# FMRS Health Systems, Inc.

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February 13, 2018

WV Department of Health and Human Resources
Office of Internal Control and Policy Development
Division of Compliance and Monitoring
One Davis Square, Suite 401
Charleston, WV 25301

Gentlemen:

Please find enclosed the audited Financial Report as of June 30, 2017 for FMRS Health Systems, Inc.

Sincerely,

Mary Redman

Mary M. Redman
Chief Financial Officer

Enclosure

DHHR - Finance
FEB 15 2018
Date Received

# FMRS HEALTH SYSTEMS, INC.

## FINANCIAL REPORT

## June 30, 2017

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BROWNEDWARDS

certified public accountants

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
FMRS Health Systems, Inc.
Beckley, West Virginia

**Report on the Financial Statements**

We have audited the accompanying financial statements of FMRS Health Systems, Inc. (the "Agency") which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FMRS Health Systems, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and Schedule of State Grant Awards are presented for purposes of additional analysis and are 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 Schedule of Expenditures of Federal Awards and the Schedule of State Grant Awards are 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 January 15, 2018 on our consideration of FMRS Health Systems, Inc.'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 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 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 FMRS Health Systems, Inc.'s internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
January 15, 2018

## FMRS HEALTH SYSTEMS, INC.

### STATEMENTS OF FINANCIAL POSITION
### June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 6,148,523 | $ 5,139,936 |
| Accounts receivable, less allowance for doubtful accounts of $366,328 in 2017 and $425,470 in 2016 | 1,089,029 | 1,383,941 |
| Other receivables | 1,296,632 | 1,079,021 |
| Prepaid and other assets | 139,906 | 100,877 |
| Total current assets | 8,674,090 | 7,703,775 |
| OTHER ASSETS | | |
| Property and equipment, net (Note 3) | 1,265,294 | 1,422,754 |
| Total assets | $ 9,939,384 | $ 9,126,529 |
| **LIABILITIES AND NET ASSETS** | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 228,468 | $ 341,645 |
| Accrued expenses | 560,022 | 500,543 |
| Current maturities of capital lease obligations (Note 7) | 29,465 | 31,198 |
| Accrued annual leave | 293,048 | 264,664 |
| Total current liabilities | 1,111,003 | 1,138,050 |
| LONG-TERM LIABILITIES | | |
| Capital lease obligations, less current maturities (Note 7) | 81,630 | 123,339 |
| Total liabilities | 1,192,633 | 1,261,389 |
| NET ASSETS | | |
| Net assets – unrestricted | 8,746,751 | 7,865,140 |
| Total liabilities and net assets | $ 9,939,384 | $ 9,126,529 |

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

## FMRS HEALTH SYSTEMS, INC.

## STATEMENTS OF ACTIVITIES
**Years Ended June 30, 2017 and 2016**

| | 2017 | 2016 |
|---|---|---|
| REVENUE AND SUPPORT | | |
| Net client service revenues | $ 8,354,989 | $ 8,202,368 |
| Less: provision for bad debts | (499,325) | (568,675) |
| Net patient services revenues less provision for bad debts | 7,855,664 | 7,633,693 |
| State and federal grant revenues | 5,692,731 | 5,374,679 |
| Fair value of the annual use of facilities provided by the State of West Virginia (Note 5) | 335,556 | 335,556 |
| Other | 436,314 | 91,148 |
| Total operating revenue and support | 14,320,265 | 13,435,076 |
| Interest | 2,852 | 648 |
| Gain on sale of assets | 8,013 | - |
| Total non-operating revenue and support | 10,865 | 648 |
| Total revenue and support | 14,331,130 | 13,435,724 |
| EXPENSES | | |
| Salaries and wages | 7,845,194 | 7,455,473 |
| Employee benefits | 1,925,525 | 1,826,906 |
| Contract labor and professional fees | 1,048,343 | 893,469 |
| Repairs and maintenance | 217,039 | 246,484 |
| Supplies | 319,236 | 291,029 |
| Utilities | 360,999 | 359,610 |
| Staff development and travel | 304,156 | 226,442 |
| Insurance | 311,868 | 290,771 |
| Interest | 6,746 | 3,979 |
| Taxes | 2,585 | 250,831 |
| Depreciation | 246,279 | 243,757 |
| Rent expense attributed to fair value of annual use of facilities provided by the State of West Virginia (Note 5) | 335,556 | 335,556 |
| Other | 525,993 | 428,966 |
| Total expenses | 13,449,519 | 12,853,273 |
| CHANGE IN NET ASSETS | 881,611 | 582,451 |
| NET ASSETS | | |
| Unrestricted, beginning of year | 7,865,140 | 7,282,689 |
| Unrestricted, end of year | $ 8,746,751 | $ 7,865,140 |

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

## FMRS HEALTH SYSTEMS, INC.

### STATEMENTS OF CASH FLOWS
### Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets | $ 881,611 | $ 582,451 |
| Adjustments to reconcile to net cash provided by operating activities: | | |
| Depreciation | 246,279 | 243,757 |
| Gain on sale of assets | (8,013) | - |
| Provision for bad debts | 499,325 | 568,675 |
| Change in: | | |
| Accounts receivable | (204,413) | (1,019,880) |
| Grants receivable | (217,611) | (157,457) |
| Prepaid and other assets | (39,029) | (11,364) |
| Accounts payable | (113,177) | 125,485 |
| Accrued expenses | 59,479 | 115,759 |
| Accrued annual leave | 28,384 | (1,613) |
| **Net cash provided by operating activities** | 1,132,835 | 445,813 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | (102,886) | (135,936) |
| Proceeds from sale of assets | 8,029 | - |
| **Net cash used in investing activities** | (94,857) | (135,936) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Principal payments on capital lease obligations | (29,391) | (13,463) |
| **Net cash used in financing activities** | (29,391) | (13,463) |
| **Net increase in cash and cash equivalents** | 1,008,587 | 296,414 |
| **CASH AND CASH EQUIVALENTS** | | |
| Beginning of year | 5,139,936 | 4,843,522 |
| End of year | $ 6,148,523 | $ 5,139,936 |
| **SUPPLEMENTAL DISCLOSURE OF INFORMATION** | | |
| Cash paid during the year for interest | $ 6,746 | $ 3,979 |
| Purchases of equipment financed by capital leases | $ - | $ 168,000 |

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

## Note 1. Organization and Significant Accounting Policies

Nature of Organization and Operations:

FMRS Health Systems, Inc. (the "Agency") is a nonprofit, nonstock corporation organized under the laws of the State of West Virginia. The primary purpose of the Agency is to develop, operate, and maintain mental health facilities and services for individuals in Fayette, Monroe, Raleigh, and Summers Counties in West Virginia.

Basis of Accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned, and expenses are recognized when the obligation is incurred. The Agency records grant monies received in advance as refundable advances and recognizes revenue as qualifying expenditures are incurred.

Classification of net assets:

The Agency reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Unrestricted** category consists of net assets whose use is limited only to the extent that the Agency's bylaws limit the activities of the Agency. Contributions with donor-imposed restrictions met in the same year in which the contribution is recognized are reported as changes in unrestricted net assets.

**Temporarily restricted** net assets are comprised of net assets whose use has been limited by donors to a specific time period and/or purpose. The Agency currently has no temporarily restricted net assets.

**Permanently restricted** net assets are comprised of net assets whose use have been restricted by the donor and must be maintained permanently by the Agency. The Agency currently has no permanently restricted net assets.

Use of estimates:

The preparation 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. Significant estimates include the valuation of patient accounts receivable and depreciation expense. Management's estimate of the valuation of patient accounts receivable is based upon established rates with third-party payors, net amounts of anticipated collections, and historical collection information. Management's estimate of depreciation expense is based upon the estimated useful lives of the assets ranging from three to forty years using the straight-line method. Accordingly, actual results could differ from those estimates.

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

Cash and cash equivalents:

Cash and cash equivalents include cash on hand and deposits with banking institutions in checking and savings accounts and investments in highly liquid debt instruments with original maturities of three months or less. Bank balances are typically secured by federal deposit insurance at $250,000 per institution. Balances in these accounts sometimes exceed the federal deposit insurance limits; however, management believes the banks to be creditworthy and believes that credit risk associated with these deposits is minimal.

Valuation of accounts receivable:

Substantially all accounts receivable are from Medicare, Medicaid, or other third-party payors. Accounts receivable are presented on the statement of financial position net of estimated allowances for uncollectible accounts, including bad debts and contractual allowances. The estimated allowance for uncollectible accounts is comprised of amounts management normally considers uncollectible based upon historical trends and an analysis of the likelihood of collectability of individual accounts. Amounts are normally considered uncollectible if unresolved differences between the Agency and the respective payor exceed a judgmentally significant time period and all means of collection have been exhausted.

Other receivables:

Other receivables are stated at face amount and consist of grants receivable and other miscellaneous receivables. The Company considers its other receivables to be fully collectible at June 30, 2017 and 2016. Accordingly, no allowance for doubtful accounts is recorded on these receivables.

Property and equipment:

Purchases of property and equipment acquisitions greater than $5,000 are capitalized and are recorded at cost. Depreciation is provided over the estimated useful lives of the assets ranging from three to forty years and is computed on the straight-line method. Expenditures for equipment costing less than $5,000 and repairs and maintenance are charged to expense as incurred.

Contributions of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the agency reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

All property and equipment is considered owned by the Agency while it is used for authorized programs. The West Virginia Department of Health and Human Resources has a reversionary interest in all furniture and equipment purchased with State funds. The disposition of such equipment and ownership of any proceeds therefore is subject to state regulations. The net book value of such assets was $56,895 and $23,528 at June 30, 2017 and 2016, respectively.

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

Advertising costs:

Advertising costs are expensed as incurred. Advertising expenses charged to operations amounted to approximately $15,449 and $6,862, respectively, for the years ended June 30, 2017 and 2016.

Net client service revenue:

Net client service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated adjustments under reimbursement agreements with third-party payors. Adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Charity care:

The Agency provides care to clients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Agency does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Income taxes:

The Agency is a not-for-profit corporation as described in Section 501(c)(3) of the *Internal Revenue Code* and is exempt from federal income taxes on related income pursuant to Section 501(a) of the *Code*. The Agency has been classified as an organization that is not a private foundation.

The Agency was subject to the Behavioral Health Severance and Business Privilege Tax until the tax was repealed effective July 1, 2016. For the year ended June 30, 2016, tax expense was $250,831. Taxes payable at June 30, 2016 were $23,645.

Union employees:

Certain portions of the Agency's workforce are members of a labor union. Terms of continued employment by these employees are contingent upon periodic negotiation of labor contract terms.

Reclassification:

Certain amounts for the prior year have been reclassified to conform to the current year presentation. The reclassifications have no effect on the change in net assets as previously reported.

Subsequent events:

Subsequent events were considered through January 15, 2018, the date the financials were available to be issued.

## Note 2. Accounts Receivable Concentrations of Credit Risk

The Agency extends credit without collateral to its patients, most of whom qualify for Medicaid. The mix of receivables net of related allowances is as follows:

| | 2017 | 2016 |
|---|---|---|
| Medicaid | 59% | 58% |
| Medicaid waiver | 16 | 28 |
| Other third-party payors | 25 | 14 |
| | 100% | 100% |

## Note 3. Property and Equipment

Property and equipment consisted of the following at June 30:

| | 2017 | 2016 |
|---|---|---|
| Land | $ 119,210 | $ 119,210 |
| Leasehold improvements | 689,937 | 675,087 |
| Buildings and improvements | 2,375,018 | 2,362,387 |
| Furniture and equipment | 1,221,749 | 1,221,749 |
| Vehicles | 948,382 | 932,760 |
| | 5,354,296 | 5,311,193 |
| Less accumulated depreciation | (4,089,002) | (3,888,439) |
| Total property and equipment | $ 1,265,294 | $ 1,422,754 |

The cost and related accumulated depreciation of vehicles recorded under capital lease obligations, which are included in vehicles, amounted to $174,495 and $53,553, respectively, at June 30, 2017, and $191,043 and $20,309, respectively, at June 30, 2016. Depreciation expense includes amounts for vehicles under capital leases of $34,899 and $20,309 for the years ended June 30, 2017 and 2016, respectively.

## Note 4. Line of Credit

The Agency has a $1,000,000 line of credit with BB&T bank, with interest payable at prime rate plus 0.5%, which totaled 4.75% and 4.00% at June 30, 2017 and 2016, respectively. There was no amount outstanding under this line of credit at June 30, 2017 and 2016. The line of credit is secured by accounts receivable.

## Note 5. Leases

FMRS leases an office building from the State of West Virginia. The office building is leased on a year-to-year basis with annual lease payments equaling $1. Revenue and corresponding rent expense have been recognized for the annual fair rental value of the leased facility in the amount of $335,556 for both years ending June 30, 2017 and 2016.

Rent expense on all operating leases was $3,525 and $5,897 for the years ended June 30, 2017 and 2016, respectively.

## Note 6. Revenue and Support

As described in Note 1, the Agency receives revenue from a variety of sources. The Agency's programs are dependent upon its respective federal and state sponsoring agencies obtaining adequate appropriation and the existence of sufficient tax revenues to fund such appropriations. Following is a summary of the major funding sources for the years ended June 30, and does not reflect any reductions for allowances for collectability:

| | 2017 | 2016 |
|---|---|---|
| West Virginia Department of Health and Human Resources: | | |
| Bureau for Behavioral Health and Health Facilities | $ 5,222,534 | $ 5,035,154 |
| Medicaid | 4,173,798 | 3,972,655 |
| Medicaid Waiver | 2,328,937 | 2,278,025 |
| Other | 2,594,996 | 2,149,242 |
| | $ 14,320,265 | $ 13,435,076 |

A significant reduction in the level of this support, if this were to occur, may have a significant impact on the Agency's programs and activities.

## Note 7. Capital Lease Obligations

The Agency leases certain equipment as obligations under capital lease. The capital leases are collateralized by the equipment under the lease. Scheduled minimum lease payments for obligations under capital leases subsequent to June 30, 2017 are as follows:

| | |
|---|---|
| 2018 | $ 40,698 |
| 2019 | 40,698 |
| 2020 | 40,698 |
| 2021 | 22,409 |
| Net minimum lease payments | 144,503 |
| Less: amount representing interest, maintenance, and taxes | (33,408) |
| Less: current maturities | (29,465) |
| Capital lease obligations, net of current maturities | $ 81,630 |

(Continued)

## Note 8. Functional Expenses

The Agency provides mental health services to residents within Fayette, Monroe, Raleigh, and Summers Counties in West Virginia. Expenses related to providing these services for the years ended June 30, 2017 and 2016 are as follows:

| | 2017 | 2016 |
|---|---|---|
| Substance Abuse – Federally funded program offering a comprehensive array of substance abuse assessment and treatment services to meet the varying needs of those who are abusing or addicted to alcohol or other drugs of abuse | $ 1,820,179 | $ 1,668,653 |
| Outpatient – program focusing on the diagnosis and treatment of emotional and behavioral health problems on an outpatient status | 900,974 | 807,640 |
| Day Treatment – program focusing on the diagnosis and treatment of emotional and behavioral health problems in a day time treatment | 693,432 | 830,996 |
| Community Engagement (formerly Care Coordination) – program to develop a community support system for adults with serious mental illness and co-occurring mental illness and/or substance abuse and/or developmental disabilities who are at risk of hospitalization | 493,173 | 431,872 |
| Waiver Services – State funded Medicaid program designed to deliver services to individuals in their home and community as an alternative to receiving services in an Intermediate Care Facility | 1,828,675 | 1,865,875 |
| Physicians – program dedicated to enhancing the emotional and behavioral health through advocacy, community involvement, and provision of the highest quality diagnostic and professional treatment services | 1,057,351 | 985,066 |
| Service Coordination – case management program designed to provide a single point of contact to ensure patients' needs are met | 5,704 | 61,818 |

**Note 8. Functional Expenses (Continued)**

| | 2017 | 2016 |
|---|---|---|
| RAPP – Resiliency for Appalachia – Youth Overcoming Trauma is an effort funded by the Substance Abuse and Mental Health Services Administration (SAMHSA) to focus on promoting trauma focused education to a myriad of community partners and provide trauma focused treatment and services for youth and their families | $ 217,061 | $ - |
| ACT – Assertive Community Treatment. An inclusive array of community-based rehabilitation services to high risk consumers who have a history of frequent hospitalizations and/or crisis contacts | 852,478 | 907,304 |
| Crisis – comprehensive array of programs designed to stabilize the conditions of acute or severe psychiatric symptoms | 1,234,689 | 1,295,774 |
| Other programs | 1,222,610 | 964,137 |
| Total program expenses | 10,326,326 | 9,819,135 |
| General and administrative expenses | 3,123,193 | 3,034,138 |
| Total | $ 13,449,519 | $ 12,853,273 |

**Note 9. Retirement Plan**

The Agency has a defined contribution profit sharing plan covering substantially all full-time employees. Employer contributions are 4% of each participant's compensation for the profit sharing contribution. The Agency also makes a matching contribution of 100% of the first 3% of compensation that a participant contributes to the plan. Employer contributions for the years ended June 30, 2017 and 2016 amounted to $322,942 and $292,421, respectively.

**Note 10. Contingencies**

Under the terms of certain grant programs, periodic audits may be made, and certain costs may be questioned as not being appropriate expenses. Laws and regulations governing the grant programs and allowability of program costs are complex and subject to interpretation. Accordingly, such audits could lead to disallowances requiring reimbursements to the grantor agencies, which could be material to the Agency's financial statements. Management of the Agency believes that the Agency is in compliance with applicable laws and regulations in all material respects.

Also, the Agency is involved in various legal actions from time to time in the ordinary course of business. Management is not currently aware of any matters that will have a significant adverse effect on the accompanying financial statements.

**Note 10. Contingencies (Continued)**

The Agency is insured under a claims made and reported liability insurance policy with limits of $2,000,000 each occurrence and $4,000,000 in the aggregate. Beyond those limits, the Agency is self-insured and, accordingly, a contingent liability may exist for unreported liability insurance claims in excess of those reflected in the financial statements. Although the outcome of claims against the Agency cannot be predicted with certainty, management believes that there are no existing claims that are likely to have a material adverse effect on the Agency's financial position or results of operations for which it has not already provided.

**Note 11. Insurance Proceeds from Loss of Business Income**

On July 8, 2016, the Oakview facility sustained storm damage that resulted in closure. Repairs to the facility were covered by the State of West Virginia's insurance. However, the Agency received $23,246 from the insurance carrier for personal property loss and has a receivable from the insurance carrier of $292,317 for loss of business income. The Oakview facility reopened on March 6, 2017.

**COMPLIANCE SECTION**

BROWNEDWARDS
certified public accountants

# 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
FMRS Health Systems, Inc.
Beckley, 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 FMRS Health System, Inc. (the "Agency"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 15, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 may exist that have not been identified.**



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**Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
January 15, 2018

DHHR - Finance
FEB 15 2018
Date Received

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

To the Board of Directors
FMRS Health Systems, Inc.
Beckley, West Virginia

**Report on Compliance for Each Major Federal Program**

We have audited FMRS Health Systems, Inc.'s (the "Agency") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Agency's major federal program for the year ended June 30, 2017. The Agency's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

***Opinion on Each Major Federal Program***

In our opinion, FMRS Health Systems, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.


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**Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-001. Our opinion on the major federal program is not modified with respect to this matter.

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

**Report on Internal Control over Compliance**

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency'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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
January 15, 2018

**FMRS HEALTH SYSTEMS, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**Year Ended June 30, 2017**

| Federal Granting Agency/ Recipient State Agency/ Grant Program/Grant Number | Award Date | Federal Catalog Number | Pass-Through Entity Identifying Number | Expenditures |
|---|---|---|---|---|
| Department of Health and Human Services | | | | |
| Substance Abuse and Mental Health Services Administration, Center for Mental Health Services: | | | | |
| Direct payments: | | | | |
| Strategic Prevention Framework State Incentive Grant (SPF-SIG) | 09/30/2015 | 93.243 | N/A | $ 235,652 |
| Resiliency for Appalachia (RAPP) | 09/01/2016 | 93.243 | N/A | 234,546 |
| | | | | 470,198 |
| Pass-Through payments: | | | | |
| West Virginia Department of Health and Human Resources, Bureau of Behavioral Health and Health Facilities: | | | | |
| Block Grants for the Prevention and Treatment of Substance Abuse | 10/01/2015<br>10/01/2016 | 93.959 | 8793-13000 | 1,050,263 |
| Sponsored Youth Suicide Prevention | 09/30/2015<br>09/30/2016 | 16.579 | 8723-13000 | 50,115 |
| Total expenditures of federal awards | | | | $ 1,570,576 |

## FMRS HEALTH SYSTEMS, INC.

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
### Year Ended June 30, 2017

### I. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of FMRS Health Systems, Inc., and is presented on the accrual basis. The information in this schedule is presented in accordance with the requirement of the Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*.

### II. Indirect Cost

FMRS Health Systems, Inc. has not elected to use the de minimis 10% rate. They have a negotiated rate in place.

**FMRS HEALTH SYSTEMS, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**Year Ended June 30, 2017**

## A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **No significant deficiencies** relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed during the audit.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance in Accordance with the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings** relating to major programs.
7. The program tested as major programs include:

| Name of Program: | CFDA # |
|---|---|
| Strategic Prevention Framework State Incentive Grant (SPF-SIG) and Resiliency for Appalachia (RAPP) | 93.243 |

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

## B. FINDINGS – FINANCIAL STATEMENT AUDIT

**None.**

## C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

**2017-001: Resiliency for Appalachia (RAPP) – CFDA No. 93.243;**
**Grant period: Year Ended June 30, 2017**

*Criteria and Condition:* Disbursements should be for allowable items (activities allowed) in accordance with Notice of Grant Award, general requirements from the SAMHSA website and uniform guidance. Funds were not coded to the proper set-aside and a disbursement unallowed was included.

*Context:* For 1 of 25 items selected for testing, one disbursement was found to be improperly coded to this grant and was unallowable.

*Cause:* Failure to review the transaction coded to the grant.

*Effect:* Expense was incorrectly charged to the program.

*Recommendation:* Steps should be taken to ensure allowable activities are charged to the correct program.

*Views of Responsible Officials and Planned Corrective Action:* The auditee concurs with this recommendation and will ensure that disbursements are properly coded in the future.

# SUPPLEMENTARY INFORMATION

# FMRS HEALTH SYSTEMS, INC.
## SCHEDULE OF STATE GRANT AWARDS
## YEAR ENDED JUNE 30, 2017

| AWARDING AGENCY | GRANT NAME | GRANT IDENTIFICATION | PERIOD OF AWARD | TOTAL AWARD | FUNDS RECEIVED | FUNDS EXPENDED | UNEXPENDED BALANCE | RECEIVABLE (REFUNDABLE) |
|---|---|---|---|---|---|---|---|---|
| WVDHHR - BHHF | CONTINUUM ENHANCEMENT FUNDS | 2017-0525-0506-2851-21900-3256-0000-13144 | 07/01/2016 - 06/30/2017 | $ 30,787 | $ 25,656 | $ 30,787 | $ - | $ 5,131 |
| WVDHHR - BHHF | CONTINUUM ENHANCEMENT FUNDS | 2017-0525-0506-2851-21900-3256-0000-13144 | 07/01/2016 - 06/30/2017 | 117,297 | 97,747 | 117,297 | - | 19,550 |
| WVDHHR - BHHF | CONTINUUM ENHANCEMENT FUNDS | 2017-0525-0506-2851-21900-3256-0000-13144 | 07/01/2016 - 06/30/2017 | 760,933 | 634,102 | 760,933 | - | 126,831 |
| WVDHHR - BHHF | CONTINUUM ENHANCEMENT FUNDS | 2017-0525-0506-2851-21900-3256-0000-13144 | 07/01/2016 - 06/30/2017 | 42,941 | 35,784 | 42,941 | - | 7,157 |
| | | G170219 TOTAL | | 951,958 | 793,289 | 951,958 | - | 158,669 |
| WVDHHR - BHHF | CONTINUUM ENHANCEMENT FUNDS | 2014-0525-0506-2916-21900-3256-0000-13144 | 07/01/2016 - 09/30/2017 | 92,422 | 20,285 | 20,285 | 36,723 | - |
| WVDHHR - BHHF | CONTINUUM ENHANCEMENT FUNDS | 2015-0525-0506-2851-21900-3256-0000-13144 | 07/01/2016 - 06/30/2017 | 277,266 | 56,298 | 56,298 | 7,114 | - |
| | | G160480 TOTAL | | 369,688 | 76,583 | 76,583 | 43,837 | - |
| WVDHHR - BHHF | PERMANENT SUPPORT HOUSING | 2017-0525-0506-3743-21900-3256-0000 | 07/01/2016 - 06/30/2017 | 400,000 | 336,594 | 400,000 | - | 63,406 |
| WVDHHR - BHHF | GROUP HOME, RALEIGH CO., CORNERSTONE | 2017-0525-0506-3115-21900-3256-0000 | 07/01/2016 - 06/30/2017 | 399,850 | 324,246 | 382,368 | 17,482 | 58,122 |
| WVDHHR - BHHF | GROUP HOME, RALEIGH CO., JOHNSTOWN ROAD | 2017-0525-0506-3115-21900-3256-0000 | 07/01/2016 - 06/30/2017 | 393,463 | 330,505 | 383,606 | 9,857 | 53,101 |
| WVDHHR - BHHF | DAY PROGRAM, RALEIGH CO. | 2016-0525-0506-3744-21900-3256-0000 | 07/01/2016 - 06/30/2017 | 155,911 | 82,973 | 108,232 | 47,679 | 25,259 |
| | | G170230 TOTAL | | 1,349,224 | 1,074,318 | 1,274,206 | 75,018 | 199,888 |
| WVDHHR - BHHF | CHILDREN'S CLINICAL OUTREACH LIAISON | 2016-0525-0506-21900-3256-0000-13140 | 07/01/2016 - 06/30/2017 | 60,000 | 50,837 | 60,000 | - | 9,163 |
| | | G170242 TOTAL | | 60,000 | 50,837 | 60,000 | - | 9,163 |
| WVDHHR - BHHF | COMMUNITY ENGAGEMENT SPECIALIST | 2017-0525-0506-3701-21900-3256-0000 | 07/01/2016 - 06/30/2017 | 530,000 | 451,732 | 530,000 | - | 78,268 |
| | | G170294 TOTAL | | 530,000 | 451,732 | 530,000 | - | 78,268 |
| WVDHHR - BHHF | TURNING POINTE | 2017-0525-0506-2891-21900-3256-0000 | 10/01/2016 - 06/30/2017 | 739,700 | 418,143 | 541,352 | 198,348 | 123,209 |
| | | G170601 TOTAL | | 739,700 | 418,143 | 541,352 | 198,348 | 123,209 |
| WVDHHR - BHHF | TURNING POINTE | 2016-0525-0506-2891-13000-3256-0000-13129 | 10/01/2015 - 09/30/2016 | 739,700 | 131,392 | 131,392 | 33,320 | - |
| | | G160517 TOTAL | | 739,700 | 131,392 | 131,392 | 33,320 | - |
| WVDHHR - BHHF | EXPANDED SCHOOL BASED MENTAL HEALTH | 2015-0525-0506-2916-35400-3256-0000-13132 | 07/01/2016 - 06/30/2017 | 60,000 | 37,154 | 54,801 | 5,199 | 17,647 |
| | | G170322 TOTAL | | 60,000 | 37,154 | 54,801 | 5,199 | 17,647 |
| WVDHHR - BHHF | CHILDREN'S MOBILE CRISIS RESPONSE | 2016-0525-0506-2916-21900-3256-0000-13122 | 07/01/2016 - 06/30/2017 | 500,000 | 210,160 | 299,749 | 200,251 | 89,589 |
| | | G170472 TOTAL | | 500,000 | 210,160 | 299,749 | 200,251 | 89,589 |
| WVDHHR - BHHF | CHILDREN'S WRAPAROUND | 2015-0525-0506-2916-21900-3256-13111 | 07/01/2016 - 06/30/2017 | 566,400 | 80,204 | 129,650 | 436,750 | 49,446 |
| | | G160814 TOTAL | | 566,400 | 80,204 | 129,650 | 436,750 | 49,446 |
| WVDHHR - BHHF | DISASTER RESPONSE | 2017-5230-0506-2851-09900-3285-0000-D0616 | 07/01/2016 -08/25/2016 | 4,972 | 4,972 | 4,972 | - | - |
| | | G170405 TOTAL | | 4,972 | 4,972 | 4,972 | - | - |
| | | TOTAL | | $ 5,871,642 | $ 3,328,784 | $ 4,054,663 | $ 992,723 | $ 725,879 |