

**COMMUNITY MENTAL HEALTH CENTER
OF CRAWFORD COUNTY**

**Independent Auditor's Report
and Financial Statements**

December 31, 2018

COMMUNITY MENTAL HEALTH CENTER OF CRAWFORD COUNTY

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
Management Discussion and Analysis.....	i - xii
Independent Auditors' Report	1-2
Financial Statements	
Statement of Net Position.....	3
Statement of Revenues, Expenses and Changes in Net Position – Budget and Actual	4
Statement of Cash Flows.....	5
Notes to Financial Statements	6 – 10

MANAGEMENT DISCUSSION AND ANALYSIS

(Over a decade of continued struggle with KS reg. & funding)

Richard H. Pfeiffer, Executive Administrator

June 6, 2019

This section of Community Mental Health Center of Crawford County Annual Financial Report presents our discussion and analysis of the Mental Health Center's financial performance during the fiscal year ending December 31, 2018.

Our Community Mental Health Center (CMHCCC) in Kansas provides home and community-based, as well as outpatient mental health services on a 24-hours a day, seven days a week basis. We provide full range of residential substances abuse services and therapeutic preschool and lease facilities for infant center services.

This CMHCCC is the local Mental Health Authority coordinating the delivery of publicly funded community-based mental health services. Our CMHC system is state and county funded and locally administered. Service delivery decisions are made at the community level, closest to the residents that require mental health treatment. We employ 180 staff and professionals. **We provide services to Kansans of all ages with a diverse range of presenting problems. As part of licensing regulations, our CMHCCC is required to provide services to all Kansans needing them, regardless of their ability to pay.** This makes the community mental health system the "safety net" for Crawford County for persons with mental health needs.

FINANCIAL HIGHLIGHTS

CMHCCC reported a net loss of \$(73,405.06) in FY 18, net loss of \$(145,020.01) in FY17 and a net income of \$88,556.43 in FY16 and a net loss of \$(177,575.29) in FY15.

Revenues

CMHCCC reported Operating Revenues in FY18 of \$7,012,783.82; FY17 \$6,951,896.48; FY16, \$7,050,404,.84; and FY15, \$6,891,500.72.

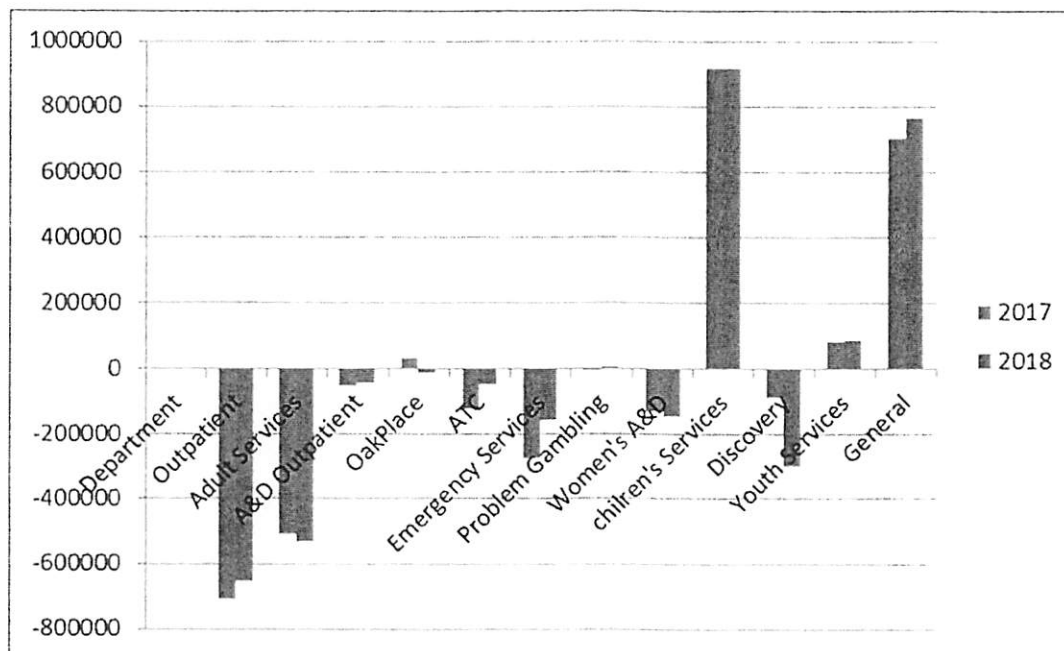
In FY 2015, we established a solid Health Home Program at the request of the State of Kansas for preventive health concerns for the population we serve. The State closed down all similar programs state wide in June 2016 due to their unwillingness to properly fund such programs, created from a lack of planning on the state's part.

Historical revenue cuts within the last decade continue to created hardships as they have not been replaced or supplemented. In FY20, mental health funding from the state is expected to be restored to the FY07 levels. One of the largest revenue decreases in recent years came from the Kansas Governor's Executive Order for Medicaid to be billed to Managed Care Organizations (MCO), those reimbursement rates have remained flat for the last decade. This order mandated the reorganization of Medicaid Services regardless of the MCOs lack of knowledge of Mental Health Community Based Care in Kansas. The Governors Executive Order has destroyed the Community Based MH System.

Historical Loss of State Funding for CMHCCC: \$4.2 Million from 2005-2016

Fiscal Year	State Aid	Mental Health Reform	Governor's MH Initiative (GMHI)	Family Centered Systems of Care	Federal MH Block Grant	Therapeutic Preschool	GMHI Regional Recovery Center Project	GMHI from Regional Recovery Center Project	Non-Medicaid Screens	Total All State Funding	Cumulative Loss
2005	131,421.00	435,517.00		135,000.00	47,656.00	183,781.00				933,375.00	
2006	131,421.00	435,517.00		135,000.00	47,656.00	183,781.00				933,375.00	0.00
2007	131,421.00	221,009.00		135,000.00	46,421.00	90,000.00				623,851.00	309,524.00
2008	131,421.00	221,009.00		135,000.00	46,421.00	45,000.00				578,851.00	354,524.00
2009	131,421.00	202,823.00		136,723.00	46,421.00	0.00				517,388.00	415,987.00
2010	131,421.00	150,284.00		136,723.00	46,421.00	0.00				464,849.00	466,526.00
2011	131,421.00	110,038.00		136,723.00	46,421.00	0.00				424,603.00	508,772.00
2012	131,421.00	110,038.00		136,906.00	46,421.00	0.00				424,786.00	508,589.00
2013	131,421.00	110,038.00	80,633.00	136,906.00	46,421.00	0.00				505,419.00	427,956.00
2014	131,421.00	110,038.00	80,633.00	0.00	44,755.00	0.00	130,070.00			496,917.00	436,458.00
2015	131,421.00	110,038.00	80,633.00	0.00	44,755.00	0.00	130,070.00			496,917.00	436,458.00
2016	131,421.00	110,038.00	80,633.00	0.00	44,755.00	0.00		136,906.00	20,879.46	524,632.46	408,742.54
Loss of State Funding From FY 2005 to Present:											4,275,536.54

Net Income/Loss by Cost Center 2017 & 2018



Service Basics and Revenue Explanation

- **We cannot deny services to any consumer because of an inability to pay, yet we are required to provide the services outlined in our contract with the State.**
- **However, the State is NOT providing adequate funding to cover these costs.**

Per our Participating Mental Health Center contract with the State Community Based Behavioral Health Services is comprised of funding allotments from Mental Health Reform, the Governor's Mental Health Initiatives, and State Aid. **The required scope of work includes:**

 1. 24-hour, 7 days a week emergency treatment and first response services;
 2. Crisis responsiveness;
 3. Evaluation, assessment, and treatment;
 4. Screening for admission to a state psychiatric hospital, when applicable and required by K.A.R. 30-61-10; and follow-up with any consumer seen for or provided with any emergency service and not detained for inpatient care and treatment, to determine the need for any further services and/or referral to any services;
 5. Basic outpatient treatment services;
 6. Basic case management services for adults and basic community-based support services for children, adolescents, and their families;
 7. Liaison services to state psychiatric hospitals, nursing facilities for mental health, psychiatric residential treatment facilities, and state hospital alternatives for children and adolescents; including, discharge planning beginning the first day of an admission, connecting to community resources, facilitating a "warm hand-off" upon discharge, and follow up;
 8. Enhanced community supports such as outreach services, public education, court ordered outpatient treatment, and attendant care services;
 9. Not deny or limit access to medically necessary community behavioral health services to consumers based solely on the presence of a substance use disorder or the receipt of services for a substance use disorder.
- **Not all of our consumers have a payor source and most private insurance companies do not pay for all services.**
 - Majority of the uninsured consumers are adults because they do not qualify for Medicaid, since the State did not expand Medicaid.
 - Underinsured: Some private insurance companies and Medicare do not pay for needed community based services or inpatient alcohol and drug treatment
- **Emergency Services: We are required to be on call 24 hours a day, 7 days a week, 365 days a year**
 - The State and Medicaid Managed Care Organizations stopped paying for screens October 2015.
 - The only billable codes are crisis intervention codes and can only be billed on Medicaid clients. So, again no payor for the uninsured we must treat.

- The state added \$20,879.46 to our contract to help pay for this service. This amount does not even come close to covering the cost of keeping staff available 24 hours a day, 7 days a week, 365 days a year.
- Children's Services: The majority of children have Medicaid, so the earned revenue has helped offset losses in the other departments, however, the ability of Children's Services to continue this is coming to an end.
 - The Medicaid Managed Care Organizations have been and are continuing to limit services to individuals that we feel continue to need our services to be stable in the community.
- The Health Homes program also earned revenue in the 2 years that the State approved the program; however this program ended June 30, 2016. The Governor did not approve this program to continue.
- Revenue from other services includes:
 - Medicaid –
 - Continues to shrink because of the Managed Care Organizations are denying/limiting services we feel are medically necessary to help the consumer function in society.
 - There have been no increase in Medicaid rates for years, the rates are very low
 - There was also a temporary 4% reduction in Medicaid rates that the Governor that went into effect July 1, 2016, which has since been reinstated.
 - Grants –
 - These are for specific services
 - Medicare –
 - Only pays for services provided by certain license types
 - Does not pay for any community based services
 - Does not pay for emergency services
 - Private Insurance –
 - The majority of plans only cover outpatient therapy or medication services
 - The majority do not pay for community based services
 - The majority do not pay for emergency services
 - Federal Block Grant for Alcohol and Drug services
 - The Managed Care organization that handles these funds allocates only a certain amount of money each year. If we bill over the allocated amount they do not pay us for those services.

Historical Statewide Funding Losses

Highlights of funding reductions sustained by the Statewide CMHC system

1. \$20 million reduction in **Mental Health Reform** grants since FY 2008 – a 65 percent reduction.
2. \$9.6 million all funds in **Medicaid rate reductions** during FY 2010 as a result of the 10% rate reduction. Restored in FY 2011.
3. \$3.1 million in **MediKan** funding in FY 2010 – a 45 percent reduction. Elimination of MediKan General Assistance in FY 2012.
4. \$560,000 SGF in **Community Support Medication Program** funding during FY 2010 – a 53 percent reduction.
5. \$7.4 million in cost controls (savings) in the **Medicaid Mental Health** managed care contract for FY 2011.
6. 4% Temporary reduction in **Medicaid** rates in 2016; since reinstated.

Mental Health Reform Funding

Another large decrease felt by the agency is the decrease in Mental Health Reform Services. This continual lack of funding by the state stresses the safety net of services for Emergency State Hospital Screens and impact the services for those who are in the community due to lack of State Hospital psychiatric beds. State Mental Health Reform dollars are used by our agency to fund our Emergency Screening. In 2011, the State refused to pay for Mental Health Reform Screenings on private pay cases as required by Kansas Law and our contract with the State. There is a continued trend by the State to require service by regulation and then to drop funding. Which is demonstrated by the fact that the state has reduced the number of state mental health beds at Osawatimie State Hospital by 60 beds to comply with a federal mandate by the Center for Medicaid and Medicare Services (CMS) to replace ceilings that pose a danger, but they offered no replacement or alternative for the 60 beds during the process.

Mental Health Reform Funding FY07- FY11	Amount	Impact	Cumulative Impact	% Difference	Cumulative Difference
FY07	\$31,066,330				
FY08	\$21,874,340	-\$9,191,990	-\$9,191,990	-29.59%	-29.59%
FY09 (Base)	\$21,874,340	-	-\$9,191,990	-	-29.59%
FY09 (Revised - Governor's 3% cut to SRS)	\$20,074,340	-\$1,800,000	-\$10,991,990	-8.23%	-35.38%
FY10 Budget Bill	\$17,374,340	-\$4,500,000	-\$13,691,990	-20.57%	-44.07%
FY10 Omnibus Bill	\$14,874,340	-\$2,500,000	-\$16,191,990	-14.39%	-52.12%
FY10 Governor's Allotments	\$10,874,340	-\$4,000,000	-\$20,191,990	-26.89%	-65.00%
FY11	\$10,874,340	-	-\$20,191,990	-	-65.00%

Mental Health Reform funding helped our system close state hospital beds and helps support services that are essential in keeping individuals out of inpatient settings. Reducing these funds

puts at risk an already overstretched state hospital capacity. Without Mental Health Reform funding, there would be no universal system; no safety net; no 24-hour emergency care; with increasing demands for mental health care in emergency rooms and in-patient setting; and a growing number of Mentally Ill citizens in Crawford County jail. The continued removal of funds by the Governor has created a crisis in emergency service funding which is being verified by increased State Hospital Admissions and poor discharge planning by State Hospital Staff as demonstrated by the documented death of a consumer in Kiowa County and another documented death in July 2015 in Labette County.

Osawatomie State Hospital Moratorium

A moratorium on admissions to Osawatomie State Hospital pursuant to KSA 59-2968 was established June 21, 2015 suspending direct admissions of voluntary and involuntary admissions to the hospital until further notice. Admissions will now be arranged according to a wait list as described only when the hospital's census drops below 146 patients. CMHCs do their best to provide quality treatment in their respective communities to patients suffering from mental illness; however some persons require a level of care that can only be provided in an inpatient facility. It is the responsibility of the State of Kansas to provide inpatient mental health programs. A widely recognized national standard has been that for every 100,000 persons in a state's population, 50 mental health hospital beds should be available. This moratorium will put Kansas, which has approximately half the beds we should have at the aforementioned standard, even lower than we already are.

As of 12/31/18, there are 14 individuals on the bed availability list and 3 are OTO and/or corrections transfers.

OSH Census by MHC	Number of Patients	TOTAL CMHC ADULT CENSUS	Rate Per 10,000 Population
Bert Nash	7	92,573	0.76
ComCare	38	370,908	1.02
Crawford County	2	30,592	0.65
Crosswinds Counseling	6	61,585	0.97
Elizabeth Layton	7	43,628	1.60
Four County	6	65,560	0.92
Horizons	0		
Johnson County MHC	7	421,619	0.17
Kanza MH	1	31,096	0.32
Labette Center	0	16,052	0.00
Out of State	4		
Pawnee Mental Health	7	142,871	0.49
South Central	0	48,664	0.00
Southeast Kansas MHC	3	49,284	0.61
Center for Counseling	0		
Spring River	1	15,833	0.63
The Guidance Center	8	86,343	0.93
Valeo Behavioral Health	10	135,081	0.74
Wyandot MHC	11	114,989	0.96
Patients committed by criminal courts for evaluation or treatment are not included in the counts for individual CMHCs. As a result, the total number of patients attributed to CMHCs in the OSH catchment area will not equal the total number of patients in the hospital.			

CMHCs have been partners with the State of Kansas for 55 years and work to treat all Kansas with varying degrees of mental illness. The partnership with the State has never been more critical to the communities across the state, than it is now. As the grants to CMHCs have declined over the last decade, little, if any, investment has been made to increase capacity and infrastructure for them as the number of state mental hospital beds has diminished. The result is additional stress on them and their community partners.

Inpatient treatment resources have continually declined over the last 15 years and the trend is unsustainable. Intermediate and transitional programs have been put in place by the Kansas Department for Aging and Disabilities (KDADS), but they are simply supplemental programs and not alternatives to conventional inpatient treatment.

The community mental health system can sustain no additional reductions of funding or resources and additional resources must be committed to community based treatments and

services and that the state identify and fund inpatient beds at alternative hospitals to ensure adequate safety nets exist.

Additional Revenue Reductions

The State of Kansas significantly decreased funding in the Certified Match program and the State Grant Funds from FY06 through FY09, all without prior notice. Further, the State of Kansas did not provide notice when the Medicaid system was overhauled and reimbursement rates were reduced by 10%, costing over \$200,000 in FY10 alone. These reductions continue to provide loss of revenue, totaling over \$455,000 in FY14. The MHC Governing Board has asked for the retention of revenue for the last decade to manage these continued funding reductions and mismanagement by the State and current Governor. Due to the unannounced reduction in revenues, plans for the agency to expand by building a 3,000 square foot building were cancelled, leaving the agency with the need for greater space but lacking the revenue to accomplish the task because of funding cuts. To further complicate office space matters, a building owned by the County has been demolished. The Executive and Mental Health Governing Board have determined at least 3 million needs to be set aside to assure a funding base to remodel or new construction, of 30,000 square feet of building space.

On June 24, 2016 CMHCCC turned to the Crawford County Board of Commissioners to appeal for funding for a new addiction treatment center on the campus of 30th and Michigan in Pittsburg. The County Commissioners adopted a resolution for CMHCCC to do a fund raising campaign for a million dollars and the county will levy a tax mil to contribute a one million dollar bond in 2018 to fund the 2.4 million dollar project. The project will improve access for emergency services, increase reintegration beds, and increase intermediate and social detox beds. Planning will begin immediately for the project with completion. This project was updated to cost an estimated 4.4 million dollars in 2019.

Our current need for a precautionary operating reserve continues to be reality. The State and MHC Governing Board have defined this as a minimum of three months operating expense and a \$3 million building fund. Further contingent liabilities are that the MHC Agency participates in several federal and state grant programs. Amounts received or receivable from grantor agencies are subject to audit and adjustment by those agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the MHC Agency expects such amounts, if any, to be immaterial.

These funding precautions have continued over the twelve years from FY05 through current FY17. No growth or additional funding has been given to the replace or supplement the funding shortfalls during that period. FY20 state funding is expected to be reinstated to the 2007 levels. Future Medicaid reimbursement rates are expected to remain flat. This MHC agency has had a difficult time with funding stability. The first fiscal crisis happened on July 28, 2006, when a spread sheet from the State of Kansas and the Association of Community MHC's notified us that we would receive one million dollars less in funding from our Certified Match effective July 1, 2006. The continual funding cuts, but the same statutorily mandated work puts a strain on the financial stability of this agency.

Expenditures

CMHCCC reported Operating Expenses in FY18, \$xxxxx; FY17, \$7,103,181.94; FY16, \$6,973,404.64; FY15, \$7,069,076.01. Emergency services, a state mandated function; continues to lose revenue, costing \$157,770.88 in FY18; \$273,635.76 in FY17, and \$258,404.29 in FY16.

State education funding laws have provided public school districts with funds for mental health in schools which has resulted in the resignation of 4 Qualified Mental Health Professionals, depleting the entire Children's Department of Qualified Mental Health Professionals and putting significant strain on the 2 remaining Qualified Mental health Professionals left to work the Crisis Department, which includes 24/7/365 state mandated screens. Management at CMHCCC is actively working with local law enforcement, emergency room physicians, and Crawford County Commissioners to problem solve lack of available employees to work the Crisis Services screens due to the state education funding laws, which resulted in the resignation of Qualified Mental Health Professionals.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Center's basic financial statements.

Community Mental Health Center of Crawford County (CMHCCC) is a component unit of the primary government of Crawford County, Kansas (County) and as such is considered to be a governmental organization. CMHCCC provides services in the mental health field and drug and alcohol counseling, and also provides emergency response and gate keeping for the State Hospital Psychiatric Inpatient Beds. The Agency's government-wide financial statements provide both long-term and short-term information about the Center's overall financial status.

Government-Wide Statement

The government-wide statement reports information about the Center as a whole, using accounting methods similar to those used by private sector companies.

The Statement of Net Assets includes all of the government assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. The Net Assets are the difference between the Center's assets and liabilities and are one way to measure the Center's financial health or position.

The Governing Board of the quasi-government Mental Health Center requires a minimum of three (3) months Operating Expense held in reserve with contingency to meet payroll, warrants, and lease expense obligations.

Cost Center Financial Statements

The cost center Financial Statements provide detail information about the Center's cost per program breakdowns. Cost centers are accounting devices that the Center uses to keep track of specific sources of funding and spending for particular purposes.

- Some cost centers are required by State regulations to keep track of grants or funding through SRS.
- The Governing Board annually establishes cost centers to control and manage money for particular purposes and/or to show that a particular cost center is properly using designated taxes and grants for their selected roles.

OPERATIONS AND SUMMARY OF POLICIES: DISCUSSION AND ANALYSIS

Revenue Recognition

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements, shared revenues, and donations. Revenues from grants, entitlements, shared revenues and donations are recognized when all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year the resources are required to be used, or the year when use is first permitted, matching requirements and expenditure requirements in which the resources are provided to the Center on a reimbursement basis.

Compensated Absences

CMHCCC's policy permits most employees to accumulate vacation benefits, up to twenty-four days, that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits, which are earned whether the employee is expected to realize the benefits as time off or in cash. Sick leave benefits are recognized as expense when the time off occurs and no liability is accrued for such benefits. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments. These compensation related payments can include Social Security and Medicare taxes at a rate computed at the effective date.

Risk Management

CMHCCC is exposed to various risks of loss from torts, theft of, damage to and destruction of assets; business interruptions; errors and omissions; natural disasters; employee injuries and illnesses; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage rate in any of the three preceding years.

Income Taxes

As an essential government function of Crawford County, Kansas, The Center is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

County and State Services FY18

- The County maintains a commitment to former clients of State hospitals that have moved from institutional care to community-based services.
- The Community Mental Health Center of Crawford County has played a critical role in accomplishing significant bed reductions in our State mental health hospitals, which state wide, have declined from 1,003 in FY 90 to 340 today. While bed days have decreased, our inpatient system is nearing capacity due to an increase in admissions. The closure of (local) Via Christi and Coffeyville inpatient psychiatric beds further stressed local resources, as well as the FY15 moratorium suspending direct admissions to Osawatomie State Hospital.
- Our local community-based services have proven effective in diverting thousands of individuals from State hospitalization. We provide for children, intensive wraparound services to allow them to stay at home and achieve higher performance in school. For adults, it means living independently and becoming competitively employed.
- The Community Mental Health Center of Crawford County is the public safety net for adults and children with mental illnesses. The number of SPMI adults served state-wide by CMHCs has grown from 7,775 in FY92, to over 18,000 today. The number of children/adolescents with SED served by CMHCs state-wide has grown from 6,034 in FY92, to over 27,000 today.
- The Community Mental Health Center of Crawford County provides services in every city in the county, 24-hours a day, seven days a week. This is a funding issue that affects every person in the county.
- Without the Community Mental Health Center of Crawford County services, law enforcement, local emergency rooms, schools and families will be adversely affected. The failure to keep CMHC programs fully funded increases the census in state hospitals, impacts foster care and nursing homes, to say nothing of correctional facilities and juvenile detention facilities.
- The Community Mental Health Center of Crawford County has a State mandate to serve regardless of an ability to pay. State-wide over 100,000 Kansans walk through the doors of a CMHC each year – over 70,000 are the working poor and their children.
- Because of current events in our everyday lives and around the world, there are an increasing number of individuals with severe illnesses coming to the CMHCs. Without adequate funding, neither the necessary amount of services nor array of services may be available at the time of need.
- The Community Mental Health Center of Crawford County has met or exceeded every target and objective set in reducing the use of state hospital beds. The CMHCs have simultaneously succeeded in providing quality community care for virtually thousands of seriously disabled former state hospital patients. The outcomes are impressive state-wide.
- In FY18 with the advent of MCOs from out of State the service plan is to continue the decade long decrease in funding to Mental Health Centers Statewide. FY20, state funds are expected to be re-instated to 2007 levels. Centers are required to do the screening service by KS statute, yet not paid for them, and have been left with a deficit of employees to accomplish these tasks due to schools system being supplied funding to hire social workers for mental health in schools. This has led to a crisis in emergency services after hours, with local law enforcement agencies, hospitals and government agencies collaborating to problem solve.

CONCLUSION

The combination of flat reimbursement by Medicaid and the cuts that the State has done over the years makes it harder than ever to continue to provide our community with the services they need. Additional revenues shortfalls come from the majority of the uninsured and underinsured consumers are adults and most private insurance companies do not pay for all services to SPMI. The number of individuals needing treatment remains steady; however our funds to treat them are declining. As shown by recent incidents, mental health is a much needed resource that helps law enforcement and the citizens of Crawford County.

CONTACTING THE MENTAL HEALTH CENTER FISCAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Community Mental Health Center's finances and to demonstrate the Center's accountability for the money it receives. If you have any questions about this report, or need additional financial information, contact the Center's Executive Administration at (620) 231-5130.

Richard H. Pfeiffer, MSW
Executive Administrator

Heather Spaur, MBA, PHR
Director of Personnel

Diehl Banwart Bolton

Certified Public Accountants P.A.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Community Mental Health Center of Crawford County
Pittsburg, Kansas

We have audited the accompanying statement of net position of the Community Mental Health Center of Crawford County (a component unit of Crawford County), as of December 31, 2018, and the related statement of revenues, expenses and changes in net position and statement of cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. 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.

Basis for Qualified Opinion

The financial statements and the related notes do not include amounts required under accounting principles generally accepted in the United States of America for unfunded pension liabilities and changes in unfunded pension liabilities. Community Mental Health Center of Crawford County's pension liabilities are discussed in Note 6.

Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the net position of Community Mental Health Center of Crawford County as of December 31, 2018, and the changes in its net position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages i through xi be presented to supplement the basic financial statements. Such information although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Diehl, Banwart, Bolton, CPAs PA

DIEHL, BANWART, BOLTON, CPAs PA

August 21, 2019
Fort Scott, Kansas

Community Mental Health Center of Crawford County
Statement of Net Position
As of December 31, 2018

Assets

Current Assets

Cash	\$ 2,177,034.88
Certificate of Deposit	700,000.00
Accounts Receivable, less allowance for doubtful accounts	150,377.78
Prepaid Expenses	<u>1,609,500.00</u>

Total Current Assets	<u>4,636,912.66</u>
-----------------------------	---------------------

Property and Equipment

Land	68,700.00
Leasehold Improvements	1,432,337.33
Equipment and Furniture	1,528,080.87
Vehicles	1,428,241.50
less Accumulated Depreciation	<u>(3,502,009.58)</u>

Net Property and Equipment	<u>955,350.12</u>
-----------------------------------	-------------------

Total Assets	<u><u>\$ 5,592,262.78</u></u>
---------------------	-------------------------------

Liabilities and Net Position

Current Liabilities

Accounts Payable	\$ 13,000.00
Accrued Expenses	<u>324,939.64</u>

Total Current Liabilities	<u>337,939.64</u>
----------------------------------	-------------------

Net Position

Invested in Capital Assets, net of Related Debt	955,350.12
Reserved for Contingency	300,000.00
Unreserved	<u>3,998,973.02</u>

Total Net Position	<u>5,254,323.14</u>
---------------------------	---------------------

Total Liabilities and Net Position	<u><u>\$ 5,592,262.78</u></u>
---	-------------------------------

Community Mental Health Center of Crawford County
Statement of Revenues, Expenses and Changes in Net Position - Actual and Budget
For the Year Ended 12/31/18

	Budget	Actual	Actual Over (Under) Budget
Operating Revenues			
Net Contract Fees	\$ 5,205,286.46	\$ 4,849,600.13	\$ (355,686.33)
Net Client Fees	498,231.00	751,325.23	253,094.23
Federal and State Grants	536,753.00	717,991.45	181,238.45
County and City Funding	641,900.00	665,215.00	23,315.00
Other	13,000.00	28,652.01	15,652.01
Total Operating Revenues	6,895,170.46	7,012,783.82	117,613.36
Operating Expenses			
Personnel	5,245,423.98	5,380,447.28	135,023.30
Professional Services	26,900.00	22,403.10	(4,496.90)
Property Services	633,400.00	644,287.26	10,887.26
Communications	93,200.00	89,178.60	(4,021.40)
Supplies	340,700.00	372,723.18	32,023.18
Rent	33,000.00	48,000.00	15,000.00
Travel	39,900.00	57,267.20	17,367.20
Professional and Educational Meetings	14,500.00	28,909.07	14,409.07
Juvenile Justice Authority	100,000.00	2,623.25	(97,376.75)
Wraparound Services	13,500.00	15,044.62	1,544.62
Bad Debts	42,900.00	41,092.64	(1,807.36)
Detention	215,000.00	221,356.09	6,356.09
Miscellaneous	102,150.00	171,273.98	69,123.98
Total Operating Expenses	6,900,573.98	7,094,606.27	194,032.29
Operating Income	(5,403.52)	(81,822.45)	(76,418.93)
Investment Income	10,000.00	8,417.39	(1,582.61)
Excess of Revenues over Expenses	\$ 4,596.48	(73,405.06)	\$ (78,001.54)
Net Position January 01, 2018		5,327,728.20	
Net Position December 31, 2018		\$ 5,254,323.14	

See Notes to Financial Statements

Community Mental Health Center of Crawford County
Statement of Cash Flows
For the Year Ended December 31, 2018

Cash Flows from Operating Activities	
Cash Received from Contracts and Grants	\$ 7,078,589.84
Cash Paid to Employees	(5,376,794.73)
Cash Paid for Other Goods and Services	<u>(1,458,312.24)</u>
Net Cash Provided By (Used In)	
Operating Activities	<u>243,482.87</u>
Cash Flows from Noncapital Financing Activities	
Net Cash Provided By (Used In)	
Noncapital Financing Activities	<u>-</u>
Cash Flows from Capital and Related Financing Activities	
Capital Expenditures	(148,009.37)
Proceeds from Sales of Fixed Assets	<u>3,300.00</u>
Net Cash Provided By (Used In)	
Capital Related Financing Activities	<u>(144,709.37)</u>
Cash Flows From Investing Activities	
Interest Received	<u>8,417.39</u>
Net Cash Provided By (Used In)	
Investing Activities	<u>8,417.39</u>
Net Increase (Decrease) In	
Cash and Cash Equivalents	107,190.89
Beginning Cash and Cash Equivalents	<u>2,069,843.99</u>
Ending Cash and Cash Equivalents	<u><u>\$ 2,177,034.88</u></u>
Reconciliation of Net Income (Loss) To	
Cash Provided By (Used In) Operating Activities	
Net Operating Income (Loss)	<u>\$ (81,822.45)</u>
Adjustments to reconcile net income (loss) to	
net cash provided by (used in) operating activities:	
Depreciation and Amortization	218,186.75
Losses (Gains) on Sales of Fixed Assets	1,660.00
Decrease (Increase) in Operating Assets:	
Accounts Receivable	65,806.02
Prepaid Expenses	36,000.00
Increase (Decrease) in Operating Liabilities:	
Accrued Liabilities	<u>3,652.55</u>
Total Adjustments	<u>325,305.32</u>
Net Cash Provided By (Used In)	
Operating Activities	<u><u>\$ 243,482.87</u></u>

COMMUNITY MENTAL HEALTH CENTER OF CRAWFORD COUNTY

Notes to the Financial Statements For the Year Ended December 31, 2018

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Community Mental Health Center of Crawford County (CMHCCC) is a component unit of the primary government of Crawford County, Kansas (County) and as such is considered to be a governmental organization. CMHCCC provides services in the mental health field and drug and alcohol counseling.

Proprietary Fund Accounting

The Center utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Center has elected to apply only Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989, that do not conflict with or contradict a GASB pronouncement.

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 the reported amounts of assets and liabilities and disclosure 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.

Accounts Receivable

Accounts receivable at December 31, 2018, consisted of Medicaid and Medicare reimbursements, insurance claims, governmental units and client private pays. Unsecured credit is extended to clients. The allowance for doubtful accounts at December 31, 2018 was \$79,902.41.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes interest income and the net change for the year in the fair value of investments carried at fair value.

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

1. **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Cash and Cash Equivalents

For the purposes of the statement of cash flows, CMHCCC considers time deposits with an original maturity of less than three months to be cash.

Revenue Recognition

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements, shared revenues and donations. Revenues from grants, entitlements, shared revenues and donations are recognized when all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year the resources are required to be used or the year when use is first permitted, matching requirements and expenditure requirements in which the resources are provided to the Center on a reimbursement basis.

Compensated Absences

CMHCCC's policy permits most employees to accumulate vacation benefits, up to twenty-four days, that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefits as time off or in cash. Sick leave benefits are recognized as expense when the time off occurs and no liability is accrued for such benefits. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Risk Management

CMHCCC is exposed to various risks of loss from torts, theft of, damage to and destruction of assets; business interruptions; errors and omissions; natural disasters; employee injuries and illnesses; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Income Taxes

As an essential government function of Crawford County, Kansas, the Center is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

2. **BUDGETARY INFORMATION**

Kansas statutes require that an annual operating budget be legally adopted. The legal annual operation budget is prepared using the accrual basis of accounting.

The statutes permit transferring budgeted amounts between line items. However, such statutes prohibit expenses in excess of the total amount of the adopted budget of expenses. A budget comparison statement is presented showing actual revenues and expenses compared to legally budgeted revenues and expenses. In 2018 expenses exceeded the budgeted amount resulting in a violation of K.S.A 79-2935.

3. CASH INVESTMENTS AND DEPOSITS WITH FINANCIAL INSTITUTIONS

K.S.A. 9-1401 establishes the depositories which may be used by CMHCCC. The statute requires banks eligible to hold CMHCCC's funds have a main or branch bank in the county in which the CMHCCC is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The CMHCCC has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the CMHCCC's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. CMHCCC has no investment policy that would further limit its investment choices.

Concentration of credit risk. State statutes place no limit on the amount the CMHCCC may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the CMHCCC's deposits may not be returned to it. State statutes require the CMHCCC's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. At December 31, 2018, all deposits were adequately secured.

At December 31, 2018 the CMHCCC's carrying amount of deposits was \$2,877,034.88 and the bank balance was \$2,938,406.88. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$250,000.00 was covered by federal depository insurance, \$2,688,406.88 was collateralized by securities with a market value of \$3,260,554.25 held by the pledging financial institutions' agents in the CMHCCC's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the CMHCCC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. CMHCCC was in compliance with those statutes.

4. OPERATING LEASES

Rent expense for the year ended December 31, 2018, was \$36,000.00. During 2015 CMHCCC prepaid rent in the amount of \$54,900 for a 60 month lease beginning March 1, 2016. In addition, CMHCCC paid an additional \$120,000 on this lease in 2016. Rent expense of \$2,000 was recorded beginning March 1, 2016 (See Note 9).

During 2016 CMHCC paid \$1,400,000 in prepaid rent for a building that is not yet constructed. The lease calls for a 15-year lease. This amount will be expensed over the life of the lease once the building is completed (See Notes 8 and 9).

On April 1, 2017, CMHCCC entered into a 36-month lease which required an initial payment of \$225,000 and 36 monthly payments of \$5,555.56. At December 31, 2018, this property is not in service and the prepaid rent amount on this lease is \$168,750.

5. **RETAINED EARNINGS RESERVES**

Reserved for Contingency

The Board of Directors have established a \$300,000 contingency reserve for which funds are to be set aside rather than used for ordinary day to day operations.

6. **PENSION PLAN**

Plan Description

CMHCCC participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603) or by calling 1-888-275-5737.

Contributions

K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2, or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member contributions are withheld by the employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates for KPERS 1, KPERS 2 and KPERS 3 be determined based on the results of each annual actuarial valuation. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 1.0% contribution rate with a 0% moratorium from January 1 through September 30, 2017, for the Death and Disability Program) and the statutory contribution rate was 8.39% for the fiscal year ended December 31, 2018. Contributions to the pension plan from CMHCCC were \$312,080 for the year ended December 31, 2018.

Net Pension Liability

CMHCCC's employees are considered employees of Crawford County Kansas by KPERS. Because of this, CMHCCC's proportionate share of net pension liability reported by KPERS has not been determined. At December 31, 2018, Crawford County's proportionate share of the collective net pension liability reported by KPERS was \$10,130,261. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017, which was rolled forward to June 30, 2018. The County's proportion of the net pension liability was based on the ratio of the County's contributions to KPERS, relative to the total employer and non-employer contributions of the Local subgroup within KPERS. CMHCCC's covered salary for KPERS represents approximately 29% of the total KPERS covered salary for Crawford County.

The complete actuarial valuation report including all actuarial assumptions and methods, and the report on the allocation of the KPERS collective net pension liability to all participating employers are publically available on the website at www.kpers.org or can be obtained as described above.

7. **PROPERTY AND EQUIPMENT**

The following is a summary of changes in property and equipment for the year ended December 31, 2018:

	Balance January 1, 2018	Additions	Retirements	Balance December 31, 2018
Land	\$ 44,700.00	\$ -	\$ -	\$ 44,700.00
Leasehold improvements	1,424,047.98	31,988.20	-	1,456,036.18
Equipment and furniture	1,535,601.12	22,830.90	-	1,558,432.02
Vehicles	<u>1,338,351.23</u>	<u>93,190.27</u>	<u>33,350.00</u>	<u>1,398,191.50</u>
	<u>\$ 4,342,700.33</u>	<u>\$ 148,009.37</u>	<u>\$ 33,350.00</u>	<u>\$ 4,457,359.70</u>

8. **SUBSEQUENT EVENT**

Management has evaluated events and transactions occurring after December 31, 2018, through August 21, 2019 the date the financial statement was available to be issued. During this period, an additional lease was signed with FACT, Inc. which requires monthly rental payments of \$2,500 beginning January 1, 2019. The lease term is 36 months. There were no other subsequent events requiring recognition in the financial statement or disclosure in the notes to the financial statement.

9. **RELATED PARTY**

The lease agreements detailed in Notes 4 and 8 with FACT, Inc. Although FACT, Inc. has a separate Board that approves their transactions, there are common members of FACT, Inc. and CMHCCC's Boards and FACT, Inc. generally operates in a way that is beneficial to CMHCCC.

10. **FEDERAL AND STATE GRANTS**

Federal and State grants shown as revenue on the Statement of Revenues, Expenditures and Changes in Net Assets are comprised of the following:

State Aid	\$ 131,421.00
Mental Health Block Grant	44,755.00
Family Mental Health Block Grant	485,936.22
Child Nutrition Grant	<u>35,604.33</u>
	<u>\$ 697,716.55</u>

Diehl Banwart Bolton

Certified Public Accountants PA

August 21, 2019

COMMUNICATIONS WITH THE BOARD OF COMMUNITY MENTAL HEALTH CENTER OF CRAWFORD COUNTY

The Board of Directors
Community Mental Health Center of Crawford County
Pittsburg, Kansas 66762

We have audited the financial statements of Community Mental Health Center of Crawford County (CMHCCC), as of and for the year ended December 31, 2018 and have issued our report thereon dated August 21, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated May 17, 2019. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by CMHCCC are described in Note 1 to the audited financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. CMHCCC's financial statements are prepared using U.S. generally accepted accounting principles. The significant estimates in CMHCCC's financial statements are accounts receivable, estimated lives of fixed assets and accounts payable.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There are no sensitive disclosures in these financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Attached is a listing of the corrections which were made.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 21, 2019.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the CMHCCC's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

INTERNAL CONTROL ISSUES

In planning and performing our audit of the financial statements of the Community Mental Health Center of Crawford County (CMHCCC), as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CMHCCC's internal control. Accordingly, we do not express an opinion on the effectiveness of CMHCCC's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be 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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in the Center's internal control to be significant deficiencies:

DRAFTING FINANCIAL STATEMENTS

It is not uncommon for us to assist entities in the preparation of their financial statements because they lack personnel resources with appropriate technical skills, training and experience. We often prepare significant adjustments as well as determine which disclosures are required. Under our professional standards, we are allowed to perform these services as part of our audit. However, we are required to report them as significant deficiencies in internal control. As auditors, we are not considered part of your internal control. Relying upon us for these duties is a significant deficiency in your internal control.

RECORDS RETENTION

During our audit this year, your personnel were able to locate all of the patient files we requested. However, it took much effort for the requested files to be found in some instances. Based upon the volume of patients the Center handles, we believe the Center is doing a good job with patient records. We have included this point to emphasize how important patient records are to your operations. It takes a continuing effort for patient records to be properly maintained.

This communication is intended solely for the information and use of management, the Board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

DIEHL, BANWART, BOLTON, CPAs, PA

Diehl, Banwart, Bolton, CPAs, PA

Daryl D. Eagon, CPA

Community Mental Health Center of Crawford County

Adjusting Journal Entries

December 1, 2018 - December 31, 2018

Date	Reference	Account	Description	WP Reference	Debit	Credit	Net Income Effect
Adjusting Journal Entries							
12/31/18	1801		2017 audit adjustments not recorded				0.00
		182	Leasehold Improvements			98,000.00	
		283	Leasehold Imp		98,000.00		
		184	Equipment			86,505.07	
		284	Equipment		86,505.07		
		186	Auto			199,106.14	
		285	Auto		199,106.14		
		99186	Auto			44,294.00	
		189	Accumulated Depreciation		62,130.43		
		128	Prepaid Rent			14,333.75	
		99182	Leasehold Improvements			41,516.25	
		99182	Leasehold Improvements			83,752.48	
		99184	Equipment		54,900.00		
		132	County Tax Fund			23,704.60	
		241	Mental Health Reform Grant		193,011.67		
		150	Consolidated Grant			72,370.70	
		134	State Match			32,861.25	
		170	Non-Medicaid Screens			0.25	
		315	Invested in Capital Assets, Net of Related Debt		2,791.18		
12/31/18	1802		To remove fixed assets sold				(1,660.00)
		4184	Equipment			18,650.00	
		1184	Equipment			11,400.00	
		189	Accumulated Depreciation		28,390.00		
		438	Miscellaneous		1,660.00		
12/31/18	1803		To adjust fixed assets/depreciation				32,319.25
		670	Depreciation			44,740.37	
		189	Accumulated Depreciation		44,740.37		
		184	Equipment			12,421.12	
		620	Repairs & Maintenance		12,421.12		
12/31/18	1804		To adjust prepaid rent				(12,000.00)
		12676	Rent		12,000.00		
		128	Prepaid Rent			12,000.00	
12/31/18	1805		To adjust MHR and Consol Grant				10,154.12
		150	Consolidated Grant			11,971.38	
		241	Mental Health Reform Grant		22,125.50		
		50460	Mental Health Reform			10,154.12	

Community Mental Health Center of Crawford County

Adjusting Journal Entries

December 1, 2018 - December 31, 2018

Date	Reference	Account	Description	WP Reference	Debit	Credit	Net Income Effect
12/31/18	1806		To reclass equity				0.00
		315	Invested in Capital Assets, Net of		75,137.38		
			Related Debt				
		320	Unreserved			75,137.38	
Totals for Adjusting Journal Entries					<u>892,918.86</u>	<u>892,918.86</u>	<u>28,813.37</u>
Report Totals					<u>892,918.86</u>	<u>892,918.86</u>	<u>28,813.37</u>

Journal Entry count = 6

Diehl Banwart Bolton

Certified Public Accountants P.A.

May 17, 2019

To The Board and Management

Community Mental Health Center of Crawford County
911 East Centennial
Pittsburg, Kansas 66762

We are pleased to confirm our understanding of the services we are to provide Community Mental Health Center of Crawford County (CMHCCC) for the year ended December 31, 2018. We will audit the balance sheet and related statements of revenues, expenses, changes in retained earnings, cash flows and the related notes to the financial statements, which collectively comprise the basic financial statements of CMHCCC as of and for the year ended December 31, 2018. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement CMHCCC's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to CMHCCC's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by U.S. generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1) Management's Discussion and Analysis.

Audit Objective

The objective of our audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of the accounting records and other procedures we consider necessary to enable us to express such opinions. We will issue a written report upon completion of our audit of CMHCCC's financial statements. Our report will be addressed to the Board of CMHCCC. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or may withdraw from this engagement.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. 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 will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent

financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the government or to acts by management or employees acting on behalf of the government.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards. In addition, an audit is not designed to detect immaterial misstatements, or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, fraudulent financial reporting, or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Control

Our audit will include obtaining an understanding of the government and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. Accordingly, we will express no such opinion. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of CMHCCC's compliance with the provisions of applicable laws, regulations, contracts, and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

Other Services

We will also assist in preparing the financial statements of CMHCCC in conformity with U.S. generally accepted accounting principles based on information provided by you. We will perform the services in accordance with applicable professional standards. The other services are limited to the financial statement services previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

Management Responsibilities

Management is responsible for designing, implementing, and maintaining effective internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, including monitoring ongoing activities; for the selection and application of accounting principles; and for the preparation and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that the government complies with applicable laws and regulations.

You agree to assume all management responsibilities for financial statement preparation services and any other nonattest services we provide; oversee the services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of the services; and accept responsibility for them.

Engagement Administration, Fees, and Other

We may from time to time and depending on the circumstances, use third-party service providers in serving your account. We may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

We understand that your employees will prepare all cash, accounts receivable, or other confirmations we request and will locate any documents selected by us for testing.

The audit documentation for this engagement is the property of Diehl Banwart Bolton CPA's PA and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to Kansas Department of Children and Families or its designee. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Diehl Banwart Bolton CPA PA personnel. Furthermore, upon request, we may provide copies of selected audit documentation to Kansas Department of Children and Families or its designee. The Kansas Department of Children and Families or its designee may intend or decide to distribute the copies or information contained therein to others, including other governmental agencies.

We expect to begin our audit on approximately May 21, 2019 and to issue our reports no later than August 20, 2019. Daryl D Eagon, CPA is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.). Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 30 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

Disputes arising under this agreement (including the scope, nature and quality of services to be performed by us, our fees and other terms of the engagement) shall be submitted to mediation. A competent and impartial third party, acceptable to both parties, shall be appointed to mediate, and each disputing party shall pay an equal percentage of mediator's fees and expenses. No suit or arbitration shall be commenced under this agreement until at least 60 days after the mediator's first meeting with the involved parties. If the dispute requires litigation

the court shall be authorized to impose all defense costs against any non-prevailing party found to have not participated in the mediation process in good faith.

It is our understanding that your intent in engaging us is that the financial statements we render to you under this agreement will be made available to the State of Kansas Municipal Accounting Section, Crawford County, the Kansas Department of Children and Families and federal grantor agencies. Moreover, as of the time of this engagement, we have not been notified, in writing or otherwise, that the professional accounting services rendered under this agreement will be made available to any other person, firm or corporation for any purpose not specified hereinabove. Consequently, no other person, firm or corporation is entitled to rely upon, these professional services for any purpose without our express written agreement. This engagement letter embodies the entire agreement and understanding between the parties hereto and there are no promises, warranties, covenants or conditions made by any of the parties except as herein expressly contained. The terms and conditions of this engagement shall be governed and construed in accordance with the laws of the State of Kansas and may only be modified in a writing signed by all the parties. It is agreed that the venue and jurisdiction involving any matters arising out of this engagement letter is the State of Kansas.

We appreciate the opportunity to be of service to CMHCCC and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,



DIEHL BANWART BOLTON CPA'S PA

RESPONSE:

This letter correctly sets forth the understanding of Community Mental Health Center of Crawford County.

Management signature: 

Title: Director of Personnel & Marketing

Date: Aug 22, 2019

Governance signature: 

Title: Board Chair

Date: Aug 22, 2019

**COMMUNITY MENTAL HEALTH CENTER
OF CRAWFORD COUNTY**

COPY FOR
YOUR INFORMATION

August 21, 2019

Diehl, Banwart, Bolton, CPAs PA
P. O. Box 469
Fort Scott, Kansas 66701

This representation letter is provided in connection with your audit of the financial statements of Community Mental Health Center of Crawford County (CMHCCC), which comprise the respective financial position of governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of August 21, 2019, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 17, 2019, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all information of CMHCCC required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
7. All adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
8. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
10. Guarantees, whether written or oral, under which CMHCCC is contingently liable, if any, have been properly recorded or disclosed.

Information Provided


11. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of CMHCCC or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of any fraud or suspected fraud that affects the organization and involves:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.

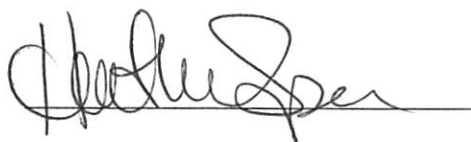
16. We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contract, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
17. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.
18. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Government - Specific

19. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
20. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
21. CMHCCC has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
22. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; including tax or debt limits and debt contracts.
23. We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant attention of those charged with governance.
24. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
25. We have identified and disclosed to you all instances, which have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statement or other financial data significant to the audit objectives.
26. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
27. As part of your audit, you assisted with preparation of the financial statement and related notes. We acknowledge our responsibility as it relates to those nonaudit services, including that we assumed all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of services. We have reviewed, approved, and accepted responsibility for the financial statement and related notes.

28. CMHCCC has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
29. CMHCCC has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
30. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
31. The financial statements properly classify all activities.
32. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
33. Provisions for uncollectible receivables have been properly identified and recorded.
34. Expenses have been appropriately classified in or allocated to functions and programs in the statement of revenues, expenses and changes of net position.
35. Revenues are appropriately classified in the statement of revenues, expenses and changes of net position.
36. Deposits and investment securities are properly secured in accordance with Kansas statutes and properly disclosed in the notes to the financial statements.
37. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
38. We have appropriately disclosed the CMHCCC's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
39. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

Signed: 
Title: Board Chair

Signed: 
Title: Director of Personnel & Marketing

Aug 22, 2019