

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

FINANCIAL STATEMENTS

JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Southern Highlands Community Mental Health Center, Inc. ("SHCMHC") as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of SHCMHC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of SHCMHC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SHCMHC as of June 30, 2011, and the changes in its net assets, functional expenses, and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2011 on our consideration of SHCMHC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on SHCMHC's financial statements as a whole. The schedule of non-federal awards is presented for purposes of additional analysis and is not a required part of the financial statements of SHCMHC. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also 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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Bluefield, West Virginia
September 29, 2011
30/1

SOUTHERN HIGHLANDS COMMUNITY MENTAL HEALTH CENTER, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2011

ASSETS

CURRENT ASSETS

Cash	\$	315,481
Designated cash		27,463
Receivables:		
Support agencies		416,133
Clients, net of allowances of \$209,364		841,518
Other		3,463
Prepaid expenses and other current assets		75,009
Prepaid pension expense (Note 2)		450,099
Temporarily restricted cash (Note 6)		95,151
Total current assets		<u>2,224,317</u>

PROPERTY AND EQUIPMENT

Land		21,771
Buildings and leasehold improvements		2,330,286
Furniture and equipment		1,515,712
Vehicles		200,141
		<u>4,067,910</u>
Less accumulated depreciation		(2,308,797)
Total property and equipment		<u>1,759,113</u>

OTHER ASSETS

		<u>78,968</u>
Total assets	\$	<u>4,062,398</u>

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

SOUTHERN HIGHLANDS COMMUNITY MENTAL HEALTH CENTER, INC.

STATEMENT OF FINANCIAL POSITION (CONTINUED)

June 30, 2011

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$	276,004
Accrued wages		216,213
Withholding and other current liabilities		116,898
Line of credit (Note 4)		386,272
Managed accounts		91,387
Accrued annual and sick leave		274,632
Current maturity of long term liabilities (Note 3)		29,423
Total current liabilities		<u>1,390,829</u>

LONG TERM LIABILITIES

Notes payable (Note 3)		307,322
Pension Benefit Obligation (Note 2)		1,063,099
Other Post Employment Benefits (Note 13)		72,417
Total long term liabilities		<u>1,442,838</u>

Total liabilities		<u>2,833,667</u>
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NET ASSETS

Unrestricted:

Operating		1,177,031
Board designated		27,463
		<u>1,204,494</u>
Temporarily restricted (Note 6)		<u>24,237</u>

Total net assets		<u>1,228,731</u>
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Total liabilities and net assets	\$	<u><u>4,062,398</u></u>
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The Notes to Financial Statements are an integral part of these statements.

SOUTHERN HIGHLANDS COMMUNITY MENTAL HEALTH CENTER, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

CHANGES IN UNRESTRICTED NET ASSETS

SUPPORT:

BHHF State allocated	\$ 2,990,996
BHHF administered Federal funds	620,579
County commissions	25,500
Total support	<u>3,637,075</u>

REVENUE:

Client revenue	
Medicaid	2,651,170
Waiver	4,415,263
Medicare	89,116
Other client revenue	410,328
Other	195,936
Interest	3,819
Total revenue	<u>7,765,632</u>

Total Unrestricted Support and Revenue 11,402,707

Assets released from restriction:

Satisfaction of program restrictions 32,929

Total Unrestricted Support, Revenue,
and Reclassifications 11,435,636

EXPENSES

Program	9,386,411
Administration	2,117,845
	<u>11,504,256</u>

Assets released from restrictions 32,929

Total expenses 11,537,185
(101,549)

Accrued pension benefit liability recognized (Note 2) 559,227

Change in unrestricted net assets 457,678

CHANGE IN TEMPORARILY RESTRICTED NET ASSETS:

Receipts	15,555
Assets released from restrictions	<u>(32,929)</u>

Change in temporarily restricted net assets (17,374)

Change in net assets 440,304

Net Assets at Beginning of Year, as restated (Note 11) 788,427

Net Assets at End of Year \$ 1,228,731

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

SOUTHERN HIGHLANDS COMMUNITY MENTAL HEALTH CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2011

	PERSONNEL	FRINGE BENEFITS	TRAVEL AND TRANSPORTATION	CONTRACTUAL SERVICES	OTHER	DEPRECIATION	INTEREST	TOTAL
Case Management	\$ 406,858	\$ 108,325	\$ 27,887	\$ 306	\$ 86,464	\$ 4,027	\$ 291	\$ 634,158
Outpatient	1,843,265	371,281	28,542	207,050	257,408	6,252	1,244	2,715,042
Family Support	2,968	996	471	62,722	550	-	-	67,707
Residential	2,075,570	512,233	68,223	44,846	505,014	45,959	-	3,251,845
Other	229,682	30,620	99,653	898,576	32,484	5	-	1,291,020
Day Treatment	785,046	185,374	89,727	1,130	336,712	18,808	5,869	1,422,666
Inpatient Services	4,493	(520)	-	-	-	-	-	3,973
Total Program	5,347,882	1,208,309	314,503	1,214,630	1,218,632	75,051	7,404	9,386,411
Administration	1,006,194	302,165	35,830	76,121	576,770	87,133	33,632	2,117,845
	\$ 6,354,076	\$ 1,510,474	\$ 350,333	\$ 1,290,751	\$ 1,795,402	\$ 162,184	\$ 41,036	\$ 11,504,256

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

SOUTHERN HIGHLANDS COMMUNITY MENTAL HEALTH CENTER, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 440,304
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	162,184
Loss on disposal of fixed assets	325
Decrease (Increase) in:	
Receivables:	
Supporting agencies	(152,963)
Clients	20,698
Other current liabilities	293
Prepaid expenses and other current assets	(27,978)
Other assets	2,171
Increase (Decrease) in:	
Accounts payable, withholding and other current liabilities	104,798
Other long term liabilities	18,549
Accrued annual and sick leave	(7,651)
Pension benefit liability	(559,227)
Total adjustments	<u>(438,801)</u>
Net cash provided by operating activities	<u>1,503</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Fixed assets purchased	<u>(467,485)</u>
Net cash used in investing activities	<u>(467,485)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Loan payments	<u>(36,556)</u>
Net cash used in financing activities	<u>(36,556)</u>
Net decrease in cash	(502,538)

CASH

Beginning	<u>940,633</u>
Ending	<u>\$ 438,095</u>

Amounts reported on Statement of Financial Position as follows:

Cash	\$ 315,481
Designated cash	27,463
Temporarily restricted cash	<u>95,151</u>
	<u>\$ 438,095</u>

Supplemental Disclosure:
Interest Paid

\$ 41,036

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

SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. **Organization and Significant Accounting Policies**

Organization:

Southern Highlands Community Mental Health Center, Inc. ("SHCMHC") legally changed its name from Mercer, McDowell, Wyoming Mental Health Council, Inc. effective April 15, 2011. All other information including the tax identification number and status remains the same. SHCMHC is a not for profit corporation that provides mental health and other related services in the counties of Mercer, McDowell, and Wyoming, West Virginia.

Basis of financial statement presentation:

SHCMHC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, or permanently restricted based on the existence of absence of donor-imposed restrictions. All net assets of SHCMHC are either unrestricted or temporarily restricted.

Source of revenue:

SHCMHC receives revenue from federal, state and other grants along with program income from services to clients through Medicaid, Medicare, other third party, and self pay.

Contractual adjustments and bad debts:

Contractual adjustments and bad debts are recorded by the reserve method. Accordingly, operations include a provision for such write-offs rather than the amount of specific accounts which were written off.

Cash and cash equivalents:

For the purposes of reporting cash flows, SHCMHC considers all cash and savings accounts to be cash equivalents. Cash is held in banks located in West Virginia and is insured by the Federal Deposit Insurance Corporation.

Property and equipment:

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

Buildings	20 years
Leasehold improvements	15 years
Furniture and equipment	7 years
Vehicles	4 years

SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1. **Organization and Significant Accounting Policies (continued)**

Estimates:

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and assets, and the reported revenues and expenses. Actual results could differ from these estimates.

Income taxes:

SHCMHC is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and is not considered a private foundation. SHMHC's federal income tax returns for 2010, 2009, and 2008 are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

Subsequent events:

Subsequent events were considered through September 29, 2011, the date the financials were available to be issued.

Note 2. **Pension Benefit Obligation**

SHCMHC sponsors a defined benefit pension plan. The following data is supplied related to the pension plan at June 30, 2011.

Benefit obligation	\$	5,302,385
Fair value of plan assets		4,689,385
Funded status of the plan		(613,000)
Employer contributions		374,000
Actual distributions		(230,060)
Net accrued benefit liability		613,000
Net periodic benefit costs		369,353
Unrecognized prior service cost		584,357
Accumulated benefit obligation		5,299,353

Assumption used:

Interest discount rate	6.00%
Compensation increase	2.00%
Expected rate of return on assets	7.50%

(continued)

SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 2. **Pension Benefit Obligation** (continued)

Estimated future benefit payments are:

June 30, 2012	\$	339,000
June 30, 2013		266,000
June 30, 2014		315,000
June 30, 2015		292,000
June 30, 2016		395,000
June 30, 2017 – 2021		1,537,000

Measurements date is June 30, 2011.

Approximately \$360,000 is expected to be contributed to the plan during the fiscal year ending June 30, 2012.

Major categories and percentages of the fair value of total plan assets are as follows:

Cash	\$	207,441	4.4%
Mutual Funds – Government Bonds		965,436	20.6%
Mutual Funds – Corporate Bond		501,743	10.7%
Mutual Funds – International Bond		632,831	13.5%
Mutual Funds – Equity		1,876,607	40.1%
Mutual Funds – International Equity		498,528	10.6%
Accrued Income		6,799	0.1%
		<hr/>	<hr/>
Net assets	\$	<u>4,689,385</u>	<u>100.0%</u>

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

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

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

(continued)

SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 2. **Pension Benefit Obligations** (continued)

Amounts recognized in the statement of financial position:

Current assets and long-term liabilities:	
Prepaid pension cost	\$ 450,099
Pension benefit obligation	<u>(1,063,099)</u>
Net amount recognized	<u>\$ 613,000</u>
Amounts recognized in statement of activities apart from expenses:	
Net gain	\$ 382,824
Amortization of prior service cost	41,740
Amortization of net loss	<u>218,143</u>
	<u>\$ 559,227</u>

Estimated net (gain) loss and prior service cost that will be amortized from unrestricted net assets into net periodic pension cost over the next fiscal year are \$218,143 and \$(41,740), respectively.

Note 3. **Long-Term Liabilities**

Branch Banking & Trust (BB&T), 7.125% fixed, secured by deed of trust on Mullens building, original proceeds \$198,732, payable in 119 monthly payments of \$2,331 including principal and interest until October 2017.	\$ 144,210
Branch Banking & Trust (BB&T), 6.5% fixed, secured by lien on 2007 Chevrolet truck, original proceeds \$16,500, payable in 48 monthly payments of \$392, including principal and interest until January 2012.	3,013
Branch Banking & Trust (BB&T), 7.375% fixed, secured by deed of trust on Undercliff building and a CD (see Note 12), original proceeds \$200,000, payable in 60 monthly payments of \$1,850 including principal and interest until February 2015.	<u>189,522</u>
	336,745
Less current maturities	<u>29,423</u>
	<u>\$ 307,322</u>

(continued)

SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3. **Long-Term Liabilities** (continued)

Estimated aggregate maturities on long-term liabilities for each of the succeeding six years are as follows:

Year ended June 30:			
2012	\$	29,423	
2013		28,788	
2014		30,932	
2015		184,818	
2016		24,290	
2017		38,494	
		38,494	
	\$	336,745	

Note 4. **Line of Credit**

SHCMHC has a line of credit available in the amount of \$600,000 which is drawn on from time to time as the need arises. As of June 30, 2011, there was \$386,272 outstanding on this line of credit. Security for this line of credit is all accounts receivable and contract rights, together with all cash and non-cash proceeds thereof. Interest is charged at BB&T prime + one half percent adjusted daily. The interest rate at June 30, 2011 was 4.00%. This line of credit matures on March 5, 2012.

Note 5. **Lease Commitments**

SHCMHC has lease agreements for several items of small office equipment and certain buildings. Total expense for these was \$86,415 for the year ended June 30, 2011. Terms of the leases vary.

Annual lease expense for the long-term leases is:

	Office Equipment	Buildings	Total
June 30, 2012	\$ 43,355	\$ 48,242	\$ 91,597
June 30, 2013	32,456	52,200	84,656
June 30, 2014	19,561	43,200	62,761
June 30, 2015	-	16,200	16,200
June 30, 2016	-	9,450	9,450

(continued)

SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 6. Designated and Temporarily Restricted Net Assets / Cash

Temporarily restricted net assets consist of cash which the donor restricted for use in specific areas. Also, as explained in Note 9, the WV Division of Transportation donated 80% of several vehicles. After 80,000 miles per vehicle, they become the property of the SHCMHC.

	Cash	Net Assets
Board Designated	\$ 27,463	\$ 27,463
Temporarily Restricted:		
Client managed funds	\$ 91,387	\$ -
Donor cash	3,764	3,764
WV Division of Transportation	-	20,473
	\$ 95,151	\$ 24,237

Other restricted cash:

SHCMHC manages client's funds. These amounts are recorded as Temporarily restricted cash and Managed accounts in the accompanying statement of financial position and amounted to \$91,387 in year ended June 30, 2011.

Note 7. Business and Credit Concentration

SHCMHC relies heavily on Medicaid and Waiver. For the year ended June 30, 2011, Medicaid and Waiver together totaled \$7,066,433 (62%) of total unrestricted support and revenue.

Also, SHCMHC relies on funding through the State of West Virginia. For the year ended June 30, 2011, West Virginia state funding totaled \$2,990,996 (26%) of total unrestricted support and revenue.

SHCMHC maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. SHCMHC is very careful to oversee any amount above the federally insured limits and at this time believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 8. Related Party Transactions

There were no related party transactions.

Note 9. Donated Services, Materials / Non-Cash Transactions

The Princeton clinic building used by SHCMHC is leased from the WV Department of Health for \$1 with a 40 year term beginning January 1, 1989. Fair rental value of this building is calculated at \$92,556 per year. This amount is included in revenue and expense in the accompanying statement of activities.

(continued)

SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 9. **Donated Services, Materials / Non-Cash Transactions (continued)**

Promises to give:

SHCMHC has received, through the Section 5310 program of the WV Division of Transportation, use of vans whereby SHCMHC, paid 20% of the cost with 80% of the cost born by the State of West Virginia. In the agreement, the vehicles are titled in the names of the State of West Virginia and the SHCMHC.

SHCMHC will receive full ownership of each vehicle after 80,000 miles of use.

The 80% use contributed to SHCMHC is initially recorded as a temporarily restricted promise to give. The promise to give is then amortized as contributed income and contributed expense equally over 60 months, the estimated time to operate the vehicle 80,000 miles. The unamortized cost of the promise to give is included in Other Assets on the Statement of Financial Position. In addition, the amount recorded as contribution income and expense totaled \$17,877 for the year ended June 30.

Note 10. **Reconciliation of Gross Client Revenue to Net Client Revenue**

	<u>Medicaid</u>	<u>Waiver</u>	<u>Medicare</u>	<u>Other</u>	<u>Total</u>
Gross client revenue	\$ 3,582,342	\$ 4,938,350	\$ 216,604	\$ 834,495	\$ 9,571,791
Bad debts	29,397	(186)	25,114	(56,220)	(1,895)
Contractual adjustments	(866,699)	(522,901)	(152,602)	(360,074)	(1,902,276)
Charity/Disallowance	(93,870)	-	-	(7,873)	(101,743)
Net client revenue	<u>\$ 2,651,170</u>	<u>\$ 4,415,263</u>	<u>\$ 89,116</u>	<u>\$ 410,328</u>	<u>\$ 7,565,877</u>

Note 11. **Restatement of Unrestricted Net Assets**

Ending unrestricted net assets for the year ended June 30, 2010 have been restated to correct the following errors:

June 30, 2010, as previously reported	\$ 789,288
Payroll expense accrual	(21,595)
Prepaid other adjustments	<u>(20,877)</u>
June 30, 2010, as restated	<u>\$ 746,816</u>

Note 12. **Certificate of Deposit**

SHCMHC has a certificate of deposit in the amount of \$30,495 that matures on October 12, 2012. Interest rate is 1.65%. The certificate of deposit is collateral for \$200,000 note payable and is included in Other Assets on the Statement of Financial Position.

(continued)

SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 13. **Other Postemployment Benefits**

Annual OPEB cost:

SHCMHC's annual OPEB cost (expense) for the plan is calculated based on the annual required contribution of the *employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following table shows the components of SHCMHC's annual OPEB cost for the year, the amount actually contributed to the plans, and changes in the SHCMHCs net OPEB obligations, as well as the assumptions used to calculate the net OPEB obligation for three covered employees and no retired employees.

Annual required contribution	\$	22,575
Interest on net OPEB obligation		-
Adjustment to annual required contribution		<u>(4,025)</u>
Annual OPEB cost		18,550
Contributions made		<u>-</u>
Increase in net OPEB obligation		18,550
Net OPEB obligations (asset), beginning of year		<u>53,867</u>
Net OPEB obligations (asset), end of year	\$	<u><u>72,417</u></u>

(continued)

SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 13. **Other Postemployment Benefits (continued)**

Actuarial valuation date	June 30, 2009
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Asset valuation method	Fair value
Remaining amortization period	30 years
Actuarial assumptions:	
Investment rate of return	3.56%
Projected salary increase	4.25% to 6.00%
Health care inflation rate	7.40% in 2010, grading to 5.50% in 2029

Three year trend information:

<u>Year Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligations (Asset)</u>
June 30, 2011	\$ 18,550	18%	\$ 72,417
June 30, 2010	34,245	15%	53,867
June 30, 2009	27,664	60%	19,622

GASB Statement No. 45 was applied prospectively.

West Virginia Public Employees Insurance Agency (PEIA) issued a publicly available financial report that included financial statements and required supplementary information. That information may be obtained by contacting the Public Employees' Insurance Association at 601 57th Street Southeast, Suite 2, Charleston, West Virginia 25304-2345 or by calling 1-888-680-7342.

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

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

We have audited the financial statements of Southern Highlands Community Mental Health Center, Inc. ("SHCMHC") as of and for the year ended June 30, 2011 and have issued our report thereon dated September 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered SHCMHC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SHCMHC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SHCMHC's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. **We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SHCMHS's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.**

We noted certain matters that we reported to management of SHCMHC in a separate letter dated September 29, 2011.

This report is intended solely for the information and use of management, the Board of Directors, state and federal awarding agencies, and pass-through entities, 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

Bluefield, West Virginia
September 29, 2011

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited Southern Highlands Community Mental Health Center, Inc.'s (SHCMHC) compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. SHCMHC's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of SHCMHC's management. Our responsibility is to express an opinion on SHCMHC's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SHCMHC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on SHCMHC's compliance with those requirements.

In our opinion, Southern Highlands Community Mental Health Center, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control over Compliance

Management of SHCMHC is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered SHCMHC's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SHCMHC's internal control over compliance.

A *deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control* over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.**

This report is intended solely for the information and use of management, the Board of Directors, state and federal awarding agencies, and pass through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Bluefield, West Virginia
September 29, 2011

SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **No material weaknesses** were identified during the audit of the financial statements.
3. **No instances of noncompliance** material to the financial statements were disclosed during the audit.
4. **No material weaknesses** were identified during the audit of major federal award programs.
5. The auditor's report on compliance for the major federal award programs expresses an **unqualified opinion**.
6. The audit disclosed **no audit findings relating to major programs**.
7. The programs tested as major were:

Substance Abuse Services	93.959
Substance Abuse Adolescent Services	93.959
Substance Abuse Residential	93.959
8. The threshold for distinguishing Types A and B programs was **\$300,000**.
9. SHCMHC was determined to be a **low-risk auditee**.

B. FINDINGS-FINANCIAL STATEMENT AUDIT

None.

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

None.

SUPPLEMENTARY INFORMATION

SOUTHERN HIGHLANDS COMMUNITY MENTAL HEALTH CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2011

Federal Grantor/State Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Health and Human Services: WV Department of Health and Human Resources Block Grants for Prevention and Treatment of Substance Abuse:			
SA Adolescent Services	93.959	8793-2011-2892-096-128-17959	\$ 49,587
SA Services	93.959	8793-2011-2885-096-128-17959	134,872
SA Residential	93.959	8793-2011-2891-096-128-17959	293,343
Crisis Outreach	93.982	8723-2011-2851-096-128-19318	137,152
Care Connection Forms	93.243	8793-2010-2849-096-0128-17653	5,625
Total Federal Expenditures			\$ 620,579

The Notes to Schedule of Expenditures of Federal Awards is an integral part of this statement.

SOUTHERN HIGHLANDS COMMUNITY MENTAL HEALTH CENTER, INC.

SCHEDULE OF NON-FEDERAL AWARDS

Year Ended June 30, 2011

<u>Non-Federal</u>	<u>State Assigned Number</u>	<u>Non-Federal Expenditures</u>
<u>State</u>		
Support Services Shenandoah Group Home	0525-2011-3041-219-252	\$ 120,000
Support Services Nurses	0525-2011-3041-219-252	163,892
Uncompensated Care	0525-2011-3065-219-252	1,258,084
Uncompensated Care	0525-2010-3065-219-252	132,638
MI Core	0525-2011-2870-219-252	165,357
MH Core/Crisis	0525-2011-2851-219-252	303,496
Case Management	0525-2011-2851-219-252	25,000
Care Cord Improvement	0525-2011-3701-219-252	241,964
Care Cord Funding 2	0525-2011-3702-219-252	47,542
Childrens Mental Health	0525-2011-3702-219-252	57,564
SA Adult Res - Legends	0525-2011-2891-219-252	126,570
Childrens Uncomp	0525-2011-2915-219-252	3,358
Family Support	0525-2011-2870-221-252	75,267
CAC (CRU)	0525-2009-2870-219-252	270,264
Total State		<u>\$ 2,990,996</u>
<u>County</u>		
Mercer County		\$ 18,000
McDowell County		3,500
Wyoming County		4,000
Total County		<u>\$ 25,500</u>

SOUTHERN HIGHLANDS COMMUNITY
MENTAL HEALTH CENTER, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011

Note 1. **Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of SHCMHC under programs of the federal government for the year ended June 30, 2011. The information in this Schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non Profit Organizations*. Because the Schedule presents only a selected portion of the operations of SHCMHC, it is not intended to and does not present the financial position, changes in net assets, functional expenses, or cash flows of SHCMHC.

Note 2. **Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained on *OMB Circular A-122, Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.