

ARC OF ST. MARY
Centerville, Louisiana

Financial Report

Year Ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
ARC of St. Mary
Centerville, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of the ARC of St. Mary (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017 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 of St. Mary'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 ARC of St. Mary'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 of St. Mary as of June 30, 2017, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2017 on our consideration of the ARC of St. Mary'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 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ARC of St. Mary's internal control over financial reporting and compliance.

Kolder, Champagne, Slaven & Company, LLC
Certified Public Accountants

Morgan City, Louisiana
October 17, 2017

ARC OF ST. MARY
Centerville, Louisiana

Statement of Financial Position
June 30, 2017

ASSETS

Current assets:	
Cash and cash equivalents	\$ 117,255
Receivables	
Due from other agencies	11,720
Other	2,622
Prepaid insurance	<u>4,183</u>
Total current assets	<u>135,780</u>
Property and equipment, net	<u>715,869</u>
Total assets	<u>\$ 851,649</u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 2,433
Accrued and withheld payroll taxes	6,904
Current portion of notes payable	<u>4,581</u>
Total current liabilities	<u>13,918</u>
Long-term liabilities	
Notes payable, net of current portion	<u>96,350</u>
Total liabilities	<u>110,268</u>
Net assets:	
Temporarily restricted	447,144
Unrestricted	<u>294,237</u>
Total net assets	<u>741,381</u>
Total liabilities and net assets	<u>\$ 851,649</u>

The accompanying notes are an integral part of these financial statements.

ARC OF ST. MARY
Centerville, Louisiana

Statement of Activities
Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT			
Support:			
Appropriations from state and local governments:			
Operating grants			
State of Louisiana - DOTD	\$ 40,208	\$ -	\$ 40,208
Local governments	3,600	-	3,600
Contributions	15,719	-	15,719
Total support	59,527	-	59,527
Revenue:			
Program service fees	41,395	-	41,395
Membership fees	2,264	-	2,264
Medicaid/Medicare	209,315	-	209,315
Other	4,129	-	4,129
Total revenue	257,103	-	257,103
Net assets released from restrictions			
Expiration of time restrictions	10,435	(10,435)	-
Total revenues and other support	327,065	(10,435)	316,630
EXPENSES:			
Program services:			
Adult habilitation	273,314	-	273,314
Support services:			
General and administrative	71,339	-	71,339
Total expenses	344,653	-	344,653
Change in net assets	(17,588)	(10,435)	(28,023)
Net assets, beginning of year	311,825	457,579	769,404
Net assets, end of year	\$ 294,237	\$ 447,144	\$ 741,381

The accompanying notes are an integral part of these financial statements.

ARC OF ST. MARY
Centerville, Louisiana

Statement of Functional Expenses
Year Ended June 30, 2017

	<u>Program Services</u>		
	<u>Adult Habilitation</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Salaries	\$ 166,811	\$ 18,535	\$ 185,346
Payroll taxes	<u>14,081</u>	<u>1,565</u>	<u>15,646</u>
Total salaries and related expenses	180,892	20,100	200,992
Conference and meetings	110	-	110
Insurance	30,763	3,418	34,181
Office expense	13,843	1,538	15,381
Postage	-	259	259
Professional fees	1,117	7,900	9,017
Repairs and maintenance	1,090	121	1,211
Supplies	1,345	149	1,494
Telephone	3,479	387	3,866
Thrift store occupancy	315	-	315
Thrift store rent	10,750	-	10,750
Transportation	17,309	-	17,309
Utilities	5,917	311	6,228
Interest expense	4,653	517	5,170
Miscellaneous	<u>1,731</u>	<u>193</u>	<u>1,924</u>
Total expenses before depreciation	273,314	34,893	308,207
Depreciation expense	<u>-</u>	<u>36,446</u>	<u>36,446</u>
	<u>\$ 273,314</u>	<u>\$ 71,339</u>	<u>\$ 344,653</u>

The accompanying notes are an integral part of these financial statements.

ARC OF ST. MARY
Centerville, Louisiana

Statement of Cash Flows
Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (28,023)
Adjustments to reconcile change in net assets to net cash used by operating activities	
Depreciation	36,446
Decrease in due from other agencies	5,702
Increase in other receivables	(2,622)
Increase in accounts payable	1,274
Increase in accrued and withheld payroll taxes	607
Net cash provided by operating activities	<u>13,384</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Construction and acquisition of fixed assets	(23,153)
Proceeds from long-term debt	<u>21,684</u>
Net cash used by financing activities	<u>(1,469)</u>
Net increase in cash	11,915
Cash and cash equivalents, beginning of year	<u>105,340</u>
Cash and cash equivalents, end of year	<u>\$ 117,255</u>
Interest paid	<u>\$ 5,170</u>

The accompanying notes are an integral part of these financial statements.

ARC OF ST. MARY
Centerville, Louisiana

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

A. Nature of activities

The ARC of St. Mary ("ARC") operates a non-profit day vocation program located in Centerville, Louisiana. The ARC provides adult day services to developmentally disabled adults in St. Mary Parish. Individuals perform a wide variety of vocational activities such as recycling, horticultural and janitorial services. The ARC is supported primarily through Medicare/Medicaid waiver and support reimbursements from the Louisiana Department of Health and Hospitals - Office for Citizens with Developmental Disabilities.

B. Income tax status

The ARC is a non-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes.

C. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Cash and cash equivalents

Cash equivalents consist of short-term, highly liquid investments which are readily convertible into cash within ninety (90) days of purchase. At June 30, 2017 there were no investments which were determined to be cash equivalents.

E. Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

F. Property and equipment

Property and equipment are capitalized at purchased cost. Donated property and equipment is capitalized at its fair value on the date of the donation. It is the ARC's policy to capitalize expenditures for these items in excess of \$500. Lesser amounts are expensed. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Depreciation is computed using the straight line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	10 - 40
Furniture and equipment	5 - 10
Vehicles	5

ARC OF ST. MARY
Centerville, Louisiana

Notes to Financial Statements (continued)

G. Contributed services

The ARC receives donated services from unpaid volunteers throughout the year performing a variety of tasks that assist the ARC at the center. Consistent with generally accepted accounting principles for not-for-profit organizations, the value of contributed services by unpaid volunteers is not reflected on these statements because the services received did not enhance non-financial assets and the organization would not pay for these services if they were not donated.

H. Financial statement presentation

The ARC has presented its financial statements in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance, 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.

I. Contributions

In accordance with *FASB Accounting Standards Codification 958-605, Revenue Recognition*, contributions are recognized when the donor makes a promise to give and are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

The ARC reports gifts of cash and other assets as unrestricted support unless they are received with donor stipulations that limit the use of the donated assets. When the donor restriction expires, that is, when the time restriction ends or the purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and report in the statement of activities as net assets released from restrictions.

The ARC reports contributions of assets other than cash at their estimated fair value at the date of the gift and are reported as revenues of the unrestricted net asset class unless explicit donor stipulations specify how the donated asset 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 revenues of the temporarily restricted or permanently restricted net asset classes. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the ARC reports expiration of donor restrictions when the donated or acquired long-lived assets are placed in service.

All contributions are considered to be available for unrestricted use unless specifically restricted by donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net assets classes. When a qualifying expenditure occurs or a time restriction expires, temporarily restricted assets are recognized in unrestricted net assets as "net assets released from restrictions" in the statement of activities. However, if a restriction is fulfilled in the same period in which the contribution is received, the contribution is reported as an unrestricted contribution.

ARC OF ST. MARY
Centerville, Louisiana

Notes to Financial Statements (continued)

J. Support and revenue

The ARC receives Medicare/Medicaid payments for billable client services. Revenues for these services are recorded when earned.

K. Program revenue

The ARC receives program service fees from janitorial services, recycling programs, and selling of second hand items. Support and revenue are recognized when earned.

(2) Due From other Agencies

As of June 30, 2017, amounts due from other agencies were comprised of:

Medicaid/Medicare:	
Louisiana Department of Health and Hospitals	\$ 9,062
Operating Grant:	
Louisiana Department of Transportation and Development	<u>2,658</u>
Total	<u>\$ 11,720</u>

(3) Capital Assets

Capital assets consisted of the following at June 30, 2017:

Capital assets being depreciated	
Buildings and improvements	\$ 715,663
Furniture and equipment	86,328
Vehicles	<u>173,223</u>
	975,214
Less: accumulated depreciation	<u>(259,345)</u>
	<u>\$ 715,869</u>

Depreciation expense for the year ended June 30, 2017 totaled \$36,446.

ARC OF ST. MARY
Centerville, Louisiana

Notes to Financial Statements (continued)

(4) Line of Credit

During the year ended June 30, 2016, the ARC entered into a line of credit arrangement with a local financial institution to fund the remaining expenses for the ARC's new building. The maximum credit available on the line of credit is \$200,000. Funds borrowed under the line of credit bear interest at 5.25% per annum. Payment terms under the line of credit state that ARC must pay monthly installments of accrued unpaid interest as of the payment date. In February 2017, the line of credit was converted to a term loan.

(5) Long-Term Debt

Long-term debt is comprised of the following at June 30, 2017:

Note payable to Iberiabank bearing interest at 5.75% per annum, due in monthly installments of \$855, with a final balloon payment of \$66,359, maturing in February 2024, secured by real property	\$ 100,931
Less: current portion	<u>4,581</u>
Long-term debt, net of current portion	<u>\$ 96,350</u>

Principal maturities of long-term debt are as follows:

Year Ended June 30,	Principal	Interest
2018	\$ 4,581	\$ 5,684
2019	4,851	5,414
2020	5,138	5,127
2021	5,441	4,824
2022	5,762	4,503
2023-2024	<u>75,158</u>	<u>22,631</u>
	<u>\$ 100,931</u>	<u>\$ 48,183</u>

(6) Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30, 2017:

Book value of property and equipment purchased with grant funds which are restricted as to disposition	<u>\$ 447,144</u>
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ARC OF ST. MARY
Centerville, Louisiana

Notes to Financial Statements (continued)

(7) Contingent Liabilities

The ARC receives grants and funding from governmental agencies that are subject to review and audit by the agencies providing the funding. Such reviews and audits could result in expenses being disallowed under the terms and conditions of the grants and agreements. In the opinion of management, such disallowances, if any, would be immaterial.

(8) Compensation and Other Payments to Chief Officer

Act 706 of the 2014 Louisiana Legislature amended R.S. 24:513A requiring additional disclosure of total compensation, benefits, reimbursements, or other payments made to the head of a political subdivision or quasi-public agency. The following is a summary of such payments made to/for Kristal Hebert, Executive Director, during the year ended June 30, 2017:

Salary	\$ 44,162
Training	40
Reimbursements-Travel	<u>1,965</u>
Total	<u>\$ 46,167</u>

(9) Subsequent Events

Management has evaluated subsequent events through October 17, 2017, the date which the financial statements were available for issue.

INTERNAL CONTROL, COMPLIANCE AND OTHER MATTERS

KOLDER, CHAMPAGNE, SLAVEN & COMPANY, LLC

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INDEPENDENT AUDITORS' 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
ARC of St. Mary
Centerville, Louisiana

We have audited, 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, the financial statements of the ARC of St. Mary (a non-profit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 17, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the ARC of St. Mary'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 of St. Mary's internal control. Accordingly, we do not express an opinion on the effectiveness of the ARC of St. Mary'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 of St. Mary'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. However, we identified a deficiency in internal control that we consider to be a material weakness and which is described as item 2017-001 in the accompanying schedule of audit results.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ARC of St. Mary'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 of St. Mary's Response to Finding

The ARC of St. Mary's response to the finding identified in our audit is described in the accompanying schedule of management's response and corrective action plan for current audit findings. The ARC of St. Mary's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 of St. Mary'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 of St. Mary's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. Although the intended use of this report may be limited under the provisions of Louisiana Revised Statutes 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document in accordance with Louisiana Revised Statute 44:6.

Kolder, Champagne, Slaven & Company, LLC
Certified Public Accountants

Morgan City, Louisiana
October 17, 2017

ARC OF ST. MARY
Centerville, Louisiana

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

2016-001 Inadequate Segregation of Duties

The conditions giving rise to this finding are still present during the year ended June 30, 2017; therefore, this finding will be reiterated in the current audit as finding 2017-001.

ARC OF ST. MARY
Centerville, Louisiana

Schedule of Audit Results
Year Ended June 30, 2017

Part 1: Summary of Auditors' Reports

Financial Statements:

- i. An unmodified opinion has been issued on the ARC of St. Mary's financial statements as of and for the year ended June 30, 2017.
- ii. There was one deficiency in internal control over financial reporting disclosed during the audit of the financial statements. The deficiency was considered to be a material weakness.
- iii. There were no material instances of noncompliance reported during the audit of the financial statements.
- iv. A management letter was not issued.

Part 2: Findings Relating to an Audit in Accordance with *Government Auditing Standards*

2017-001 Inadequate Segregation of Duties

CONDITION: Due to the limited number of personnel performing administrative functions, the ARC of St. Mary does not have adequate segregation of duties within its accounting and financial functions.

CRITERIA: Internal control is a process – effected by those charged with governance, management, and other personnel – designed to provide reasonable assurance about the achievement of objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The ARC of St. Mary's internal control over financial reporting includes those policies and procedures that pertain to its ability to record, process, summarize, and report financial data consistent with the assertions embodied in financial statements.

CAUSE: The ARC of St. Mary does not have a sufficient number of staff performing administrative and financial duties so as to provide adequate segregation of accounting and financial duties.

EFFECT: Failure to adequately segregate accounting and financial functions increases the risk that errors and/or irregularities including fraud may occur and not be prevented and/or detected.

RECOMMENDATION: The Board is aware of this inadequacy and has concluded that the cost of hiring additional personnel to achieve complete segregation of duties would exceed the benefits. No additional response is deemed necessary.

Part 3: Findings and Questioned Costs Relating to Federal Programs

At June 30, 2017, the ARC of St. Mary did not meet the requirements to have a single audit in accordance with OMB's Uniform Guidance; therefore, this section is not applicable.

ARC OF ST. MARY
Centerville, Louisiana

Management's Response and Corrective Action Plan for Current Audit Findings
Year Ended June 30, 2017

2017-001 Inadequate Segregation of Duties

The Board has determined that it is not economically feasible to hire additional personnel. At the present time the Director is handling the duties under the oversight of the Board.