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**Association for Retarded Citizens -
Baton Rouge
Baton Rouge, Louisiana
June 30, 1998**

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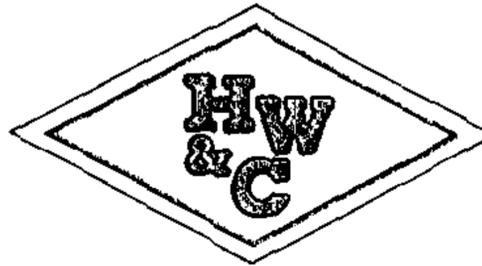
Release Date ~~FEB 4 1999~~

**Association for Retarded Citizens - Baton Rouge
Baton Rouge, Louisiana**

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December 16, 1998

Independent Auditor's Report

The Officers and Board of Directors
Association for Retarded Citizens - Baton Rouge
Baton Rouge, Louisiana

Members of the Board:

We have audited the accompanying statements of financial position of the

Association for Retarded Citizens - Baton Rouge Baton Rouge, Louisiana

as of June 30, 1998 and June 30, 1997, and the related statements of activities, cash flows, and functional expenses for the years 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 audits.

We conducted our audits 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 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Governmental Accounting Standards Board Technical Bulletin 98-1, "Disclosures about Year 2000 Issues", requires disclosure of certain matters regarding the year 2000 issue in order for financial statements to be prepared in conformity with generally accepted accounting principles. Such required disclosures include:

- any significant amount of resources committed to make computer systems and other electronic equipment year 2000-compliant;

- a general description of the year 2000 issue, including a description of the stages of work in process or completed as of the end of the reporting period to make computer systems and other electronic equipment critical to conducting operations year 2000-compliant; and
- the additional stages of work necessary for making the computer systems and other electronic equipment year 2000-compliant.

The Association for Retarded Citizens - Baton Rouge has omitted such disclosures. We do not provide assurance that the Association for Retarded Citizens - Baton Rouge is or will be year 2000 ready, that the Association for Retarded Citizens - Baton Rouge's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Association for Retarded Citizens - Baton Rouge does business will be year 2000 ready.

In our opinion, except for the omission of the information discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Association for Retarded Citizens - Baton Rouge as of June 30, 1998 and June 30, 1997, and the changes in its net assets and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated December 16, 1998 on our consideration of the Association for Retarded Citizens - Baton Rouge'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 Association for Retarded Citizens - Baton Rouge taken as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," 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.

Yours truly,

Hawthorn, Weymouth & Carroll, L.L.P.

Liabilities and Net Assets

	<u>1998</u>	<u>1997</u>
Liabilities		
Bank overdraft	\$146,018	
Accounts payable	37,664	\$23,629
Accrued salaries		<u>88,549</u>
	<u>183,682</u>	<u>112,178</u>
Interfund loans		
Due to restricted funds		20,000
Due from unrestricted fund		<u>(20,000)</u>
		<u>--</u>
<u>Total liabilities</u>	<u>183,682</u>	<u>112,178</u>
Net Assets		
Unrestricted		
Undesignated	2,601,016	2,184,170
Designated		<u>8,165</u>
<u>Total unrestricted</u>	2,601,016	2,192,335
Temporarily restricted	<u>29,420</u>	<u>418,149</u>
<u>Total net assets</u>	2,630,436	2,610,484
	<u>-----</u>	<u>-----</u>
<u>Total liabilities and net assets</u>	<u>2,814,118</u>	<u>2,722,662</u>

Association for Retarded Citizens - Baton Rouge
Statements of Activities
Years Ended June 30, 1998 and June 30, 1997

	<u>1998</u>	<u>1997</u>
Unrestricted Net Assets		
Revenue		
Capital Area United Way	\$245,062	\$236,900
Contributions	46,096	11,436
Membership	<u>10,327</u>	<u>5,808</u>
<u>Total revenue</u>	<u>301,485</u>	<u>254,144</u>
Program revenue		
Office of Mental Retardation	1,365,515	1,119,066
Medicaid	908,559	823,664
Office of Community Services	354,782	384,947
Residential facilities	153,855	150,864
Department of Education	308,253	235,743
Office of Community Services	55,836	
Job Training Partnership Act	46,607	
Program service fees and other revenue	<u>22,085</u>	<u>4,875</u>
<u>Total program revenue</u>	<u>3,215,492</u>	<u>2,719,159</u>
Other revenue		
Sales and contract income	657,515	641,527
Interest income	68,215	42,319
Miscellaneous income	6,411	41,554
Community and Residential Services Association	<u>12,599</u>	<u>22,829</u>
<u>Total other revenue</u>	<u>744,740</u>	<u>748,229</u>
Unrestricted Revenue and Support	4,261,717	3,721,532
Net assets released from restrictions	<u>396,894</u>	<u> </u>
Unrestricted Revenue and Support	4,658,611	3,721,532

(Continued)

The accompanying notes are an integral part of these statements.

Association of Retarded Citizens - Baton Rouge
Statements of Activities
Years Ended June 30, 1998 and June 30, 1997

	<u>1998</u>	<u>1997</u>
Expenses		
Program services		
Metro Enterprises - Business	\$674,086	\$652,753
Metro Enterprises - Rehabilitation	811,719	850,291
Early Intervention Programs	873,291	836,450
Respite Care Programs	1,030,978	907,221
Vocation Services - Job Placement	219,751	228,513
Louisiana Career Development Center	234,391	237,923
Community Life	38,494	14,863
Emergency	224,145	43,136
Core Community Services	19,009	4,691
Other	<u>8,982</u>	<u> </u>
<u>Total program services</u>	<u>4,134,846</u>	<u>3,775,841</u>
Supporting services		
Management, general and other expenses	90,535	98,350
Community and Residential Services Association	7,949	22,802
Decrease in market value of investments	<u>8,435</u>	<u> </u>
<u>Total supporting services</u>	<u>106,919</u>	<u>121,152</u>
<u>Total expenses</u>	<u>4,241,765</u>	<u>3,896,993</u>
Increase (Decrease) in Unrestricted Net Assets	<u>416,846</u>	<u>(175,461)</u>
Changes in Temporarily Restricted Net Assets		
Interest income		17,183
Appreciation (depreciation) of investments		1,481
Net assets released from restrictions	<u>(396,894)</u>	<u> </u>
<u>Increase (decrease) in temporarily restricted net assets</u>	<u>(396,894)</u>	<u>18,664</u>
Increase (Decrease) in Net Assets	19,952	(156,797)
Net Assets, beginning of year	<u>2,610,484</u>	<u>2,767,281</u>
Net Assets, end of year	<u>2,630,436</u>	<u>2,610,484</u>

The accompanying notes are an integral part of these statements.

Association of Retarded Citizens - Baton Rouge
Statements of Cash Flows
Years Ended June 30, 1998 and June 30, 1997

	<u>1998</u>	<u>1997</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$19,952	(\$156,797)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	85,021	90,846
Loss of property junked		532
Changes in operating assets and liabilities		
(Increase) decrease in accounts receivable	(214,281)	127,014
(Increase) decrease in accrued interest receivable	1,525	(1,753)
(Increase) decrease in inventory	6,093	3,165
(Increase) decrease in prepaid expenses	(37,170)	(43,763)
Increase (decrease) in accounts payable	14,035	(22,325)
Increase (decrease) in accrued expenses	(88,549)	(15,592)
Decrease in market value of investments	<u>8,435</u>	<u> </u>
<u>Net cash provided (used) by operating activities</u>	<u>(204,938)</u>	<u>(18,673)</u>
Cash Flows From Investing Activities		
Purchase of property and equipment, net	<u>(19,484)</u>	<u>(5,558)</u>
<u>Net cash used by investing activities</u>	<u>(19,484)</u>	<u>(5,558)</u>
Cash Flows From Financing Activities		
Bank overdraft	146,018	
Purchase of investments	70,000	(16,481)
Collections on notes receivable	<u>1,187</u>	<u>1,084</u>
<u>Net cash provided (used) by financing activities</u>	<u>217,205</u>	<u>(15,397)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(7,217)	(39,628)
Cash and Cash Equivalents, beginning of year	<u>97,644</u>	<u>137,272</u>
Cash and Cash Equivalents, end of year	<u><u>90,427</u></u>	<u><u>97,644</u></u>

The accompanying notes are an integral part of these statements.

<u>Com- munity Life</u>	<u>Emer- gency</u>	<u>Core Com- munity Service</u>	<u>All Other</u>	<u>Total Program Services</u>	<u>Community and Residential Services Association</u>	<u>Manage- ment, General and Other</u>	<u>1998 Totals</u>	<u>1997 Totals</u>
\$27,804	\$98	(\$87)		\$2,562,781	\$7,500		\$2,570,281	\$2,509,186
2,916	47	7,974		322,452	759		323,211	296,472
2,357		8,421		210,474	(448)		210,026	196,283
1,368				118,197			118,197	109,019
360		549		95,475			95,475	141,749
81		624		31,315			31,315	27,772
				108,214			8,214	82,906
				13,830			13,830	10,380
				75,900			75,900	71,208
25		(23)		58,524			58,524	67,471
				17,888			17,888	17,685
				32,443			32,443	23,671
				11,615			11,615	13,623
				30,887			30,887	34,843
274		481	\$89	28,042			28,042	25,325
50		(5)		16,753			16,753	17,154
1,562	13	2,114	8,838	86,372			86,372	63,825
391	20	(2)		19,248	17		19,265	19,473
89		4,370	55	24,945	121		25,066	19,119
132	35	999		11,580			11,580	3,101
				1,519			1,519	
1,085	223,932	2,857		256,392			256,392	48,823
						\$5,514	5,514	7,059
						85,021	85,021	90,846
						8,435	8,435	
<u>38,494</u>	<u>224,145</u>	<u>19,009</u>	<u>8,982</u>	<u>4,134,846</u>	<u>7,949</u>	<u>98,970</u>	<u>4,241,765</u>	<u>3,896,993</u>

Association for Retarded Citizens - Baton Rouge
Notes to Financial Statements
June 30, 1998

Note 1-Nature of Organization

The Association for Retarded Citizens - Baton Rouge (ARC) is a not-for-profit organization which promotes, develops, monitors, supports and directly provides services to improve the well being of people with disabilities and their families from East Baton Rouge and surrounding parishes. Funding to provide these services and programs are from the Capital Area United Way Agency and various federal and state contracts and grants.

Note 2-Significant Accounting Policies

A. Cash and Cash Equivalents

For the purpose of statement of financial position presentation, cash equivalents are considered to be highly liquid investments with maturities of three months or less. At various times during the year cash and cash equivalents on deposit with one banking institution exceeded the \$100,000 insured by the Federal Deposit Insurance Corporation. Management monitors the financial condition of the financial institution on a regular basis, along with their balances in cash and cash equivalents to minimize this potential risk.

B. Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position.

C. Support and Expenses

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Association 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 activity as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Association 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 Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Association for Retarded Citizens - Baton Rouge
Notes to Financial Statements
June 30, 1998

Note 2-Significant Accounting Policies (Continued)

D. Uncollectible Revenue

The Association considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

E. Concentration of Credit Risk

Credit receivables have significant concentrations of credit risk in the governmental sector in the Baton Rouge, Louisiana area. At June 30, 1998 and June 30, 1997, the portion of these receivables related to this sector was approximately 89% and 80% respectively.

F. Inventory

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

G. Depreciation

Fixed assets are recorded at cost and depreciated using the straight-line method over their estimated useful lives.

H. Retirement Plan

The retirement plan is a defined benefit plan which covers substantially all full-time employees.

I. Income Taxes

The Association is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation.

J. Grant Contracts

The Association depends significantly on grant contract reimbursements to carry out its program activities. This revenue is disclosed as program revenue on the statement of support, revenue and expenses.

Grant revenue is recorded as related expenses are incurred, and reimbursement requests are submitted to the grantor agency.

Association for Retarded Citizens - Baton Rouge
Notes to Financial Statements
June 30, 1998

Note 2-Significant Accounting Policies (Continued)

K. Functional Expenses

The Association 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.

L. 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

M. Reclassifications

Certain reclassifications have been made to the 1997 financial statements to conform with the 1998 financial statement presentation.

Note 3-Pension Plan

The Association has a 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 during 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.

Pension expense was \$118,197 for the year ended June 30, 1998 and \$109,019 for the year ended June 30, 1997. The following information is presented as of June 30, 1998.

	<u>1998</u>	<u>1997</u>
Number of participants:		
Active under age 65	131	106
Terminated vested	<u>51</u>	<u>47</u>
<u>Total</u>	<u>182</u>	<u>153</u>

Association for Retarded Citizens - Baton Rouge
Notes to Financial Statements
June 30, 1998

Note 3-Pension Plan (Continued)

The following table sets forth the plan's funding status and the amounts recognized in the Company's statement of financial position at June 30, 1998 as prepared by Mutual of America in accordance with FASB Statement No. 87.

A. Actuarial present value of benefit obligations:

Accumulated benefit obligation, including vested benefits of \$1,041,224	<u>\$1,057,598</u>
Projected benefit obligation for service rendered to date	\$1,809,205
Plan assets at fair value, primarily listed stocks and U. S. Bonds	<u>1,733,936</u>
Plan assets under projected benefit obligation	(75,269)
Unrecognized net gain from past experience difference from that assumed and effects of changes in assumptions	408,643
Unrecognized net obligation at January 1, 1986 being recognized over 15 years	<u>13,378</u>
Prepaid pension cost included in prepaid expenses	<u>346,752</u>

Net pension cost for the year ended June 30, 1998, includes the following components:

Service cost - benefits earned during the period	\$125,097
Interest cost on projected benefit obligation	98,335
Actual return on plan assets	(85,847)
Net amortization and deferral	<u>(36,640)</u>
<u>Net periodic pension cost</u>	<u>100,945</u>

The weighted-average discount rate and rate of increase in future compensation levels, used in determining the actuarial present value of the projected benefit obligation, was 6.5% in 1998 and 7.5% in 1997. The expected long-term rate of return on assets was 7.5 percent.

Association for Retarded Citizens - Baton Rouge
Notes to Financial Statements
June 30, 1998

Note 3-Pension Plan (Continued)

B. Actuarial Methods and Assumptions

Retirement and death benefits	Aggregate cost method
Disability annuity credits	One year term cost
Assumptions	
Retirement age	Age 65. For employees over 65, immediate retirement is assumed
Mortality rates before retirement	1983 Group Annuity Mortality Table projected to 1988 set back four years for both males and females
Interest rate	7.50 percent per year, net after fund charge
Pre-retirement expense loading	Annual estimated administrative charge
Pre-retirement expense loading	2.5% of estimated cost of annuity
Social Security wage base increase	6% per year
Cost of living supplement increase	4% per year

C. Eligibility for Participation

Former participants of any plan of Mutual of America are eligible immediately if over age 21. If not a former participant, eligible after 1 year of service and attainment of age 21.

D. Amount of Retirement Income

The amount of yearly income at age 65 equals 1.0 percent of the final average salary times credited service (no maximum), plus 3/4 percent of any excess of the final average salary over the social security average years wage times credited service (maximum 25 years) offset by all annuities accrued under any prior plan underwritten by Mutual of America. Credited Service (years and 1/12ths) is defined to be service as a participant under any plan of the employer after meeting the eligibility requirement. Service prior to an employee's enrollment date shall be excluded for any employee who failed to become a participant when first eligible.

E. Vesting at Termination of Employment

If a participant terminates his employment with three years of service he will receive retirement income, beginning at age 65, or earlier retirement date, if elected, based on his years of service and compensation prior to his termination of employment.

Association for Retarded Citizens - Baton Rouge
Notes to Financial Statements
June 30, 1998

Note 3-Pension Plan (Continued)

F. Employee Contributions

Employees are not required to contribute toward the cost of the pension plan.

G. Normal Retirement Date

Participants may retire on the first day of the month coincident with or next following their 65th birthday.

H. Early Retirement

Participants may retire between ages 55 and 65. The benefit is reduced 1/15 for each of the five years prior to the normal retirement date and 1/30 for each of the next five years.

In addition to pension benefits, the entity provides employees an opportunity to participate in a deferred compensation plan offered through Mutual of America. The entity does not guarantee those benefits. This plan is between Mutual of America and the employee and the entity serves only in an agency capacity.

Note 4-Investments

Investments in certificates of deposits are stated at cost and other investments are stated at market value as quoted by national publications. At June 30, 1998 and 1997, investments are as follows:

	<u>1998</u>	<u>1997</u>
<u>Unrestricted</u>		
Investments in certificates of deposit with maturities from six months to four years and interest rates from 5% to 6.85%.	<u>\$725,000</u>	<u>\$695,000</u>
Federal Home Loan Mortgage Corp. with a yield of 7%	<u>43,222</u>	
<u>Temporarily Restricted</u>		
Investments in certificates of deposit with maturities from six months to two years and interest rates from 4.5% to 6.85%.		100,000
Federal Home Loan Mortgage Corp. with a yield of 7%		<u>51,657</u>
		<u>151,657</u>

Association for Retarded Citizens - Baton Rouge
Notes to Financial Statements
June 30, 1998

Note 4-Investments (Continued)

Investment income from cash equivalents and investments is comprised of the following for the year ended June 30, 1998.

	<u>Unrestricted</u>
Dividends and interest	\$68,215
Net unrealized gains (loss)	<u>(8,435)</u>
<u>Total</u>	<u>59,780</u>

Note 5-Note Receivable

The Association sold facilities at Wayne Drive for \$57,000 in 1995 and is financing the sale. Terms are monthly installments of \$500, plus 9% interest per annum maturing January, 2016.

Maturities of note receivable for the five years following June 30, 1998 are as follows:

1999	\$1,298
2000	1,420
2001	1,553
2002	1,699
2003	1,858

Note 6-Property and Equipment

A summary of property and equipment at June 30, 1998 and June 30, 1997, is as follows:

	<u>1998</u>	<u>1997</u>
Buildings	\$1,355,617	\$1,355,617
Furniture and equipment	507,460	702,403
Drapery and carpets	13,599	13,599
Leasehold improvements	<u>7,031</u>	<u>5,631</u>
	1,883,707	2,077,250
Less depreciation to date	<u>1,226,934</u>	<u>1,354,940</u>
	656,773	722,310
Land	<u>219,997</u>	<u>219,997</u>
 <u>Property and equipment, net</u>	 <u>876,770</u>	 <u>942,307</u>

Association for Retarded Citizens - Baton Rouge
Notes to Financial Statements
June 30, 1998

Note 7-Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following specific program services.

	<u>1998</u>	<u>1997</u>
Building fund	\$29,420	\$418,149

Note 8-Letter of Credit Agreement

The Organization has entered into a standby letter of credit agreement with a financial institution for \$150,000 at an interest rate of 8.5%. As of June 30, 1998, no funds were due on the letter of credit.

Association for Retarded Citizens - Baton Rouge
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 1998

<u>Programs</u>	<u>C.F.D.A.#</u>	<u>CFMS Number</u>	<u>Disburse- ments/ Expenditures</u>
Individual with Disabilities Education Act - Part H	84.181		\$308,253
Office of Employment and Training - JTPA	17.250	429796	46,607
Department of Health and Hospitals Louisiana State Planning Council on Developmental Disabilities		529976	<u>1,640</u>
			<u>356,500</u>

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December 16, 1998

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**Report on Compliance With Requirements
Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133**

Board of Directors
Association for Retarded Citizens - Baton Rouge
Baton Rouge, Louisiana

Members of the Board:

Compliance

We have audited the compliance of the

**Association for Retarded Citizens - Baton Rouge
Baton Rouge, Louisiana**

with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major federal programs for the year ended June 30, 1998. ARC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with laws, regulations, contracts, and grants applicable to ARC is the responsibility of ARC's management. Our responsibility is to express an opinion on ARC's compliance based on our audit.

We conducted our audit of compliance 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; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about ARC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis of our opinion. Our audit does not provide a legal determination of ARC's compliance with those requirements.

In our opinion, ARC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1998.

Internal Control Over Compliance

The management of the Associated for Retarded Citizens - Baton Rouge is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered ARC's internal control structure over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the use of management, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Yours truly,

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

HAWTHORN, WAYMOUTH & CARROLL, L.L.P.

H. DANIEL CARROLL, C.P.A.
ROBERT E. WALES, C.P.A.
J. CHARLES PARKER, C.P.A.
LOUIS D. MCKNIGHT, III, C.P.A.
ANTHONY J. CRISTINA, III, C.P.A.
CHARLES R. PEVEY, JR., C.P.A.
DAVID J. BROUSSARD, C.P.A.



ROBERT B. HAWTHORN, C.P.A.
(1896-1977)
JOHN F. WAYMOUTH, C.P.A.
(1902-1987)
HOWARD V. CARROLL, C.P.A.
(1909-1993)
WARREN C. BEEB, C.P.A.
RETIRED
ROBERT J. ZERINOTI, C.P.A.
RETIRED
CARL L. HANCOCK, C.P.A.
RETIRED

CERTIFIED PUBLIC ACCOUNTANTS

8555 UNITED PLAZA BLVD.
BATON ROUGE, LOUISIANA 70809
(225) 923-3000 • FAX (225) 923-3008

December 16, 1998

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
Association for Retarded Citizens - Baton Rouge
Baton Rouge, Louisiana

Members of the Board:

We have audited the financial statements of the

**Association for Retarded Citizens - Baton Rouge
Baton Rouge, Louisiana**

as of and for the year ended June 30, 1998, and have issued our report thereon dated December 16, 1998. 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 ARC'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 instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered ARC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

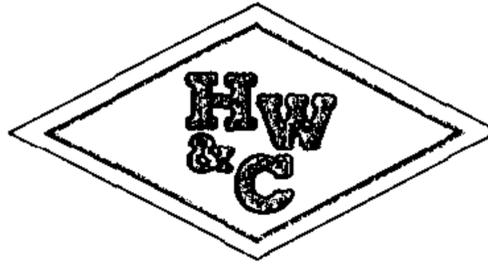
This report is intended for the use of management, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Yours truly,

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

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**Schedule on Audit Findings and Questioned
Costs Applicable to Each Major Program in
Accordance with OMB Circular A-133**

Board of Directors
Association for Retarded Citizens - Baton Rouge
Baton Rouge, Louisiana

Members of the Board:

We have audited the financial statements of the Association for Retarded Citizens - Baton Rouge, as of and for the year ended June 30, 1998, and have issued our report thereon dated December 16, 1998. 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.

Schedule on Audit Findings and Questioned Costs as Required by Circular A-133
Subpart E §505(a)(4)(b) Department of Health and Human Services, C.F.D.A.# 93-224.

- (1) The above mentioned audit report contained a qualified opinion.
- (2) Our audit report did not disclose any material weaknesses or other conditions in internal control which are required to be reported under OMB Circular A-133.
- (3) We issued a qualified report on compliance for major programs.
- (4) Our audit report did not disclose any material weaknesses or other conditions in internal control over major programs which are required to be reported by OMB Circular A-133.
- (5) Our audit report did not disclose any material noncompliance in major programs, as described in §.510(a)(2).
- (6) Our audit did not disclose any questioned costs, as described in §.510(a)(3).

(7) The major programs tested as major programs include:

<u>Programs</u>	<u>C.F.D.A.#</u>
Individuals with Disabilities Education Act - Part H	84.181
Office of Employment and Training - JTPA	17.250

(8) The auditee's above mentioned programs were classified as Type A using \$300,000 of total federal awards expended as the threshold.

(9) The auditee does not qualify as a low risk auditee under §.530.

This report is intended for the information of the Board of Directors, management, federal awarding agencies and pass-through entities.

Yours truly,

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