Audited Financial Statements

LOGAN MINGO AREA MENTAL HEALTH

Years Ended June 30, 2014 and 2013



GIBBONS&KAWASH

Certified Public Accountants

Audited Financial Statements

LOGAN-MINGO AREA MENTAL HEALTH, INC.

Years Ended June 30, 2014 and 2013

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Logan-Mingo Area Mental Health, Inc.
Logan, West Virginia

### Report on the Financial Statements

We have audited the accompanying financial statements of Logan Mingo Area Mental Health, Inc. (the Center) which comprise the statements of financial position as of June 30, 2014 and 2013, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Logan Mingo Area Mental Health, Inc. as of June 30, 2014 and 2013, 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 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of BHHF funded fixed assets and BHHF funding status are presented for purposes of additional analysis as required by the West Virginia Department of Health and Human Resources, Bureau for Behavioral Health and Health Facilities (BHHF), 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 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 October 26, 2015, on our consideration of the Center'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 the Center's internal control over financial reporting and compliance.

Gibbons & Kawash, A.C.

Charleston, West Virginia
October 26, 2015

# LOGAN MINGO AREA MENTAL HEALTH, INC.

## STATEMENTS OF FINANCIAL POSITION

June 30, 2014 and 2013

| ASSETS | 2014 | 2013 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 893,818 | $ 1,060,231 |
| Accounts receivable, less allowance for doubtful accounts of $0 and $107,339 at June 30, 2014 and 2013, respectively | 162,842 | 502,155 |
| Grants receivable | 271,104 | 182,001 |
| Other | 1,500 | 8,130 |
| Total current assets | 1,329,264 | 1,752,517 |
| Certificates of deposit | 535,928 | 532,162 |
| Property and equipment, less accumulated depreciation | 896,113 | 869,641 |
| Total assets | $ 2,761,305 | $ 3,154,320 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable | $ 45,908 | $ 161,400 |
| Accrued and withheld liabilities | 195,150 | 166,973 |
| Accrued annual leave | 203,290 | 136,421 |
| Total current liabilities | 444,348 | 464,794 |
| Unrestricted net assets | 2,316,957 | 2,689,526 |
| Total liabilities and net assets | $ 2,761,305 | $ 3,154,320 |

The accompanying notes are an integral part of these financial statements.

LOGAN MINGO AREA MENTAL HEALTH, INC.

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2014 and 2013

| | 2014 | 2013 |
|---|---|---|
| Changes in unrestricted net assets: | | |
| Revenues: | | |
| Net patient revenue | $ 3,276,406 | $ 4,859,834 |
| State and federal grant | 2,232,034 | 2,255,722 |
| Local and county grant | 22,657 | 31,602 |
| Contracted services | 33,484 | 34,286 |
| | 5,564,581 | 7,181,444 |
| Non-operating revenues: | | |
| Interest | 4,160 | 4,926 |
| Total unrestricted revenues | 5,568,741 | 7,186,370 |
| Expenses and losses: | | |
| Salaries and wages | 3,101,768 | 3,090,849 |
| Employee benefits | 952,693 | 990,966 |
| Contracted services | 909,035 | 1,800,425 |
| Facility | 133,036 | 127,443 |
| Repairs and maintenance | 61,793 | 35,487 |
| Travel | 96,905 | 143,771 |
| Bad debt | 78,784 | 82,052 |
| Provider tax | 93,722 | 97,039 |
| Depreciation | 118,437 | 99,858 |
| Food and drug | 46,980 | 56,118 |
| Miscellaneous | 28,433 | 60,380 |
| Office supplies | 62,588 | 91,976 |
| Telephone | 27,466 | 28,806 |
| Printing and postage | 45,919 | 47,251 |
| Professional fees | 22,001 | 39,560 |
| Subscriptions and books | 18,610 | 16,275 |
| Insurance | 46,729 | 40,925 |
| Accounting | 61,335 | 54,253 |
| Loss on abandonment of software | - | 100,000 |
| Software | 11,117 | - |
| Rent | 23,959 | - |
| Total expenses | 5,941,310 | 7,003,434 |
| Change in net assets | (372,569) | 182,936 |
| Net assets, beginning of year | 2,689,526 | 2,506,590 |
| Net assets, end of year | $ 2,316,957 | $ 2,689,526 |

The accompanying notes are an integral part of these financial statements.

LOGAN MINGO AREA MENTAL HEALTH, INC.

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2014 and 2013

| | 2014 | 2013 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ (372,569) | $ 182,936 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Provision for bad debts | 78,784 | 82,052 |
| Depreciation | 118,437 | 99,858 |
| Loss on abandonment of software | - | 100,000 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | 260,529 | (161,525) |
| Grants receivable | (89,103) | 70,665 |
| Other | 6,630 | 1,287 |
| Increase (decrease) in: | | |
| Accounts payable | (115,492) | 22,349 |
| Accrued and withheld liabilities | 28,177 | 6,851 |
| Accrued annual leave | 66,869 | 413 |
| Net cash provided by (used in) operating activities | (17,738) | 404,886 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (144,909) | (2,651) |
| Purchases of certificates of deposit | (3,766) | (4,233) |
| Net cash used in investing activities | (148,675) | (6,884) |
| Net increase (decrease) in cash and cash equivalents | (166,413) | 398,002 |
| Cash and cash equivalents, beginning of year | 1,060,231 | 662,229 |
| Cash and cash equivalents, end of year | $ 893,818 | $ 1,060,231 |

The accompanying notes are an integral part of these financial statements.

LOGAN-MINGO AREA MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

## 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Logan-Mingo Area Mental Health, Inc. (the Center) is a nonprofit, nonstock corporation organized under the laws of the State of West Virginia. The primary purpose of the Center is to develop, operate, and maintain facilities and services for mentally ill and developmentally delayed individuals and substance abuse in Logan and Mingo 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. The Center recognizes grant revenues when qualifying expenditures are incurred.

Cash and Cash Equivalents

The Center considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Net Client Revenues

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Net client revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated contractual adjustments under reimbursement agreements with third party payors. The allowance for doubtful accounts is based on management's experience, analysis of the age of individual accounts, and likelihood of collection. Interest is not charged on past due balances.

Property and Equipment

Property and equipment are stated at cost. Major purchases and improvements are capitalized while repairs and maintenance are expensed as incurred. Donations of property and equipment are recorded as increases in unrestricted net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. Estimated useful lives are as follows:

| | |
|---|---|
| Buildings and improvements | 5 - 40 years |
| Vehicles and equipment | 5 - 15 years |

Income Taxes

The Center is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

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. Accordingly, actual results could differ from those estimates.

LOGAN-MINGO AREA MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

## 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain 2013 amounts have been reclassified to conform with the 2014 presentation.

Subsequent Events

The date to which events occurring after June 30, 2014, have been evaluated for possible adjustment to or disclosure in the financial statements is October 26, 2015, which is the date the financial statements were available to be issued.

## 2 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2014 and 2013:

| | 2014 | 2013 |
|---|---|---|
| Land | $ 143,633 | $ 143,633 |
| Buildings and improvements | 2,406,126 | 2,406,126 |
| Vehicles | 400,055 | 400,055 |
| Equipment | 660,865 | 527,586 |
| Furniture | 73,662 | 62,032 |
| | 3,684,341 | 3,539,432 |
| Less accumulated depreciation | 2,788,228 | 2,669,791 |
| | $ 896,113 | $ 869,641 |

Property and equipment includes certain buildings and land provided to the Center by the State of West Virginia under long-term leases which require annual payments of $1 for terms of ninety-nine years expiring in 2076. The cost of such buildings was $1,915,785 while accumulated depreciation related to these buildings was $1,662,103 and $1,614,209 at June 30, 2014 and 2013, respectively. Land provided to the Center by the State amounted to $143,633 as of June 30, 2014 and 2013.

The cost of property and equipment purchased with Bureau of Behavioral Health & Health Facilities grant funds was $281,402 at June 30, 2014 and 2013, and related accumulated depreciation was $110,103 and $98,219, respectively, at June 30, 2014 and 2013.

Continued use of these facilities and equipment is contingent upon the Center continuing to provide treatment to persons who are emotionally disturbed or developmentally disabled. Management believes that it is highly unlikely the Center would discontinue providing these services. Accordingly, the value of the facilities and equipment has been reported as an increase in unrestricted net assets and has been capitalized and depreciated.

## 3 - DEBT

The Center had a $150,000 line of credit available during the year which expired in April 2014. The line of credit was renewed effective January 2015 and is secured by a certificate of deposit. The line bears interest at 2.3% and expires January 2016.

LOGAN-MINGO AREA MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS
(Continued)

**4 - RETIREMENT PLAN**

The Center's profit sharing plan (the Plan), which covered virtually all of its employees, was terminated effective December 31, 2013. The Center's annual discretionary contribution was determined by the Board of Directors in an amount not to exceed 5.5% of participants' compensation. Retirement expense for the year ended June 30, 2013, was $77,423.

**5 - THIRD-PARTY TRANSACTIONS AND ECONOMIC DEPENDENCY**

The Center has agreements with Medicaid, Medicare, and other third party payors that provide for payments to the Center at predetermined amounts that differ from its standard rates. The ability of the Center to receive future payments from Medicaid depends on legislation enacted and resources available to the State of West Virginia. Revenue recognized from patient services less contractual adjustments during the years ended June 30, 2014 and 2013, is as follows:

| | 2014 | 2013 |
|---|---|---|
| Net patient revenue: | | |
| Medicaid | $ 2,771,270 | $ 4,261,527 |
| Medicare | 104,661 | 77,614 |
| Private pay | 228,601 | 338,889 |
| Insurance and other | 171,874 | 181,804 |
| | $ 3,276,406 | $ 4,859,834 |

**6 - CONCENTRATIONS**

Financial instruments which potentially expose the Center to significant concentrations of credit risk consist of cash and cash equivalents, certificates of deposit, and accounts receivable.

To limit concentration of credit risk associated with cash and cash equivalents and certificates of deposit, the Center places its cash with high quality financial institutions. At times, the balances in such institutions may exceed amounts covered by FDIC insurance. Those amounts in excess of FDIC insurance are collateralized by bonds in the Center's name, which are held by a third party. The Center 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. The Center provides allowances for potential losses, which, when realized, have been within the range of management's expectations.

**7 - FUNCTIONAL EXPENSES**

The Center provides mental health services to mentally ill and developmentally delayed individuals and substance abuse services in Logan and Mingo Counties in West Virginia. Expenses related to providing these services for the years ended June 30, 2014 and 2013, are as follows:

| | 2014 | 2013 |
|---|---|---|
| Health care services | $ 4,252,883 | $ 5,010,158 |
| General and administrative | 1,688,427 | 1,993,276 |
| | $ 5,941,310 | $ 7,003,434 |

SUPPLEMENTARY INFORMATION

LOGAN MINGO AREA MENTAL HEALTH, INC.

SCHEDULE OF BHHF FUNDED FIXED ASSETS

June 30, 2014

| Description | Date Acquired | Cost | Program |
|---|---|---|---|
| Breathalyzers | 08/19/98 | 1,040 | Substance Abuse |
| Desk | 06/30/99 | 1,227 | Substance Abuse |
| Passport Paging System | 06/30/99 | 500 | Substance Abuse |
| True Colors Training Kit | 06/30/99 | 712 | Substance Abuse |
| Desk | 08/01/99 | 435 | Substance Abuse |
| Computer Station | 08/01/99 | 320 | Substance Abuse |
| National Desk Station | 09/27/99 | 1,115 | Substance Abuse |
| Vinyl Chairs | 04/17/00 | 344 | Substance Abuse |
| Rectangular Table | 06/23/00 | 360 | Substance Abuse |
| Compac Laptop | 09/08/00 | 1,160 | Substance Abuse |
| Hewlett Packard Pavillion PC | 11/01/00 | 998 | Substance Abuse |
| Hewlett Packard PCs | 12/06/00 | 3,192 | Substance Abuse |
| Hewlett Packard PCs | 01/09/01 | 1,396 | Substance Abuse |
| Hewlett Packard PCs | 01/09/01 | 798 | Substance Abuse |
| PowerHouse Shredder | 03/13/01 | 600 | Substance Abuse |
| Pavillion Computer | 07/16/01 | 898 | Substance Abuse |
| Pavillion Computer | 08/30/01 | 2,694 | Substance Abuse |
| Hewlett Packard Computers | 06/18/02 | 2,672 | Substance Abuse |
| Compac Presario Computer | 10/31/02 | 769 | Substance Abuse |
| HP Computer | 10/09/03 | 528 | Substance Abuse |
| PC Tower & Hardware | 10/16/03 | 887 | Substance Abuse |
| Office Chairs/FUTURES | 04/14/04 | 750 | Substance Abuse |
| Dishwasher/FUTURES | 04/22/04 | 3,815 | Substance Abuse |
| Dorm Beds/FUTURES | 05/20/04 | 1,378 | Substance Abuse |
| Table & Benches/FUTURES | 05/21/04 | 1,358 | Substance Abuse |
| Powerpoint Projector | 05/28/04 | 899 | Substance Abuse |
| Chairs/FUTURES | 06/02/04 | 996 | Substance Abuse |
| Sofa/FUTURES | 06/02/04 | 489 | Substance Abuse |
| Dressers/FUTURES | 06/02/04 | 1,620 | Substance Abuse |
| Desk/FUTURES | 06/02/04 | 1,261 | Substance Abuse |
| Desk/FUTURES | 06/02/04 | 1,218 | Substance Abuse |
| Office Chairs/FUTURES | 06/02/04 | 636 | Substance Abuse |
| Tables/FUTURES | 06/02/04 | 575 | Substance Abuse |
| Chairs/FUTURES | 06/02/04 | 2,752 | Substance Abuse |
| Dell Laptop | 06/03/04 | 1,913 | Substance Abuse |

(Continued)

LOGAN MINGO AREA MENTAL HEALTH, INC.

SCHEDULE OF BHHF FUNDED FIXED ASSETS
(Continued)

June 30, 2014

| Description | Date Acquired | Cost | Program |
|---|---|---|---|
| Chairs/FUTURES | 06/08/04 | 792 | Substance Abuse |
| Compac Presario | 06/21/04 | 740 | Substance Abuse |
| Compac Presario | 06/21/04 | 740 | Substance Abuse |
| Compac Presario/FUTURES | 06/21/04 | 740 | Substance Abuse |
| Compac Presario/FUTURES | 06/21/04 | 740 | Substance Abuse |
| Cabinets/FUTURES | 06/22/04 | 412 | Substance Abuse |
| Mouthpiece Sensors | 06/23/04 | 2,523 | Substance Abuse |
| Mattresses for FUTURES | 06/23/04 | 893 | Substance Abuse |
| TV/VCR/Intercom/FUTURES | 07/09/04 | 2,526 | Substance Abuse |
| Exercise Equipment/FUTURES | 07/27/04 | 705 | Substance Abuse |
| ASI Program/FUTURES | 08/23/04 | 550 | Substance Abuse |
| Computer/FUTURES | 08/25/04 | 498 | Substance Abuse |
| LCD Monitor | 02/09/05 | 400 | Substance Abuse |
| Pool Table/FUTURES | 02/09/05 | 475 | Substance Abuse |
| Desktop Computer | 03/07/05 | 343 | Substance Abuse |
| Compressor | 04/25/05 | 1,098 | Substance Abuse |
| 13' Floor Buffer/FUTURES | 04/29/05 | 765 | Substance Abuse |
| Desk Chairs/FUTURES | 05/12/05 | 558 | Substance Abuse |
| Cooling Tower | 09/30/09 | 42,895 | Substance Abuse |
| Sewage Treatment Plant | 10/31/09 | 118,021 | Substance Abuse |
| HVAC - Chattaroy | 04/30/10 | 62,683 | Substance Abuse |
| | | $ 281,402 | |

See Independent Auditor's Report.

LOGAN MINGO AREA MENTAL HEALTH, INC.

SCHEDULE OF BHHF FUNDING STATUS

Year Ended June 30, 2014

| Grant Series # | State Account Number | Current Year Award Amount | Award Extended From Prior Year | Refundable Advances June 30, 2013 | Amount Earned and Billed | Refundable Advances June 30, 2014 | Amount Not Billed | Amount Collected |
|---|---|---|---|---|---|---|---|---|
| G140358 | 0525-2014-2891-219-252 | 375,000 | | | 302,510 | | 72,490 | 282,441 |
| G140358 | 8793-2014-2892-130-128 | 9,500 | - | - | 7,125 | - | 2,375 | 6,333 |
| G140358 | 8793-2014-2884-130-128 | 37,795 | - | - | 37,795 | - | - | 33,595 |
| G140358 | 8793-2015-2884-130-128 | 12,598 | - | - | - | - | 12,598 | - |
| G140358 | 8793-2014-2891-130-128 | 18,750 | - | - | 15,904 | - | 2,846 | 12,308 |
| G140358 | 8793-2015-2891-130-128 | 6,250 | - | - | - | - | 6,250 | - |
| | Total for Grant G140358 | 459,893 | - | - | 363,334 | - | 96,559 | 334,677 |
| G140006 | 0525-2014-2919-219-258 | 60,000 | - | - | 54,278 | - | 5,722 | 49,769 |
| G140006 | 0525-2014-2851-219-258 | 310,086 | - | - | 310,086 | - | - | 284,246 |
| G140006 | 0525-2014-2851-219-258 | 149,639 | - | - | 149,639 | - | - | 137,169 |
| G140006 | 0525-2014-3701-219-258 | 125,713 | - | - | 93,645 | - | 32,068 | 80,189 |
| G140006 | 0525-2014-3702-219-258 | 20,218 | - | - | 919 | - | 19,299 | 919 |
| G140006 | 0525-2014-3701-219-258 | 199,995 | - | - | 150,000 | - | 49,995 | 128,136 |
| G140006 | 0525-2014-3702-219-258 | 19,000 | - | - | 7,136 | - | 11,864 | 6,748 |
| G140006 | 0525-2014-2867-221-258 | 66,771 | - | - | 55,260 | - | 11,511 | 55,260 |
| G140006 | 2014-0525-0506-2867-21900- | 22,255 | - | - | - | - | 22,255 | - |
| G140006 | 0525-2010-3065-219-258 | 426,747 | - | - | 426,747 | - | - | 426,747 |
| G140006 | 0525-20XX-3065-219-258 | 426,747 | - | - | 426,747 | - | - | 355,623 |
| | Total for Grant G140006 | 1,827,171 | - | - | 1,674,458 | - | 152,713 | 1,524,806 |
| G130522 | 0525-2013-2891-219-252 | - | 93,750 | - | 93,730 | - | 20 | 93,730 |
| G140813 | 0525-2013-3043-219-258 | 42,000 | - | - | 41,992 | - | 8 | - |
| G140773 | 8802-2014-0506-3062-13000- | 5,000 | - | - | 5,000 | - | - | - |
| G140767 | 0525-2014-288-219-258 | 54,000 | - | - | 53,520 | - | 480 | 7,717 |
| | | $ 2,388,064 | $ 93,750 | $ - | $ 2,232,034 | $ - | $ 249,780 | $ 1,960,930 |

See Independent Auditor's Report.

GIBBONS & KAWASH
Certified Public Accountants

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**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
Logan-Mingo Area Mental Health, Inc.
Logan, 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 Logan-Mingo Area Mental Health, Inc. (the Center), which comprise the statements of financial position, as of June 30, 2014 and 2013, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Center'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 Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 Center's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2014-001, 2014-002, and 2014-003 to be material weaknesses.

**Compliance and Other Matters**

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

**The Center's Response to Findings**

The Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Center's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**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 Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gibbons & Kawash, A.C.

Charleston, West Virginia
October 26, 2015

LOGAN-MINGO AREA MENTAL HEALTH, INC.

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2014



**2014-001 Financial Reporting**

Condition:

The Center's process for preparing financial statements is very informal and does not include supervisory review and approval procedures and controls to ensure the preparation of complete and accurate financial statements. In addition, the Center's staff does not include a chief financial officer or other individual with adequate training and experience to prepare financial statements in accordance with generally accepted accounting principles (GAAP). As a result of the lack of formal procedures and controls over financial reporting, combined with the shortcomings in training and experience, the Center maintains its accounting records on the modified cash basis of accounting, and prepares financial statements infrequently, which may not completely and accurately reflect the financial condition of the Center.

Criteria:

Management is responsible 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.

Effect:

The financial statements required adjustment to correct various accounts. Without complete and accurate financial statements management is unable to accurately analyze the Center's operations on a monthly basis.

Cause:

Sufficient controls were not in place to ensure the preparation and fair presentation of financial statements in accordance with generally accepted accounting principles.

Recommendation:

We recommend the Center develop an accounting manual that describes the significant operational and accounting processes necessary to prepare financial statements in accordance with GAAP. The manual should also include the responsibilities and duties of each specified personnel position, an organizational chart, chart of accounts, and any other documents or forms for which uniformity of use is desired. Documented processes for year end and month end closing procedures are an essential part of an accounting manual. Proper monthly closing procedures, including recording accruals, depreciation, and recurring charges, completing account reconciliations, and performing appropriate supervisory review procedures should be developed to more accurately report the Center's financial position and expedite year-end closing. Account reconciliations should include items such as, but not limited to, bank reconciliations, reconciling grant receivables, patient service accounts receivable and revenue to reports from the billing system, and reconciling fixed assets to the detailed schedule.

The Center should employ an individual with suitable skills, knowledge, and experience to accept responsibility for preparing financial statements in accordance with generally accepted accounting principles. If a full-time position is not deemed to be feasible, then consideration should be given to engaging a qualified accounting contractor to assist with selected accounting and financial reporting functions on a regular basis. We also believe that preparation of monthly financial statements would assist management in effectively managing the Center's operations.

LOGAN-MINGO AREA MENTAL HEALTH, INC.

SCHEDULE OF FINDINGS AND RESPONSES
(Continued)

Year Ended June 30, 2014



**2014-001 Financial Reporting (Continued)**

Management's Response:

The Center will revise the accounting manual, with the assistance from a contract accountant, to include properly month end and year end closing procedures to be in compliance with generally accepted accounting principles.

**2014-002 Analysis of Accounts Receivable**

Condition:

We noted the detailed accounts receivable records are not reconciled to the general ledger due to the Center maintaining its records on the modified cash basis of accounting. In addition, the detailed accounts receivable records included individual patient claims with negative balances of approximately $50,000 as of June 30, 2014, which resulted from duplicate posting of receipts or posting receipts to incorrect patient accounts. Furthermore, we noted that although management reviews aging reports periodically for outstanding balances, the Center does not have a formal policy for evaluating patient accounts receivable, rebilling balances to secondary payers, and when appropriate, recording contractual adjustments and bad debt expense.

Criteria:

Accounts receivable from the patient billing system should be reconciled to the general ledger control accounts to ensure patient receivables and related revenue are complete and accurate. Individual accounts should be evaluated for collectability to ensure the valuation of accounts receivable is accurate and bad debts are recognized in the proper period.

Effect:

Accounts receivable could be misstated. Contractual adjustments and bad debt expense may not be recognized in the proper period.

Cause:

Lack of internal control including reconciliation and review procedures over accounts receivable.

Recommendation:

We recommend the Center reconcile patient accounts receivable activity posted to the billing software to billings and deposits recorded in the general ledger. Furthermore, the Center should reconcile the detailed accounts receivable records to the general ledger during their monthly closing procedures. In addition, a review of individual accounts receivable balances should be performed by management during their monthly closing procedures. The allowance for doubtful accounts should be adjusted to recognize balances for which collection is doubtful.

We also recommend that these procedures be incorporated into the recommended accounting manual.

LOGAN-MINGO AREA MENTAL HEALTH, INC.

SCHEDULE OF FINDINGS AND RESPONSES
(Continued)

Year Ended June 30, 2014



**2014-002 Analysis of Accounts Receivable (Continued)**

Management's Response:

The Center will revise the accounting manual, with the assistance from a contract accountant, to include properly month end and year end closing procedures and formal policies to include accounts receivables reconciliations and analysis for bad debt.

**2014-003 Fixed Assets**

Condition:

We noted several deficiencies in internal control over fixed assets:

- The fixed assets schedule did not reconcile to the general ledger.
- There are no formal policies over disposal of property and equipment. As a result, several fixed assets remain recorded in the general ledger or on grant asset records.
- The Center has not established a formal policy for capitalization of fixed assets.
- The Center does not have procedures in place to track assets acquired with BHHF grants funds.

Criteria:

Controls and procedures should be in place to ensure complete and accurate reporting of fixed asset balances.

Effect:

Fixed assets balances could be misstated in the general ledger and financial statements.

Cause:

Lack of controls, including reconciliation procedures over fixed assets.

Recommendation:

We recommend the Center establish written procedures included in the accounting manual over fixed assets including capitalization policy, procedures over additions and disposals, identification and tracking of state funded assets, and annual physical inventory procedures. In addition, the Center should incorporate reconciliation of the general ledger to detailed fixed asset listing during their year end process.

Management's Response:

The Center will revise the accounting manual, with the assistance from a contract accountant, to address the findings over fixed assets as stated above.