	<u>(11,087)</u>
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Total liabilities and net assets	<u>\$ 49,894</u>
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See accountant's report and notes to financial statements

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
STATEMENT OF ACTIVITIES
JUNE 30, 2000

<u>Revenues</u>	
Bayou Blends	\$ 962
C-Barc	22,086
Cleaning! Cleaning! Cleaning!	5,302
Coke Money	2,609
Cookies! Cookies! Cookies!	10,487
Grand Bayou Resort	11,540
Ironing! Ironing! Ironing!	9,693
Interest Income	413
Meat Pie Company	40,500
Miscellaneous	121
OCDD	217,636
Reimbursed Expenses	3,100
Sales	60,498
Supported Employment	9,933
Total revenues	<u>394,880</u>
 <u>Expenses</u>	
Accounting Services	4,000
Auto Expense & Travel	6,821
Building Maintenance	2,347
Building Rent	21,500
Client Payroll	78,475
COA Transportation	1,000
Contract Labor	8,077
Depreciation Expense	4,646
Food Supplies	22,555
Insurance	10,954
Miscellaneous	5,429
Office Expenses	1,546
Other	687
Payroll Expense	201,063
Penalties	1,745
Pest Control	198
Postage & Delivery	154
Rainbow Shop Expense	15,871

See accountant's report and notes to financial statements

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
STATEMENT OF ACTIVITIES
(Continued)
JUNE 30, 2000

<u>Expenses (Continued)</u>	
Repairs	210
Supplies	28,122
Telephone	2,218
Utilities	<u>6,101</u>
Total Expenses	<u>423,719</u>
Increase (decrease) in net assets	(28,839)
Net assets - June 30, 1999	<u>17,752</u>
Net assets - June 30, 2000	<u>\$ (11,087)</u>

See accountant's report and notes to financial statements

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
STATEMENT OF CASH FLOWS
JUNE 30, 2000

<u>Cash flows from operating activities</u>	
Increase (decrease) in net assets	\$ (28,839)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	4,646
(Increase) decrease in accounts receivable	(6,343)
Increase (decrease) in accounts payable	3,253
Increase (decrease) in accrued liabilities	16,817
Increase (decrease) in sales taxes payable	<u>(92)</u>
Net cash provided (used) by operating activities	<u>(10,558)</u>
Net increase (decrease) in cash and equivalents	(10,558)
Cash and equivalents, beginning of year	<u>20,589</u>
Cash and equivalents, end of year	<u>\$ 10,031</u>
<u>Supplemental disclosures of cash flow information</u>	
Cash paid during the year for:	
Interest expense	<u>\$ 0</u>
Income Tax	<u>\$ 0</u>

See accountant's report and notes to financial statements

RED RIVER ASSOCIATION FOR RETARDED CITIZENS
SCHEDULE OF STATE CONTRACTS
AWARDED BY THE STATE OF LOUISIANA
DEPARTMENT OF HEALTH AND HOSPITALS
OFFICE FOR CITIZENS WITH DEVELOPMENTAL DISABILITIES
FOR THE YEAR ENDED JUNE 30, 2000

<u>Contract Number</u>	<u>Contract Term</u>	<u>Contract Amount</u>	<u>Revenue Recognized</u>	<u>Expenditures</u>
<u>Social Services</u> 543431	07/01/99-06/30/00	\$228,555	\$214,984	\$214,984

See accountant's report and notes to financial statements

RED RIVER ASSOCIATION FOR RETARDED CITIZENS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

(1) SIGNIFICANT ACCOUNTING POLICIES

Organization and Operation

Red River Association for Retarded Citizens, Inc. (RRARC) was incorporated in 1976 as a non-profit corporation under the laws of Louisiana. Among the purposes of the organization are promotion of the general welfare of the mentally retarded and development of programs in their behalf.

RRARC sponsors a work program for its clients which operates under the name Red River Industries (RRI).

Depreciation and capitalization policy

Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on the straight-line basis. The basis of valuation of depreciable assets is the asset's cost or fair market value.

Provision for Income Taxes

No provision for income taxes is reflected in the statements as the Association files a tax-exempt return under IRS Section 501(c)(3).

Basis of Accounting

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

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase.

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.

(2) FUNDING FROM DEPARTMENT OF HEALTH AND HOSPITALS

RRARC receives funding from the State of Louisiana Department of Health and Hospitals Office for Citizens with Developmental Disabilities. Funding is provided under terms of a contract, which requires that RRARC provide adult day services to developmentally disabled citizens.

RED RIVER ASSOCIATION FOR RETARDED CITIZENS
NOTES TO FINANCIAL STATEMENTS
(Continued)
JUNE 30, 2000

(3) LEASES

RRARC leases the building that houses its operations from one of its employees on a month-to-month basis. The monthly rent is \$1,450, which is the amount for which the building was being leased prior to it being owned by the aforementioned employee. The Louisiana Board of Ethics issued a letter dated June 19, 1998, in which it ruled that this transaction is not in violation of the Code of Governmental Ethics.

(4) CONCENTRATIONS

Approximately 60% of RRARC's total revenue comes from one source. Although not anticipated, the loss of this source of revenue could have an adverse effect upon RRARC.

(5) GOING CONCERN

RRARC has incurred significant liabilities related to unpaid payroll taxes that raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Events which led to the going concern include (a) loss of a contract three years ago that had provided substantial work and revenue to the Association, (b) maintaining the full staff required for operations prior to the loss of the contract, (c) cash flow problems as a result of not cutting the staff and expenses, and (d) not paying payroll taxes in a timely manner.

The results of the above have caused RRARC to incur decreases in net assets over the past three years. Also, as a result of not paying payroll taxes in a timely manner, RRARC has a liability for payroll taxes (including an estimate for penalties and interest) at June 30, 2000, of \$54,173. RRARC has made substantial progress in paying down the outstanding payroll tax liability. In a period of five months (since February 2000), RRARC has reduced its liability by approximately \$12,000 (from a liability of \$66,500 as of December 31, 1999).

RRARC's management has developed a plan to address these issues. That plan includes a reduction in staff, cutting expenses, and promoting the services that the Association has to offer. Management has begun to implement these plans.

RED RIVER ASSOCIATION FOR RETARDED CITIZENS
NOTES TO FINANCIAL STATEMENTS
(Continued)
JUNE 30, 2000

(5) GOING CONCERN (Continued)

Two employees were terminated whose combined salaries were approximately \$38,000 annually. This action has reduced expenses by approximately \$3,200 per month. Management also cut all other expenses across the board, resulting in an overall decrease in total expenses of approximately 7%.

Finally, management has promoted the services that RRARC can provide to the community and its businesses in order to increase the revenue generated by the Association's existing programs. This has resulted in RRARC obtaining a contract for cleaning services with a local business that provides gross income to the association of approximately \$6,500 per month. Also, management is currently in negotiation with another local entity for additional cleaning services contracts that could result in further increasing the monthly income of the association.

RRARC has timely paid its payroll taxes for the period December 1999 through date of issue of this report. RRARC is making payments of approximately \$2,500 per month on the outstanding payroll tax liability.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Red River Association for
Retarded Citizens, Inc.
Coushatta, Louisiana

We have audited the financial statements of the Red River Association for Retarded Citizens, Inc. (a nonprofit organization) as of and for the year ended June 30, 2000, and have issued our report thereon dated August 16, 2000. We conducted our audit in accordance with generally accepted auditing standards 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 Red River Association for Retarded Citizens, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance that is required to be reported under *Government Auditing Standards*.

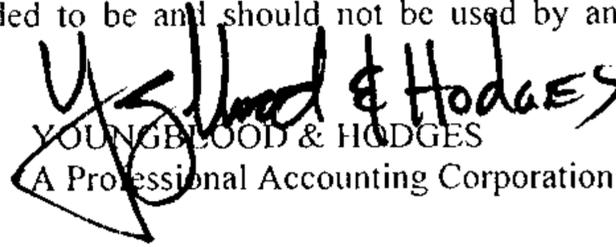
Internal Control Over Financial Reporting

In planning and performing our audit, we considered Red River Association for Retarded Citizens, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Red River Association for Retarded Citizens, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Reportable Conditions and 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control

that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider one of the reportable conditions described above to be a material weakness as detailed in the accompanying Schedule of Reportable Conditions and Material Weaknesses.

This report is intended solely for the information and use of the audit committee, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.


YOUNGBLOOD & HODGES
A Professional Accounting Corporation

August 16, 2000

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
SCHEDULE OF REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES
JUNE 30, 2000

We noted the following matters involving Red River Association for Retarded Citizens, Inc.'s internal control over financial reporting and its operation that we consider to be reportable conditions:

- (1) Lack of segregation of accounting duties.

Effect

There are fewer checks and balances on accounting transactions which can lead to conditions such that misstatements in amounts that would be material in relation to the financial statements would occur and not be detected in a timely manner.

Cause

Due to the Association's small staff, segregation of most accounting functions is not possible.

Recommendation/Conclusion

The small size of the Association's staff limits the extent of segregation of duties. This is a constraint which will always be present in the Association.

- (2) Payroll taxes not paid timely and payroll reports not filed timely. This relates to the period July 1999 through November 1999 of the fiscal year. This condition was identified in last year's audit.

Effect

Creation of a substantial liability as of June 30, 2000.

Cause

Due to lack of segregation of duties and proper oversight.

Recommendation

Require the Executive Director to sign all payroll tax reports and be responsible for timely filing of all such reports. By separating this function from the bookkeeper, there would be a "check system" in place to ensure proper filing of reports. In addition, at the time the Executive Director signs the payroll reports, she can review the payment status of the payroll taxes. Also, use of services provided by the audit firm could be utilized more than once a year to ensure that payroll taxes are being paid properly and the forms are filed in a timely manner.

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
SCHEDULE OF REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES
(Continued)
JUNE 30, 2000

Of the reportable conditions described above, we consider item (1) to be a material weakness.

This schedule is provided as supplemental information to the "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*" dated October 24, 2000.

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2000

The following matters involving Red River Association for Retarded Citizens, Inc. relate to Prior Year Audit Findings:

- (1) Lack of segregation of duties.

Due to the Association's small staff, segregation of most accounting functions is not possible. This is a constraint which will always be present in the Association.

- (2) Payroll taxes not paid timely and payroll reports not filed timely.

This matter has been partially corrected. Payroll taxes from December 1999 through the date of this report have been paid timely and in full. All payroll tax reports have been filed timely. In February 2000, the Association began making extra payments of approximately \$2,500 per month to pay down the outstanding payroll tax liability from the period January 1999 to November 1999. As of June 30, 2000, the Association has paid \$12,100 toward this purpose. The Association plans to continue making extra payments to pay off the payroll tax liability. The Association plans to have the outstanding payroll tax liability paid off in approximately 24 to 30 months.

- (3) Payment made directly to an employee's credit card company as reimbursement for expenses incurred on behalf of the Association.

This matter has been corrected.

- (4) Payment made from a statement of account rather than from invoices.

This matter has been corrected.

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
MANAGEMENT'S PLAN OF CORRECTIVE ACTION
JUNE 30, 2000

The results of audit tests disclosed the following reportable conditions:

- (1) Lack of segregation of accounting duties.

Effect

There are fewer checks and balances on accounting transactions which can lead to conditions such that misstatements in amounts that would be material in relation to the financial statements would occur and not be detected in a timely manner.

Cause

Due to the Association's small staff, segregation of most accounting functions is not possible.

Management's Plan of Corrective Action

Management acknowledges that the small size of the Association's staff limits the extent of segregation of duties and that this is a constraint which will always be present in the Association. Management also acknowledges that this is a material weakness in the accounting control. Management has determined that the most effective way to deal with this constraint is to have oversight of the accounting functions by the Executive Director and, where necessary, oversight by the Board of Directors. Such involvement will provide additional checks and balances within the accounting functions of the Association.

- (2) Payroll taxes not paid timely and payroll reports not filed timely.

Effect

Creation of a substantial liability as of June 30, 2000.

Cause

Due to lack of segregation of duties and proper oversight.

Management's Plan of Corrective Action

Management has implemented the requirement to have the Executive Director sign all payroll tax reports and be responsible for timely filing of all such reports. Also, at the time the Executive Director signs the payroll reports, she reviews the payment status of the payroll taxes. Management has utilized the services of the audit firm during the year to ensure that payroll taxes are being paid properly and the forms are filed in a timely manner.

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
MANAGEMENT'S PLAN OF CORRECTIVE ACTION
(Continued)
JUNE 30, 2000

- (2) Payroll taxes not paid timely and payroll reports not filed timely. (Continued)

Management's Plan of Corrective Action (Continued)

Management has paid all currently accruing payroll tax liabilities as they became due. This plan was implemented in December 1999. Management has reduced the staff of the Association by two persons, cut expenses, and has promoted the services that the Association has to offer to the community.

Expenses have been cut by approximately \$3,200 per month as a result of terminating two employees. Also, management cut expenses across the board, resulting in an overall decrease of approximately 7% reduction in total expenses for the year as compared with the prior year. These actions have reduced monthly cash requirements. The cash generated by these cuts has been applied to paying the outstanding payroll liability.

Management has promoted the services which the Association can provide to the community and its businesses in order to increase the revenue generated by the Association's existing programs. This has resulted in the Association obtaining a contract for cleaning services with a local business which provides gross income to the Association of approximately \$6,500 per month. Also, management is currently in negotiation with another local entity for additional cleaning services contracts which could result in further increasing the monthly income of the Association.

The Association has timely paid its payroll taxes for the period December 1999 through date of issue of this report. The Association is making payments of approximately \$2,500 per month on the outstanding payroll tax liability.

RED RIVER ASSOCIATION FOR RETARDED CITIZENS, INC.
MANAGEMENT'S PLAN OF CORRECTIVE ACTION
(Continued)
JUNE 30, 2000

Contact Person Responsible for Corrective Action:

Betty Sullivan
Executive Director
Red River Association for Retarded Citizens, Inc.
2303 East Carroll Street
Coushatta, LA 71019
(318) 932-6520

Anticipated Completion Date for Plan of Action:

Many aspects of the plan of corrective action have already been completed and are currently in effect and have been identified in the preceding report.

The Association is making monthly payments of approximately \$2,500 to the Internal Revenue Service to reduce the outstanding payroll tax liability. The Association plans to have the outstanding liability paid off within 24 to 30 months.