

THE ARC OF THE THREE RIVERS, INC.

Financial and Compliance Report
December 31, 2017

DHHR - Finance

DEC 17 2019

Date Received



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INDEPENDENT AUDITOR'S REPORT

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, 2017 and 2016, 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 States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 June 19, 2018 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. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. 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.

Annett Carlie Toothman LLP

Charleston, West Virginia
June 19, 2018

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THE ARC OF THE THREE RIVERS, INC.

BALANCE SHEETS

December 31, 2017 and 2016

ASSETS	2017	2016
Current Assets:		
Cash and cash equivalents	\$ 188,183	\$ 227,742
Cash held for others	66,779	146,675
Patient accounts receivable, net of allowance for doubtful accounts \$10,000 (2017) and \$250,000 (2016)	222,545	333,541
Grant receivables	161,725	156,336
Prepaid expenses and other current assets	27,609	47,519
Total current assets	666,841	911,813
Assets Limited as to Use	-	615
Property and Equipment, net	103,574	127,874
Total assets	\$ 770,415	\$ 1,040,302
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Current maturities of LT debt	250	3,476
Accounts payable and accrued expenses	687,463	720,172
Fiduciary liability for assets held for others	66,779	146,675
Total current liabilities	754,492	870,323
Long-Term Debt	-	998
Net Assets:		
Unrestricted	15,923	168,981
Total liabilities and net assets	\$ 770,415	\$ 1,040,302

THE ARC OF THE THREE RIVERS, INC.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Year Ended December 31, 2017 and 2016

	2017	2016
Unrestricted revenues, gains and other support:		
Net patient service revenue (net provision for bad debts of \$25,787 in 2017 and \$76,750 in 2016)	\$ 4,055,616	\$ 4,567,837
Grant funding	328,365	298,158
Other revenue	203,326	80,325
Interest income	-	58
Total unrestricted revenues, gains and other support	4,587,307	4,946,378
Expenses:		
Salaries and wages	3,074,958	3,334,021
Payroll taxes and benefits	664,584	727,114
Contracted services	71,530	75,342
Medicaid enhancement tax	26,844	125,014
Travel	158,286	156,428
Day program expense	33,501	68,135
Utilities and telephone	62,901	60,647
Rent	132,321	124,809
Groceries	27,705	27,648
Parking	312	4,393
Supplies and Other	216,409	222,560
Professional fees	104,716	131,224
Insurance	60,673	58,102
Interest and penalties	66,347	1,622
Depreciation and amortization	39,278	45,002
Total expenses	4,740,365	5,162,061
Deficiency of revenues over expenses	(153,058)	(215,683)
Unrestricted net assets, beginning of year	168,981	384,664
Unrestricted net assets, end of year	\$ 15,923	\$ 168,981

THE ARC OF THE THREE RIVERS, INC.

STATEMENTS OF CASH FLOWS
Year Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ (153,058)	\$ (215,683)
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:		
(Gain) loss on disposal of fixed assets	(18,320)	9,633
Depreciation and amortization	39,278	45,002
(Increase) decrease in:		
Patient accounts receivable	110,996	24,383
Grant receivables	(5,389)	(57,122)
Prepaid expenses and other	19,910	5,862
Accounts payable and accrued expenses	(32,709)	20,105
Net cash used in operating activities	<u>(39,292)</u>	<u>(167,820)</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(14,883)	(110,574)
Proceeds from sale of equipment	18,225	-
Net change in assets limited as to use	615	64,598
Net cash provided by (used in) investing activities	<u>3,957</u>	<u>(45,976)</u>
Cash Flows from Financing Activities		
Principal payments on long-term obligations	(4,224)	(4,843)
Net cash used in financing activities	<u>(4,224)</u>	<u>(4,843)</u>
Net decrease in cash and cash equivalents	(39,559)	(218,639)
Cash and cash equivalents:		
Beginning	<u>227,742</u>	446,381
Ending	<u>\$ 188,183</u>	<u>\$ 227,742</u>
Supplementary Disclosure of Cash Flow Information		
Cash payments for interest	<u>\$ 66,347</u>	<u>\$ 1,622</u>

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 collectability. 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 net realizable value.

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 deficiency 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 deficiency 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.

THE ARC OF THE THREE RIVERS, INC.

NOTES TO FINANCIAL STATEMENTS

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, 2017 and 2016.)

Permanently restricted net assets are resources subject to donor imposed restrictions that they be maintained permanently by the Arc. (None at December 31, 2017 and 2016.)

Deficiency of revenues over expenses: The statement of operations includes deficiency of *revenues over expenses*. Changes in unrestricted net assets which are excluded from deficiency 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 recorded 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 for the years ended December 31, 2017 and 2016 were reimbursed through grant proceeds.

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 OF THE THREE RIVERS, INC.

NOTES TO 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, 2014.

Advertising: Advertising costs are expensed as incurred.

Subsequent events: The Arc has evaluated subsequent events through June 19, 2018 the date on which the financial statements were available to be issued.

Recent accounting pronouncements:

Revenue Recognition: In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP. This ASU attempts to remove inconsistencies and weaknesses in the current revenue recognition requirements, provides a more robust framework for addressing issues, improves comparability across entities and industries, provides more useful information to the users of the financial statements, and simplifies the preparation of financial statements by consolidating the number of requirements required to be referenced. Early adoption is not permitted. The guidance permits the use of either a retrospective or modified retrospective (cumulative effect) transition method. This guidance is effective fiscal year ending December 31, 2019. Management is currently evaluating the impact, if any, that adoption will have on its financial statements.

Leases: In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842) which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. This ASU requires, among other changes to the lease accounting guidance, lessees to recognize most leases on the balance sheet via a right-of-use asset and lease liability, and additional qualitative and quantitative disclosures. In addition, the updated guidance requires that lessors separate lease and non-lease components in a contract in accordance with the new revenue guidance in ASU 2014-09. Transition guidance is provided within the ASU and generally requires a retrospective approach. This guidance is effective fiscal year ending December 31, 2020. Management is currently evaluating the impact, if any, that adoption will have on its financial statements.

Not-for-Profit Entities: On August 2016, the FASB issued ASU 2016-14, (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments of this ASU change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. The amendments include qualitative and quantitative requirements in the financial statement presentation and disclosures regarding net asset classes, investment return, expenses, liquidity and availability of resources, and presentation of operating cash flows. The Arc will implement the provisions of ASU 2016-14 as of January 1, 2018.

Statement of Cash Flows: In August 2016, the FASB issued ASU 2016-15, (Topic 230): *Classification of Certain Cash Receipts and Cash Payments*, which clarifies how companies present and classify certain cash receipts and cash payments on the statement of cash flows. Early adoption is permitted. The Arc is currently evaluating the impact, if any, that adoption will have on its December 31, 2019 financial statements.

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.

THE ARC OF THE THREE RIVERS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 3. Property and Equipment

A summary of the components of property and equipment as of December 31:

	2017	2016
Land	\$ 5,000	\$ 5,000
Leasehold improvements	165,543	160,624
Building	54,900	54,900
Furniture and fixtures	10,271	18,157
Equipment and vehicles	170,737	184,843
	<u>406,451</u>	<u>423,524</u>
Less accumulated depreciation	<u>(302,877)</u>	<u>(295,650)</u>
Property and equipment, net	<u>\$ 103,574</u>	<u>\$ 127,874</u>

Note 4. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of December 31:

	2017	2016
Accounts payable	\$ 27,196	\$ 21,950
Accrued salaries and benefits	227,810	256,058
Accrued taxes	277,975	281,415
Other accrued expenses	154,823	160,749
	<u>\$ 687,604</u>	<u>\$ 720,172</u>

Note 5. Line of Credit

As of December 31, 2017, the Arc had an open line of credit with a financial institution totaling \$400,000 with an interest rate of 0.50% plus the Bank's prime rate, 5.00% and 4.25% as of December 31, 2017 and 2016, which is secured by substantially all assets of the Arc. The Arc has no outstanding borrowings on the line of credit as of December 31, 2017 and 2016.

Note 6. Long-Term Obligations

A summary of long-term obligations at December 31:

	2017	2016
Note payable, bank, due in monthly installments of \$326, including interest at 3.67%, through 2018, secured by vehicle	\$ 250	\$ 4,474
	250	4,474
Less current maturities	<u>-</u>	<u>3,476</u>
Long-term obligations	<u>\$ 250</u>	<u>\$ 998</u>

THE ARC OF THE THREE RIVERS, INC.

NOTES TO FINANCIAL STATEMENTS

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, 2017 that have initial or remaining lease terms in excess of one year are as follows:

Years Ending December 31:	
2018	\$ 112,210
2019	100,560
2020	103,440
2021	43,600
	<u>\$ 359,810</u>

Total rental expense in 2017 and 2016 for all operating leases was approximately \$132,000 and \$125,000, 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 \$3,000,000. Incidents occurring through December 31, 2017, 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.

THE ARC OF THE THREE RIVERS, INC.

NOTES TO 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 as of December 31:

	2017	2016
Medicaid	84%	88%
ICF/MR and Private Pay	16%	12%
	<u>100%</u>	<u>100%</u>

Note 11. Classification of Expenses

Operating expense by functional category is as December 31:

	2017	2016
Patient care	\$ 4,342,432	\$ 4,728,729
General and administrative	397,933	433,332
	<u>\$ 4,740,365</u>	<u>\$ 5,162,061</u>

Note 12. Commitments and Contingencies

The Arc's programs are primarily funded from the Title XIX I/DD Waiver Program and from state grants. Laws and regulations governing the billings and/or allowability of costs for these programs are complex and subject to interpretation. The funding agencies may periodically audit certain billings and such audits could lead to disallowances requiring reimbursements to the funding agencies, which could be material to the financial statements. While management of the Arc believes that the Arc is in compliance with applicable laws and regulations in all material respects, funding agency audits have resulted in requests for reimbursements for certain amounts billed. The Arc has appealed the findings of the audits, and will continue to appeal all instances in which they believe the billings were proper.

The State of West Virginia issued notices of tax lien and distress warrants for unpaid taxes from the December 31, 2015 tax period. The Arc is making payments of \$5,000 per month on the unpaid taxes and interest. The liability recorded for the unpaid taxes and interest at December 31, 2017 and 2016 were approximately \$263,000 and \$268,000, respectively. The State of West Virginia has also assessed penalties related to the unpaid taxes. The Arc has requested abatement of the penalties, and believes that the penalties will be forgiven once the unpaid taxes and interest are fully paid.

The Arc believes that appropriate accruals have been made in the accompanying financial statements to cover the amounts that may be required to be paid related to the above matters.

Also, the Arc is involved in various legal actions from time to time in the ordinary course of business. Management is not currently aware of any such matters that will have a significant adverse effect on the accompanying financial statements.

THE ARC OF THE THREE RIVERS, INC.

NOTES TO FINANCIAL STATEMENTS

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 \$15,000 and \$25,000 as of December 31, 2017 and 2016, respectively. Total health insurance expense for the years ended December 31, 2017 and 2016 was approximately \$361,000 and \$413,000, respectively.

THE ARC OF THE THREE RIVERS, INC.

**SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended December 31, 2017**

State Grantor / Program Title	Grant Number	Grant Period	Grant Award	1/1/2017 - 12/31/2017 Receipts	1/1/2017 - 12/31/2017 Expenditures	2017 Receivable
West Virginia Department of Health and Human Resources -						
Office of Behavioral Health:						
Developmental Disabilities (DD) Core Support & Alternative Grant	G170274	07/01/16-06/30/17	\$ 280,000	\$ 272,522	\$ 125,586	\$ -
Developmental Disabilities (DD) Core Support & Alternative Grant	G180170	07/01/17-06/30/18	280,000	-	154,592	154,592
			<u>\$ 560,000</u>	<u>\$ 272,522</u>	<u>\$ 280,178</u>	<u>\$ 154,592</u>



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

Board of Directors
The Arc 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, 2017, 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 June 19, 2018.

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 certain deficiency in internal controls, described in the accompanying schedule of audit findings and responses as finding 2017-1 that we consider to be 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Arc's Response to Findings

The Arc's response to the findings identified in our audit is described in the accompanying schedule of audit 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 Carlin Teothman LLP

Charleston, West Virginia
June 18, 2018

THE ARC OF THE THREE RIVERS, INC.

**SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2017**

Findings Required to be Reported by Government Auditing Standards:

2017-01 REPRESENTATIVE PAYEE CASH RECONCILIATION

Criteria or Specific Requirement

During the process of testing cash accounts, we noted that the representative payee cash account was not being properly reconciled to the general ledger on a timely basis.

Condition and Cause

The representative payee cash account was not timely reconciled. The process of reconciling accounts to the general ledger is an integral part of ensuring the amounts reported on a monthly basis are accurately stated.

Effect

Adjustments were required to the rep payee cash account after closing year end.

Recommendation

We recommend that management review its accounting policies and procedures and implement procedures to ensure that all accounts are reviewed and reconciled to their proper balance on a monthly basis.

Views of Responsible Officials and Planned Corrective Actions

The issue arose in conjunction with our implementation of a new accounting software. The account has now been reconciled to the general ledger for all months. While we agree that the account had not been timely reconciled to the general ledger, it should be noted that no issues were noted regarding the individual client balances or activity. We have reassigned the responsibility for preparing this reconciliation going forward, and have implemented procedures to ensure it is completed as part of each monthly closing process.

