

**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**

	<b>2022</b>	<b>2021</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
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
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
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**

	<b>2022</b>	<b>2021</b>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTION:</b>		
<b>REVENUES:</b>		
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
<b>EXPENSES AND LOSSES:</b>		
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
<b>OTHER INCOME (LOSS):</b>		
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**

	<b>2022</b>		
	<b>General and Administrative</b>	<b>Health Care Services</b>	<b>Total</b>
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>

	<b>2021</b>		
	<b>General and Administrative</b>	<b>Health Care Services</b>	<b>Total</b>
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**

	<b>2022</b>	<b>2021</b>
<b>OPERATING ACTIVITIES</b>		
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
<b>INVESTING ACTIVITIES</b>		
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)
<b>FINANCING ACTIVITIES</b>		
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
<b>CASH IS REPORTED ON THE STATEMENT OF FINANCIAL POSITION AS:</b>		
Cash and cash equivalents	\$ 1,948,215	\$ 2,802,301
Restricted cash	929,148	293,814
	\$ 2,877,363	\$ 3,096,115
<b>SUPPLEMENTAL DISCLOSURES</b>		
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)**

	<b>2022</b>	<b>2021</b>
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:

	<b>2022</b>	<b>2021</b>
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:

	<b>2022</b>	<b>2021</b>
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:

	<b>2022</b>	<b>2021</b>
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:

	<b>Year Ended June 30, 2022</b>		
	<b>Gross Client Revenue</b>	<b>Less Contractual Adjustments and Other</b>	<b>Net Client Revenue</b>
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

	<b>Year Ended June 30, 2021</b>		
	<b>Gross Client Revenue</b>	<b>Less Contractual Adjustments and Other</b>	<b>Net Client Revenue</b>
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
		Total for Grant G220339	737,980	207,585	630,152
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
		Total for Grant G220224	823,561	823,562	814,582
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
		Total for Grant G200758	490,000	256,717	102,570
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
			<u>\$ 8,568,275</u>	<u>\$ 3,176,998</u>	<u>\$ 4,949,442</u>

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