



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

FINANCIAL REPORT

June 30, 2020

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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, 2020 and 2019, 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.

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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 9, 2021 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 9, 2021

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

**STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and 2019**

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash	\$ 2,564,819	\$ 422,393
Restricted cash	232,565	127,819
Certificates of deposit	201,969	150,000
Receivables:		
Support agencies	1,318,749	725,631
Clients, net of allowance	1,243,216	1,292,081
Other	30,268	78,274
Prepaid expenses and other current assets	205,592	81,555
Total current assets	5,797,178	2,877,753
PROPERTY AND EQUIPMENT, net (Note 4)	2,482,448	1,820,287
OTHER ASSETS	9,323	5,966
	\$ 8,288,949	\$ 4,704,006
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 557,361	\$ 436,264
Accrued liabilities	699,545	638,080
Client managed accounts	232,565	127,819
Refundable advance	558,037	84,970
Refundable advance - Paycheck Protection Program (Note 10)	552,200	-
Current portion of capital leases (Note 9)	75,047	71,712
Current maturity of debt (Note 5)	87,193	67,594
Total current liabilities	2,761,948	1,426,439
CAPITAL LEASES (Note 9)	105,204	182,310
DEBT (Note 5)	985,124	525,666
LINE OF CREDIT (Note 6)	-	575,000
NET PENSION BENEFIT OBLIGATIONS (Note 7)	2,319,053	1,122,604
	6,171,329	3,832,019
CONTINGENCY (Note 11)	-	-
NET ASSETS		
Net assets without donor restrictions:		
Operating	2,070,866	831,294
Board designated	30,356	30,356
	2,101,222	861,650
Net assets with donor restrictions	16,398	10,337
	2,117,620	871,987
Total liabilities and net assets	\$ 8,288,949	\$ 4,704,006

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, 2020 and 2019**

	2020	2019
OPERATING REVENUE AND SUPPORT		
Net client revenue (Note 8)	\$ 10,412,099	\$ 9,981,870
State and federal grant revenue	6,295,582	5,060,690
County commissions	89,930	69,885
Contribution - Payroll Protection Program (Note 10)	1,400,000	-
Other	239,133	183,748
Total operating revenue and support	18,436,744	15,296,193
OPERATING EXPENSES		
Program	13,159,145	12,339,992
Administration	3,197,077	2,701,545
Total operating expenses	16,356,222	15,041,537
Operating revenue and support over expenses	2,080,522	254,656
NONOPERATING GAINS (LOSSES)		
Interest	3,913	1,834
Other postemployment benefit related changes, exclusive of net periodic cost	(850,189)	(86,420)
Revenue and gains (under) over expenses and losses	1,234,246	170,070
NET ASSETS WITHOUT DONOR RESTRICTION		
Revenue (under) over expenses	1,234,246	170,070
Satisfaction of program restrictions	5,326	31,216
Change in net assets without donor restriction	1,239,572	201,286
NET ASSETS WITH DONOR RESTRICTION		
Contributions	11,387	16,776
Net assets released from restrictions	(5,326)	(31,216)
Change in net assets with donor restriction	6,061	(14,440)
Change in net assets	1,245,633	186,846
NET ASSETS, beginning	871,987	685,141
NET ASSETS, ending	\$ 2,117,620	\$ 871,987

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, 2020 and 2019**

	2020		
	Program Services	General and Administrative	Total
Personnel	\$ 8,665,369	\$ 1,314,843	\$ 9,980,212
Fringe benefits	1,511,707	723,345	2,235,052
Travel and transportation	112,088	8,076	120,164
Contractual services	874,984	145,397	1,020,381
Other	1,759,750	888,777	2,648,527
Depreciation	198,179	71,005	269,184
Interest	37,068	45,634	82,702
	<u>13,159,145</u>	<u>3,197,077</u>	<u>16,356,222</u>
Plus expenses included with revenues on the statement of activities:			
Bad debt expense (recovery)	(53,755)	-	(53,755)
Total expense by function	<u>\$ 13,105,390</u>	<u>\$ 3,197,077</u>	<u>\$ 16,302,467</u>
	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
	<u>12,339,992</u>	<u>2,701,545</u>	<u>15,041,537</u>
Plus expenses included with revenues on the statement of activities:			
Bad debt expense	49,710	-	49,710
Total expense by function	<u>\$ 12,389,702</u>	<u>\$ 2,701,545</u>	<u>\$ 15,091,247</u>

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, 2020 and 2019**

	2020	2019
OPERATING ACTIVITIES		
Change in net assets	\$ 1,245,633	\$ 186,846
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	269,184	224,400
Gain on sale of fixed assets	(500)	(500)
Provision for bad debts	(53,755)	77,331
Decrease (increase) in:		
Receivables	(442,492)	(727,681)
Prepaid expenses and other current assets	(124,037)	68,936
Other assets	(3,357)	9,120
Increase (decrease) in:		
Accounts payable	121,097	54,178
Accrued liabilities	61,465	(61,331)
Client managed accounts	104,746	7,272
Refundable advance	473,067	84,970
Refundable advance - Payroll Protection Program	552,200	-
Net pension benefit obligation	1,196,449	108,270
	<u>3,399,700</u>	<u>31,811</u>
Net cash provided by operating activities		
	<u>3,399,700</u>	<u>31,811</u>
INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	500	500
Purchase of certificates of deposit	(51,969)	(150,000)
Purchases of property and equipment	(528,519)	(42,553)
	<u>(579,988)</u>	<u>(192,053)</u>
Net cash used in investing activities		
	<u>(579,988)</u>	<u>(192,053)</u>
FINANCING ACTIVITIES		
Proceeds from long-term debt	150,000	-
Payments on capital leases	(73,771)	(68,011)
Payments on long-term obligations	(73,769)	(56,045)
Net borrowings (repayments) on line of credit	(575,000)	498,845
	<u>(572,540)</u>	<u>374,789</u>
Net cash provided by (used in) financing activities		
	<u>(572,540)</u>	<u>374,789</u>
Net increase in cash	2,247,172	214,547
CASH, beginning	<u>550,212</u>	<u>335,665</u>
CASH, ending	<u>\$ 2,797,384</u>	<u>\$ 550,212</u>
Cash is presented as follows on the statement of financial position:		
Cash	\$ 2,564,819	\$ 422,393
Restricted cash	232,565	127,819
	<u>\$ 2,797,384</u>	<u>\$ 550,212</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	<u>\$ 82,702</u>	<u>\$ 82,695</u>
Acquisition of equipment through capital leases	<u>\$ -</u>	<u>\$ 67,626</u>
Acquisition of property and equipment through debt	<u>\$ 402,826</u>	<u>\$ 94,175</u>

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, 2020**

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, 2020 and 2019, was \$248,341 and \$302,617, 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.

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

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 1. Organization and Significant Accounting Policies (Continued)

Source of revenue (continued)

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.

Grant revenue

ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provided enhanced guidance regarding the treatment of grants and similar agreements as either contributions or exchange transactions, was implemented for the year ended June 30, 2020. The implementation of ASU 2018-08 did not have a material impact on the financial statements of SHCMHC.

SHCMHC analyzes grant agreements to determine whether such agreements constitute contributions or exchange transactions, and if determined to be contributions, whether such contributions are conditional or unconditional. SHCMHC has determined that substantially all of its grant agreements represent conditional contributions due to the agreements containing a right of return and containing certain barriers related to incurring qualifying expenditures. Conditional contributions are recognized as SHCMHC incurs qualifying expenditures in compliance with rules and regulations established by the grantor, which is typically a state or federal awarding agency. State grants are paid based on a schedule of payments as defined in the agreement. SHCMHC recognizes payments received as refundable advances until qualifying expenditures are incurred, at which time revenue is recognized. Any unused funds are forfeited and required to be refunded to the awarding agency. Grant revenue is recognized as revenues increasing net assets without donor restrictions when the conditions and restrictions are met in the same period, or when the grants were initially determined to be conditional contributions.

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.

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 1. Organization and Significant Accounting Policies (Continued)

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.

Subsequent events

Management has considered subsequent events through February 9, 2021, 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, 2020 and 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 6.

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 2,564,819	\$ 422,393
Certificates of deposit	201,969	150,000
Grant, contract, client, and other receivables	2,592,233	2,095,986
Financial assets, at year end	<u>5,359,021</u>	<u>2,668,379</u>
Less those unavailable for general expenditure within one year, due to:		
Donor restrictions	<u>(16,398)</u>	<u>(10,337)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,342,623</u>	<u>\$ 2,658,042</u>

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 3. Conditional Contributions

SHCMHC has conditional contributions available through September 2021, subject to certain conditions being met, such as incurring qualifying expenditures. Conditional contributions are as follows:

	2020	2019
West Virginia Department of Health and Human Resources:		
State Opioid Response	\$ 851,780	\$ -
Recovery Residence - MAT	300,000	-
Substance Abuse (LEGENDS)	-	149,962
Other	187,461	67,950
	1,339,241	217,912
Marshall University Research Corporation:		
Wyoming County Partners of Hope	760,000	-
Substance Abuse and Mental Health Services Administration:		
Bluestone	-	340,000
MAT Access for Rural Appalachians	524,670	1,049,340
	\$ 2,623,911	\$ 1,607,252

Note 4. Property and Equipment

Property and equipment consists of the following:

	2020	2019
Land	\$ 257,173	\$ 257,173
Buildings and leasehold improvements	3,109,106	2,594,056
Furniture and equipment	1,221,621	1,193,689
Vehicles	705,181	644,106
Construction in progress	306,054	8,378
	5,599,135	4,697,402
Less accumulated depreciation	3,116,687	2,877,115
Total property and equipment	\$ 2,482,448	\$ 1,820,287

Equipment under capital leases for the years ended June 30, 2020 and 2019 was \$396,395, less accumulated depreciation of \$229,362 and \$150,082, respectively.

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 5. Debt

Debt consists of the following:

	2020	2019
Note payable to bank, payable in monthly installments of \$614, including interest at 3.90%	\$ -	\$ 1,221
Notes payable to bank, payable in monthly installments of \$629, including interest at 4.09%, final payment due 2022, secured by vehicles	41,652	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	22,882	26,619
Note payable to bank, payable in monthly installments of \$599, including interest at 4.49%, final payment due September 2023, secured by vehicle	22,811	-
Note payable to bank, payable in monthly installments of \$2,771, including interest at 6.24%, final payment of \$248,611 due July 2029, secured by property	353,173	-
Note payable to bank, payable in monthly installments of \$5,208, including interest at 4.55%, final payment due October 2029, secured by property	481,799	508,348
Note payable to U.S. Small Business Administration, payable in monthly installments of \$641 beginning May 2021, including interest at 2.75%, final payment due April 2050, secured by property	150,000	-
	1,072,317	593,260
Less current maturities	87,193	67,594
	\$ 985,124	\$ 525,666

Maturities of long term obligation are as follows:

2021	\$ 87,193
2022	84,242
2023	75,824
2024	78,372
2025	68,851
Thereafter	677,835
	\$ 1,072,317

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 6. Line of Credit

As of June 30, 2020 and 2019, SHCMHC had utilized \$0 and \$575,000, respectively, 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 2021 and has a variable interest rate based on the lender's prime rate.

Note 7. Pension Benefit Obligation

SHCMHC sponsors a defined benefit pension plan. The following relates to the pension plan at June 30, 2020 and 2019:

	2020	2019
Accumulated benefit obligation	\$ 5,129,320	\$ 4,666,461
Fair value of plan assets	2,810,267	3,543,857
Funded status of the plan	(2,319,053)	(1,122,604)
Employer contributions	141,000	82,500
Actual distributions	(200,238)	(354,439)
Settlements	(738,521)	-
Net accrued benefit liability	2,319,053	1,122,604
Net periodic benefit cost	110,953	104,904
Unrecognized net actuarial gain	2,613,576	1,805,126
Unrecognized prior service credit	(208,698)	(250,437)
Assumption used:		
Interest discount rate	2.62%	4.50%
Compensation increase	N/A	N/A
Expected rate of return on assets	6.00%	6.00%

Estimated future benefit payments are:

Year ending June 30:	
2021	\$ 311,425
2022	295,101
2023	294,349
2024	309,320
2025	261,397
2026 – 2030	1,196,035

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 7. Pension Benefit Obligation (Continued)

Measurement dates are June 30, 2020 and 2019.

Approximately \$162,000 is expected to be contributed to the plan during the fiscal year ending June 30, 2021.

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 \$227,836 and \$(41,739), 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.

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

	2020	
	Level 1	Total
Mutual funds – corporate bonds	\$ 1,000,894	\$ 1,000,894
Mutual funds – equity	1,502,818	1,502,818
Mutual funds – international equity	174,036	174,036
Mutual funds – government bonds	108,717	108,717
Money market	23,802	23,802
	\$ 2,810,267	\$ 2,810,267

(Continued)

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 7. Pension Benefit Obligation (Continued)

	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>

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.

Amounts recognized in the statements of financial position:

	2020	2019
Prepaid pension cost	\$ 85,825	\$ 432,085
Pension benefit obligation	(2,404,878)	(1,554,689)
Net pension benefit obligation	<u>\$ (2,319,053)</u>	<u>\$ (1,122,604)</u>
Net periodic pension cost		
Interest cost	\$ 201,259	\$ 212,314
Expected return on plan assets	(205,114)	(209,128)
Amortization of prior service costs	(41,739)	(41,740)
Amortization of net loss	156,547	142,904
Net periodic pension cost	110,953	104,350
Other changes in plan assets and benefit obligations		
Net loss	1,341,304	187,584
Adjustment due to settlement	(376,307)	-
Amortization of prior service cost	41,739	41,740
Amortization of net loss	(156,547)	(142,904)
Total other changes in plan assets and benefit obligations	850,189	86,420
Total pension expense and other changes	<u>\$ 961,142</u>	<u>\$ 190,770</u>

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 8. 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:

	2020				
	Medicaid	Waiver	Medicare	Other	Total
Gross client revenue	\$ 8,744,713	\$ 3,514,922	\$ 306,494	\$ 1,116,659	\$ 13,675,217
Bad debts	37,747	8,030	30,533	(22,555)	53,755
Contractual adjustments	(2,138,545)	(9,329)	(175,305)	(172,661)	(2,894,466)
Charity/disallowance	(294,535)	(102,107)	(39,593)	(392,369)	(828,604)
Net client revenue	\$ 6,349,380	\$ 3,411,516	\$ 122,129	\$ 529,074	\$ 10,412,099
	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	\$ 5,128,291	\$ 4,028,841	\$ 128,174	\$ 696,564	\$ 9,981,870

SHCMHC also received state of West Virginia and federal grant funds passed through the State in the amount of \$3,242,260 and \$4,350,252 during the years ended June 30, 2020 and 2019, 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, 2020**

Note 9. Lease Commitments

Operating Leases

SHCMHC has lease agreements for certain office equipment and buildings and property. Total expenses for these leases were \$261,138 and \$255,087 for the years ended June 30, 2020 and 2019, respectively. Terms of the leases vary.

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

	<u>Office Equipment</u>	<u>Buildings and Property</u>	<u>Total</u>
2021	\$ 68,110	\$ 136,659	\$ 204,769
2022	47,658	137,129	184,787
2023	38,804	111,465	150,269
2024	37,448	46,500	83,948
2025	15,016	9,750	24,766

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:

2021		\$ 75,047
2022		80,500
2023		21,596
2024		<u>12,511</u>
Net minimum lease payments		189,654
Less: amount representing interest, maintenance, and taxes		9,403
Less: current maturities		<u>75,047</u>
Capital lease obligations, net of current maturities		<u><u>\$ 105,204</u></u>

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2020**

Note 10. COVID-19

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The COVID-19 outbreak in the United States has caused business disruptions through mandated and voluntary closings as well as a significant change in customer behaviors.

In an effort to mitigate the potential impact, SHCMHC applied for and received a Paycheck Protection Program (“PPP”) loan of \$1,952,200 granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). Under the program terms, PPP loans are forgiven if the loan proceeds are used to maintain compensation costs and employee headcount, and other qualifying expenses (mortgage interest, rent, and utilities) incurred following receipt of the loan. SHCMHC is recognizing revenue as payroll and other qualifying expenses are incurred. As of June 30, 2020, SHCMHC has recognized \$1,400,000 of grant revenue with the remaining balance of \$552,200 included in refundable advances. SHCMHC expects to apply for forgiveness of the loan, and expects that all barriers will be met and the loan will be fully forgiven. If any portion of the loan is not forgiven, that portion will be repayable over a period of up to five years, including interest at one percent annum.

SHCMHC is not able to estimate the effects of the COVID-19 outbreak on its future financial condition, liquidity, or results of operations given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread.

Note 11. Contingency

SHCMHC is party to legal actions that arise in the ordinary course of its business activities. Neither the outcome nor an estimate of the potential loss can be reasonably estimated at this time.

SUPPLEMENTARY INFORMATION

SOUTHERN HIGHLANDS COMMUNITY MENTAL HEALTH CENTER, INC.
SCHEDULE OF NON-FEDERAL AWARDS
YEAR ENDED JUNE 30, 2020

Grant Name	Grant Number	Grant Identification	Period of Award	Original Award	Funds Unexpended	Refundable Advances June 30, 2019	Prior Year Invoiced	Amount Invoiced	Amount Received	Expenditures	Refundable Advances June 30, 2020	
West Virginia Department of Health and Human Resources												
Adult Mental Health Programs	G200141	2020-0525-0506-3743-21900-3256-4231	7/1/2019 - 6/30/2020	\$ 406,805	\$ -	\$ -	\$ -	\$ 406,805	\$ 406,805	\$ 406,805	\$ -	
Adult Mental Health Programs	G200141	2020-0525-0506-3115-21900-3256-4231-13688	7/1/2019 - 6/30/2020	121,363	-	-	-	121,363	121,363	121,363	-	
Adult Mental Health Programs	G200141	2020-0525-0506-3743-21900-3256-4231	7/1/2019 - 6/30/2020	871,875	-	-	-	871,875	871,875	871,875	-	
				G200141	1,400,043	-	-	1,400,043	1,400,043	1,400,043	-	
Community Engagement Specialist	G200126	2020-0525-0506-3701-21900-3256-4231	7/1/2019 - 6/30/2020	303,600	-	-	-	303,600	303,600	303,600	-	
Family and Community Support	G200330	2020-0525-0506-2867-21900-3256-4231	7/1/2019 - 6/30/2020	127,193	18,376	-	-	113,252	113,252	108,817	4,435	
Family and Community Support	G200330	2020-0525-0506-2867-22100-3256-4231	7/1/2019 - 6/30/2020	62,807	9,234	-	-	55,848	55,848	53,573	2,275	
				G200330	190,000	27,610	-	169,100	169,100	162,390	6,710	
Continuum Enhancement Program	G200082	2020-0525-0506-2851-21900-3256-4231	7/1/2019 - 6/30/2020	468,586	-	-	-	468,586	468,586	468,586	-	
Continuum Enhancement Program	G200082	2019-0525-0506-2851-21900-3256-4231-COVID	7/1/2019 - 6/30/2020	216,888	-	-	-	216,888	-	216,888	-	
				G200082	685,474	-	-	685,474	468,586	685,474	-	
Intellectual and Developmental Disabilities	G200339	2020-0525-0506-3042-21900-3256-4231-13112	7/1/2019 - 6/30/2020	631,747	-	-	-	631,747	562,255	631,747	-	
Crisis Stabilization Unit Pilot	G200925	2019-0525-0506-2884-21900-3256-4231	7/1/2019 - 6/30/2020	16,388	-	-	-	16,388	16,388	16,388	-	
Children's Expanded School Mental Health	G200470	2020-0525-0506-2916-21900-3256-4231	7/1/2019 - 6/30/2020	60,000	-	-	-	60,000	60,000	60,000	-	
Children's Expanded School Mental Health	G200470	2018-0525-0506-2916-21900-3256-4231-1312	7/1/2019 - 6/30/2020	120,000	-	-	-	120,000	120,000	120,000	-	
				G200470	180,000	-	-	180,000	180,000	180,000	-	
Indigent Care	G200056	2020-0525-0506-3065-21900-3256-4231	7/1/2019 - 6/30/2020	619,976	-	-	-	619,976	551,779	619,976	-	
Law Enforcement Assisted Diversion	G180845	2018-0407-0506-3809-35401-3256-4231	5/1/2018 - 12/31/2019	180,000	5,572	-	112,050	67,950	154,500	62,378	-	
Law Enforcement Assisted Diversion	G200896	2021-5207-0506-3809-09900-3302-4179	1/1/2020 - 12/31/2020	34,972	34,972	-	-	-	-	-	-	
Law Enforcement Assisted Diversion	G200896	2020-5207-0506-3809-09900-3285-3885	1/1/2020 - 12/31/2020	34,973	386	-	-	29,377	-	34,587	(5,210)	
Law Enforcement Assisted Diversion	G200896	2018-0407-0506-3809-35401-3256-4231	1/1/2020 - 12/31/2020	115,879	77,413	-	-	48,670	-	38,466	10,204	
				G200896	185,824	112,771	-	78,047	-	73,053	4,994	
Recovery Facility Medication Assisted Treatment	G200910	2020-0525-0506-3888-14901-3256-4231	3/1/2020 - 6/30/2021	340,000	300,000	-	-	54,400	54,400	40,000	14,400	
Substance Abuse Programs	G190558	2019-0525-0506-2891-21900-3256-4231	10/1/2018 - 9/30/2019	31,938	-	-	31,938	-	3,313	-	-	
				TOTAL WV DHR BHHF	4,764,990	445,953	-	143,988	4,206,725	3,863,964	4,175,049	26,104
Other State Awards:												
West Virginia Division of Justice and Community Services												
Outpatient Vivitrol Program	20-JRI-14	0546-2019-9920-561-083	7/1/2019 - 6/30/2020	27,000	10,094	-	-	27,000	27,000	16,906	10,094	
Pass-Through Grants:												
Seneca Health Services, Inc.:												
Quick Response Team				-	-	-	-	33,508	25,325	33,508	-	
FMRS Health Systems, Inc.:												
Ryan Brown Grant				-	-	-	-	310,735	260,735	310,735	-	
Marshall University Research Corporation:												
Wyoming County Partners of Hope Consortium				760,000	760,000	-	-	130,000	130,000	-	130,000	
Other Grants:												
West Virginia Community Voices, Inc.												
Moms and Babies				160,000	122,213	-	-	37,787	24,905	37,787	-	
West Virginia University School of Medicine:												
Rural West Virginia Response to Opioid Academics				-	-	-	-	49,802	39,802	49,802	-	
				\$ 5,711,990	\$ 1,338,260	\$ -	\$ 143,988	\$ 4,795,557	\$ 4,371,731	\$ 4,623,787	\$ 166,198	



**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, 2020, 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 9, 2021.

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) as a basis for designing 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 2020-001, 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 of financial statements. 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*.

Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.


CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
February 9, 2021



**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, 2020. 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 SHCMHC's major federal program 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 the 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, 2020.

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 2020-002. 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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
February 9, 2021

SOUTHERN HIGHLANDS COMMUNITY MENTAL HEALTH CENTER, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2020**

<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	\$ 253,405	\$ 498,628
Southern Bluestone Health Center	93.243	N/A	-	339,470
				<u>838,098</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	-	183,612
State Opioid Response	93.788	8723-13000	-	446,474
Marshall University Research Corporation				
Alliances Southern WV Collegiate Peer Recovery Support Network	93.788	Not Provided	-	36,340
Pretera Center for Mental Health Service, Inc.:				
Appalachian Offender Reentry Assistance Program	93.243	Not Provided	-	82,480
FMRS Health Services, Inc.:				
Resiliency for Appalachian (RAPP)	93.243	Not Provided	-	3,376
				<u>\$ 1,590,380</u>

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

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2020**

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, 2020**

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 program.
7. The program tested as a major program included:

<u>Name of Program:</u>	<u>CFDA #</u>
State Targeted Response to the Opioid Crisis	93.788

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

2020-001 Controls Over Cash Disbursements

Condition:

Bank reconciliations were not reviewed by someone other than the preparer. In addition, there is not adequate segregation of duties over cash disbursements due to an individual having signature authority, access to check stock, as well as access to create new vendors in the general ledger software.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2020**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Criteria:

Bank reconciliations should be reviewed and approved by someone other than the preparer. In addition, there should be adequate segregation of duties over cash disbursements.

Cause:

There are no review procedures in place.

Effect:

Misappropriation of assets could occur and go undetected.

Recommendation:

Management should implement procedures to ensure that someone other than the preparer review the bank statements and reconciliations. In addition, management should review controls over cash disbursements to ensure there is proper segregation of duties or implement mitigating controls to review cash disbursements.

Views of Responsible Officials and Planned Corrective Actions:

On a monthly basis, the CEO/designee will receive a copy of the bank statement and electronically sign off after reviewing the check images for discrepancies. On a quarterly basis, the Compliance Officer, HR Director, or designee will ask for copies of 5 random check numbers based on information from the check register and verify the information matches and there are no signature discrepancies.

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

2020-002: State Targeted Response to the Opioid Crisis CFDA# 93.788, 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.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2020**

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

Cause:

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

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 prepared proper procurement procedures and presented them to the Policy Review Committee in January 2020; however, due to delays relayed to COVID-19 they were not formally adopted until June 15, 2020.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2020**

2019-001 Account Reconciliations

Condition:

This finding was a significant deficiency stating that 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.

Recommendation:

We recommended management 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. Management concurred with the recommendation and indicated that they would formalize month-end and year-end account reconciliation procedures. In addition, management stated that bank reconciliations would be completed by accounting staff in order for the review process to be completed by the chief financial officer.

Current Status:

Management implemented several procedures to ensure account reconciliations were completed and reviewed on a timely basis. Management did not implement review procedures over bank reconciliations by someone other than the preparer. See similar finding reported at 2020-001.

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

Condition:

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

Recommendation:

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

Current Status:

Procurement policies and procedures were implemented, however, since the implementation occurred in June 2020, a similar finding was reported at 2020-002.



200 12th Street Ext.
Princeton, WV 24740

Corrective Action Plan

The Federal Audit Clearinghouse:
Southern Highlands Community Mental Health Center respectfully submits the following corrective action plan for the year ended June 30, 2020.

Independent public accounting firm:
Brown, Edwards and Company, L.L.P.
707 Virginia St E, Charleston, WV 25301

Audit period: June 30, 2020

The finding from the June 30, 2020 schedule of findings and questioned costs are discussed below. The finding is numbered consistently with the number assigned in the schedule.

FINDINGS – FINANCIAL STATEMENT AUDIT

2020-001: Controls Over Cash Disbursements

Condition:

Bank reconciliations were not reviewed by someone other than the preparer. In addition, there is not adequate segregation of duties over cash disbursements due to an individual having signature authority, access to check stock, as well as access to create new vendors in the general ledger software.

Criteria:

Bank reconciliations should be reviewed and approved by someone other than the preparer. In addition, there should be adequate segregation of duties over cash disbursements.

Cause:

There are no review procedures in place.

Effect:

Misappropriation of assets could occur and go undetected.

Recommendation:

Management should implement procedures to ensure that someone other than the preparer review the bank statements and reconciliations. In addition, management should review controls over cash disbursements to ensure there is proper segregation of duties or implement mitigating controls to review cash disbursements.

Views of Responsible Officials and Planned Corrective Actions:

On a monthly basis, the CEO/designee will receive a copy of the bank statement and electronically sign off after reviewing the check images for discrepancies. On a quarterly basis, the Compliance Officer, HR Director, or designee will ask for copies of 5 random check numbers based on information from the check register and verify the information matches and there are no signature discrepancies.

FINDINGS – FEDERAL AWARD PROGRAM AUDIT

2020-002: State Targeted Response to the Opioid Crisis -CFDA# 93.788, 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.

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 prepared proper procurement procedures and presented them to the Policy Review Committee in January 2020; however, due to delays relayed to COVID-19 they were not formally adopted until June 15, 2020.

Management expects the implementation of the corrective action for 2020-001 to be completed by January 31, 2021, and as noted above, the correction action for 2020-002 was implemented as of June 15, 2020. If the Federal Audit Clearinghouse has questions regarding this plan, please call Angela Peterson, Southern Highlands Community Mental Health Center, Chief Financial Officer, 304-818-2206.

Sincerely,

DocuSigned by:

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Angela Peterson
Chief Financial Officer