



**VALLEY COMPREHENSIVE COMMUNITY
MENTAL HEALTH CENTER, INC.
D/B/A VALLEY HEALTHCARE SYSTEM**

FINANCIAL REPORT

June 30, 2022

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Valley HealthCare System
Morgantown, West Virginia

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Valley Comprehensive Community Mental Health Center, Inc. d/b/a Valley HealthCare System, which comprise the statements of financial position as of June 30, 2022 and 2021, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Valley HealthCare System as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Valley HealthCare System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Valley HealthCare System's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Valley HealthCare System’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Valley HealthCare System’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by the West Virginia Department of Health and Human Resources, Bureau for Behavioral Health, 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 27, 2023, on our consideration of Valley HealthCare System'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 the organization'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 Valley HealthCare System's internal control over financial reporting and compliance.

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

Charleston, West Virginia
February 27, 2023

VALLEY HEALTHCARE SYSTEM

STATEMENTS OF FINANCIAL POSITION

June 30, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,948,215	\$ 2,802,301
Restricted cash	929,148	293,814
Accounts receivable	1,624,948	1,397,207
Grants receivable	1,402,790	862,362
Prepaid and other assets	204,276	145,084
Total current assets	6,109,377	5,500,768
PROPERTY AND EQUIPMENT, net (Note 4)	9,475,521	6,679,568
OTHER	4,084	4,084
Total assets	\$ 15,588,982	\$ 12,184,420
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 408,166	\$ 1,319,658
Representative payee liability	321,357	293,755
Accrued annual leave and payroll	370,924	460,601
Current maturities of debt (Note 5)	99,518	24,904
Deferred revenue (Note 8)	1,729,308	-
Refundable advance	8,980	629,767
Other liabilities	16,503	-
Total current liabilities	2,954,756	2,728,685
POSTEMPLOYMENT BENEFIT OBLIGATION (Note 7)	407,537	325,803
DEBT (Note 5)	3,913,851	1,021,917
	4,321,388	1,347,720
Total liabilities	7,276,144	4,076,405
NET ASSETS WITHOUT DONOR RESTRICTION	8,312,838	8,108,015
Total liabilities and net assets	\$ 15,588,982	\$ 12,184,420

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

VALLEY HEALTHCARE SYSTEM

STATEMENTS OF ACTIVITIES
Years Ended June 30, 2022 and 2021

	2022	2021
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTION:		
REVENUES:		
Net client revenues (Note 8)	\$ 9,359,747	\$ 8,384,699
State and federal grant revenues	3,909,986	4,002,480
Paycheck Protection Program loan forgiveness (Note 10)	-	1,900,000
Other grants and contracts	100	9,449
Residential facilities fees	81,900	76,546
Other	31,596	159,026
	13,383,329	14,532,200
EXPENSES AND LOSSES:		
Salaries and wages	8,536,104	7,994,159
Employee benefits	1,781,562	1,950,551
Contract labor and professional fees	707,832	603,333
Equipment rental and maintenance	606,894	647,660
Supplies	252,234	244,914
Occupancy and utilities	649,263	565,915
Staff development and travel	216,772	179,896
Insurance	512,974	406,953
Depreciation and amortization	248,305	241,035
Interest expense	48,174	4,483
Food and preparation	111,075	82,809
Miscellaneous	300,043	313,404
	13,971,232	13,235,112
Operating income (loss)	(587,903)	1,297,088
OTHER INCOME (LOSS):		
State grant revenues for investment in property and equipment	1,019,220	2,316,156
Loss on sale of asset	(113,095)	-
Other postemployment benefit related changes, exclusive of net periodic cost	(113,399)	(74,059)
	204,823	3,539,185
Increase in net assets		
NET ASSETS, beginning	8,108,015	4,568,830
NET ASSETS, ending	\$ 8,312,838	\$ 8,108,015

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

VALLEY HEALTHCARE SYSTEM
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2022 and 2021

	2022		
	General and Administrative	Health Care Services	Total
Salaries and wages	\$ 1,774,958	\$ 6,761,146	\$ 8,536,104
Employee benefits	397,675	1,383,887	1,781,562
Contract labor and professional fees	360,088	347,744	707,832
Equipment rental and maintenance	377,458	229,436	606,894
Supplies	32,116	220,118	252,234
Occupancy and utilities	295,326	353,937	649,263
Staff development and travel	76,182	140,590	216,772
Insurance	303,243	209,731	512,974
Depreciation and amortization	44,872	203,433	248,305
Interest expense	9,906	38,268	48,174
Food and preparation	703	110,372	111,075
Miscellaneous	125,941	174,102	300,043
Total expense by function	<u>\$ 3,798,468</u>	<u>\$ 10,172,764</u>	<u>\$ 13,971,232</u>

	2021		
	General and Administrative	Health Care Services	Total
Salaries and wages	\$ 1,731,481	\$ 6,262,678	\$ 7,994,159
Employee benefits	476,008	1,474,543	1,950,551
Contract labor and professional fees	255,883	347,450	603,333
Equipment rental and maintenance	263,950	383,710	647,660
Supplies	35,885	209,029	244,914
Occupancy and utilities	197,289	368,626	565,915
Staff development and travel	59,657	120,239	179,896
Insurance	229,780	177,173	406,953
Depreciation and amortization	94,488	146,547	241,035
Interest expense	4,483	-	4,483
Food and preparation	372	82,437	82,809
Miscellaneous	112,159	201,245	313,404
Total expense by function	<u>\$ 3,461,435</u>	<u>\$ 9,773,677</u>	<u>\$ 13,235,112</u>

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

VALLEY HEALTHCARE SYSTEM

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2022 and 2021

	2022	2021
OPERATING ACTIVITIES		
Increase in net assets	\$ 204,823	\$ 3,539,185
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	248,305	241,035
Loss on sale of assets	113,095	-
Paycheck Protection Program loan forgiveness	-	(1,900,000)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(227,741)	448,782
Grants receivable	(540,428)	(205,818)
Prepaid and other assets	(59,192)	(49,270)
Increase (decrease) in:		
Accounts payable and accrued expenses	(911,492)	166,904
Representative payee liability	27,602	78,884
Accrued annual leave and payroll	(89,677)	(185,421)
Postemployment benefit obligation	81,734	41,680
Deferred revenue	1,729,308	-
Refundable advance	(620,787)	59,007
Other liabilities	16,503	-
Net cash provided by (used in) operating activities	(27,947)	2,234,968
INVESTING ACTIVITIES		
Proceeds on sale of investments	-	(783)
Proceeds on sale of property and equipment	7,418	-
Purchases of property and equipment	(173,689)	(2,753,361)
Net cash used in investing activities	(166,271)	(2,754,144)
FINANCING ACTIVITIES		
Principal payments on debt	(24,534)	(23,081)
Proceeds from Paycheck Protection Program loan	-	1,900,000
Net cash provided by (used in) financing activities	(24,534)	1,876,919
Net increase (decrease) in cash	(218,752)	1,357,743
CASH AND CASH EQUIVALENTS, beginning	3,096,115	1,738,372
CASH AND CASH EQUIVALENTS, ending	\$ 2,877,363	\$ 3,096,115
CASH IS REPORTED ON THE STATEMENT OF FINANCIAL POSITION AS:		
Cash and cash equivalents	\$ 1,948,215	\$ 2,802,301
Restricted cash	929,148	293,814
	\$ 2,877,363	\$ 3,096,115
SUPPLEMENTAL DISCLOSURES		
Acquisition of property and equipment through accounts payable	\$ -	\$ 848,180
Acquisition of property and equipment through issuance of debt	\$ 2,991,082	\$ 1,008,918

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

VALLEY HEALTHCARE SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 1. Description of Organization and Summary of Significant Accounting Policies

Description of organization

Valley HealthCare System (the Corporation) is a private, nonprofit, nonstock corporation organized under the laws of the State of West Virginia and exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Corporation operates comprehensive programs that serve persons who are mentally ill, chemically dependent, intellectually disabled/developmentally disabled, or who otherwise require related behavioral health services. The Corporation is based in Morgantown, West Virginia, and operates satellite facilities in Monongalia, Marion, Preston, Taylor, and Pocahontas counties in 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.

Operating income

All activities of the Corporation deemed by management to be ongoing, major, and central to the Corporation's operation are reported as operating revenue and expenses. The statement of activities includes operating income as a performance indicator. Changes in net assets that are excluded from operating income, consistent with industry practice, include interest income and grant revenues for long-lived assets.

Cash and cash equivalents

The Corporation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Restricted cash includes debt service and capital improvement funds required by the USDA loan further described in Note 5, and cash held for others.

Representative payee

The Corporation participates in the Social Security's Representative Payment program and provides benefit payment management for beneficiaries who require assistance in managing their Social Security or Supplemental Security Income payments. The benefit payments received by the Corporation are not recorded as revenue and instead are recorded as restricted cash with an offsetting liability. When payments are made for the expenses of the beneficiaries no expense is recorded by the Corporation and instead the liability and cash accounts are reduced.

Property and equipment

Property and equipment are stated at cost. Major purchases and improvements of \$5,000 or more are capitalized, unless a different capitalization threshold is required for property and equipment acquired with grant funds. Repairs and maintenance are expensed as incurred. Depreciation has been provided over the estimated useful lives using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	15-40 years
Furniture and equipment	3-20 years

(Continued)

VALLEY HEALTHCARE SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Net client revenues and receivables

Net client revenues are reported at the estimated realizable amounts from patients (clients), third-party payors, and others for services rendered. Client revenue is recognized at the time performance obligations are satisfied. Performance obligations are considered to consist of the specific services delivered to each client, and are generally satisfied at a point in time at the completion of the service. Payment is due on demand.

The Corporation determines transaction price based on standard rates, reduced by explicit price concessions (contractual adjustments) provided to third-party payers and implicit price concessions provided to uninsured clients. Explicit price concessions under third-party agreements represent the difference between the Corporation's standard rates and the contractual reimbursement amount established with the third-party payer. Implicit price concessions are estimated based on its historical collection experience.

Substantially all accounts receivable are from Medicare, Medicaid, or other third-party payers. Accounts receivable are reported at estimated net realizable value taking into account implicit and explicit price concessions. The estimated implicit price concessions are based upon management's judgmental assessment of historical and expected net collections. For receivables associated with services provided to clients who have third-party coverages (which included clients with deductibles and payment balances for which third-party coverage exists for part of the bill), the Corporation analyzes contractually due amounts and price concessions based upon its review of accounts receivable payer composition and aging, taking into consideration recent experience by payer category, payer agreement rate changes, and other factors. The results of these assessments are used to make modifications to patient service revenue and to establish an appropriate estimate for price concessions. Accounts receivable are reported net of estimated implicit and explicit price concessions.

Grant revenue

The Corporation 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. The Corporation 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 the Corporation 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. The Corporation 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.

(Continued)

VALLEY HEALTHCARE SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Income taxes

The Corporation is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and, therefore, is not subject to taxes on income derived from its exempt activities. In addition, the Corporation qualifies for charitable contributions deductions under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(1).

Net assets

Net assets without donor restriction are resources over which the Board of Directors has discretionary control.

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.

Use of estimates

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

Subsequent events

The date to which events occurring after June 30, 2022, have been evaluated for possible adjustment to or disclosure in the financial statements is February 27, 2023, which is the date the financial statements were available to be issued.

Note 2. Liquidity and Availability of Resources

The following table reflects the Corporation's financial assets as of June 30, 2022 and 2021, 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. The Corporation 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 Monongalia, Marion, Preston, Taylor, and Pocahontas counties in West Virginia.

The Corporation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Corporation maintains a line of credit as mentioned in Note 5.

(Continued)

VALLEY HEALTHCARE SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 2. Liquidity and Availability of Resources (Continued)

	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 1,948,215	\$ 2,802,301
Grant, contract, client, and other receivables	3,027,738	2,259,569
Financial assets available to meet cash needs for general expenditures within one year	\$ 4,975,953	\$ 5,061,870

Note 3. Conditional Contributions

The Corporation has conditional contributions available from the West Virginia Department of Health and Human Resources through September 2023, subject to certain conditions being met, such as incurring qualifying expenditures. Conditional contributions are as follows:

	2022	2021
Ryan Brown	\$ -	\$ 519,221
State Opioid Response	99,791	274,603
Other	91,833	121,529
	\$ 191,624	\$ 915,353

Note 4. Property and Equipment

Property and equipment consisted of the following:

	2022	2021
Land and improvements	\$ 1,199,069	\$ 1,036,000
Buildings and improvements	9,599,436	3,509,464
Leasehold improvements	295,438	295,438
Furniture and equipment	3,437,669	3,408,097
Construction in progress	1,281,651	4,979,298
	15,813,263	13,228,297
Less accumulated depreciation and amortization	6,337,742	6,548,729
	\$ 9,475,521	\$ 6,679,568

Cost of property and equipment purchased with West Virginia Department of Health and Human Resources, Bureau for Behavioral Health and Health Facilities (BHHF) grant funds was \$6,730,203 and \$5,750,245 at June 30, 2022 and 2021, respectively, with related accumulated depreciation of \$3,136,065 and \$3,123,974 at June 30, 2022 and 2021, respectively.

The State of West Virginia provides the land and building for the Morgantown main office for a one-time fee of \$1 under a 99 year lease expiring in 2080. The land and building cost of \$1,620,000 is recorded in these financial statements as property and equipment. The building is fully depreciated. The Corporation's continued use of the land and building is subject to its continued compliance with the State Department of Health and Human Resources rules and regulations and its purchase of service contracts.

VALLEY HEALTHCARE SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 5. Debt

Long-term debt consisted of the following:

	2022	2021
Construction line of credit, including interest at 1 percentage point above the bank's prime index rate, secured by deed of trust on real estate, refinanced subsequent to year end as described below	\$ 4,000,000	\$ 1,008,918
Note payable to bank, payable in monthly installments of \$2,257, including interest at 7.625%, due December 2022, secured by deed of trust on real estate	13,369	37,903
	4,013,369	1,046,821
Less current portion	99,518	24,904
	\$ 3,913,851	\$ 1,021,917

Effective July 1, 2022, the construction debt of \$4,000,000 was refinanced through a note payable to the United States Department of Agriculture (USDA). The loan is payable in monthly installments of \$15,320, including interest at 2.25%, and matures in July 2052. The loan is secured by deed of trust of real estate.

Maturities of the debt are as follows:

2023	\$ 99,518
2024	96,034
2025	98,470
2026	100,721
2027	103,024
Thereafter	3,515,602
	\$ 4,013,369

At June 30, 2022, the Corporation had \$600,000 unused and available under a line of credit. The line of credit bears interest at 1 percentage point above the bank's prime index rate, is secured by real property, and is due on demand.

Cash paid for interest during the years ended June 30, 2022 and 2021, was \$48,174 and \$4,483, respectively.

VALLEY HEALTHCARE SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 6. Leases

The Corporation leases certain office equipment and facilities under operating lease agreements that expire in various years through June 2027. Rent expense on all operating leases was \$293,238 and \$339,691 for the years ended June 30, 2022 and 2021, respectively.

Future minimum lease payments under operating leases are as follows:

2023	\$	73,107
2024		63,569
2025		24,411
2026		20,852
2027		<u>16,531</u>
	<u>\$</u>	<u>198,470</u>

Note 7. Employee Benefit Plans

Retirement plans

The Corporation participates in the West Virginia Public Employees Retirement System (WVPERS), which is a defined benefit, cost-sharing, multiple employer pension plan. The Plan covers individuals who elected to remain in PERS after the establishment of a defined contribution retirement plan, whose annual work hours exceed 1,040, and whose employment is not restricted as temporary or provisional. Members' rights to employee contributions vest immediately while members with one year or more of contributing service and five years or more credited service shall be eligible to retire at age 60 or after and to receive an allowance for life based on the benefit program then in effect. The allowance is equal to a benefit percentage multiplied by the final average salary. Contributions to the WVPERS by the Corporation for the years ended June 30, 2022 and 2021, were 10% of eligible employees' compensation. In addition, 4.5% is withheld from eligible employees' compensation and remitted on a monthly basis to the WVPERS. The Corporation's contribution requirement was not actuarially determined. Contribution obligations and benefit provisions are statutorily established by the West Virginia Public Employees Retirement Act, as amended. Employer contributions for the years ended June 30, 2022 and 2021, were \$0.

Information regarding benefit provisions, actuarial assumptions and funding method, pension benefit obligation (actuarial present value of credited projected benefits), net assets available for benefits, historical trends, and related party transactions is not readily available since such determinations are made and information is kept on a system-wide basis. This information is available in the separately issued financial statements of the WVPERS.

On April 20, 1997, the West Virginia legislature passed Senate Bill No. 544, which requires mental health centers participating in the WVPERS to provide a private pension plan for current employees at their option and for future employees within a certain time frame. During 1998, the Corporation established a 403(b) defined contribution retirement plan (the Plan) for those employees electing not to remain in WVPERS. Employees electing to participate in the Plan will not be entitled to postretirement medical benefits. Employees are eligible to participate in the Plan upon attaining the age of 21 years. The Board of Directors decides contributions each year; however, contributions cannot exceed 4.5% of each covered employee's salary. Total contributions were \$142,551 and \$128,773 for the years ended June 30, 2022 and 2021, respectively.

(Continued)

VALLEY HEALTHCARE SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 7. Employee Benefit Plans (Continued)

Postretirement benefit plans

For those employees that participate in the West Virginia Public Employees Retirement System, the Corporation is required to contribute to the West Virginia Public Employees Insurance Agency (PEIA) to partially fund health insurance premiums for retired employees who elected to participate. The Corporation's obligation to provide those benefits is unfunded.

The following information is related to the benefit obligation as of June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Benefit obligation at June 30	\$ 407,537	\$ 325,803
Fair value of plan assets at June 30	<u>-</u>	<u>-</u>
Funded status	<u>407,537</u>	<u>325,803</u>
Accrued benefit cost recognized in the accompanying statement of financial position	<u>\$ 407,537</u>	<u>\$ 325,803</u>
Weighted-average assumptions as of June 30		
Discount rate	4.33%	2.34%
Expected return on plan assets	7.00%	7.00%
Benefit cost	\$ (6,644)	\$ (13,574)
Employer contribution	25,266	23,939
Benefits paid	25,266	23,939

The assumed health care cost trend rates used in measuring the other postretirement benefit obligation was 3% for those currently receiving benefits and for employees not yet receiving benefits, for 2022 and 2021. Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A 1% change in the assumed health care cost trend rate would have the following effect:

	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on interest cost	\$ 1,606	\$ (1,403)
Effect on accumulated postretirement benefit obligation	37,110	(32,386)

VALLEY HEALTHCARE SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 8. Third-Party Transactions and Economic Dependency

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

Revenue recognized from client services is as follows:

	Year Ended June 30, 2022		
	Gross Client Revenue	Less Contractual Adjustments and Other	Net Client Revenue
Medicaid	\$ 7,463,970	\$ 968,116	\$ 6,495,854
Medicaid waiver	2,751,931	230,354	2,521,577
Medicare	222,493	122,069	100,424
Private pay	206,680	88,828	117,852
Insurance	62,444	32,165	30,279
Other	176,762	83,001	93,761
Total	\$ 10,884,280	\$ 1,524,533	\$ 9,359,747

	Year Ended June 30, 2021		
	Gross Client Revenue	Less Contractual Adjustments and Other	Net Client Revenue
Medicaid	\$ 6,410,815	\$ 1,135,022	\$ 5,275,793
Medicaid waiver	2,986,826	373,842	2,612,984
Medicare	143,867	53,536	90,331
Private pay	227,696	74,556	153,140
Insurance	60,929	24,879	36,050
Other	303,413	87,012	216,401
Total	\$ 10,133,546	\$ 1,748,847	\$ 8,384,699

As COVID-19 significantly impacted the availability of direct-care workers to serve home and community based programs, the State of West Virginia directed certain federal funding received under the American Rescue Plan Act to temporary rate increases for certain direct-care services provided under the Medicaid program, with the stipulation that agencies direct 85 percent of such additional payments to the recruitment and retention of direct-care workers in the form of compensation increases and other incentives. The temporary rate increases ended on March 31, 2022, and agencies have until December 31, 2024, to utilize the additional funding in accordance with the requirements. During the year ended June 30, 2022, the Corporation received additional funding under the program of \$2,636,007, of which \$906,699 was recognized in revenue, while \$1,729,308 is reflected as deferred revenue which will be recognized as revenue in future periods as eligible compensation costs are incurred.

(Continued)

VALLEY HEALTHCARE SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2022

Note 8. Third-Party Transactions and Economic Dependency (Continued)

The Corporation also received State of West Virginia and federal grant funds passed through the State in the amount of \$4,929,206 and \$6,318,636 during the years ended June 30, 2022 and 2021, 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 similar grant funds in future years.

Note 9. Concentration of Credit Risk

Financial instruments which potentially expose the Corporation to significant concentrations of credit risk consist of accounts receivable. The Corporation receives payments for services from Medicaid, Medicare, private payors, and certain governmental agencies. The ability of these parties to honor their obligations is partially dependent upon the economic condition of the State of West Virginia and the health insurance industry.

The Corporation maintains allowances for potential losses, which, when realized, have been within the range of management's expectations.

To limit concentration of credit risk associated with cash and cash equivalents, the Corporation places its cash and cash equivalents with high quality financial institutions. At times, the balances in such institutions may exceed amounts covered by FDIC insurance.

Note 10. Paycheck Protection Program

The Corporation applied for and received a Paycheck Protection Program ("PPP") loan of \$1,900,000 granted by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") on July 23, 2020. The PPP Loan was subject to forgiveness under the Paycheck Protection Program to the extent that the PPP Loan proceeds were used to pay qualifying expenses, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Corporation. The Corporation received full forgiveness in May 2021 and has recognized loan forgiveness of \$1,900,000 in the statement of activities for the year ended June 30, 2021.

SUPPLEMENTARY INFORMATION

VALLEY HEALTHCARE SYSTEM

SCHEDULE OF EXPENDITURES OF STATE AWARDS
Year Ended June 30, 2022

State Grantor/Program Title	Grant Series	State Grantor's Number	Program or Award Amount	Receipts	Disbursements / Expenditures
<u>West Virginia Department of Health and Human Resources:</u>					
Ryan Brown Facility	G180708	2018-5111-0506-2891-13000-3256-0000	\$ 3,500,000	\$ 500,000	\$ 1,019,220
Indigent Care	G220310	0525-2022-0506-3065-21900-3256-4231	421,188	80,226	396,892
Continuum Enhancement Funds	G220292	0525-2022-0506-2851-21900-3256-4231-13144	1,298,839	870,222	1,298,839
Intellectual and Developmental Disabilities - CAC	G221064	0525-2022-0506-2874-21900-3256-4231	32,850	-	24,660
Community Engagement Services	G220240	0525-2022-0506-3701-21900-3256-4231	384,832	257,837	268,847
Forensic Group Home	G220339	0525-000-2022-0506-3115-21900-3256-4231	691,350	192,031	584,235
Forensic Group Home - Per Diem	G220339	0525-000-2022-0506-3115-21900-3256-4231	46,630	15,554	45,917
			737,980	207,585	630,152
			Total for Grant G220339		
Adult Mental Health Group Homes	G220224	0525-2022-0506-3115-21900-3256-4231	383,625	383,625	383,625
Adult Mental Health Group Home Per Diems	G220224	0525-2022-0506-3115-21900-3256-4231-13688	66,613	66,614	57,634
Permanent Supported Housing	G220224	0525-2022-0506-3743-21900-3256-4231	176,000	176,000	176,000
Day Programs/Day Support	G220224	0525-2022-0506-3744-21900-3256-4231	197,323	197,323	197,323
			823,561	823,562	814,582
			Total for Grant G220224		
Jobs & Hope	G220852	2019-0525-0506-2888-14901-3256-4230	75,000	15,000	21,584
Jobs & Hope	G200617	2019-0525-0506-2888-14901-3256-4230	70,111	26,513	6,930
<u>Pass-through Federal Awards</u>					
Peer Center - Preston County Hopemont Clubhouse	G210612	2020-8794-0506-3744-13000-3285-3885-CMHS_F_SR-EY2019-13116	80,000	20,000	35,291
Peer Center - Preston County Hopemont Clubhouse	G220708	2022-8794-0506-3744-13000-3285-3885-CMHS_F_SR-EY2019-13116	80,000	20,000	41,583
State Opioid Response	G200758	2020-8723-0506-2886-13000-3285-3885-SORG_F_SR-EY2019	245,000	183,750	42,649
State Opioid Response	G200758	2021-8723-0506-2886-13000-3285-3885-SORG_F_SR-EY2020	245,000	72,967	59,921
			490,000	256,717	102,570
			Total for Grant G200758		
State Opioid Response	G220523	2022-8723-0506-2886-13000-3285-3885-SORG_F_SR-EY2021	245,000	61,250	145,209
LEAD	G210982	2021-0506-5207-2891-13000-3285-3885-COAS_F_SR	140,000	-	85,333
Crisis Stabilization Unit Pilot Program	G210866	2020-8793-0506-2884-13000-3285-3885-SAPT_F_SR-EY2019	188,914	38,086	57,750
			\$ 8,568,275	\$ 3,176,998	\$ 4,949,442

See Independent Auditor's Report.



**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
Valley HealthCare System
Morgantown, 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 Valley Comprehensive Community Mental Health Center, Inc. d/b/a Valley HealthCare System (the Corporation), which comprise the statement of financial position as of June 30, 2022, 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 27, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation'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 the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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. However, material weaknesses and significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
February 27, 2023

VALLEY HEALTHCARE SYSTEM
AUDITOR COMMUNICATIONS TO MANAGEMENT
AND THOSE CHARGED WITH GOVERNANCE

June 30, 2022

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REQUIRED COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Directors
Valley HealthCare System
Morgantown, West Virginia

We have audited the financial statements of Valley Comprehensive Community Mental Health Center, Inc. d/b/a Valley HealthCare System (the Corporation) for the year ended June 30, 2022, and have issued our report thereon dated February 27, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated June 1, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Corporation are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2022. We noted no transactions entered into by the Corporation 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 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 the postretirement benefit obligations, which are based on an evaluation of census data as determined by the actuary and analyzed by management, and the estimate of implicit and explicit price concessions in client service contracts, which is based on historical experience and facts and circumstances known by management. We evaluated the key factors and assumptions used to develop these 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.

Significant Audit Matters (Continued)

Difficulties Encountered in Performing the Audit

There were delays in receiving several client prepared schedules and other requested items due to turnover in the accounting department. This caused inefficiencies in completing our audit procedures.

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. Those misstatements are as follows:

- Overstatement of accrued expenses of \$56,035, understatement of beginning net assets of \$51,560, and an understatement of related expenses of \$4,475

Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. 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 disagreement on 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 27, 2023, 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 the Corporation'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 the Corporation'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, if appropriate, management of Valley HealthCare System, 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 27, 2023



INDEPENDENT AUDITOR'S REPORT ON COMMENTS AND SUGGESTIONS

To the Board of Directors of
Valley HealthCare System
Morgantown, West Virginia

In planning and performing our audit of the financial statements of Valley Comprehensive Community Mental Health Center, Inc. d/b/a Valley HealthCare System (the Corporation) as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered the Corporation'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 the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 the Corporation's internal control in our report dated February 27, 2023. This letter does not affect our report dated February 27, 2023, on the financial statements of Valley HealthCare System.

Internal Policy and IT Considerations

We noted that certain policies have not yet been developed or adopted by the Corporation. We suggest consideration be given to implementing the following policies and controls to enhance security over the Corporations's electronic data:

- We noted the controller has administrative access to the general ledger software. This lack of segregation of duties could allow unauthorized transactions to go undetected. We recommend administrative access be limited to an individual who is not involved in the daily transactions of the Corporation or implement procedures in which an activity log is reviewed on a periodic basis to ensure unauthorized transactions are identified in a timely manner.
- The operating system that the Windows servers are currently running on has passed the end of the mainstream lifecycle support. We recommend the Windows servers be updated as soon as administratively feasible.
- We noted there is not a formally documented IT risk assessment. We recommend the Corporation performs formal evaluations of risk related to IT at least annually.

Internal Policy and IT Considerations (Continued)

- As cybersecurity breaches increase and cause data leakage to unauthorized parties, certain safeguards may provide additional limited protection. We recommend considering the following:
 - Formalized restore/testing processes to validate data integrity of recovery procedures for critical data
 - Encryption for critical/sensitive financial data
 - Penetration testing/vulnerability assessments
 - Formal cybersecurity training for all personnel
- The Corporation does not formally document the change management process. This would allow better tracking of resources and approval as well as status of items. We recommend management develop a documentation process to document all steps of the change management policy.
- We recommend frequent review of log files for all critical systems which may assist in the detection of security incidents.
- We recommend a risk evaluation of critical vendors be conducted and documented regarding the Corporation's reliance on those IT systems as part of its overall system, and with regard to the vendors' access to sensitive data. Without this documentation unexpected risk may exist that may reduce the effectiveness of security controls or timing or ability to recover. As part of this evaluation, SOC 1 and SOC 2 reports for critical vendors should be regularly reviewed. The information in these reports could indicate weaknesses in controls, lack of controls in some areas, or may assume complementary user controls expected by the service Corporation that are not in place.

Accounting Standards Updates

The Financial Accounting Standards Board issued Accounting Standards Update 2016-02, *Leases*, which 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 the Corporation for the year ending June 30, 2023.

We recommend that management review the standard and begin evaluating the potential impacts of the standard on accounting practices and financial statements of the Corporation. We also recommend management consider any necessary training for personnel, updates to the accounting manual, or changes to accounting software to ensure the Corporation will be compliant when the standards become effective.

We will be pleased to provide training, advice, or other assistance in implementing the standard, 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 Valley HealthCare System, and appropriate regulatory agencies, if applicable, 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 27, 2023



Feb 27, 2023

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 Valley Comprehensive Community Mental Health Center, Inc. d/b/a Valley HealthCare System (the Corporation), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the disclosures (collectively, "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 June 1, 2022, 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.
3. 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

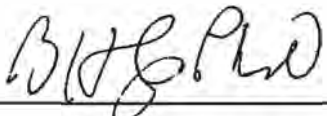
7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
8. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. Those misstatements are as follows:
 - Overstatement of accrued expenses of \$56,035, understatement of beginning net assets of \$51,560 and an understatement of related expenses of \$4,475
9. 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.
10. Significant estimates and material concentrations have been appropriately disclosed in accordance with U.S. GAAP.
11. Guarantees, whether written or oral, under which the Corporation is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.
12. 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.
13. 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.
14. 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.
15. 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.
16. 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.

17. We have made adequate provision for estimated adjustments to revenue resulting from issues such as denied claims.
18. The valuation allowances we have recorded are necessary, appropriate, and properly supported.
19. We have made available to you all peer review organization, fiscal intermediary, and third-party payor reports and information.
20. As part of your audit, you prepared of the financial statements and disclosures. We acknowledge our responsibility as it relates to those 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 and supplemental schedule.

Information Provided


21. 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 (including information obtained from outside of the general and subsidiary ledgers), 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 Corporation 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.
22. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
23. 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.
24. We have no knowledge of any fraud or suspected fraud that affects the Corporation 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.

25. We have no knowledge of any allegations of fraud or suspected fraud affecting the Corporation's financial statements communicated by employees, former employees, grantors, regulators, or others.
26. 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.
27. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
28. We have disclosed to you the names of all of the Corporation's related parties and all the related party relationships and transactions, including any side agreements of which we are aware.
29. The Corporation 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 other than as made known to you and disclosed in the financial statements.
30. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us.
31. The Corporation 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 Corporation'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.
32. 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.
33. We acknowledge our responsibility for presenting the schedule of expenditures of state awards in accordance with U.S. GAAP, and we believe the schedule, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the schedule has 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.



Name
CEO

Title



Name
CFO

Title



“Quality of Care for Quality of Life”

March 30, 2023

Kimberly D Merritt
Office of Internal Control Policy Development
Division of Compliance and Monitoring
One Davis Square, Suite 401
Charleston, WV 25301

Re: Management Response to Grantee Audit Report
Fiscal Year Ended June 20, 2022

This letter is in response to the letter dated February 27, 2023 requesting a Management Response to “Certain Matters” noted in the Independent Auditor’s Report on Comments and Suggestions. Clarification as to the status of each recommended suggestion is provided below.

IT Segregation of Duties

We noted the controller has administrative access to the general ledger software. This lack of segregation of duties could allow unauthorized transactions to go undetected. We recommend administrative access be limited to an individual who is not involved in the daily transactions of the Corporation or implement procedures in which an activity log is reviewed on a periodic basis to ensure unauthorized transactions are identified in a timely manner.

Management Response

This has been a recommendation in prior years. We had corrected the issue in prior years by only allowing the IT Manager administrative access; however, during the fiscal year under audit, the IT Manager position was and remains vacant. The plan is to now only allow the Chief Financial Officer administrative rights, with no other transactional rights.

Operating System

The operating system that the Windows servers are currently running on has passed the end of the mainstream lifecycle support. We recommend the Windows servers be updated as soon as administratively feasible.

Management Response

Office 365 migration is ready for Go Live as soon as the data migration strategy is established. The related Exchange servers should be retired by April 30, 2023. All remaining servers will be upgraded in May of 2023.

Risk Assessment

We noted there is not a formally documented IT risk assessment. We recommend the Corporation performs formal evaluations of risk related to IT at least annually.

Management Response

Penetration testing and vulnerability assessment by an independent party will be scheduled for this calendar year and annually thereafter.

Cybersecurity

As cybersecurity breaches increase and cause data leakage to unauthorized parties, certain safeguards may provide additional limited protection. We recommend considering the following:

- Formalized restore/testing processes to validate data integrity of recovery procedures for critical data.

- Encryption for critical/sensitive financial data

- Penetration test/vulnerability assessments

- Formal cybersecurity training for all personnel

Management Response

Formal cybersecurity training is in development and will be finalized by April 30, 2023. Phishing training software has been purchased and tested and will be fully implemented thereafter. General Ledger software (Sage) is secure and encrypted. The finance shared drive will be encrypted. Initial exploration of options will be completed by May 15, 2023 and a solution implanted as rapidly as is feasible thereafter. Backups are performed nightly and restoration of files is performed on an as needed basis. No faults have been discovered to date. However, a formal testing program will be designed and implemented by July 1, 2023.

Change Management

The Corporation does not formally document the change management process. This would allow better tracking of resources and approval as well as status of items. We recommend management develop a documentation process to document all steps of the change management policy.

Management Response

Valley has taken the first steps in instituting a change management system. Surveys have been conducted with staff, business partners, and community members as part of the Certified Community Behavioral Health Center initiative at Valley. An Operational Process Analysis has also been conducted by Netsmart. Recommended changes utilizing this information will be implemented and tracked by Valley's Director of Organizational Environment and our newly hired Qualitative Analysis Manager. A formal system of change has not been adopted, but one will be developed along the lines of Kotter's 8 Steps to Change Management. Related procedures will be in place by July 30, 2023.

Review of Log Files

We recommend frequent review of log files for all critical systems which may assist in the detection of security incidents.

Management Response

Log files were formally evaluated for intrusions by Digital Silence in 2022. A formal program of review will be developed and implemented for 2023.

Risk Evaluation Critical Vendors

We recommend a risk evaluation of critical vendors be conducted and documented regarding the Corporation's reliance of those IT systems as part of its overall system, and with regard to the vendors' access to sensitive data. Without this documentation, unexpected risk may exist that may reduce the effectiveness of security controls or timing or ability to recover. As part of this evaluation, SOC 1 and SOC 2 reports for critical vendors should be review. The information in these reports could indicate weaknesses in controls, lack of controls in some areas, or may assume complementary user control expected by the service Corporation that are not in place.

Management Response

SOC 1 and SOC 2 reports will be requested from Ideal, Netsmart, PayCom and Segra annually starting July 1, 2023.

Accounting Standards Updates

The Financial Accounting Standards Board issued Accounting Standards Update 2016-02, Leases, which 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 leases based on five criteria define in the Standard. The stand will require the recognition of assets and liabilities not contemplated under current standards. The standard also provides for certain qualitative disclosures to enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from the leases. The standard is effective for the Corporation for the year ending June 30, 2023.

We recommend that management review the standard and begin evaluating the potential impacts of the standard on accounting practices and financial statements of the Corporation. We also recommend management consider any necessary training for personnel, updates to the accounting manual, or changes to accounting software to ensure the Corporation will be compliant when the standards become effective.

Management Response

A master lease schedule is currently maintained and the organization is cognizant of all lease payments and durations. Additionally, the current accounting system allows for recurring payments that can be easily modified to distribute payments between principal and interest. Also, the asset management system allows for amortization of the underlying leased assets.

Please let me know if you have additional questions or need further clarification

Sincerely,



Erin Grondalski, Chief Financial Officer

Valley Comprehensive Community Mental Health Center, Inc.

