

**THE ARC OF ST. CLAIR COUNTY, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED  
SEPTEMBER 30, 2018**

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

There were no findings for the current year.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

There were no findings for the current year.

**THE ARC OF ST. CLAIR COUNTY, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

**PART I: SUMMARY OF AUDITOR'S RESULTS:**

**FINANCIAL STATEMENTS**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Are material weaknesses identified: \_\_\_\_\_ Yes \_\_\_\_\_ X No

Are reportable conditions that are not considered to be material weaknesses identified? \_\_\_\_\_ Yes \_\_\_\_\_ X None reported

Is noncompliance which could have a material effect on the financial statements identified? \_\_\_\_\_ Yes \_\_\_\_\_ X No

**FEDERAL AWARDS**

Internal control over major programs:

Are material weaknesses identified? \_\_\_\_\_ Yes \_\_\_\_\_ X No

Are reportable conditions that are not considered to be material weaknesses identified? \_\_\_\_\_ Yes \_\_\_\_\_ X None reported

Type of report issued on compliance with requirements applicable to each major program: Unmodified

Are there any audit findings that are required to be reported in accordance with the Uniform Guidance? \_\_\_\_\_ Yes \_\_\_\_\_ X No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Mental and Behavioral Health Education and Training Grants	93.732

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Is the auditee identified as a low-risk auditee? \_\_\_\_\_ Yes \_\_\_\_\_ X No

**THE ARC OF ST. CLAIR COUNTY, INC.**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - CONTINUED**  
**SEPTEMBER 30, 2018**

**Deficiencies in Internal Control: (Continued)**

**2017-004**

Condition:	The ARC did not closely monitor the recording, collecting and reconciling of revenues and receivables from the Department of Mental Health. An accurate listing of open receivables was not available as a tool for management to properly manage trade accounts receivable. Amounts received were not reconciled to amounts billed and recorded, possibly resulting in uncollected accounts and significant year-end adjustments to the general ledger.
Criteria:	Generally accepted accounting principles require that the accounting records of the ARC be maintained on the accrual method of accounting so that revenues are recorded when earned rather than when received.
Effect:	It is possible that a misstatement of the ARC's financial statements, including disclosures, could occur and not be prevented or detected by the ARC's internal control.
Recommendation:	<p>We recommend that the ARC consider the following:</p> <ul style="list-style-type: none"><li>● Use the existing computer system to process and manage accounts receivable.</li><li>● Reconcile the amount of revenue recorded to the established rates and units of services provided.</li><li>● Reconcile amounts collected to the established rates and Explanations of Payments (EOPs) and the billings for services provided.</li></ul>
Current Year Status:	This finding is cleared. Proper internal control procedures have been put in place.

**THE ARC OF ST. CLAIR COUNTY, INC.**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - CONTINUED**  
**SEPTEMBER 30, 2018**

**Deficiencies in Internal Control: (Continued)**

Recommendation: We recommend that the ARC review the content of the audit adjustments made to the year-end statements and incorporate many of them into the monthly closing process. They would include the following:

- Month-end adjustments to receivables, payables, and accruals.
- Periodic accrual of interest income on CD's.
- Monthly accrual of depreciation expense.

Current Year Status: This finding is cleared. Proper internal control procedures have been put in place.

**2017-003**

Condition: Although ARC personnel possessed the necessary skill and experience to review and approve the financial statements, they did not have the technical knowledge in governmental financial reporting to prepare the financial statements and related notes without assistance.

Criteria: Management is responsible for the preparation and fair presentation of the annual financial statements in accordance with the applicable financial reporting framework, even if the auditor assisted in drafting those financial statements.

Effect: It is possible that a misstatement of the ARC's financial statements, including disclosures, could occur and not be prevented or detected by the ARC's system of internal control over financial reporting.

Recommendation: The ARC must ensure that its personnel possess suitable skill, knowledge and experience to oversee the preparation of the financial statements and to review, approve, and assume responsibility for them when preparation assistance is provided. Moreover, the ARC may consider engaging the services of an outside accounting firm to assist in the preparation of its annual financial statements and incorporate this process into its system of internal control over financial reporting.

Current Year Status: This finding is cleared. Proper internal control procedures have been put in place.



**THE ARC OF ST. CLAIR COUNTY, INC.**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**SEPTEMBER 30, 2018**

**Deficiencies in Internal Control:**

**2017-001**

Condition: The ARC had a limited number of employees, which does not allow for adequate segregation of duties to provide the ARC with an internal control system that can be relied upon.

Criteria: Internal controls should be in place to mitigate the lack of segregation of duties.

Effect: Risk that errors or irregularities may occur without being timely detected due to a limited number of employees.

Recommendation: Implement internal control procedures to mitigate the lack of segregation of duties.

Current Year Status: This finding is cleared. Proper internal control procedures have been put in place.

**2017-002**

Condition: It appears from the large number of year-end adjustments that the ARC's interim accounting processes did not include all the necessary adjustments to provide financial statements comparable to the audited financial statements distributed to outside users. This could result in conflicting information for management and outside users.

Criteria: Quality interim financial information is vital for the effective management of any organization in business. An adequate accounting ledger maintained throughout the year is crucial for the proper administration of ARC business.

Effect: It is possible that misstatements of the ARC's financial statements could occur due to the number of adjustments required at year end.

**THE ARC OF ST. CLAIR COUNTY, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**SEPTEMBER 30, 2018**

<b>Federal Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>	<b>Expenditures</b>
<u>U. S. Department of Health and Human Services</u>			
Direct Programs:			
Mental and Behavioral Health Education and Training Grants	93.732	N/A	<u>\$ 990,787</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<u><u>\$ 990,787</u></u>

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of The ARC of St Clair County, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) *Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.*

See Independent Auditors' Report.

## **SUPPLEMENTARY INFORMATION**

**THE ARC OF ST. CLAIR COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2018**

**NOTE 8 – LONG-TERM LIABILITIES**

The changes in long-term liabilities are as follows:

	<u>Balance September 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2018</u>	<u>Amounts Due Within One Year</u>
Compensated absences	\$25,876	\$3,818	\$ -	\$29,694	\$9,898

**NOTE 9 – ECONOMIC DEPENDENCY**

During the current year, The ARC received \$1,455,511 from the Alabama Department of Mental Health. Such grant awards accounted for approximately 86% of revenue reported by The ARC.

**NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS**

The ARC does not offer any post-employment benefits to retirees, therefore, GASB Statements No. 43 and No. 45 do not apply.

**NOTE 11 – CAPITAL ASSETS**

	<u>Balance September 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2018</u>
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
Buildings & improvements	314,980	-	-	314,980
Office furniture and equipment	181,670	-	-	181,670
	<u>\$511,650</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$511,650</u>
Accumulated depreciation	<u>\$290,980</u>	<u>\$22,480</u>	<u>\$ -</u>	<u>\$313,460</u>

**THE ARC OF ST. CLAIR COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2018**

**NOTE 4 – CONCENTRATION OF CREDIT RISK**

The ARC maintains all of its cash deposits in one federally insured financial institution. At certain times during the year, the ARC exceeded the federally insured threshold of \$250,000.

**NOTE 5 – LINE OF CREDIT**

The ARC has a line of credit with Metro Bank in the maximum amount of \$150,000. The line of credit is unsecured and bears interest at 6.00%. The balance outstanding as of September 30, 2018 was \$92,048. Interest in the amount of \$6,495 has been expensed in the statement of activities.

**NOTE 6 – ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES**

Professional standards require recognition, measurement, and disclosure of an uncertain tax position taken or expected to be taken by the ARC. The ARC has not and does not expect to take a tax position that would require recognition of an asset or liability in the statement of financial position as of September 30, 2018. As of September 30, 2018 the ARC believes it has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Federal tax authorities generally have the right to examine and audit the previous three years of tax returns filed. Any interest or penalties assessed to the ARC will be classified as income taxes in the financial statements. No interest or penalties from federal tax authorities were recorded in the accompanying financial statements.

**NOTE 7 – SUBSEQUENT EVENTS**

In preparing the financial statements, management evaluated subsequent events through December 4, 2018, the date in which the financial statements were available to be issued.



**THE ARC OF ST. CLAIR COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Endowment contributions, if applicable, are reported as additions to permanently restricted net assets.

*Cash and Cash Equivalents* – For the purpose of the statement of cash flows, the ARC considers all unrestricted highly liquid investments, with an initial maturity of three months or less to be cash equivalents.

*Use of Estimates* – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates. The most significant estimates are in relation to estimated useful lives of capital assets and accounts receivable valuations.

*Advertising Costs* - The ARC's policy is to expense advertising costs as they are incurred. There were no advertising costs incurred during the current year.

*Functional Allocation of Expenses* – The costs of providing the various programs of the ARC have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs benefited.

**NOTE 2 – RECEIVABLES**

Contract receivables at September 30, 2018, consisted of the following:

Receivable from:

Alabama Department of Mental Health	\$117,962
Special Education Trust Fund	24
	<u>\$117,986</u>

**NOTE 3 – OPERATING LEASE**

The ARC leases apartments on behalf of various clients. The leases are for 12-month terms and total \$4,938 per month. The total rent expense for 2018 was \$59,260.

**THE ARC OF ST. CLAIR COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**SEPTEMBER 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Contract Funds, Receivables and Economic Dependency* – The ARC contracts with the Alabama Department of Mental Health (DMH) to provide services in St. Clair County. The ARC receives payments relative to this contract on a monthly basis and significantly depends on these funds for its operations. The ARC records revenue as services are provided under this contract. Receivables related to this contract are stated at the amount management expects to collect from balances outstanding and considered fully collectible; therefore, no allowance for doubtful accounts is maintained. If an amount is determined to be uncollectible, due to ineligibility, etc., future payments are reduced when that determination is made.

*Contributions* – All contributions are considered available for unrestricted use unless specifically restricted by the donor. Time and purpose restrictions are reported on temporarily restricted support and then reclassified to unrestricted net assets upon expiration of the time and purpose restriction.

*Contributed Services* – When material, the value of contributed services meeting the requirements for recognition in the financial statements, is recorded in the financial statements as revenue and an expense. Additionally, many individuals volunteer their time and perform a variety of tasks, which are not recorded in the financial statements. No amounts for contributed services have been recorded in the financial statements.

*Compensated Absences* – The ARC has established policies in place regarding vacation and sick leave. In regards to vacation leave, full-time employees accrue one to two days per month based on years of service for annual leave. At termination, resignation, or retirement, subject to certain conditions, employees will be compensated for these days. Presently, the ARC's policy encourages all employees to take their annual leave and only allow employees to carry over a maximum of 250 hours to the following year. In regard to sick leave, full-time employees accrue one day per month, as long as they are working for at least 80% of the scheduled work hours during a period, up to a maximum of 60 days. Employees are not compensated upon retirement, resignation, or termination for accrued sick leave and, therefore, the ARC does not accrue a liability.

*Income Tax Status* – The ARC is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the internal Revenue Code and is not a private foundation.

**THE ARC OF ST. CLAIR COUNTY, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Activities* - The ARC of St. Clair County, Inc. is a non-profit organization formed to enhance the lives of and provide residential and habilitative training services to mentally retarded citizens of St. Clair County. Services are funded by the Alabama Department of Mental Health.

*Basis of Accounting* – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenditures are recognized when incurred.

*Financial Statement Presentation* – In accordance with current professional standards applicable to non-profits, the ARC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Property and Equipment and Depreciation* – Property and Equipment is stated at cost or, if donated, at the approximate fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the ARC reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The ARC reclassifies temporarily restricted net assets to unrestricted at that time. The policy of the ARC is to capitalize expenditures, property and equipment with an estimated useful life over one year. The ARC does not have a formal capitalization policy. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. The estimated useful lives of the property and equipment are as follows:

Building and Improvements	40 years
Land Improvements	10 - 20 years
Furniture and Equipment	5 – 10 years
Vehicles	5 years

Depreciation expense for the year ending September 30, 2018 was \$22,480.

## **NOTES TO THE FINANCIAL STATEMENTS**



**THE ARC OF ST. CLAIR COUNTY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	<b>General and Administrative</b>	<b>Program Services</b>		
		<b>Day Habilitation</b>	<b>Residential</b>	<b>Total</b>
Salaries/wages	\$ 160,480	\$ 82,540	\$ 936,117	\$ 1,179,137
Employee benefits	23,767	12,224	138,636	174,627
Dues and memberships	5,281	-	-	5,281
Depreciation expense	3,060	1,573	17,847	22,480
Insurance and bonding	8,184	4,209	47,739	60,132
Payroll tax expense	10,279	5,287	59,961	75,527
Utilities	-	14,127	-	14,127
Office supply & expense	1,860	957	10,851	13,668
Repairs and maintenance	2,480	1,276	14,469	18,225
Telephone	2,612	1,343	15,235	19,190
Transportation	-	78,726	-	78,726
Board meeting expenses	2,924	-	-	2,924
Miscellaneous expenses	3,472	1,786	20,254	25,512
Room and board	-	-	111,648	111,648
Professional fees	1,674	861	9,765	12,300
Interest expense	6,495	-	-	6,495
	<u>\$ 232,568</u>	<u>\$ 204,908</u>	<u>\$ 1,382,522</u>	<u>\$ 1,819,999</u>

See notes to financial statements.



**THE ARC OF ST. CLAIR COUNTY, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

**Cash Flows From Operating Activities:**

Received from operations	\$ 1,695,093
Donations	5,365
Paid to employees	(1,174,047)
Paid to vendors	(615,472)
Net cash (used) by operations	<u>(89,061)</u>

**Cash Flows (Used) By Capital and Related Financing Activities:**

Net cash (used) by capital and related financing activities	<u>-</u>
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**Cash Flows From Investing Activities:**

Interest income	<u>146</u>
Net cash provided by investing activities	<u>146</u>

**Cash Flows From Financing Activities**

Interest paid	(6,495)
Proceeds from line of credit, net	<u>31,140</u>
Net cash provided by financing activities	<u>24,645</u>

Net (decrease) in cash and cash equivalents	(64,270)
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Cash and cash equivalents at beginning of year	<u>214,106</u>
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Cash and cash equivalents at end of year	<u><u>\$ 149,836</u></u>
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**Reconciliation of Operating (Loss) to**

**Net Cash (Used) by Operations:**

Operating (loss)	\$ (117,588)
Adjustment to reconcile operating income to net cash provided from operations:	
Depreciation	22,480
Change in assets and liabilities:	
Decrease in accounts receivable	4,542
(Increase) in prepaid items	(3,872)
Increase in accounts payable	287
Increase in compensated absences	5,090
Net cash (used) by operations	<u><u>\$ (89,061)</u></u>

See notes to financial statements.

**THE ARC OF ST. CLAIR COUNTY, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

**Operating Revenues**

Contracts with governmental agencies	\$1,455,511
Government appropriations	41,688
United Way	56,773
Contributions	5,365
Rental income	132,074
Miscellaneous	4,505
Total Operating Revenues	<u>1,695,916</u>

**Operating Expenses**

Salaries/wages	1,179,137
Employee benefits	174,627
Dues and memberships	5,281
Depreciation expense	22,480
Insurance and bonding	60,132
Payroll tax expense	75,527
Utilities	14,127
Office supply & expense	13,668
Repairs and maintenance	18,225
Telephone	19,190
Transportation	78,726
Board meeting expenses	2,924
Miscellaneous expenses	25,512
Room and board	111,648
Professional fees	12,300
Total Operating Expenses	<u>1,813,504</u>

Operating (Loss)	(117,588)
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**Other Income/Expense**

Interest income	146
Interest expense	(6,495)
Total other income/expense	<u>(6,349)</u>

Change in net assets	(123,937)
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Net assets - beginning of year	<u>436,226</u>
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Net assets - end of year	<u><u>\$ 312,289</u></u>
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See notes to financial statements.

**Liabilities and Net Assets****Current Liabilities**

Accounts payable	\$ 2,644
Accrued payroll and payroll withholdings	38,650
Compensated absences	9,898
Line of credit	92,048
Total current liabilities	<u>143,240</u>

**Noncurrent Liabilities**

Compensated absences payable	<u>29,694</u>
Total long term liabilities	<u>29,694</u>

Total liabilities	172,934
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**Net Assets**

Invested in Capital Assets, net of related debt	198,190
Unrestricted net assets	<u>114,099</u>
Total net assets	<u>312,289</u>

Total Liabilities and Net Assets	<u><u>\$ 485,223</u></u>
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**THE ARC OF ST. CLAIR COUNTY, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2018**

**Assets**

**Current Assets**

Cash	\$ 149,836
Accounts receivable	117,986
Prepaid expenses	15,501
Total Current Assets	<u>283,323</u>

**Capital Assets**

Land	15,000
Buildings & Improvements	314,980
Office Furniture & Equipment	181,670
	<u>511,650</u>
Less Accumulated Depreciation	313,460
	<u>198,190</u>

**Other Assets**

Deposits	3,710
Total Other Assets	<u>3,710</u>

Total Assets	<u><u>\$ 485,223</u></u>
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See notes to financial statements.

## **FINANCIAL STATEMENTS**



**MOODY & COMPANY**  
CERTIFIED PUBLIC ACCOUNTANTS  
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ODENVILLE, ALABAMA 35120  
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JAMES R. MOODY, CPA

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**REPORT ON COMPLIANCE WITH DEPARTMENT OF  
MENTAL HEALTH CONTRACT**

Board of Directors  
The ARC of St. Clair County, Inc.  
Pell City, Alabama

We have audited contract numbers G5291939 and G5342254H between the Department of Mental Health (DMH) and The ARC of St. Clair County, Inc. (the ARC) as of and for the year ended September 30, 2018.

Compliance with the DMH contracts, Provider agreement and all applicable laws, rules, and regulations applicable to the ARC is the responsibility of the ARC's management. As part of obtaining reasonable assurance about whether the contract, Provider Agreement and all applicable laws, rules, and regulations were complied with, we performed certain tests of transactions and made other determinations as outlined in each requirement of Section 12, Audit for Compliance with the Contract of the DMH Audit Guidelines. Revenues and expenditures were analyzed to determine if they were in compliance with applicable terms and conditions of the contract. Funds claimed as match for federal programs were audited to determine if they were allowable and adequate to match the federal funds received.

The results of our tests disclosed no material instances of noncompliance with the DMH contract and all applicable laws and regulations.

This report is intended for the information of management and DMH. However, this report is a matter of public record and its distribution is not limited.

*Moody & Company*

December 4, 2018  
Odenville, Alabama

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the ARC as of and for the year ended September 30, 2018, and have issued our report thereon dated December 4, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Moody & Company*

December 4, 2018  
Odenville, Alabama

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the ARC's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the ARC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

### **Report on Internal Control over Compliance**

Management of the ARC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the ARC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the ARC's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify and deficiencies in internal control over compliance that we consider to be material weaknesses. However material weaknesses may exist that have not been identified.



# MOODY & COMPANY

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## REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors  
The ARC of St. Clair County, Inc.  
Pell City, Alabama

### Report on Compliance for Each Major Federal Program

We have audited The ARC of St. Clair County, Inc.'s (the ARC) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the ARC's major federal programs for the year ended September 30, 2018. The ARC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the ARC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the ARC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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. 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.

### **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*.

### **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.

*Moody & Company*

December 4, 2018  
Odenville, Alabama



# MOODY & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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## **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 St. Clair County, Inc.  
Pell City, Alabama

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 business-type activities of The ARC of St. Clair County, Inc. (a nonprofit organization) (the ARC), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the ARC's basic financial statements, and have issued our report thereon dated December 4, 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 opinions 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 ARC'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.

and not to provide an opinion on the effectiveness of The ARC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The ARC's internal control over financial reporting and compliance.

Moody & Company

December 4, 2018  
Odenville, Alabama

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 ARC'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 audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The ARC as of September 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal 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 December 4, 2018 on our consideration of The ARC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing,



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
The ARC of St. Clair County, Inc.  
Pell City, Alabama

We have audited the accompanying financial statements of The ARC of St. Clair County, Inc. (a nonprofit corporation) (the ARC), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities, functional expenses and cash flows for the year 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 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 auditors' 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 ARC's preparation and fair presentation of the

**THE ARC OF ST. CLAIR COUNTY, INC.  
MANAGEMENT'S DISCUSSION & ANALYSIS - CONTINUED  
FOR YEAR ENDED SEPTEMBER 30, 2018**

**CONCLUSION**

The ARC of St. Clair County is committed to staying abreast of regulations and appropriations, as well as maintaining an ongoing analysis of all budgets and expenses to ensure that the ARC continues to operate at the highest standards possible.

**CONTACT**

This financial report is designed to provide our residents, the citizens of the St. Clair County, Alabama, all federal and state regulatory bodies, and any creditors with a general overview of the ARC's finances. If you have any questions regarding these financial statements or supplemental information, you may contact Tracy Blake, Executive Director, at (205) 884-2680.

**THE ARC OF ST. CLAIR COUNTY, INC.  
MANAGEMENT'S DISCUSSION & ANALYSIS - CONTINUED  
FOR YEAR ENDED DECEMBER 31, 2018**

Total expenses increased \$72,456. Salaries/Wages increased \$87,144 due to more employees utilized in the current year. Employee Benefits decreased \$50,188 due to decreases in health insurance premiums. Utilities increased \$1,994. Miscellaneous Expenses increased \$20,174. Room and Board increased \$6,612. Insurance and bonding increased \$12,631.

**CAPITAL ASSETS**

	<b>9/31/2018</b>	<b>9/30/2017</b>	<b>Variance</b>	<b>% Change</b>
Land	\$ 15,000	\$ 15,000	\$ -	0.00%
Buildings & Improvements	314,980	314,980	-	0.00%
Office Furniture & Equipment	181,670	181,670	-	0.00%
Depreciation	(313,460)	(290,980)	(22,480)	7.73%
<b>Total Capital Assets, Net of Depreciation</b>	<b>\$198,190</b>	<b>\$220,670</b>	<b>\$(22,480)</b>	<b>(10.19)%</b>

**DEBT**

The ARC has a line of credit at Metro Bank. The balance as of September 30, 2018 was \$92,048.

**ECONOMIC FACTORS AND EVENTS AFFECTING OPERATIONS**

Several factors may affect the financial position of the Authority in the subsequent fiscal year. These factors are:

- (1) Federal funding of the Department of Health and Human Services.
- (2) Local labor supply and demand, which can affect salary and wage rates.
- (3) Costs involved in implementing project based accounting and asset management.
- (4) Local inflationary, recessionary and employment trends.



**THE ARC OF ST. CLAIR COUNTY, INC.  
MANAGEMENT'S DISCUSSION & ANALYSIS - CONTINUED  
FOR YEAR ENDED DECEMBER 31, 2018**

As illustrated in the Statement of Activities and Changes in Net Assets, the overall Net Assets of The ARC decreased by \$123,937.

**Statement of Activities and Changes in Net Assets**

	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>Variance</u>	<u>% Change</u>
Contracts With Governmental Agencies	\$1,455,511	\$1,445,826	\$ 9,685	0.67%
Government Appropriations	98,461	127,967	(29,506)	(23.06)%
Contributions	5,365	4,183	1,182	28.26%
Rental Income	132,074	124,600	7,474	6.00%
Investment Income	146	166	(20)	(12.05)%
Other Revenue	4,505	84,416	(79,911)	(94.66)%
Total Revenues	<u>1,696,062</u>	<u>1,787,158</u>	<u>(91,096)</u>	<u>(5.10)%</u>
Salaries/Wages	1,179,137	1,091,993	87,144	7.98%
Employee Benefits	174,627	224,815	(50,188)	(22.32)%
Dues and Memberships	5,281	4,951	330	6.67%
Depreciation Expense	22,480	21,502	978	4.55%
Insurance and Bonding	60,132	47,501	12,631	26.59%
Payroll Tax Expense	75,527	89,545	(14,018)	(15.65)%
Utilities	14,127	12,133	1,994	16.43%
Office Supply and Expense	13,668	20,877	(7,209)	(34.53)%
Repairs and Maintenance	18,225	18,380	(155)	(0.84)%
Telephone	19,190	18,724	466	2.49%
Transportation	78,726	80,677	(1,951)	(2.42)%
Board Meeting Expense	2,924	65	2,859	4,398.46%
Miscellaneous Expenses	25,512	5,338	20,174	377.93%
Room and Board	111,648	105,036	6,612	6.29%
Professional Fees	12,300	1,500	10,800	720.00%
Interest Expense	6,495	4,506	1,989	44.14%
Total Expenses	<u>1,819,999</u>	<u>1,747,543</u>	<u>72,456</u>	<u>4.15%</u>
Change in Net Assets	<u>\$ (123,937)</u>	<u>\$ 39,615</u>	<u>\$(163,552)</u>	<u>(412.85)%</u>

**MAJOR FACTORS AFFECTING THE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

Total revenue decreased \$91,096, primarily due to decreases in Government of \$29,506 and Other Revenue of \$79,911. Contracts with Governmental Agencies increased \$9,685 and Government Appropriations decreased \$29,506 due to funding levels. Other Revenue decreased \$79,911 due to decreases in miscellaneous revenue. Contributions and Interest Income remained relatively stable. Rental Income increased \$7,474.

**THE ARC OF ST. CLAIR COUNTY, INC.  
MANAGEMENT'S DISCUSSION & ANALYSIS - CONTINUED  
FOR YEAR ENDED SEPTEMBER 30, 2018**

**FINANCIAL ANALYSIS**

**Statement of Financial Position**

	<b>9/30/2018</b>	<b>9/30/2017</b>	<b>Variance</b>	<b>% Change</b>
Current Assets	\$283,323	\$348,263	\$(64,940)	(18.65)%
Non-current Assets	198,190	220,670	(22,480)	(10.19)%
Other Assets	3,710	3,710	-	0.00%
<b>Total Assets</b>	<b>\$485,223</b>	<b>\$572,643</b>	<b>\$(87,420)</b>	<b>(15.27)%</b>
Current Liabilities	\$143,240	\$110,541	\$ 32,699	29.58%
Non-Current Liabilities	29,694	25,876	3,818	14.76%
<b>Total Liabilities</b>	<b>172,934</b>	<b>136,417</b>	<b>36,517</b>	<b>26.77%</b>
Invested in Capital Assets, net of related debt	198,190	220,670	(22,480)	(10.19)%
Unrestricted Net Assets	114,099	215,556	(101,457)	(47.07)%
<b>Total Net Assets</b>	<b>312,289</b>	<b>436,226</b>	<b>(123,937)</b>	<b>(28.41)%</b>
<b>Total Liabilities and Net Assets</b>	<b>\$485,223</b>	<b>\$572,643</b>	<b>\$(87,420)</b>	<b>\$(15.27)%</b>

**Major Factors Affecting the Statement of Financial Position**

The ARC's Current Assets decreased \$64,940 primarily because of a \$64,270 decrease in cash. Non-current Assets decreased by \$22,480 primarily due to depreciation exceeding current year capital acquisitions. Non-current Liabilities remained relatively stable. Current liabilities increased \$32,699 primarily due to an increase in the line of credit.

**The ARC's Programs**

The ARC of St. Clair County, Inc. is a non-profit organization formed to enhance the lives of and provide residential and habilitative training services to mentally retarded citizens of St. Clair County. Services are funded by the Alabama Department of Mental Health.

**THE ARC OF ST. CLAIR COUNTY, INC.**  
**MANAGEMENT'S DISCUSSION & ANALYSIS - CONTINUED**  
**FOR YEAR ENDED SEPTEMBER 30, 2018**

**Entity-Wide Financial Statements**

The Entity-wide financial statements are designed to be corporate-like in that all business type activities are consolidated into one column.

These Statements include a Statement of Financial Position, which is similar to a Balance Sheet. The Statement of Financial Position reports all financial and capital resources for the ARC. The statement is presented in the balanced format where assets equal the sum of liabilities and net position. Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Non-current".

The focus of the Statement of Financial Position (the "Unrestricted Net Assets") is designed to represent the net available liquid (non-capital) assets, net of liabilities, for the entire Entity. Net Assets (formerly equity) is reported in three broad categories:

- Invested in Capital Assets, net of related debt: This component of Net Assets consists of all Capital Assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted Net Assets: This component of Net Assets consists of restricted assets, that have constraints placed on the asset by creditors (such as debt covenants), grantors, contributors, laws, regulations, etc.
- Unrestricted Net Assets: Consists of Net Assets that does not meet the definition of "Invested in Capital Assets, net of related debt", or "Restricted Net Assets".

The Financial Statements also include a Statement of Activities (similar to an Income Statement). This statement includes Operating Revenues, such as rental income and operating grants, Operating Expenses, such as administrative, utilities, and maintenance and depreciation, and Non-Operating Revenue and Expenses, such as investment income and interest expense.

The focus of the Statement of Activities is the "Change in Net Assets," which is similar to Net Income or Loss.

Finally, a Statement of Cash Flows is included, which discloses net cash provided by, or used for operating activities, investing activities, non-capital financing activities, and from capital and related financing activities.



**THE ARC OF ST. CLAIR COUNTY, INC.  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FOR YEAR ENDED SEPTEMBER 30, 2018**

The information contained in this Management Discussion and Analysis is for the fiscal year ending September 30, 2018. The ARC of St. Clair County, Inc. (The ARC) encourages all readers to consider the contents of these documents when trying to formulate an impression of the ARC.

**FINANCIAL HIGHLIGHTS**

- The assets of the ARC exceeded its liabilities at the close of the most recent fiscal year by \$312,289 (net assets). Of this amount, \$114,099 (unrestricted net assets) may be used to meet the ARC's ongoing obligations to citizens and creditors.
- The ARC's total net assets decreased by \$123,937.

**USING THIS ANNUAL REPORT**

The following terms are used to describe sections of the financial statements:

**MD&A**

- Management's Discussion  
and Analysis

**Basic Financial Statements**

- Statement of Financial Position  
- Statement of Activities  
- Statement of Cash Flows  
-Notes to Financial Statements

**Other Supplementary Information**

- Supplementary Information

**THE ARC OF ST. CLAIR COUNTY, INC.**

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**THE ARC OF  
ST. CLAIR COUNTY, INC.**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2018**