

**San Luis Valley Community
Mental Health Center**

**Auditor's Report and
Financial Statements**

June 30, 2020 and 2019

San Luis Valley Community Mental Health Center
Table of Contents
June 30, 2020 and 2019

Table of Contents	i
Independent Auditor's Report	1
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to the Financial Statements	5
Supplementary Information:	
Schedule of Revenues	11

rfarmer, llc
a certified public accounting and consulting firm

Independent Auditor's Report

Board of Directors
San Luis Valley Community Mental Health Center

We have audited the accompanying financial statements of San Luis Valley Community Mental Health Center (the "Center"), which comprise the statements of financial position as of June 30, 2020 and 2019, 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. 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 the Center as of June 30, 2020 and 2019, 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.

rfarmer, llc

October 5, 2020

San Luis Valley Community Mental Health Center
Statements of Financial Position
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 4,909,277	\$ 3,501,470
Accounts receivable:		
Other receivables	1,870,358	533,074
Prepaid Expenses	<u>31,704</u>	<u>51,887</u>
Total Current Assets	<u>6,811,340</u>	<u>4,086,431</u>
Investments:		
Progressive Health Options	12,778	12,778
Health Colorado	<u>1,140,000</u>	<u>840,000</u>
Total Investments	<u>1,152,778</u>	<u>852,778</u>
TOTAL ASSETS	<u><u>7,964,118</u></u>	<u><u>4,939,209</u></u>
LIABILITIES AND NET ASSET		
LIABILITIES		
Current Liabilities		
Accounts payable	731,313	114,680
Accrued expenses	303,345	237,842
Deferred Revenues	110,546	372,651
Due to related parties	<u>2,146,603</u>	<u>-</u>
Total Current Liabilities	<u>3,291,807</u>	<u>725,173</u>
TOTAL LIABILITIES	<u>3,291,807</u>	<u>725,173</u>
TOTAL NET ASSETS- Without donor restrictions	<u>4,672,312</u>	<u>4,214,037</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 7,964,118</u></u>	<u><u>\$ 4,939,209</u></u>

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

San Luis Valley Community Mental Health Center
Statements of Activities
For the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
SUPPORT AND REVENUE		
Support		
Grants and contracts	\$ 2,989,341	\$ 2,698,101
Revenue		
Net client service revenue	12,935,013	11,368,236
Local government	<u>206,507</u>	<u>179,381</u>
TOTAL SUPPORT AND REVENUE	<u>16,130,861</u>	<u>14,245,718</u>
EXPENSES		
Personnel	9,939,979	8,250,105
Client	1,654,831	1,528,732
Occupancy	636,219	544,057
Operating	2,911,641	3,136,207
Professional fees	<u>590,553</u>	<u>686,190</u>
TOTAL EXPENSES	<u>15,733,224</u>	<u>14,145,293</u>
Operating income (loss)	<u>397,637</u>	<u>100,426</u>
OTHER INCOME		
Donations	24,581	-
Interest income	2,197	49,765
Other income	<u>33,860</u>	<u>1,180,877</u>
TOTAL OTHER INCOME	<u>60,638</u>	<u>1,230,642</u>
Change in net assets	458,275	1,331,070
NET ASSETS, BEGINNING OF YEAR	<u>4,214,037</u>	<u>2,882,967</u>
NET ASSETS, END OF YEAR	<u><u>\$ 4,672,312</u></u>	<u><u>\$ 4,214,037</u></u>

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

San Luis Valley Community Mental Health Center
Statements of Cash Flows
For the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 458,275	\$ 1,331,069
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
(Increase) Decrease in:		
Accounts receivable	(1,337,285)	238,826
Prepaid expenses	20,183	17,281
Increase (Decrease) in:		
Accounts payable	616,632	53,636
Accrued expenses	65,503	60,310
Deferred revenues	(262,105)	98,790
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>(438,796)</u>	<u>1,799,912</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investments	(300,000)	-
Decrease in investments	-	1,002
Due from related parties	2,146,603	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>1,846,603</u>	<u>1,002</u>
Net increase (decrease) in cash and cash equivalents	1,407,807	1,800,914
Cash and cash equivalents, beginning of year	<u>3,501,470</u>	<u>1,700,556</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,909,277</u></u>	<u><u>\$ 3,501,470</u></u>

San Luis Valley Community Mental Health Center did not pay any taxes or interest for the years ended June 30, 2020 and 2019.

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

San Luis Valley Community Mental Health Center
Notes to Financial Statements
June 30, 2020 and 2019

Note 1 Significant Accounting Policies

The San Luis Valley Community Mental Health Center (“the Center”) is organized as a not-for-profit corporation under statutes of the State of Colorado. They have been granted exemption from taxation under section 501(c)(3) of the Internal Revenue Code. The Center serves six counties in the San Luis Valley, providing services in each of the following categories:

- Behavioral Health Counseling and Treatment
- Youth Services Programs
- Substance Abuse Programs
- Addiction Treatment Programs

These service areas are funded by patient (client) fees, federal awards, state service reimbursement contracts, state grants, county and other local sources.

The Center is a member of San Luis Valley Behavioral Health Group, Inc.

Basis of Accounting:

The financial statements of the Center have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Classification of Net Assets:

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its ASC 958-205. Under FASB ASC 958-205, the Center is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

The assets, liabilities, and net assets of the Center are reported in net asset classes as follows:

- a) Net Assets Without Donor Restrictions: Net assets without donor restrictions are resources over which the Board of Directors (the Board) has discretionary control including those net assets invested in property and equipment at the direction of the Board.
- b) Net Assets With Donor Restrictions: Net assets with donor restrictions are subject to donor-imposed stipulation that may or will be met by actions of the Center and/or the passage of time. After the donor-imposed time or purpose restriction is satisfied, these net assets are reclassified to net assets without donor restrictions and reported within the statement of activities.

In addition, some net assets with donor restrictions are limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Center. As of June 30, 2020, and 2019, there were no net assets with donor restrictions.

Cash & Cash Equivalents:

Cash and cash equivalents include temporary investments in highly liquid instruments with a maturity of three months or less, including amounts whose use is limited by board designation or other arrangements.

Compensated Absences:

The Center's policy is to accrue a liability for earned but unpaid vacation time. These accrued liabilities have been recorded on the balance sheet as of year-end.

Net Client Service Revenue:

The Center has agreements with third-party payers that provide for payments to the Center at amounts different than its established rates. Payment arrangements include prospectively determined rates per unit of service, reimbursed costs, and capitation payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive 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 is not included.

Charity Care:

The Center provides care to patients who meet Department of Mental Health "Uniform Ability to Pay" guidelines. Under those guidelines, clients receive services without charge or at amounts based upon clients established level of income. Client billings are recorded in the financial statements net of the charity component.

Contributions:

In accordance with FASB ASC 958, *Financial Statements of Not-for-Profit Entities*, as amended, contributions received are recorded as with or without donor restrictions, depending on the existence and/or nature of donor restrictions. Contributions that are restricted by the donor are reported as increases in net assets without restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with restrictions depending on the nature of the restrictions. Under FASB ASC 958 contributions that are required to be reported as net assets with restrictions are then reclassified to net assets without restrictions upon expiration of time restrictions or satisfaction of donor restrictions.

Donated Materials and Services:

The Center records the value of donated goods or services when there is an objective basis available to measure their value. Donated services of a professional or skilled nature are presented at the estimated value of such services. Donated materials and equipment are reflected in the accompanying statements at their estimated value at date of receipt.

The Center's Board of Directors serves without compensation. The value of these services is not recorded in the financial statements. No amounts have been reflected in the statements for these contributed services since the contribution of these services did not create or enhance non-financial assets or require specialized skills.

Income Taxes:

The Center 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. Under Colorado State Statutes, any organization receiving exemption from Federal income taxes is also exempt from Colorado income taxes. The Internal Revenue Service has classified the Center as a publicly supported organization.

Accounting for Income Taxes:

The Center has adopted FASB ASC 740-10, *Accounting for Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements. The interpretation prescribed a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Based on analyses of various federal and state filing positions of the Center, management believes that its income tax filing positions and deductions are well documented and supported.

As of June 30, 2020, the Center had no temporary differences relating to the recognition of income and expenses for financial and tax reporting purposes. Accordingly, no deferred tax assets or liabilities are recorded. Additionally, as of June 30, 2019, the Center had no uncertain tax positions that would qualify for either recognition or disclosure in the financial statements. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FASB ASC 740-10. In addition, no cumulative effect adjustment related to the adoption of FASB ASC 740-10 was recorded.

There have been no increases or decreases in unrecognized tax benefits for current or prior years since the date of adoption. Furthermore, no interest or penalties have been included since no reserves were recorded and no significant increases or decreases are expected to occur within the next 12 months. When applicable, such interest and penalties will be reported as income tax expense.

Since tax matters are subject to some degree of uncertainty, there can be no assurance that the Center's tax returns will not be challenged by the taxing authorities and that the Center will not be subject to additional tax, penalties, and interest as a result of

such challenge. At June 30, 2020, the periods that remain open to examination under federal statute are for the tax years ended June 30, 2017 through 2019.

The Internal Revenue Service has classified the Center as a publicly supported organization.

Operating Income:

The statement of activities includes the term “operating income.” Changes in unrestricted net assets that are excluded from operating income, consistent with industry practice, include investment income, which is primarily interest, unrealized gains and losses on investments, and undistributed earnings from other investments, including investments in partnerships.

Use of Estimates:

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 Liquidity

It is management’s intent to have an adequate amount of cash available to pay all bills currently and maintain an adequate reserve for unknown expenses or other cash outlays. Any excess cash is invested for a short period to earn interest that will be used for day to day activities. As such, the company will sweep all available cash into overnight deposits.

Note 3 Receivables

Receivables include the following:

	2020	2019
Contracts and Grants	\$ 868,287	\$ 533,074
Health Colorado, Inc.	1,002,071	-
	<u>\$ 1,870,358</u>	<u>\$ 533,074</u>

Note 4 Operating Leases

The Center has several non-cancelable operating leases, primarily for copiers, that expire at various dates. These leases generally have terms of 39-60 months. Rental expenses for these leases totaled approximately \$11,000 and \$9,822 for the years ended June 30, 2020 and 2019, respectively.

Note 5 Net Client & Other Service Revenue

Included in net client and other service revenue on the statement of activities are the following:

	2020	2019
Medicaid Capitation	\$ 9,981,084	\$ 9,055,343
Medicaid- OBRA	1,790	7,030
Client Fees	2,412,697	2,040,384
Private/Third-Party	539,443	265,479
	<u>\$ 12,935,014</u>	<u>\$ 11,368,236</u>

Note 6 Employee Benefit Plan

Effective October 1, 2008 San Luis Valley Behavioral Health Group, Inc. adopted a 401 (k) plan for the benefit of qualifying employees. The plan covers all employees who have attained the age of 21 and have completed six (6) months of service. The qualified employee must elect out of the 401 (k) plan; otherwise, 3% will be withheld from the qualifying participant. Deferral amounts contributed by qualifying employees can be no more than the maximum amount set by law. Catch-up contributions are allowed for qualifying employees that are at least age 50 or will attain age 50 before the end of the calendar year. The employer has elected to make safe harbor matching contributions. Safe harbor matching contributions will be made that are equal o 100% of your salary deferrals that do not exceed 5% of your compensation. The safe harbor contribution is 100% vested as is the qualifying employees' deferrals.

The plan year is January through December. For the plan year ended December 31, 2019, the qualifying employee and employer contributions totaled \$634,962. For the year ended December 31, 2018 the qualifying employee and employer contributions totaled \$471,262.

Note 7 Related Party Transactions

The Center leases buildings, vehicles, and equipment from related members. The amount of lease expense was \$186,811 and \$249,586 for the years ended June 30, 2020 and 2019, respectively. In addition, the Center paid for administrative services to one of the members for the years ended June 30, 2020 and 2019, paying \$1,431,811 and \$1,727,607, respectively.

Note 8 Investments

The Center has invested \$840,000 in Health Colorado, Inc. Health Colorado, Inc. has the contract with the Office of Behavioral Health to provide behavioral health services to area residents. Health Colorado, Inc. has contracted with the Center to provide those services under a fee for service arrangement. The Center owns approximately 20% of Health Colorado, Inc. During 2019-20, the Center paid-in \$300,000 additional capital for a total investment of \$1,140,000.

Note 9 Financial Instruments

Concentrations of Credit Risk from Patient and Third-party Payors:

The Center is located in the San Luis Valley, Colorado. The Center grants credit without collateral to its consumers, many of who are local residents and are insured under third-party payer's agreements.

Concentrations of Credit Risk from Cash Deposits in Excess of Insured Limits:

The Center maintains cash balances at several financial institutions located in the San Luis Valley. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times the amounts may exceed the \$250,000 coverage. The Center does not believe it is exposed to any significant credit risk on its cash balances.

Note 10 Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

A significant portion of the Center's support is provided by State and Federal grants and contracts. Lack of funding for some of these contracts would have a significant adverse impact on operations; however, the Center does not expect such a decrease in funding.

Revenue Concentration:

Approximately 62% and 59% of SLVCMHC's unrestricted revenues for the years ended June 30, 2020 and 2019, were through the contracts with the Office of Behavioral Health and Health Colorado, Inc. The contracts are for behavioral and substance abuse services to those who qualify for those services.

Note 11 Contingencies & Commitments

The Center participates in State and Federal grants and contracts programs. These grants and programs may be subject to compliance audits by the grantors or their representatives. The amount, if any, of expenses which may be disallowed by the granting agencies cannot be determined at this time although management believes such amounts, if any, to be immaterial.

Note 12 Subsequent Events

Subsequent events have been evaluated through the date of the financial statements, which is the date the financial statements were available to be issued. No additional disclosures are required.

San Luis Valley Community Mental Health Center
Schedule of Revenues
For the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUES		
Client Service		
Medicaid capitation	\$ 9,981,084	\$ 9,055,343
Medicaid-OBRA	1,790	7,030
Client fees	2,412,697	2,040,384
Private/ third-party	<u>539,443</u>	<u>265,479</u>
Net client service revenue	<u>12,935,013</u>	<u>11,368,236</u>
Government		
State contracts:		
Colorado Department of Human Services		
Office of Health and Rehabilitation		
General fund	1,650,030	1,302,062
Other State contracts	<u>215,415</u>	<u>136,552</u>
Total state revenue	<u>1,865,445</u>	<u>1,438,614</u>
Local government:		
County	<u>206,507</u>	<u>179,381</u>
Total local government	<u>206,507</u>	<u>179,381</u>
Total Government	2,071,952	1,617,995
Interest income	2,197	49,765
Donations	24,581	-
Other grants and contracts	1,123,896	1,259,487
Other income	<u>33,860</u>	<u>1,180,877</u>
TOTAL REVENUES	<u><u>\$ 16,191,499</u></u>	<u><u>\$ 15,476,361</u></u>