

The Arc of the Three Rivers, Inc.

**Independent Auditors' Report
and
Financial Statements**

December 31, 2008

DHHR - Finance

APR 20 2011

Date Received

The Arc of the Three Rivers, Inc.

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Herman & Cormany

Certified Public Accountants, A.C.

Accountants & Consultants

Independent Auditors' Report

To the Board of Directors
The Arc of the Three Rivers, Inc.
Charleston, West Virginia

We have audited the accompanying statement of position of The Arc of the Three Rivers, Inc., a not-for-profit organization, as of December 31, 2008, and the related statements of activities and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of The Arc of the Three Rivers, Inc. as of June 30, 2007, were audited by other auditors whose report dated June 10, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

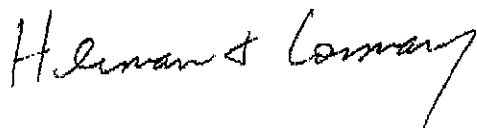
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc of the Three Rivers, Inc., as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2009 on our consideration of The Arc of the Three Rivers, Inc.'s internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.



To the Board of Directors
The Arc of the Three Rivers, Inc.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of state awards is presented for purposes of additional information 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.



Charleston, WV
December 18, 2009

DHHR - Finance

APR 20 2011

Date Received

The Arc of the Three Rivers, Inc.

Statements of Financial Position

December 31, 2008 and 2007

Assets	<u>2008</u>	<u>2007</u>
Current Assets		
Cash and cash equivalents	\$ 349,670	\$ 368,677
Cash held for others	356,765	300,854
Patient receivables, net	1,236,227	804,429
Grant receivables	27,673	100,493
Other receivables	2,036	1,430
Prepaid expenses and deposits	<u>8,422</u>	<u>21,369</u>
Total Current Assets	<u>1,980,793</u>	<u>1,597,252</u>
 Property and Equipment, net	 <u>90,713</u>	 <u>99,808</u>
 Total Assets	 <u>\$2,071,506</u>	 <u>\$1,697,060</u>
 Liabilities and Net Assets		
Current Liabilities		
Line of credit	\$ 149,850	\$ -0-
Accounts payable	723,880	387,051
Accrued salaries and benefits	246,347	212,850
Fiduciary liability for assets held for others	356,765	300,854
Capital lease obligations, current portion	907	7,689
Note payable, current portion	<u>4,530</u>	<u>4,242</u>
Total Current Liabilities	<u>1,482,279</u>	<u>912,686</u>
Capital lease obligations, long-term	-0-	598
Note payable, long-term	<u>819</u>	<u>5,320</u>
Total long-term liabilities	<u>819</u>	<u>5,918</u>
 Net assets		
Unrestricted	<u>588,408</u>	<u>778,456</u>
 Total Liabilities and Net Assets	 <u>\$2,071,506</u>	 <u>\$1,697,060</u>

See independent auditors' report and notes to financial statements.

The Arc of the Three Rivers, Inc.

Statements of Activities

For the Years Ended December 31, 2008, and 2007

	<u>2008</u>	<u>2007</u>
Revenues and Support		
Net patient service revenue	\$8,920,544	\$8,295,421
Grant funding	199,149	249,553
Other revenue and support	178,577	134,590
Interest income	4,560	12,346
Donations	18,290	5,947
Total Revenues and Support	<u>9,321,120</u>	<u>8,697,857</u>
 Expenses		
Salaries and wages	3,463,384	3,225,448
Payroll taxes and benefits	729,768	603,402
Contracted services	3,860,405	3,630,526
Medicaid enhancement tax	419,595	392,571
Travel	264,626	190,431
Supplies	74,412	66,162
Day program expense	49,465	49,335
Insurance	35,245	37,359
Depreciation	46,105	31,114
Professional fees	48,037	32,177
Utilities and telephone	51,392	28,461
Rent	111,360	73,883
Groceries	21,138	17,016
Parking	24,207	23,674
Dues and subscriptions	7,649	21,037
Provision for bad debt	156,919	28,577
Interest	5,087	872
Other	142,374	100,490
Total Expenses	<u>9,511,168</u>	<u>8,552,535</u>
 Change in Net Assets	 → <u>(190,048)</u>	 <u>145,322</u>
 Net Assets, Beginning of Year	 <u>778,456</u>	 <u>633,134</u>
 Net Assets, End of Year	 <u>\$ 588,408</u>	 <u>\$ 778,456</u>

See independent auditors' report and notes to financial statements.

The Arc of the Three Rivers, Inc.

Statements of Cash Flows

For the Year Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Activities		
(Decrease) increase in net assets	\$(190,048)	\$145,322
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	46,105	31,114
Provision for bad debt	156,919	28,577
Changes in operating assets and liabilities		
Decrease (increase) in:		
Patient receivables	(588,717)	(124,930)
Grant receivables	72,820	(53,630)
Other receivables	(606)	(558)
Prepaid expenses and deposits	12,947	(3,276)
Increase (decrease) in:		
Accounts payable	336,829	36,935
Accrued salaries and benefits	33,497	51,309
Net Cash (Used in) Provided by Operating Activities	<u>(120,254)</u>	<u>110,863</u>
Investing Activities		
Property and equipment acquisitions	<u>(37,010)</u>	<u>(29,824)</u>
Net Cash Used in Investing Activities	<u>(37,010)</u>	<u>(29,824)</u>
Financing activities		
Proceeds from line of credit	150,000	-0-
Payments on line of credit	(150)	-0-
Payments on capital leases	(7,380)	(8,994)
Payments on note payable	(4,213)	(3,974)
Net Cash Provided by (Used in) Financing Activities	<u>138,257</u>	<u>(12,968)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	<u>(19,007)</u>	<u>68,071</u>
Cash and Cash Equivalents, Beginning of Year	<u>368,677</u>	<u>300,606</u>
Cash and Cash Equivalents, End of Year	<u>\$ 349,670</u>	<u>\$ 368,677</u>
Supplemental disclosure of cash flow information:		
Cash used for interest payments	<u>\$ 5,087</u>	<u>\$ 872</u>

See independent auditors' report and notes to financial statements.

The Arc of the Three Rivers, Inc.

Notes to Financial Statements

December 31, 2008 and 2007

Note A – Summary of Significant Accounting Policies

Nature of Activities - The Arc of the Three Rivers, Inc. ("ARC") is a not-for-profit, nonstock corporation organized and existing under the laws of West Virginia and located in Charleston, West Virginia. The ARC provides services to individuals with mental retardation and developmental disabilities in Kanawha, Putnam, Clay, and Boone counties in West Virginia.

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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents -- Cash and cash equivalents include short-term, highly liquid investments both readily convertible to known amounts of cash or so near maturity at acquisition that there is an insignificant risk of change in value because of changes in interest rates. Cash equivalents are stated at cost.

Patient Receivables, Net -- The ARC uses the allowance method to report patient receivables at realizable value. Allowances for uncollectible accounts are estimated based on the historical experience of the ARC and continuous review of the aging of these receivables. Specific patients' balances are written off against the established allowances as circumstances indicate that a specific patient balance, either wholly or partially, will not be collected. Patient receivables have been disclosed net of an allowance for uncollectible accounts of \$8,301 and \$7,294 for the years ended December 31, 2008 and 2007, respectively.

Property and Equipment, Net -- Property and equipment is reported at cost for purchased items and fair value for contributed items. Depreciation is computed by the straight-line method based on estimated useful lives. The ARC's policy is to capitalize assets whose expected life is in excess of one year and cost (or fair value) is above \$500. Equipment acquired under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation in the financial statements.

Net Asset Classification -- Net assets of the organization and changes therein are classified and reported as follows:

Unrestricted net assets - net assets that are not subject to donor/grantor-imposed stipulations.

Temporarily restricted net assets - net assets subject to donor/grantor-imposed stipulations that will be met either by actions of the ARC and/or the passage of time.

The Arc of the Three Rivers, Inc.

Notes to Financial Statements

December 31, 2008 and 2007

Note A – Summary of Significant Accounting Policies (Continued)

Permanently restricted net assets – net assets subject to donor/grantor-imposed stipulations that they be maintained permanently by the ARC

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor/grantor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor/grantor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor/grantor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. For the years ended December 31, 2008 and 2007, the ARC had no temporarily or permanently restricted assets.

Excess of Revenues Over Expenses and Increase in Net Assets – The statement of operations includes excess of revenues over expenses and increase in net assets. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets)

Net Patient Service Revenue - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers.

Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care - The ARC has established criteria under its charity care policy to provide services to those patients without the financial resources to pay for the services. Because the ARC does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care provided during the years ended December 31, 2008 and 2007 was \$67,213 and \$114,182, respectively, measured at standard charges for services.

Interest Expense - All interest costs have been expensed and are included in operating expenses in the statements of operations and changes in net assets. Total interest expense for the years ended December 31, 2008 and 2007 was \$5,087 and \$872, respectively.

Advertising Expense - All advertising costs have been expensed and are included in other operating expenses in the statements of operations and changes in net assets. Total advertising expense for the years ended December 31, 2008 and 2007 was \$4,284 and \$11,370, respectively.

The Arc of the Three Rivers, Inc.

Notes to Financial Statements

December 31, 2008 and 2007

Note A – Summary of Significant Accounting Policies (Continued)

Income Taxes - The ARC is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Reclassifications – Certain items in the 2007 financial statements have been reclassified to conform to current presentations.

Note B– Patient Receivables

Patient receivables are reported net of allowances for amounts estimated to be uncollectible by reason of bad debts. Management estimates for allowances for doubtful accounts are based on historical experience and analysis of individual patient receivables. Specific patient balances are written off at the time that they are determined uncollectible. The following is a summary of net patient receivables at December 31, 2008 and 2007:

	2008	2007
ICF/MR Medicaid	\$ 96,966	\$ 82,259
Waiver Medicaid	1,147,371	729,464
Other	191	-0-
	1,244,528	811,723
Less provision for bad debts	8,301	7,294
	<u>\$1,236,227</u>	<u>\$804,429</u>

Note C – Property and Equipment, Net

A summary of property and equipment as of December 31 is as follows:

	2008	2007
Land	\$ 5,000	\$ 5,000
Building	54,900	54,900
Leasehold improvements	50,712	30,353
Furniture and fixtures	3,233	2,949
Equipment	222,536	206,169
Total property and equipment	336,381	299,371
Accumulated depreciation	(245,668)	(199,563)
Property and equipment, net	<u>\$ 90,713</u>	<u>\$ 99,808</u>

The Arc of the Three Rivers, Inc.

Notes to Financial Statements

December 31, 2008 and 2007

Note D – Line of Credit

The ARC has established a line of credit totaling \$150,000 with Branch Banking and Trust of Charleston, West Virginia. The line of credit has an interest rate of 1.00% plus the bank's prime rate. At December 31, 2008 and 2007, respectively, the ARC owed \$149,850 and \$-0- on the lines of credit

Note E – Capital & Operating Lease Obligations

Obligations under capital leases existing at December 31, are as follows:

	<u>2008</u>	<u>2007</u>
Ikon Financial Services, interest at 0%, payable in monthly installments of \$563, maturing November 2008, collateralized by copier equipment with a cost of \$27,045 and accumulated depreciation of \$15,776.	\$ -0-	\$ 5,326
Lanier Worldwide, Inc., interest at 8.12%, payable in monthly installments of \$185, maturing May 2009, collateralized by copier equipment with a cost of \$5,893 and accumulated depreciation of \$1,866.	907	2,961
	907	8,287
Less current portion	907	7,689
	\$ -0-	\$ 598

The future minimum lease payments on the above leases are as follows for the years ending December 31 are as follows:

2009	\$925
Less amount representing interest	18
	\$907

Operating Leases – The ARC has three noncancelable operating leases for office space that expire at various dates through December, 2012. Rental expenses for these leases consist of \$111,359 for 2008 and \$73,882 for 2007.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2008.

Year Ending December 31:

2009	\$ 99,960
2010	77,440
2011	49,440
2012	49,440
	\$276,280

The Arc of the Three Rivers, Inc.
Notes to Financial Statements
December 31, 2008 and 2007

Note F – Note Payable

Note payable existing at December 31 are as follows:

	2008	2007
DaimlerChrysler, payable at a fixed rate of 6.71% with monthly installments of \$396; collateralized by the Chrysler van financed by the note.	\$ 5,349	\$ 9,562
Less current portion	<u>4,530</u>	<u>4,242</u>
	<u>\$ 819</u>	<u>\$ 5,320</u>

Maturities of note payable for the years ending December 31 are as follows:

2009		\$4,530
2010		<u>819</u>
		<u>\$5,349</u>

Note G – Assets Whose Use Is Limited

Assets set aside by the Board of Directors consist of a certificate of deposit and investor deposit account funds and are summarized below. These funds are not restricted for a specific use; however, they require Board approval prior to being used. These funds are reported with cash and cash equivalents on the balance sheet.

	2008	2007
Certificates of deposit	\$ 22,150	\$21,910
Investor deposit account	<u>99,117</u>	<u>91,837</u>
	<u>\$121,267</u>	<u>\$113,747</u>

Note H – Retirement Plan

The ARC has a 403(b) contributory defined contribution retirement plan covering all full time employees. The ARC's contribution expense is computed as a match of the amount contributed by employees, limited to five percent (5%) of each employee's compensation. The ARC's total expense was approximately \$23,923 and \$21,202, respectively, for the years ended December 31, 2008 and 2007 for the plan.

The Arc of the Three Rivers, Inc.

Notes to Financial Statements

December 31, 2008 and 2007

Note I – Commitments and Contingencies

Medicaid Reimbursement Methodologies – As described in other notes to these financial statements, the ARC is significantly dependent on reimbursement by the Medicaid program for services rendered. Any future modifications to laws and regulations relating to participation in this program or reimbursement by this program for services rendered could have a significant impact on the financial condition and operating results of the ARC.

Operating Leases – Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. As of December 31, 2008, the ARC did not enter into any new operating leases in excess of one year.

Total rent expense for the years ended December 31, 2008 and 2007, for the operating leases was \$111,360 and \$73,883, respectively.

Cash Balances in Excess of FDIC Insurance – The ARC maintains cash in demand deposit accounts with federally insured banks. At times the balance in these accounts may be in excess of federally insured limits. In management's opinion, the amounts in excess of FDIC limits do not pose significant risk to the ARC.

Economic Dependency and Geographic Concentration – The ARC generates a substantial portion of its patient service revenue from services to Medicaid beneficiaries. Changes in payment rates or methodologies by those programs could significantly impact its ability to continue in existence.

Patient service revenue that the ARC generates is primarily limited to services to residents in Kanawha, Putnam, Clay, and Boone counties. General economic conditions in these areas can therefore significantly influence the ARC's ability to collect fees for services rendered.

Professional and General Liability Claims – In recent years, healthcare providers have become subject to an increasing number of lawsuits including allegations of medical malpractice. Many of these lawsuits involve large claims and substantial defense costs.

ARC purchased malpractice insurance coverage on a claims-made basis of up to \$1,000,000 per aggregate per year from a commercial insurance carrier. ARC also purchases additional insurance coverage on a claims-made basis of up to \$1,000,000 per occurrence from a commercial insurance carrier.

Nevertheless, some risks and liabilities, including claims for punitive damages or claims based on the actions of third parties, may not be covered by insurance. In addition, ARC cannot assure that existing coverage is adequate to cover potential losses. While ARC has been able to obtain liability insurance, it

The Arc of the Three Rivers, Inc.

Notes to Financial Statements

December 31, 2008 and 2007

Note I – Commitments and Contingencies (Continued)

can be expensive and may not be available in the future on terms acceptable to ARC, or at all. Moreover, claims, regardless of the merit or eventual outcome, may also adversely affect ARC's reputation and ability to secure patient referrals, as well as divert management resources from the ongoing operations.

At December 31, 2008 and 2007, no liability has been estimated by management of any liability for asserted or unasserted claims.

Note J – Classification of Expenses

Expenses are charged to program and support services based on the actual costs incurred. Those expenses which are not directly identifiable with any other specific function but provide overall support and direction, have been included as general and administrative.

	<u>2008</u>	<u>2007</u>
General and administrative	\$ 771,816	\$ 598,677
Fundraising	-0-	-0-
Program	<u>8,739,352</u>	<u>7,953,854</u>
	<u>\$9,511,168</u>	<u>\$8,552,531</u>

The Arc of the Three Rivers, Inc.
Schedule of Expenditures of State Awards
For the Year Ended December 31, 2008

Grantor Name/ Program Title	Grant Number	Award Amount	Receipts (1/1/08-12/31/08)	Expenditures (1/1/08-12/31/08)	2007 Receivable	2008 Receivable
<u>State Awards:</u>						
West Virginia Department of Health and Human Resources-Office of Behavioral Health						
Behavioral Health and Health Facilities Grant	G080036/ G090265	\$328,976	\$140,412	\$ 74,463	\$ 55,566	\$16,903
Behavioral Health and Health Facilities Grant	G080036/ G090265	150,000	86,775	45,369	40,618	10,770
National Core Indicators Consumer Survey Grant	G080036	<u>61,000</u>	<u>47,305</u>	<u>26,170</u>	<u>4,309</u>	<u>-0-</u>
Total		<u>\$539,976</u>	<u>\$274,492</u>	<u>\$146,002</u>	<u>\$100,493</u>	<u>\$27,673</u>

The Arc of the Three Rivers, Inc.
Notes to Schedule of Expenditures of State Awards
For the Year Ended December 31, 2008

Note A – Basis of Presentation

The accompanying schedule of expenditures of state awards includes the state grant activity of The Arc of the Three Rivers, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Herman & Cormany

Certified Public Accountants, A.C.

Accountants & Consultants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
The Arc of the Three Rivers, Inc.
Charleston, West Virginia

We have audited the financial statements of The Arc of the Three Rivers, Inc. as of and for the year ended December 31, 2008, and have issued our report thereon dated December 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Arc of the Three Rivers, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures 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 of the Three Rivers, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is



To the Board of Directors
The Arc of the Three Rivers, Inc
Page two

more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses (2008-1/2008-4) to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

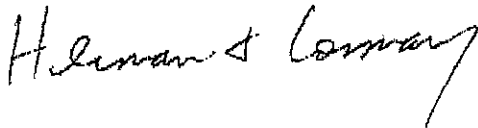
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the accompanying schedule of findings and responses, we consider item 2008-2 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Arc of the Three Rivers, Inc.'s financial statements are free of 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Arc of the Three Rivers, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit The Arc of the Three Rivers, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, management, and the various federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Charleston, West Virginia
December 18, 2009

The Arc of the Three Rivers, Inc.
Schedule of Findings and Responses
For the Year Ended December 31, 2008

2008-1 Monthly Bank Reconciliations

Condition: The Organization did not complete its December 2008 or January 2009 bank reconciliations until September 9, 2009 and were not reviewed.

Criteria: Internal controls should be in place to provide reasonable assurance that bank reconciliations are prepared and reviewed monthly in a timely manner

Effect: Because of the failure to perform or review bank reconciliations in a timely manner material transactions may be unrecorded and undetected or fraud may occur and be undetected.

Response: The Organization agrees to perform bank reconciliations in a timely manner and assign the appropriate management personnel to review the reconciliations.

2008-2 Lack of Segregation of Duties

Condition: The Organization has a lack of segregation of duties in a variety of areas, but especially in the area of payments to providers and rep. payees.

Criteria: Internal controls should be in place to provide reasonable assurance that the Organization has a proper segregation of duties in all areas, but specifically in the area of payments to providers and rep. payees.

Effect: Because of the lack of segregation of duties in the area of payments to providers and rep. payees, the risk of potential for fraud is high.

Response: The Organization agrees to establish proper segregation of duties in all areas.

2008-3 General Ledger Maintenance

Condition: When the December 31, 2008 general ledger was originally submitted to the auditors, it was out of balance by \$5,184, and did not include the note payable of \$149,850. The "revised" general ledger included the \$149,850 note payable but was out of balance by \$35,139.

Criteria: Internal controls should be in place to provide reasonable assurance that the general ledger is properly prepared and reviewed so that it balances and all material accounts are recorded.

Effect: Because of the failure to properly record all transactions, balance and review the general ledger, material transactions may be undetected and unrecorded and management and the board of directors may not have as accurate presentation of the financial positions of the Organization.

Response: The Organization agrees to establish proper internal controls to provide reasonable assurance that the general ledger is balanced each month and that major transactions are recorded.

The Arc of the Three Rivers, Inc.
Schedule of Findings and Responses (Continued)
For the Year Ended December 31, 2008

2008-4 Fiduciary Accounts Outstanding Checks and Deposits

Condition: Detail was not maintained for the fiduciary accounts for outstanding checks and deposits. Additionally the general ledger was not adjusted to the reconciled amount at December 31, 2008.

Criteria: Internal controls should be in place to provide reasonable assurance that the fiduciary accounts are being fully and properly accounted for.

Effect: Because of the failure to properly keep track of outstanding checks and deposits in the fiduciary accounts and adjust to the trial balance, transactions may be unrecorded and undetected or fraud may occur and be undetected.

Response: The Organization agrees to maintain a detail of outstanding checks and deposits for the fiduciary accounts and to reconcile the accounts to the general ledger on a monthly basis in a timely manner.