

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

FINANCIAL REPORT

June 30, 2019

DHHR - Finance

FEB 18 2020

Date Received

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southern Highlands Community
Mental Health Center, Inc.
Princeton, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Southern Highlands Community Mental Health Center, Inc. ("SHCMHC") which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, 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 SHCMHC'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 SHCMHC'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Highlands Community Mental Health Center, Inc. as of June 30, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statement, in 2019 SHCMHC adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of non-federal awards is presented for the purpose of additional analysis and is not a required part of the financial statements. 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 February 10, 2020 on our consideration of SHCMHC'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, and not to provide an opinion on the effectiveness of SHCMHC'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 SHCMHC's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
February 10, 2020

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**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

**STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018**

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	\$ 422,393	\$ 215,118
Restricted cash	127,819	120,547
Certificates of deposit	150,000	-
Receivables:		
Support agencies	725,631	401,866
Clients, net of allowance	1,292,081	978,908
Other	78,274	64,862
Prepaid expenses and other current assets	81,555	150,491
Total current assets	2,877,753	1,931,792
PROPERTY AND EQUIPMENT, net (Note 3)	1,820,287	1,840,333
OTHER ASSETS	5,966	15,086
Total assets	\$ 4,704,006	\$ 3,787,211
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 436,264	\$ 382,086
Accrued wages	224,603	195,333
Withholding and other current liabilities	81,104	204,493
Client managed accounts	127,819	120,547
Accrued annual and sick leave	332,373	299,585
Deferred revenue	84,970	-
Current portion of capital leases (Note 8)	71,712	59,540
Current maturity of long-term obligations (Note 4)	67,594	45,416
Total current liabilities	1,426,439	1,307,000
CAPITAL LEASES (Note 8)	182,310	194,867
DEBT (Note 4)	525,666	509,714
LINE OF CREDIT (Note 5)	575,000	76,155
NET PENSION BENEFIT OBLIGATIONS (Note 6)	1,122,604	1,014,334
Total liabilities	3,832,019	3,102,070
NET ASSETS		
Net assets without donor restrictions:		
Operating	831,294	630,008
Board designated	30,356	30,356
	861,650	660,364
Net assets with donor restrictions	10,337	24,777
Total net assets	871,987	685,141
Total liabilities and net assets	\$ 4,704,006	\$ 3,787,211

The Notes to Financial Statements are an integral part of these statements.

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

**STATEMENTS OF ACTIVITIES
Years Ended June 30, 2019 and 2018**

	2019	2018
OPERATING REVENUE AND SUPPORT		
Net client revenue (Note 7)	\$ 9,981,870	\$ 9,498,171
State and federal grant revenue	5,060,690	4,007,560
County commissions	69,885	49,443
Other	183,748	328,610
Total operating revenue and support	15,296,193	13,883,784
OPERATING EXPENSES		
Program	12,339,992	11,580,346
Administration	2,701,545	2,492,865
Total operating expenses	15,041,537	14,073,211
Operating revenue (under) over expenses	254,656	(189,427)
NONOPERATING GAINS (LOSSES)		
Interest	1,834	2,214
Other postemployment benefit related changes, exclusive of net periodic cost	(86,420)	105,057
Revenue and gains (under) over expenses and losses	170,070	(82,156)
NET ASSETS WITHOUT DONOR RESTRICTION		
Revenue (under) over expenses	170,070	(82,156)
Satisfaction of program restrictions	31,216	18,141
Change in net assets without donor restriction	201,286	(64,015)
NET ASSETS WITH DONOR RESTRICTION		
Contributions	16,776	11,476
Net assets released from restrictions	(31,216)	(18,141)
Change in net assets with donor restriction	(14,440)	(6,665)
Change in net assets	186,846	(70,680)
NET ASSETS, beginning	685,141	755,821
NET ASSETS, ending	\$ 871,987	\$ 685,141

The Notes to Financial Statements are an integral part of these statements.

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

**STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2019 and 2018**

	2019		
	Program Services	General and Administrative	Total
Personnel	\$ 8,289,424	\$ 1,181,024	\$ 9,470,448
Fringe benefits	1,433,760	407,259	1,841,019
Travel and transportation	202,293	10,714	213,007
Contractual services	675,792	144,996	820,788
Other	1,571,307	817,870	2,389,177
Depreciation	151,002	73,400	224,402
Interest	16,414	66,282	82,696
	12,339,992	2,701,545	15,041,537
Plus expenses included with revenues on the statement of activities:			
Bad debt expense	49,710	-	49,710
Total expense by function	\$ 12,389,702	\$ 2,701,545	\$ 15,091,247
	2018		
	Program Services	General and Administrative	Total
Personnel	\$ 7,714,978	\$ 1,160,726	\$ 8,875,704
Fringe benefits	1,405,012	327,351	1,732,363
Travel and transportation	324,045	29,174	353,219
Contractual services	743,755	119,578	863,333
Other	1,274,141	740,226	2,014,367
Depreciation	106,030	61,301	167,331
Interest	12,385	54,509	66,894
	11,580,346	2,492,865	14,073,211
Plus expenses included with revenues on the statement of activities:			
Bad debt expense	35,509	-	35,509
Total expense by function	\$ 11,615,855	\$ 2,492,865	\$ 14,108,720

The Notes to Financial Statements are an integral part of these statements.

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

**STATEMENTS OF CASH FLOWS
Years Ended June 30, 2019 and 2018**

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	\$ 186,846	\$ (70,680)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	224,400	167,327
Gain on sale of fixed assets	(500)	(2,700)
Provision for bad debts	77,331	38,751
Decrease (increase) in:		
Receivables	(727,681)	(29,278)
Prepaid expenses and other current assets	68,936	(62,866)
Other assets	9,120	40,776
Increase (decrease) in:		
Accounts payable, withholding and other current liabilities and client managed accounts	(32,669)	185,990
Deferred revenue	84,970	-
Other postemployment benefits	-	(111,463)
Accrued annual and sick leave	108,270	(37,941)
Net pension benefit obligation	32,788	25,929
	31,811	143,845
INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	500	2,700
Purchase of certificates of deposit	(150,000)	-
Purchases of property and equipment	(42,553)	(150,883)
	(192,053)	(148,183)
FINANCING ACTIVITIES		
Proceeds from issuance of long-term obligations	-	107,010
Payments on capital leases	(68,011)	-
Payments on long-term obligations	(56,045)	(100,393)
Net borrowings (repayments) on line of credit	498,845	(621,589)
	374,789	(614,972)
Net decrease in cash	214,547	(619,310)
CASH, beginning	335,665	954,975
CASH, ending	\$ 550,212	\$ 335,665
CASH IS PRESENTED AS FOLLOWS ON THE STATEMENT OF FINANCIAL POSITION:		
Cash	\$ 422,393	\$ 215,118
Restricted cash	127,819	120,547
	\$ 550,212	\$ 335,665
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 82,695	\$ 66,896
Acquisition of equipment through capital leases	\$ 67,626	\$ 46,071
Acquisition of equipment through debt	\$ 94,175	\$ -

The Notes to Financial Statements are an integral part of these statements.

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 1. Organization and Significant Accounting Policies

Organization

Southern Highlands Community Mental Health Center, Inc. ("SHCMHC") is a nonprofit corporation that provides mental health and other related services in the counties of Mercer, McDowell, and Wyoming, West Virginia.

Basis of accounting

Revenues and expenses are recognized on the accrual basis of accounting. Accordingly, revenues are recognized when earned, and expenses are recognized when the obligation is incurred. SHCMHC recognizes grant revenue as qualifying expenditures are incurred and records grant monies received in advance as refundable advances.

Cash and cash equivalents

For the purposes of reporting cash flows, SHCMHC considers all demand deposits to be cash equivalents. Cash is held in banks located in West Virginia that are federally insured. From time to time, amounts held may be in excess of the Federal Deposit Insurance Corporation's coverage. Also, the board designated cash is included with cash on the statement of financial position.

Valuation of receivables

Receivables are stated at the amount management expects to collect. An allowance for doubtful accounts has been established and the balance as of June 30, 2019 and 2018, was \$302,617 and \$259,175, respectively. This amount is based on management's assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Receivables are considered past due at 30 days.

Property and equipment

Purchases of property and equipment in excess of \$1,500 and a useful life of greater than one year are capitalized at cost. Property and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method based on the following estimated useful lives:

Buildings	20 years
Leasehold improvements	15 years
Furniture and equipment	7 years
Vehicles	5 years

Income taxes

SHCMHC is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and is not considered a private foundation.

(Continued)

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 1. Organization and Significant Accounting Policies (Continued)

Source of revenue

SHCMHC receives revenue from federal, state, and other grants along with program income from services to clients through Medicaid, Medicare, other third-party, and self-pay. Revenues received from Medicaid and Medicare are subject to examination and retroactive adjustment. Allowances for contractual adjustments, which are differences between stated rates and amounts allowed by third party payors, are recognized in the period the related services are rendered. Differences between the amounts accrued and subsequent settlements are recorded in operations in the year of settlement.

Functional allocation of expenses

The financial statements report certain categories of expenses that are attributable to more than one supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Expenses have been allocated on the basis of management's estimate of usage, considering such factors as square footage and time and effort.

Revenue in excess of expenses

All activities of SHCMHC deemed by management to be ongoing, major, and central to the entity's operation are reported as operating revenue and expenses. The statement of activities includes operating revenue in excess of expenses as a performance indicator. Changes in net assets without donor restrictions which are excluded from the performance indicator, consistent with industry practice, include satisfaction of program restrictions, interest income, and other post-employment benefit related changes.

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 liabilities and assets, and the reported revenues and expenses. Actual results could differ from these estimates.

Net assets

Net assets without donor restriction are resources over which the Board of Directors has discretionary control. Net assets with donor restriction are subject to donor-imposed restrictions and consist primarily of certain vehicles donated by the West Virginia Division of Transportation.

(Continued)

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 1. Organization and Significant Accounting Policies (Continued)

Recent accounting pronouncement

During 2019, SHCMHC adopted Accounting Standards Update (ASU) No. 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is focused on amendments to net asset classification, expense classification, and the statement of cash flows, while improving information provided in the financial statements and the notes to financial statements about liquidity and financial performance. SHCMHC has applied the guidance to the current presentation of the accompanying financial statements and retrospectively to the comparative period presented with the exception of the liquidity disclosure as permitted by the standard. The new guidance had the following impact on the SHCMHC financial statements:

- The unrestricted net asset class have been renamed *net assets without donor restrictions*
- The temporarily restricted net asset class have been renamed *net assets with donor restrictions*
- The financial statements include new disclosures about liquidity and availability of resources (Note 2)

Subsequent events

Management has considered subsequent events through February 10, 2020, the date the financials were available to be issued.

Note 2. Liquidity and Availability of Resources

The following table reflects SHCMHC's financial assets as of June 30, 2019, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, when assets are held for others, when restricted by donors, or because the governing board has set aside the funds for a specific contingency reserve. Any board designations could be drawn upon if the board approves that action. SHCMHC considers general expenditures to be all expenditures related to its ongoing activities of developing, operating, and maintaining mental health facilities and services for individuals residing in Mercer, McDowell, and Wyoming counties in West Virginia.

SHCMHC has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, SHCMHC maintains a \$900,000 line of credit as described in Note 5.

Financial assets:	
Cash and cash equivalents	\$ 422,393
Certificates of deposit	150,000
Grant, contract, client, and other receivables	2,095,986
Financial assets, at year end	2,668,379
Less those unavailable for general expenditure within one year, due to:	
Donor restrictions	(10,337)
 Financial assets available to meet cash needs for general expenditures within one year	 \$ 2,658,042

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 3. Property and Equipment

Property and equipment consists of the following:

	2019	2018
Land	\$ 257,173	\$ 257,172
Buildings and leasehold improvements	2,594,056	2,566,085
Furniture and equipment	1,193,689	1,192,428
Vehicles	644,106	481,664
Construction in progress	8,378	-
	4,697,402	4,497,349
Less accumulated depreciation	2,877,115	2,657,016
Total property and equipment	\$ 1,820,287	\$ 1,840,333

Equipment under capital leases for the years ended June 30, 2019 and 2018 was \$396,395 and \$328,770, less accumulated depreciation of \$150,082 and \$76,819, respectively.

Note 4. Debt

Debt consists of the following:

	2019	2018
Note payable to bank, payable in monthly installments of \$614, including interest at 3.90%, final payment due July 2020	\$ 1,221	\$ 7,797
Notes payable to bank, payable in monthly installments of \$629, including interest at 4.09%, final payment due 2022, secured by vehicles	57,072	-
Note payable to bank, payable in monthly installments of \$547, including interest at 3.76%, final payment due December 2023, secured by vehicle	26,619	-
Note payable to bank, payable in monthly installments of \$5,208, including interest at 4.55%, final payment due October 2029, secured by property	508,348	547,333
	593,260	555,130
Less current maturities	67,594	45,416
	\$ 525,666	\$ 509,714

(Continued)

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 4. Debt (Continued)

Maturities of long term obligation are as follows:

2020	\$	67,594
2021		69,312
2022		64,736
2023		52,191
2024		50,650
Thereafter		<u>288,777</u>
	<u>\$</u>	<u>593,260</u>

Note 5. Line of Credit

As of June 30, 2019 SHCMHC had utilized \$575,000 of a \$900,000 working capital line of credit, which is secured by all assets and it is cross-collateralized with the long-term debt. The line of credit matures October 2020 and has a variable interest rate based on the lender's prime rate.

Note 6. Pension Benefit Obligation

SHCMHC sponsors a defined benefit pension plan. The following relates to the pension plan at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Accumulated benefit obligation	\$ 4,666,461	\$ 4,657,349
Fair value of plan assets	3,543,857	3,643,015
Funded status of the plan	(1,122,604)	(1,014,334)
Employer contributions	82,500	55,000
Actual distributions	(354,439)	(360,681)
Net accrued benefit liability	1,122,604	1,014,334
Net periodic benefit cost	104,904	122,116
Unrecognized net actuarial gain	1,805,126	1,760,446
Unrecognized prior service credit	(250,437)	(292,177)
Assumption used:		
Interest discount rate	4.50%	4.75%
Compensation increase	N/A	N/A
Expected rate of return on assets	6.00%	6.00%

(Continued)

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 6. Pension Benefit Obligation (Continued)

Estimated future benefit payments are:

Year ending June 30:

2020	\$	392,407
2021		309,177
2022		282,108
2023		359,719
2024		365,910
2025 – 2029		1,142,776

Measurement dates are June 30, 2019 and 2018.

Approximately \$120,000 is expected to be contributed to the plan during the fiscal year ending June 30, 2020.

Estimated net (gain) loss and prior service cost that will be amortized from unrestricted net assets into net periodic pension cost over the next fiscal year are \$156,547 and \$(41,740), respectively.

Fair value measurements

The defined benefit pension plan's investments are reported at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SHCMHC categorizes the plan's financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy as reflected below. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 – Fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities that management has the ability to access at the measurement date.

Level 2 – Fair values are based on inputs other than quoted prices in Level 1 that are either for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that were observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Fair values are based on unobservable inputs for the asset or liability where there is little, if any, market activity for the asset or liability at the measurement date.

The defined benefit pension plan uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, fair value is measured using Level 1 inputs because they generally provide the most reliable evidence of fair value.

(Continued)

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 6. Pension Benefit Obligation (Continued)

The fair values of SHCMHC's plan assets, by asset category are as follows:

	2019	
	Level 1	Total
Mutual funds – corporate bonds	\$ 1,346,666	\$ 1,346,666
Mutual funds – equity	1,701,051	1,701,051
Mutual funds – international equity	496,140	496,140
	<u>\$ 3,543,857</u>	<u>\$ 3,543,857</u>
	2018	
	Level 1	Total
Mutual funds – corporate bonds	\$ 1,420,776	\$ 1,420,776
Mutual funds – equity	1,602,927	1,602,927
Mutual funds – international equity	582,882	582,882
Money market	36,430	36,430
	<u>\$ 3,643,015</u>	<u>\$ 3,643,015</u>

SHCMHC's investment policies are to maintain a mix of secure fixed income along with other investments which fluctuate in principal and return on investment. With this mix, SHCMHC hopes to obtain a reasonable return with some level of security.

Basis for determination of overall expected long-term rate of return:

1. Assumptions are developed by the plan's investment consultant for each investment style category as to rate of return, risk, yield, and correlation with other categories that serve as components of the long-term strategy.
2. Based upon these assumptions, eligible components are tested over the desired time horizon given the acceptable tolerance for risk as determined by the plan sponsor.
3. The expected long-term rate of return reflects assumptions as to continued execution of the current strategic asset allocation, modern portfolio theory, and the plan's investment policy.

(Continued)

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 6. Pension Benefit Obligation (Continued)

Amounts recognized in the statements of financial position:

	2019	2018
Prepaid pension cost	\$ 432,085	\$ 453,935
Pension benefit obligation	(1,554,689)	(1,468,269)
Net pension benefit obligation	\$ (1,122,604)	\$ (1,014,334)
Net periodic pension cost		
Interest cost	\$ 212,314	\$ 224,490
Expected return on plan assets	(209,128)	(222,221)
Amortization of prior service costs	(41,740)	(41,740)
Amortization of net loss	142,904	161,587
Net periodic pension cost	104,350	122,116
Other changes in plan assets and benefit obligations		
Net loss	187,584	14,790
Amortization of prior service cost	41,740	41,740
Amortization of net loss	(142,904)	(161,587)
Total other changes in plan assets and benefit obligations	86,420	(105,057)
Total pension expense and other changes	\$ 190,770	\$ 17,059

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 7. Third-Party Transactions and Economic Dependency

SHCMHC has agreements with Medicaid and Medicare that provide for payments to SHCMHC at predetermined amounts that differ from its standard rates. The ability of SHCMHC to receive future payments from these sources depends on legislation enacted and resources available to the State of West Virginia. SHCMHC also receives payments for services from private payors, certain governmental agencies, and other third-party payors.

Revenue recognized from client services is as follows:

	2019				
	Medicaid	Waiver	Medicare	Other	Total
Gross client revenue	\$ 7,850,535	\$ 4,100,674	\$ 396,895	\$ 1,423,734	\$ 13,771,838
Bad debts	(29,052)	(3,921)	241	(16,978)	(49,710)
Contractual adjustments	(2,326,281)	(15,877)	(245,049)	(268,277)	(2,855,484)
Charity/disallowance	(366,911)	(52,035)	(23,913)	(441,915)	(884,774)
Net client revenue	<u>\$ 5,128,291</u>	<u>\$ 4,028,841</u>	<u>\$ 128,174</u>	<u>\$ 696,564</u>	<u>\$ 9,981,870</u>
	2018				
	Medicaid	Waiver	Medicare	Other	Total
Gross client revenue	\$ 5,901,033	\$ 4,348,365	\$ 410,540	\$ 1,961,761	\$ 12,621,699
Bad debts	18,414	(16,679)	(13,480)	(23,764)	(35,509)
Contractual adjustments	(1,781,508)	(3,132)	(249,345)	(468,679)	(2,502,664)
Charity/disallowance	(215,082)	(47,181)	(7,838)	(315,254)	(585,355)
Net client revenue	<u>\$ 3,922,857</u>	<u>\$ 4,281,373</u>	<u>\$ 139,877</u>	<u>\$ 1,154,064</u>	<u>\$ 9,498,171</u>

SHCMHC also received state of West Virginia and federal grant funds passed through the State in the amount of \$4,350,252 and \$3,655,168 during the years ended June 30, 2019 and 2018, respectively. Such amounts are dependent upon the collection of sufficient revenues by the state to fund such grants as well as budgetary and other policy decisions that may apply to the awarding of these grant funds.

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 8. Lease Commitments

Operating Leases

SHCMHC has lease agreements for certain office equipment and buildings and property. Total expenses for these leases were \$255,087 and \$231,673 for the years ended June 30, 2019 and 2018, respectively. Terms of the leases vary.

Future annual lease expense for the long-term leases is:

	Office Equipment	Buildings and Property	Total
2020	\$ 22,729	\$ 111,600	\$ 134,329
2021	7,124	113,175	120,299
2022	2,325	100,129	102,454
2023	600	72,465	73,065
2024	350	27,000	27,350

The Princeton clinic building used by SHCMHC is leased from the WV Department of Health for \$1 with a 40 year term beginning January 1, 1989. Fair rental value of this building is calculated at approximately \$93,000 per year, which amount is included in revenue and expense in the accompanying statements of activities.

Capital leases

SHCMHC leases certain vehicles as obligations under capital lease. The capital leases are collateralized by the vehicle under the lease. Scheduled minimum lease payments for obligations under capital leases are as follows:

2020	\$	71,712
2021		75,047
2022		80,500
2023		21,596
2024		12,511
Net minimum lease payments		261,366
Less: amount representing interest, maintenance, and taxes		7,344
Less: current maturities		71,712
Capital lease obligations, net of current maturities	\$	182,310

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS
June 30, 2019**

Note 9. Conditional Contribution

During 2019, SHCMHC purchased a building from McDowell Board of Education for \$10. The purchase agreement stated if the property was not used for the community within the first five years of purchase then the property would revert back to McDowell Board of Education. Management does not have intentions to use the property, and therefore, the fair value of this transaction was not recognized during the year.

SUPPLEMENTARY INFORMATION

SOUTHERN HIGHLANDS COMMUNITY MENTAL HEALTH CENTER, INC.
SCHEDULE OF NON-FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019

AWARDING AGENCY	Grant Name	Grant Number	Grant Identification	Period of Award	Original Award	Prior Year Extended	Funds Unexpended	Earned and Billed	Unexpended and Billed	Receipts
WV DHHR BHHF	LEAD - Law Enforcement Assisted Diversion - McDowell	G188845	2018-0407-0506-3809-15401-1256-0000	5/1/2018 - 12/31/2019	\$ 60,000	\$ -	\$ 21,000	\$ 37,000	\$ -	\$ 8,500
WV DHHR BHHF	LEAD - Law Enforcement Assisted Diversion - Mercer	G188845	2018-0407-0506-3809-15401-1256-0000	5/1/2018 - 12/31/2019	60,000	-	20,000	40,000	-	8,500
WV DHHR BHHF	LEAD - Law Enforcement Assisted Diversion - Wyoming	G188845	2018-0407-0506-3809-15401-1256-0000	5/1/2018 - 12/31/2019	180,000	-	24,950	35,050	-	8,500
					G188845		67,950	112,650		25,500
WV DHHR BHHF	Female Residential SA Treatment - WAVES	G186482	2015-0506-0506-2891-35400-1256-0000-13142	10/1/17 - 9/30/18	361,549	187,812	173,737	-	-	23,760
WV DHHR BHHF	Female Residential SA Treatment - WAVES	G186482	2015-0506-0506-2891-35400-1256-0000-13142	10/1/17 - 9/30/18	233,301	102,287	133,014	-	-	13,014
					G186482	187,812	374,034	133,014		136,774
WV DHHR BHHF	Screening, Brief Intervention, and Referral to Treatment (SBIRT)	G186544	2017-0515-0506-3081-35400-1256-0000-13131	10/1/17 - 9/30/18	50,000	32,229	6,132	11,519	-	14,698
					G186544		6,132	11,519		14,698
WV DHHR BHHF	Residential Services Short Term - Mercer Co. Legends	G180511	2018-0525-0506-3981-35400-1256-0000-13688	10/1/17 - 9/30/18	63,875	16,505	22,370	-	-	4,147
					G180511	36,865	27,370	-	-	4,147
WV DHHR BHHF	Continuum Enhancement Funds Wyoming Co. Satellite Office	G190271	2019-0325-0506-2851-21900-1256-0000-13144	07/01/2018 - 12/31/2018	51,835	-	3,403	48,432	-	48,432
WV DHHR BHHF	Continuum Enhancement Funds Mercer County	G190271	2019-0325-0506-2851-21900-1256-0000-13144	07/01/2018 - 12/31/2018	180,188	-	966	179,222	-	179,222
WV DHHR BHHF	Continuum Enhancement Funds McDowell Co. Satellite Office	G190271	2019-0325-0506-2851-21900-1256-0000-13144	07/01/2018 - 12/31/2018	76,635	-	2,900	75,735	-	75,735
					G190271	310,658	7,269	303,389		253,389
WV DHHR BHHF	Continuum Enhancement Funds Wyoming Co. Satellite Office	G190271	2019-0325-0506-2851-21900-1256-0000-13144	1/1/2019 - 6/30/2019	49,597	-	-	49,597	-	49,597
WV DHHR BHHF	Continuum Enhancement Funds Mercer County	G190271	2019-0325-0506-2851-21900-1256-0000-13144	1/1/2019 - 6/30/2019	110,472	-	-	110,472	-	110,472
WV DHHR BHHF	Continuum Enhancement Funds McDowell Co. Satellite Office	G190271	2019-0325-0506-2851-21900-1256-0000-13144	1/1/2019 - 6/30/2019	74,234	-	-	74,234	-	74,234
					G190271	234,393	-	234,393		234,393
WV DHHR BHHF	Expanded School Mental Health - Kimball Elementary	G190222	2019-0325-0506-2916-63100-1256-0000-13132	07/01/2018 - 06/30/2019	30,000	-	3,475	26,525	-	23,905
WV DHHR BHHF	Expanded School Mental Health - FRESH Elementary	G190222	2019-0325-0506-2916-63100-1256-0000-13132	07/01/2018 - 06/30/2019	30,000	-	2,517	27,483	-	24,691
WV DHHR BHHF	Expanded School Mental Health - Riverbend Intermediate	G190222	2019-0325-0506-2916-63100-1256-0000-13132	07/01/2018 - 06/30/2019	30,000	-	3,918	26,082	-	23,169
WV DHHR BHHF	Expanded School Mental Health - Wyoming County Site 1	G190222	2019-0325-0506-2916-63100-1256-0000-13132	07/01/2018 - 06/30/2019	40,000	-	12,319	27,681	-	20,919
WV DHHR BHHF	Expanded School Mental Health - Wyoming County Site 2	G190222	2019-0325-0506-2916-63100-1256-0000-13132	07/01/2018 - 06/30/2019	40,000	-	17,736	22,264	-	17,408
					G190222	300,000	17,030	182,970		152,348
WV DHHR BHHF	Permanent Supported Housing (Res Support Shon 11)	G190278	2019-0325-0506-3743-31900-1256-0000	07/01/2018 - 06/30/2019	406,805	-	18,118	388,687	-	363,314
WV DHHR BHHF	Group Home, Mercer County, Fraz Court, Hanley	G190278	2019-0325-0506-3115-21900-1256-0000	07/01/2018 - 06/30/2019	348,750	-	359,201	359,201	-	389,471
WV DHHR BHHF	Group Home, Mercer County, Woodland Avenue	G190278	2019-0325-0506-3115-21900-1256-0000	07/01/2018 - 06/30/2019	174,375	-	27,237	147,148	-	137,051
WV DHHR BHHF	Group Home, Mercer County, Group Home 2	G190278	2019-0325-0506-3115-21900-1256-0000	07/01/2018 - 06/30/2019	174,375	-	3,238	171,147	-	149,749
WV DHHR BHHF	Group Home, Mercer County, Group Home 1	G190278	2019-0325-0506-3115-21900-1256-0000	07/01/2018 - 06/30/2019	174,375	-	1,288	173,086	-	162,675
WV DHHR BHHF	Group Home, Mercer County, Fraz Court, Hanley	G190278	2019-0325-0506-3115-21900-1256-0000-13688	07/01/2018 - 06/30/2019	63,875	-	280	63,595	-	58,433
WV DHHR BHHF	Group Home, Mercer County, Woodland Avenue	G190278	2019-0325-0506-3115-21900-1256-0000-13688	07/01/2018 - 06/30/2019	19,163	-	1,016	18,148	-	16,573
WV DHHR BHHF	Group Home, Mercer County, Group Home 1	G190278	2019-0325-0506-3115-21900-1256-0000-13688	07/01/2018 - 06/30/2019	19,163	-	1	19,163	-	17,388
WV DHHR BHHF	Group Home, Mercer County, Group Home 2	G190278	2019-0325-0506-3115-21900-1256-0000-13688	07/01/2018 - 06/30/2019	19,162	-	1,377	17,785	-	16,725
					G190278	1,400,043	4,203	1,395,840		1,210,967
WV DHHR BHHF	Female Residential SA Treatment - WAVES	G190536	2019-0325-0506-3981-35400-1256-4311-13142	10/1/2018 - 3/31/2019	221,676	-	-	221,676	-	221,676
WV DHHR BHHF	Female Residential SA Treatment - WAVES	G190536	2019-0325-0506-3981-35400-1256-4311-13688	10/1/2018 - 3/31/2019	31,938	-	31,430	508	-	16,233
WV DHHR BHHF	Residential Services Short Term - Mercer Co. Legends	G190536	2019-0325-0506-3981-35400-1256-0000-13688	10/1/2018 - 3/31/2019	15,969	-	15,969	-	-	15,969
					G190536	249,783	31,430	238,353	15,715	254,068
WV DHHR BHHF	Family & Community Support	G190288	2019-0325-0506-2867-22100-1256-0000	07/01/2018 - 06/30/2019	127,193	-	7,446	119,747	-	66,161
WV DHHR BHHF	Family & Community Support	G190288	2019-0325-0506-2867-22100-1256-0000	07/01/2018 - 06/30/2019	62,807	-	977	61,830	-	53,099
					G190288	190,000	8,423	181,577		119,260
WV DHHR BHHF	Crisis Response Services for Adults with Co-Existing Disorders	G190194	2019-0325-0506-3042-21900-1256-0000-13112	07/01/2018 - 06/30/2019	426,654	-	71,574	355,080	-	261,581
WV DHHR BHHF	Crisis Response Services for Adults with IDD	G190194	2019-0325-0506-3042-21900-1256-0000-13112	07/01/2018 - 06/30/2019	205,093	-	(2,014)	207,107	-	174,219
					G190194	631,747	69,560	562,187		435,801
WV DHHR BHHF	Community Engagement Specialist - Mercer County	G190250	2019-0325-0506-3701-21900-1256-0000	07/01/2018 - 06/30/2019	376,337	-	(6,765)	379,022	-	247,011
WV DHHR BHHF	Community Engagement Specialist - Wyoming County	G190250	2019-0325-0506-3701-21900-1256-0000	07/01/2018 - 06/30/2019	19,016	-	8,638	10,388	-	10,388
WV DHHR BHHF	Community Engagement Specialist - McDowell County	G190250	2019-0325-0506-3701-21900-1256-0000	07/01/2018 - 06/30/2019	35,317	-	413	35,730	-	33,200
					G190250	360,660	288	360,312		271,265
WV DHHR BHHF	Substance Abuse Programs	G190558	2019-0325-0506-3981-35400-1256-4311	10/01/2018 - 09/30/2019	31,938	-	-	31,938	-	28,625
					G190558	31,938	-	31,938		28,625
WV DHHR BHHF	Indigent Care - (Charity Care)	G190708	2019-0325-0506-1066-21900-1256-0000	1/1/2019 - 6/30/2019	309,988	-	-	309,988	-	309,988
					G190708	309,988	-	309,988		309,988
OTHER STATE AWARDS:										
WV DCS	Outpatient Virtual Program	19-403	0546-2019-9920-561-083	07/01/2018 - 6/30/2019	30,000	-	6,092	23,908	-	20,145
PASS-THROUGH:										
	Seneca Health Services, Inc.				-	-	-	20,627	-	9,018
	West Virginia University				-	-	-	19,802	-	-
	West Virginia University				-	-	-	21,500	-	17,590
					-	-	-	43,127	-	24,518
					\$ 4,000,735	\$ 256,646	\$ 557,461	\$ 4,079,665	\$ 35,517	\$ 3,567,644
TOTAL WV DHHR BHHF					4,770,775	256,646	551,559	3,962,270	15,715	3,520,911
TOTAL WV DHHR BHHF					4,770,775	256,646	551,559	3,962,270	15,715	3,520,911



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

To the Board of Directors
Southern Highlands Community
Mental Health Center, Inc.
Princeton, 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 Southern Highlands Community Mental Health Center, Inc. ("SHCMHC"), which comprise the statement of financial position as of June 30, 2019, 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 February 10, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered SHCMHC'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 SHCMHC's internal control. Accordingly, we do not express an opinion on the effectiveness of SHCMHC'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SHCMHC'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 SHCMHC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SHCMHC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
February 10, 2020

DHHR - Finance

FEB 18 2020

Date Received



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE**

To the Board of Directors
Southern Highlands Community
Mental Health Center, Inc.
Princeton, West Virginia

Report on Compliance for Each Major Federal Program

We have audited Southern Highlands Community Mental Health Center, Inc.'s ("SHCMHC") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on SHCMHC's major federal program for the year ended June 30, 2019. SHCMHC's major federal program is identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of SHCMHC'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 SHCMHC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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 SHCMHC's compliance.

Opinion on Each Major Federal Program

In our opinion, Southern Highlands Community Mental Health Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-002. Our opinion on the major federal program is not modified with respect to this matter.

SHCMHC's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. SHCMHC's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of SHCMHC 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 SHCMHC'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 SHCMHC'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, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
February 10, 2020

DHHR - Finance

FEB 18 2020

Date Received

SOUTHERN HIGHLANDS COMMUNITY MENTAL HEALTH CENTER, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2019**

<u>Federal Granting Agency / Recipient State Agency</u>	<u>Federal Catalog Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Passed Through to Subrecipient</u>	<u>Total Federal Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Substance Abuse and Mental Health Services Administration Center for Mental Health Services:				
Programs of Regional and National Significance:				
MAT Access for Rural Appalachians (MARA)	93.243	N/A	\$ 121,188	\$ 296,282
Southern Bluestone Health Center	93.243	N/A	-	<u>325,056</u>
				<u>621,338</u>
<u>Pass-Through Programs:</u>				
West Virginia Department of Health and Human Services:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	8793-13000	-	387,682
Pretera Center for Mental Health Service, Inc.:				
Appalachian Offender Reentry Assistance Program	93.243	Not Provided	-	17,065
FMRS Health Services, Inc.:				
Resiliency for Appalachian (RAPP)	93.243	Not Provided	-	<u>5,000</u>
				<u><u>\$ 1,031,085</u></u>

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2019**

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Southern Highlands Community Mental Health Center, Inc., and is presented on the accrual basis. The information in this schedule is presented in accordance with the requirement of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

Southern Highlands Community Mental Health Center, Inc. has not elected to use the de minimis 10% rate. They have a negotiated rate in place.

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **One significant deficiency** relating to the audit of the financial statements is reported in the 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*.
3. **No instances of noncompliance** material to the financial statements were disclosed during the audit.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance in Accordance with the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **one audit finding** relating to the major programs.
7. The program tested as major programs include:

Name of Program:

CFDA #

Substance Abuse and Mental Health Services Projects of Regional and National Significance

93.243

8. The **threshold** for distinguishing Type A and B programs was **\$750,000**.
9. SHCMHC was determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2019-001 Account Reconciliations

Condition:

Reconciliations of certain general ledgers accounts to subsidiary ledgers or supporting documentation were not completed at year end. In addition, bank reconciliations were not reviewed by someone other than the preparer.

(Continued)

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Criteria:

Year end and month-end close procedures should be in place to complete general ledger accounts reconciliations, which includes adequate review processes.

Cause:

There are no year-end close procedures in place.

Effect:

Account balances were not accurate.

Recommendation:

Management should develop a year-end and month-end closing schedule that indicates who will perform and review each procedures to ensure all accounts are reconciled and reviewed on a timely basis.

Views of Responsible Officials and Planned Corrective Actions:

Management will formalize month-end and year-end account reconciliation procedures. In addition, management hired additional accounting staff subsequent to year end to assist with account reconciliations in order for the review process to be completed by the chief financial officer.

C. FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAM AUDIT

2019-002: Substance Abuse and Mental Health Service Project of Regional and National Significance-CFDA# 93.243, Procurement Policies and Procedures

Condition:

SHCMHC does not have complete, written procurement policies that are in compliance with the standards required by the Uniform Guidance (2 CFR Part 200).

Criteria:

Under the requirements in the Uniform Guidance, all entities are required to have written procurement policies that conform to applicable Federal laws and regulations and standards. The complete procurement standards are located at 2 CFR Part 200, Sections 317 through 326.

Cause:

Management has not updated procurement policies in accordance with the Uniform Guidance.

(Continued)

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019**

**C. FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAM AUDIT
(Continued)**

Effect:

The lack of complete, written policies could result in an improper procurement using Federal funds.

Recommendation:

Management should draft and implement written procurement procedures to align with the Uniform Guidance requirements for all purchases to be made with Federal funds.

Views of Responsible Officials and Planned Corrective Actions:

Management is working with the internal compliance department to develop written procurement procedures to comply with the Uniform Guidance.

**SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.**

**AUDITOR COMMUNICATIONS TO MANAGEMENT
AND THOSE CHARGED WITH GOVERNANCE**

June 30, 2019

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REQUIRED COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Directors
Southern Highlands Community Mental Health Center, Inc.
Princeton, West Virginia

We have audited the financial statements of Southern Highlands Community Mental Health Center, Inc. (SHCMHC) for the year ended June 30, 2019 and issued our report thereon dated February 10, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 29, 2019. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by SHCMHC are described in Note 1 to the financial statements. During the year ended June 30, 2019, SHCMHC adopted ASU No. 2016-14 – Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This guidance is intended to improve the net asset classification and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. As a result of the retrospective application of this guidance, certain amounts previously reported as of and for the year ended June 30, 2018, and certain disclosures have been properly amended, as applicable. We are in agreement with the effects of this amendment and the amended amounts as presented in the financial statements and the additional disclosure is complete and accurate. The application of existing policies was not changed during the year ended June 30, 2019. We noted no transactions entered into by SHCMHC during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were management's estimate of the allowance for doubtful accounts, which is based on historical collection rates, the age of receivables, and analysis of subsequent receipts, and management's estimate of depreciation which is based on the economic useful lives assuming normal usage and maintenance. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Management has determined that their effects are immaterial, both individually and in the aggregate to the financial statements taken as a whole. Those misstatements are as follows:

- Overstatements of accounts payable of \$39,367 and corresponding overstatement of expense related to recognizing the PBGC premium for calendar year 2019 although one-half of the premium related to a future period
- Overstatement of depreciation expense of \$8,667 related to improper depreciation calculated in the prior year that was corrected in the current year
- Overstatement of expense and understatement of beginning net assets of \$13,064 related to improper liability recognized in the prior year to Bluestone Health Association
- Overstatement of accrued wages of \$28,204 and corresponding overstatement of expense

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 10, 2020, a copy of which is attached.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to SHCMHC's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as SHCMHC's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of Southern Highlands Community Mental Health Center, Inc. and is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
February 10, 2020

DHHR - Finance

FEB 18 2020

Date Recd



INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

To the Board of Directors of
Southern Highlands Community Mental Health Center, Inc.
Princeton, West Virginia

In planning and performing our audit of the financial statements of Southern Highlands Community Mental Health Center, Inc. (SHCMHC) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered SHCMHC internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstance for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SHCMHC's internal control. Accordingly, we do not express an opinion on the effectiveness of SHCMHC's internal control.

However, during our audit we became aware of other matters that may be opportunities for strengthening internal controls and operating efficiency related to recent professional accounting pronouncements. This letter summarizes our comments and suggestions regarding these matters. We previously reported on SHCMHC's internal control in our report dated February 10, 2020. This letter does not affect our report dated February 10, 2020, on the financial statements of Southern Highlands Community Mental Health Center, Inc.

Immaterial Instance of Noncompliance

We noted an immaterial instance of noncompliance which is required to be reported under Government Auditing Standards. We noted the information communicated to subrecipients about the subaward was not complete and was communicated either verbally or through e-mail. Lack of proper information provided to the subrecipients related to the subaward could result in non-compliance by the subrecipient. We recommend SHCMHC clearly identify to the subrecipient the required information as listed in 2CFR 200.331(a) through adequate documentation.

Schedule of Federal Awards

The schedule of federal awards prepared by management did not include federal expenditures from pass-through entities. Failure to properly identify federal awards received could result in federal non-compliance. We recommend SHCMHC implement procedures to identify at inception the funding source for each award received and related compliance requirements.

Accounting Standards Updates

The Financial Accounting Standards Board has recently issued several Accounting Standards Updates (ASUs) which will need to be implemented in future periods. We recommend that management review the standards and begin evaluating the potential impacts of the standards on accounting practices and financial statements of SHCMHC. We also recommend management consider any necessary training for personnel, updates to the accounting manual, or changes to accounting software to ensure SHCMHC will be compliant when the standards become effective. The new standards are summarized below:

Revenue Recognition

Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (Topic 606), which will be effective for SHCMHC for the year ending June 30, 2020, eliminates the transaction-specific and industry-specific revenue recognition guidance under current U.S. GAAP and replaces it with a principles based approach for determining revenue recognition. The potential impact to the day-to-day accounting and, possibly, the way transactions are executed through contracts with customers may be significant. This standard calls for a five step process to:

- Identify customer contracts.
- Identify performance obligations with said contracts.
- Determine the transaction price.
- Allocate the transaction price among the performance obligations in the contract.
- Recognize revenue when (or as) the company satisfies a performance obligation.

Accounting for Contributions

Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, was issued in June 2018, to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional. This ASU is particularly relevant to SHCMHC as it provides guidance in evaluating the appropriate characterization and accounting treatment for government grants, such as those received by SHCMHC. The ASU will be effective for SHCMHC for the year ended June 30, 2020.

Leases

Accounting Standards Update 2016-02, *Leases*, applies a right-of-use (ROU) model requiring a lessee to record, for all leases exceeding 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. Lessees must classify all leases exceeding 12 months as either finance or operating based on five criteria defined in the Standard. The standard will require the recognition of assets and liabilities not contemplated under current standards. The standard also provides for certain qualitative and quantitative disclosures to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard is effective for SHCMHC for the year ending June 30, 2022. Early adoption of the standard is permitted.

We will be pleased to provide training, advice, or other assistance in implementing the standards, subject to the limitations of our professional standards regarding auditor independence.

This communication is intended solely for the information and use of the Board of Directors, management, others within Southern Highlands Community Mental Health Center, Inc., and appropriate regulatory agencies, if applicable, and is not intended to be, and should not be, used by anyone other than those specified parties.

Brown, Edwards & Company, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
February 10, 2020

DHHR - Finance

FEB 18 2020



200 12th Street Ext
Princeton, WV 24740-2398

February 10, 2020

Brown, Edwards & Company, L.L.P.
300 Chase Tower
707 Virginia Street, East
Charleston, WV 25301

This representation letter is provided in connection with your audits of the financial statements of Southern Highlands Community Mental Health Center, Inc. (Southern), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 29, 2019, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

4. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
6. Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustments to or disclosure in the financial statements or in the schedule of findings and questions costs.
7. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. Those misstatements are as follows:
 - Overstatements of accounts payable of \$39,367 and corresponding overstatement of expense related to recognizing the PBGC premium for calendar year 2019 although one-half of the premium related to a future period
 - Overstatement of depreciation expense of \$8,667 related to improper depreciation calculated in the prior year that was corrected in the current year
 - Overstatement of expense and understatement of beginning net assets of \$13,064 related to improper liability recognized in the prior year to Bluestone Health Association
 - Overstatement of accrued wages of \$28,204 and corresponding overstatement of expense
8. The effects of all known actual or possible litigation, claims, and assessments, including those related to asserted and unasserted malpractice, health insurance, worker's compensation, and any other claims have been accounted for and disclosed in accordance with U.S. GAAP.
9. Significant estimates and material concentrations have been appropriately disclosed in accordance with U.S. GAAP.
10. Guarantees, whether written or oral, under which the entity is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.
11. There are no instances of noncompliance with laws or regulations with respect to Medicare and Medicaid antifraud and abuse statutes, in any jurisdiction, whose effects we believe should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, other than those disclosed or accrued in the financial statements. This is including, but not limited to, the antikickback statute of the Medicare and Medicaid Patient and Program Protection Act of 1987, limitations on certain physician referrals (the Stark law), and the False Claims Act.
12. Billings to third-party payors comply in all material respects with applicable coding guidelines and laws and regulations, including those dealing with Medicare and Medicaid antifraud and abuse. Such billings include only those charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.

13. There have been no investigations, either internal or external, and there are no investigations in progress, relating to compliance with applicable laws and regulations that would have an effect on the amounts reported or disclosed in the financial statements.
14. There have been no oral or written communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations, in any jurisdiction, including those related to deficiencies in financial reporting practices; Medicare and Medicaid antifraud and abuse statutes; or other matters that could have a material adverse effect on the financial statements.
15. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the statement of financial position date and have been reduced to their estimated net realizable value.
16. We have made adequate provision for estimated adjustments to revenue resulting from issues such as denied claims.
17. We have made available to you all peer review organization, fiscal intermediary, and third-party payor reports and information.
18. As part of your audit, you assisted with preparation of the financial statements and related notes and supplemental schedules. In addition, you prepared the U.S. Return of Organizations Exempt from Income Tax (Form 990). We acknowledge our responsibility as it relates to those nonattest/ nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes, supplemental schedules, and the Form 990.

Information Provided

19. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the governing board or summaries of actions of recent meetings for which minutes have not yet been prepared.
20. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
21. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

22. We have no knowledge of any fraud or suspected fraud that affects the entity, including financial reporting related to compliance with existing laws and regulations governing reimbursement from third-party payors and involves:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
23. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, grantors, regulators, or others.
24. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
25. We have disclosed to you all known or possible litigation, claims, and assessment whose effects should be considered when preparing the financial statements.
26. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
27. The entity has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
28. We are responsible for compliance with laws, regulations, and provisions of contracts and grant agreements applicable to us.
29. Southern is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the entity's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.
30. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices, or noncompliance or deficiencies related to existing laws and regulations governing reimbursement from third-party payors.
31. We acknowledge our responsibility for presenting the supplementary information as listed in the report Table of Contents in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
32. With respect to federal award programs:
 - a. We are responsible for understanding and complying with and have complied 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* (Uniform Guidance) relating to preparation of the schedule of expenditures of federal awards.

- b. We acknowledge our responsibility for preparing and presenting the schedule of expenditures of federal awards (SEFA) and related notes in accordance with the requirements of the Uniform Guidance, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Uniform Guidance. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period, and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.
- c. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditor's report thereon.
- d. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance compliance audit, and have included in the SEFA expenditures made during the audit period for all awards provided by federal agencies in the form of federal awards, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e. We are responsible for understanding and complying with, and have complied with, the requirements of federal statutes, regulations, and the terms and conditions of federal awards related to each of our federal programs and have identified and disclosed to you the requirements of federal statutes, regulations, and the terms and conditions of federal awards that are considered to have a direct and material effect on each major program. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provides reasonable assurance that we are managing our federal awards in compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- f. We have made available to you all federal awards (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- g. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- h. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Compliance Supplement*, relating to federal awards and confirm that there were no amounts questioned and no known noncompliance with the direct and material compliance requirements of federal awards.
- i. We have disclosed any communications from federal awarding agencies and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.

- j. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- k. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB's Uniform Guidance (2 CFR part 200, subpart E).
- l. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations. We have made available to you all documentation related to compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- m. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- n. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- o. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the period covered by the auditor's report. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- p. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- q. We have charged costs to federal awards in accordance with applicable cost principles.
- r. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- s. We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.
- t. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.
- u. We are responsible for taking corrective action on each audit finding of the compliance audit and have developed a corrective action plan that meets the requirements of the Uniform Guidance.

33. We have a process to track the status of audit findings and recommendations.
34. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.



Lisa Jones
Chief Executive Officer



Angela Peterson
Chief Financial Officer

DHHR - Finance

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Data Repository