THE ARC OF THE THREE RIVERS, INC.

Financial and Compliance Report

December 31, 2013

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Date Received

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Arc of the Three Rivers, Inc. (the Arc), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United State of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of State Awards is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 11, 2014 on our consideration of The Arc of the Three Rivers, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. We issued a similar report for the year ended December 31, 2012, dated June 3, 2013, which has not been included with the 2013 financial statements. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards in considering The Arc of the Three Rivers, Inc.'s internal control over financial reporting and compliance.

ARNETT FOSTER TOOTHMAN PLLC

Arnett Foster Toothman PLLC

Charleston, West Virginia
July 11, 2014

DHHR - Finance

DEC 16 2015

Date Received

THE ARC OF THE THREE RIVERS, INC.

BALANCE SHEETS
December 31, 2013 and 2012

ASSETS	2013	2012
Current Assets		
Cash and cash equivalents	$ 681,224	$ 555,368
Cash held for others	171,337	188,896
Patient accounts receivable, net of allowance for doubtful accounts of approximately $318,000 (2013); $408,000 (2012)	678,831	762,419
Grant receivables	39,706	42,855
Prepaid expenses and other	65,387	66,751
Total current assets	1,636,485	1,616,289
Assets Limited as to Use	65,630	65,838
Property and Equipment, net	174,872	151,592
Total assets	$ 1,876,987	$ 1,833,719
LIABILITIES AND NET ASSETS		
Current Liabilities		
Note payable, line of credit	$ -	$ 80,000
Current maturities of long-term obligations	7,597	3,988
Accounts payable and accrued expenses	1,133,374	1,267,720
Fiduciary liability for assets held for others	171,337	188,896
Total current liabilities	1,312,308	1,540,604
Long-term obligations, net of current portion	17,110	9,864
Total liabilities	1,329,418	1,550,468
Net Assets		
Unrestricted	547,569	283,251
Total net assets	547,569	283,251
Total liabilities and net assets	$ 1,876,987	$ 1,833,719

THE ARC OF THE THREE RIVERS, INC.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years Ended December 31, 2013 and 2012

	2013	2012
Unrestricted revenues, gains and other support:		
Net patient service revenue (net of contractual allowances and discounts)	$ 9,524,879	$ 9,827,400
Less: Provisions for bad debts	120,429	256,000
Net patient service revenue	9,404,450	9,571,400
Grant funding	236,546	269,498
Other revenue	115,538	113,120
Interest income	151	161
Donations	2,434	-
Total revenues, gains and other support	9,759,119	9,954,179
Expenses:		
Salaries and wages	4,531,401	4,772,134
Payroll taxes and benefits	1,006,887	1,060,258
Contracted services	2,351,924	2,411,824
Medicaid enhancement tax	458,294	475,211
Travel	216,275	243,461
Day program expense	82,035	48,748
Utilities and telephone	52,281	48,297
Rent	173,982	154,155
Groceries	35,106	30,115
Parking	27,046	26,826
Supplies and other	297,646	383,326
Professional fees	171,968	112,838
Insurance	46,811	39,397
Interest	3,993	32,738
Depreciation and amortization	39,152	30,431
Total expenses	9,494,801	9,869,759
Excess of revenues over expenses and increase in unrestricted net assets	264,318	84,420
Net assets, beginning of year	283,251	198,831
Net assets, end of year	$ 547,569	$ 283,251

THE ARC OF THE THREE RIVERS, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Increase in net assets	$ 264,318	$ 84,420
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation and amortization	39,152	30,431
Provision for bad debts	120,429	256,000
(Increase) decrease in:		
Patient accounts receivables	(36,841)	(166,903)
Grant receivables	3,149	21,358
Prepaid expenses and other	1,364	(6,429)
Increase (decrease) in:		
Accounts payable and accrued expenses	(134,346)	8,616
Net cash provided by operating activities	257,225	227,493
Cash Flows from Investing Activities		
Purchase of property and equipment	(62,432)	(126,095)
Net change in assets limited as to use	208	271
Net cash used in investing activities	(62,224)	(125,824)
Cash Flows from Financing Activities		
Net proceeds (repayment) on line of credit	(80,000)	80,000
Principal payments on long-term obligations	(6,979)	(4,011)
Proceeds from long-term obligations	17,834	-
Net cash (used in) provided by financing activities	(69,145)	75,989
Net increase in cash and cash equivalents	125,856	177,658
Cash and cash equivalents, beginning of year	555,368	377,710
Cash and cash equivalents, end of year	$ 681,224	$ 555,368
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 3,993	$ 32,738

THE ARC OF THE THREE RIVERS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations and Significant Accounting Policies

Nature of operations: The Arc of the Three Rivers, Inc. (the "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 Intellectual Disabilities and Developmental Disabilities in Kanawha, Putnam, Clay and Boone counties in West Virginia.

A summary of significant accounting policies is as follows:

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include those assumed in determining the allowance for doubtful accounts. It is at least reasonably possible that the significant estimates used will change within the next year.

Cash and cash equivalents: Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Patient accounts receivable: Patient accounts receivable are carried at the original charge less an estimate made for doubtful or uncollectible accounts. The allowance is based upon a review of the outstanding balances aged by financial class. Management uses collection percentages based upon historical collection experience to determine collectibility. Management also reviews troubled, aged accounts to determine collection potential. Patient accounts receivable are written off when deemed uncollectible. Recoveries of accounts previously written off are recorded as a reduction to bad debt expense when received. Interest is not charged on patient accounts receivable.

Supplies inventory: Supplies inventory is stated at latest invoice cost, which approximates lower of cost (first-in, first-out method) or market.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities.

Assets limited as to use: Assets limited as to use include designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes.

Property and equipment: Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of the depreciable assets and is computed using the straight-line method. Equipment 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 and amortization in the financial statements.

Net assets: Unrestricted net assets are those assets presently available for use by the Arc at the discretion of the Board of Directors.

Temporarily restricted net assets are those assets, which have been contributed with donor imposed time or purpose restrictions. When a stipulated time restriction expires or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations as net assets released from restrictions. (None at December 31, 2013 and 2012.)

Permanently restricted net assets are resources subject to donor imposed restrictions that they be maintained permanently by the Arc. (None at December 31, 2013 and 2012.)

Excess of revenues over expenses: The statement of operations includes *excess of revenues over expenses*. 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) and pension-related changes for other than net periodic pension cost.

Net patient service revenue: Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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 provides care to patients who meet certain criteria under its charity care policy, without charge or at amounts less than its established rates. Because the Arc does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Charity care, based on charges foregone, for the years ended December 31, 2013 and 2012 amounted to $84,098 and $97,913, respectively. The total cost of charity care provided for the years ended December 31, 2013 and 2012 approximated the charges foregone. The Arc received grant funding of $55,346 and $80,056 restricted for charity care for the years ended December 31, 2013 and 2012, respectively.

Donor-restricted gifts: Unconditional promises to give cash and other assets to the Arc are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Gifts of land, buildings and equipment are reported at fair value and are presented 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 Arc reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Income taxes: The Arc, which is not classified as a private foundation, is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state statutes relating to not-for-profit organizations.

Accounting principles generally accepted in the United States of America require the management of the Arc to evaluate tax positions taken by the Arc. Management has evaluated the Arc's tax positions and concluded that the Arc had maintained its tax exempt status and had taken no uncertain tax positions that require recognition or disclosure in the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

The Arc is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The management of the Arc believes it is no longer subject to income tax examinations for years prior to the fiscal year ended December 31, 2010.

Advertising: Advertising costs are expensed as incurred.

Subsequent Events: The Arc has evaluated subsequent events through July 11, 2014, the date on which the financial statements were available to be issued.

New or recent accounting pronouncements: In May 2014, the FASB issued Revenue from Contracts with Customers (Topic 606). This ASU will affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards such as insurance or lease contracts, and will supersede the revenue recognition requirements in Accounting Standards Codification (ASC) Topic 605, Revenue Recognition, and most industry-specific authoritative accounting guidance. In addition, this ASU will amend the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer such as assets within the scope of ASC Topic 360, Property, Plant, and Equipment, and intangible assets within the scope of ASC Topic 350, Intangibles—Goodwill and Other to be consistent with the guidance on recognition and measurement of this ASU. Under the requirements of this ASU, financial reporting entities should recognize contractual revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU will require a step process for contractual revenue recognition that will require financial reporting entities to identify contractual relationships that produce revenue, identify the performance obligations within those contracts, determine contractual transaction prices of those contracts, allocate the transaction price to the performance obligations of those contracts, and to recognize revenue as the financial reporting entity satisfies the contractual performance obligations. The amendments of this ASU are effective for public entities for annual and interim reporting periods beginning after December 15, 2016, with early application not permitted. For nonpublic entities, the amendments of this ASU are effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018, with earlier application permitted no earlier than the effective date for public entities. Once adopted, an entity should apply the amendments of the ASU by either retrospectively applying to all period presented using practical expedients prescribed by the ASU, or retrospectively with the cumulative effect of initial application recognized at the date of initial application with disclosure of the impact that the cumulative effect would have had on individual financial statement line items for the prior periods presented before the initial application. The management of the Arc has not yet concluded their evaluation of the potential effects of this new accounting and financial reporting standard update.

Note 2. Credit Risk Related to Cash and Cash Equivalents

Included with cash and cash equivalents are demand deposits and short-term investments with financial institutions, the bank balances of which generally exceed Federally insured amounts. However, management believes these financial institutions are financially sound and these concentrations do not represent a significant risk to the Arc.

Note 3. Property and Equipment

A summary of the components of property and equipment as of December 31, 2013 and 2012 follows:

	2013	2012
Land	**$ 5,000**	$ 5,000
Leasehold improvements	**90,482**	85,857
Building	**54,900**	54,900
Furniture and fixtures	**10,180**	10,180
Equipment and vehicles	**393,843**	336,036
	554,405	491,973
Less accumulated depreciation and amortization	**(379,533)**	(340,381)
Property and equipment, net	**$ 174,872**	$ 151,592

Note 4. Assets Limited As to Use

Assets limited as to use: The composition of assets limited as to use at December 31, 2013 and 2012, is set forth in the following table. Investments are stated at fair value.

		2013		2012
By Board for capital improvements:				
Cash and cash equivalents	$	43,138	$	43,399
Certificates of deposit		22,492		22,439
Total assets limited as to use	$	65,630	$	65,838

Investment income and gains for assets limited as to use, cash and cash equivalents for the years ended December 31, 2013 and 2012, follows:

		2013		2012
Other Income:				
Interest income	$	151	$	161

Fair Value of Financial Instruments

The *Fair Value Measurements and Disclosures* Topic 820 of the FASB Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

This Topic defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. This Topic also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Topic describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair Value Measurements

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments and Assets Limited as to Use: Investment securities and assets limited as to use are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating. Level 1 securities include those traded by dealers or brokers in active over-the-counter markets and money market funds.

Assets at Fair Value on a Recurring Basis

The tables below present the recorded amount of assets measured at fair value on a recurring basis.

	Total at December 31, 2013	Fair Value Measurements Using: Level 1	Level 2	Level 3
Assets:				
Cash equivalent assets limited as to use	$ 65,630	$ 65,630	$ -	$ -

	Total at December 31, 2012	Fair Value Measurements Using: Level 1	Level 2	Level 3
Assets:				
Cash equivalent assets limited as to use	$ 65,838	$ 65,838	$ -	$ -

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Arc has no assets or liabilities that are recorded at fair value on a nonrecurring basis.

Note 5. Line of Credit

At December 31, 2013, the Arc had an open line of credit with a financial institution of $400,000 with interest rate of 0.50% plus the Bank's prime rate, 3.75% at December 31, 2013, which is secured by substantially all assets of the Arc. The Arc had outstanding borrowings on the line of credit of $0 and $80,000 at December 31, 2013 and 2012, respectively.

Note 6. Long-Term Obligations

A summary of long-term obligations at December 31, 2013 and 2012 follows:

	2013	2012
Note payable, bank, due in monthly installments of $381, including interest at 5.25%, through 2016, secured by vehicle	$ 9,927	$ 13,852
Note payable, bank, due in monthly installments of $326, including interest at 3.67%, through 2018, secured by vehicle	14,780	-
	24,707	13,852
Less current maturities	7,597	3,988
Long-term obligations	$ 17,110	$ 9,864

Scheduled principal payments on long-term obligations is as follows:

Year ending December 31,	
2014	$ 7,597
2015	7,927
2016	5,039
2017	3,813
2018	331
	$ 24,707

Note 7. Net Patient Service Revenue

The Arc has agreements with third-party payors that provide for payments to the Arc at amounts different from its established rates.

Virtually all of the Arc's net patient service revenue is derived under the Title XIX I/DD Waiver Program. Consequently, 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.

Note 8. Rental Expense

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred.

Future minimum lease payments under operating leases as of December 31, 2013 that have initial or remaining lease terms in excess of one year are as follows:

Year ending December 31,		
2014	$	150,271
2015		46,112
2016		1,056
	$	197,439

Total rental expense in 2013 and 2012 for all operating leases was approximately $174,000 and $154,000, respectively.

Note 9. Professional Liability Insurance

The Arc maintains claims made coverage for professional liability of up to $1,000,000 for individual claims with a total annual aggregate up to $1,000,000. Incidents occurring through December 31, 2013, may result in the assertion of a claim and other claims may be asserted arising from past services provided.

The Arc is a defendant in various lawsuits wherein various amounts for damages are claimed. In the opinion of management, the likelihood of an unfavorable outcome in excess of insurance coverage is remote and the judgments, if unfavorable, would not have a material adverse effect on the Arc's financial statements. Some of these claims would be subject to deductibles should the ultimate outcome be adverse. The aggregate of all potential deductibles would not have a material adverse effect on the Arc's financial statements.

Note 10. Concentrations of Credit Risk

The Arc is located in Charleston, West Virginia. The Arc grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from the Arc's patients and third-party payors is as follows:

	2013	2012
Medicaid	**90%**	91%
Private Pay	**10%**	9%
	100%	100%

Note 11. Classification of Expenses

Operating expense by functional category is as follows:

	2013	2012
Patient care	$ 8,697,755	$ 9,041,237
General and administrative	797,046	828,522
	$ 9,494,801	$ 9,869,759

Note 12. Commitments and Contingencies

In 2011, a provider review of the I/DD Waiver program was performed by APS Healthcare for the period January 7, 2010 to December 21, 2010. A potential disallowance of approximately $190,000 was identified by APS Healthcare related to missing documentation for the services provided. The Arc has responded to the review and is waiting on response from APS Healthcare. Management believes that the actual liability will be approximately $112,000 based upon information they have subsequently provided to APS Healthcare. A liability of $112,000 is recorded in the financial statements at December 31, 2013 and 2012, and is included within accounts payable and accrued expenses.

Note 13. Health Insurance Plan

The Arc is partially self-insured with respect to employee health insurance. The program is used to pay ordinary health care claims of qualified participants. To protect themselves against extraordinary claims of their employees, the Arc has purchased stop-loss insurance. The Arc's cost is limited to $35,000 per participant per plan year. Amounts payable under this plan approximated $12,000 and $38,000 as of December 31, 2013 and 2012, respectively. Total health insurance expense for the years ended December 31, 2013 and 2012 was approximately $444,000 and $498,000, respectively.

THE ARC OF THE THREE RIVERS, INC.

SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended December 31, 2013

State Grantor/Program Title	Grant Number	Grant Period	Grant Award	1/1/13-12/31/13 Receipts	1/1/13-12/31/13 Expenditures	2013 Receivable
West Virginia Department of Health and Human Resources-Office of Behavioral Health						
Developmental Disabilities (DD) Core Support & Alternative Grant	G130451	07/01/12-06/30/13	$ 244,988	$ 152,106	$ 109,251	$ -
Developmental Disabilities (DD) Core Support & Alternative Grant	G140016	07/01/13-06/30/14	244,987	90,167	129,314	39,147
Total State Awards			$ 489,975	$ 242,273	$ 238,565	$ 39,147

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Arc of the Three Rivers, Inc. (the "Arc"), which comprise the balance sheet, as of December 31, 2013, and the related statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 11, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Arc's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Arc's internal control. Accordingly, we do not express an opinion on the effectiveness of the Arc's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control described as finding 2013-1 in the accompanying *schedule of findings and responses* that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Arc's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and is described in the accompanying *schedule of findings and responses* as item 2013-1.

The Arc's Response to Findings

The Arc's response to the finding identified in our audit is described in the accompanying *schedule of findings and responses*. The Arc's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Arc's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Arc's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ARNETT FOSTER TOOTHMAN PLLC

Arnett Foster Toothman PLLC

Charleston, West Virginia
July 11, 2014

DHHR - Finance

DEC 16 2015

Date Received

THE ARC OF THE THREE RIVERS, INC.

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2013

2013-01 Timely Reconciliation of Funds Held for Others

Condition

The Arc has the fiduciary responsibility for approximately $171,000 of funds held for others, and acts as the representative payee for certain consumers. A past employee embezzlement involving these funds amounting to approximately $50,000 occurred over several years but was not discovered until 2010.

Cause

A small number of persons have had the primary responsibility for performing most of the accounting and financial reporting duties of the Arc limiting the separation of incompatible duties. Policies and procedures related to dual controls as well as appropriate supervision and review control over the administration of the funds held for others was implemented in 2011.

Criteria

Chapter 31E, Article 15, Section 1501, paragraph (b) of the West Virginia Code requires that nonprofit corporations incorporated in West Virginia are to maintain appropriate accounting records. Further, the Legislative Rules under the Title 64, Series 11, for the Division of Health, Behavioral Health Centers Licensure, requires the Arc to act as a fiduciary on behalf of its beneficiary consumers, and to maintain appropriate, separate records of account for them when handling their funds. Crucial to the propriety of such accounting records is the maintenance of internal accounting controls that ensures that no one person can have access to the assets as well as the accounting records of the organization, and that no one person can control transactions of the organization from inception to completion and recording such transactions in the accounting records, as such conditions provide the opportunity for fraud to occur within the organization and go undetected. Ideally, internal controls should be designed to safeguard assets and minimize the risk of loss from employee dishonesty or error, and fundamental to adequate internal controls is the segregation of incompatible duties. Consequently, the Arc should have internal controls in place that contemplate an appropriate segregation of duties in all areas to the fullest extent possible, particularly in the area of payments to providers and representative payees.

Effect

The Policies and Procedures manual over funds held for others implemented by the Arc in 2011 states that all representative payee accounts will be reconciled no later than seven days after receipt of the monthly bank statements. During audit testing of these accounts, it was noted that the reconciliation of these accounts had not been reconciled for several months during the year ended December 31, 2013. These reconciliations were not completed until April 2014.

Failure to perform timely reconciliations of the fiduciary accounts could result in improperly recorded and undetected transactions or fraud may occur and be undetected.

Response

The Arc hired a Representative Payee Director in 2011 who is responsible for managing the subsidiary account. As an internal control, the Bank Account Reconciliation was assigned to the Arc's Accounts Payable Coordinator. The AP Coordinator has reviewed and verified all the Deposit and Payment transactions each month, but was not able to reconcile the account balance after the Arc changed Bank Accounts and installed a new Representative Payee Software System. We are working to locate a point-in-time, prior to the account and system changes, as a reliable starting point to complete each monthly reconciliation. We hope to complete this effort by September 30, 2014.

West Virginia Department of Health and Human Resources

Instructions for Completion of the Sworn Statement of Expenditures

To ensure that expenditures are proper and in accordance with the terms and conditions of federal and state grant awards and approved project budgets, the West Virginia Department of Health and Human Resources (DHHR) utilizes a standardized Sworn Statement of Expenditures (Revised May 2015). This document serves to assist recipients of grant awards from the DHHR in completing the Sworn Statement of Expenditures. The DHHR based the Sworn Statement of Expenditures, and the information contained therein, on certain data elements required by and certification standards denoted within Federal regulations and West Virginia Code as related to the administration of federal and state grant awards. Therefore, the Grantee must complete all fields within the Sworn Statement of Expenditures to ensure that the submission meets applicable reporting requirements and compliance standards. The required fields on the Sworn Statement of Expenditures are as follows:

Grant Number – Enter the applicable grant agreement number. The DHHR-issued grant number is located within the grant agreement and is in the following format: G######.

Note: The Sworn Statement of Expenditures form is for reporting the revenues and expenditures associated with one grant only, meaning that multiple grants would require multiple forms.

Grantee Name – Enter the Grantee name, which is the name of the organization that received the grant. The Grantee name on the Sworn Statement of Expenditures should match the Grantee name as presented within the applicable DHHR grant agreement.

Grantee FEIN – Enter the Federal Employer Identification Number (FEIN) as presented within the applicable DHHR grant agreement.

wvOASIS Vendor Number – Enter the wvOASIS Vendor number as presented within the applicable DHHR grant agreement.

Contact Name – Enter the name of a contact person who can answer questions concerning the Sworn Statement of Expenditures.

Contact Email Address – Enter an email address for where the DHHR may direct written questions concerning the Sworn Statement of Expenditures (Note: This field is not required).

Contact Phone – Enter a telephone number for where the DHHR may direct verbal questions concerning the Sworn Statement of Expenditures.

Grantee Mailing Address – Enter a mailing address for where the DHHR may direct written questions concerning the Sworn Statement of Expenditures.

Total Amount of Grant Award – Enter the total amount of the DHHR grant award. This number shall reflect the final award amount, which means that it must take into account any change orders and related adjustments to the original amount of the grant award, as may be applicable.

Grant Period – Enter the period (Start Date and End Date) of the grant award. This period shall reflect the full grant period, which means that it must take into account any change orders and related adjustments to the ending date of the grant award, as may be applicable.

Note: The grant period is irrespective of, and thus may not correspond with and does not have to correspond with, the Grantee's fiscal year.

Grant Revenues (received and anticipated)

The Grantee completes the Sworn Statement of Expenditures after the end of the grant period and after submitting its final invoice to the DHHR for payment. For purposes of completing the Sworn Statement of Expenditures, the Grantee shall account for all invoices submitted to the DHHR for payment, irrespective of whether the Grantee has received payment yet or not.

Amount Received – Enter the total amount of grant funds received by the Grantee to date (include comments if so desired).

Amount Anticipated – Enter the total amount of grant funds that the Grantee still anticipates receiving, which means the total amount invoiced to the DHHR but not received yet by the Grantee as of the date of the Sworn Statement of Expenditures (include comments if so desired).

***Total Grant Revenues**– Enter the total grant revenues, which is a sum of the **Amount Received** (total amount of grant funds received by the Grantee to date) and the **Amount Anticipated** (total amount of grant funds that the grantee still anticipates receiving) lines.

Grant Expenditures (allowable costs expended)

The expenditure categories on the Sworn Statement of Expenditures correspond with the budgetary line items denoted within the DHHR grant agreement budget and the detailed budget and justification worksheet that accompanies the grant agreement. Therefore, for additional information regarding the expenditure categories on the Sworn Statement of Expenditures, the Grantee should look towards the grant agreement budget, the detailed budget and justification worksheet, and the instructions for preparing the detailed budget and justification worksheet.

Amount – Enter the actual (not budgeted) amount of funds expended for each of the expenditure categories denoted on the Sworn Statement of Expenditures (include comments if so desired).

***Total Grant Expenditures** – Enter the total amount of funds expended by the Grantee, which is a sum of the expenditure category lines for personnel, fringe benefits, equipment, supplies, contractual costs, construction, other and indirect costs.

***Ending Grant Balance** – The ending grant balance is the total grant revenues minus the total grant expenditures.

Note: If the ending grant balance is a negative amount, the Grantee is attesting to the use of unrestricted funds to supplement the DHHR grant funds, the use of which was for the purposes intended and in compliance with applicable laws, regulations and the terms and conditions of the grant award. Conversely, if the ending grant balance is greater than zero, the Grantee is attesting that grant revenues were in excess of grant expenditures and that the Grantee returned funds to the DHHR or may need to return funds to the DHHR.

Grant Funds Returned to the DHHR – Enter the total amount of any grant funds returned to the DHHR.

Required Certification / Sworn Statement (Signed and Notarized)

By signing the Sworn Statement of Expenditures, the Grantee is certifying to the best of their knowledge and belief that the report is true, complete and accurate, and that the expenditures, disbursements and cash receipts are for the purposes and objectives set forth in the terms and conditions of the grant award. The Grantee shall also be aware that any false, fictitious or fraudulent information, or the omission of any material fact, may subject the Grantee to criminal, civil or administrative penalties for fraud, false statements, false claims or otherwise.

Authorized Signature – A senior representative of the Grantee who has the authority to bind the Grantee must sign the Sworn Statement of Expenditures.

Date – Enter the date of the Authorized Signature.

Printed Name and Title – Enter the printed name and title of the person providing the Authorized Signature.

Notary Public Signature – The Authorized Signature must be notarized by a certified notary public in good standing with the Secretary of State and include the notary seal.

* *The electronic (Adobe® PDF version) of the Sworn Statement of Expenditures will automatically total this amount.*