



Financial Statements
June 30, 2023 and 2022

Walla Valley Center for Wellness

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Independent Auditor's Report

To the Board of Directors
Wallowa Valley Center for Wellness
Enterprise, Oregon

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Wallowa Valley Center for Wellness, which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Wallowa Valley Center for Wellness as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities of the Audit of the Financial Statements section of our report. We are required to be independent of Wallowa Valley Center for Wellness and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 9 to the financial statements, Wallowa Valley Center for Wellness has adopted the provisions of FASB Accounting Standards Codification Topic 842, *Leases*, as July 1, 2022 using the modified retrospective approach with an adjustment at the beginning of the adoption period. Our opinion is not modified with respect to this matter.

Responsibilities of Management 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; and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Wallowa Valley Center for Wellness's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities of the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Wallowa Valley Center for Wellness's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Wallowa Valley Center for Wellness's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2024 on our consideration of Wallowa Valley Center for Wellness' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Wallowa Valley Center for Wellness' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wallowa Valley Center for Wellness' internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Spokane, Washington
March 27, 2024

Wallowa Valley Center for Wellness

Statements of Financial Position

June 30, 2023 and 2022

	2023	2022
Assets		
Cash	\$ 1,228,304	\$ 4,182,797
Restricted cash	40,317	37,870
Operating investments	4,035,935	-
Accounts receivable, net of allowance for doubtful accounts of \$92,435 in 2023 and \$48,143 in 2022	1,015,915	794,239
Promises to give	26,316	29,284
Prepaid expenses	82,199	74,955
Investments in Hearts for Health, LLC	3,010,118	2,986,528
Property and equipment, net	2,686,779	1,231,761
Operating lease right-of-use asset	2,195,553	-
Goodwill, net	381,134	433,323
	\$ 14,702,570	\$ 9,770,757
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 348,703	\$ 186,891
Accrued salaries and benefits	295,991	210,411
Deferred revenue	53,469	63,935
Operating lease liability	2,234,403	-
Other liabilities	45,612	39,834
Payable to Hearts for Health, LLC	26,316	29,284
Notes payable	425,718	602,669
	3,430,212	1,133,024
Net Assets		
Without donor restrictions	10,921,735	7,785,804
With donor restrictions	350,623	851,929
	11,272,358	8,637,733
	\$ 14,702,570	\$ 9,770,757

Wallowa Valley Center for Wellness

Statement of Activities
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Program service fees, net	\$ 4,851,131	\$ -	\$ 4,851,131
Grants and contributions	6,493,209	426,203	6,919,412
Rental income	101,748	-	101,748
Interest income	38,843	-	38,843
Equity in earnings of Hearts for Health, LLC	26,089	-	26,089
Other	60,906	-	60,906
Release from restrictions	927,509	(927,509)	-
	12,499,435	(501,306)	11,998,129
Expenses			
Program services			
Mental health	3,853,143	-	3,853,143
Substance use disorder	653,653	-	653,653
Developmental disability	369,693	-	369,693
Residential programs	3,815,420	-	3,815,420
Rental apartments	110,693	-	110,693
	8,802,602	-	8,802,602
Support services			
General and administrative	451,963	-	451,963
Fundraising and development	108,939	-	108,939
	560,902	-	560,902
	9,363,504	-	9,363,504
Change in Net Assets	3,135,931	(501,306)	2,634,625
Net Assets, Beginning of Year	7,785,804	851,929	8,637,733
Net Assets, End of Year	\$ 10,921,735	\$ 350,623	\$ 11,272,358

Wallowa Valley Center for Wellness

Statement of Activities
Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Program service fees, net	\$ 3,941,655	\$ -	\$ 3,941,655
Grants and contributions	4,293,358	1,759,485	6,052,843
Rental income	68,077	-	68,077
Interest income	1,309	-	1,309
Gain on sale of property and equipment	24,782	-	24,782
Equity in earnings of Hearts for Health, LLC	76,327	-	76,327
Other	227,912	-	227,912
Release from restrictions	907,556	(907,556)	-
Total revenue and support	<u>9,540,976</u>	<u>851,929</u>	<u>10,392,905</u>
Expenses			
Program services			
Mental health	3,472,800	-	3,472,800
Substance use disorder	449,627	-	449,627
Developmental disability	312,911	-	312,911
Residential programs	3,320,042	-	3,320,042
Rental apartments	62,187	-	62,187
Total program services expenses	<u>7,617,567</u>	<u>-</u>	<u>7,617,567</u>
Support services			
General and administrative	672,633	-	672,633
Fundraising and development	118,961	-	118,961
Total support services expenses	<u>791,594</u>	<u>-</u>	<u>791,594</u>
Total expenses	<u>8,409,161</u>	<u>-</u>	<u>8,409,161</u>
Change in Net Assets	1,131,815	851,929	1,983,744
Net Assets, Beginning of Year	<u>6,653,989</u>	<u>-</u>	<u>6,653,989</u>
Net Assets, End of Year	<u>\$ 7,785,804</u>	<u>\$ 851,929</u>	<u>\$ 8,637,733</u>

Wallowa Valley Center for Wellness
Statement of Functional Expenses
Year Ended June 30, 2023

	Program Services					Total Program Services	General and Administrative	Fundraising and Development	Total
	Mental Health	Substance Use Disorder	Developmental Disability	Residential Programs	Rental Apartments				
Personnel Expenses									
Salaries	\$ 2,480,675	\$ 349,570	\$ 196,414	\$ 2,449,642	\$ -	\$ 5,476,301	\$ 39,870	\$ -	\$ 5,516,171
Employee benefits	472,800	62,512	35,955	355,160	-	926,427	15,987	-	942,414
Payroll taxes	175,232	24,509	14,538	185,522	-	399,801	2,838	-	402,639
Total personnel expenses	3,128,707	436,591	246,907	2,990,324	-	6,802,529	58,695	-	6,861,224
Operating Expenses									
Service and program	244,918	150,289	71,926	235,451	16,754	719,338	1,077	86,320	806,735
Bad debt expense (recovery)	13,182	2,894	46,278	(18,062)	-	44,292	-	-	44,292
Advertising	3,949	-	-	-	-	3,949	292	-	4,241
Bank and credit card fees	3,783	-	-	-	-	3,783	453	1,290	5,526
Miscellaneous	19,951	-	-	-	-	19,951	19	-	19,970
Travel	42,556	11,309	2,000	19,855	-	75,720	605	-	76,325
Interest	-	-	-	23,062	-	23,062	-	-	23,062
Insurance	-	-	-	2,902	-	2,902	3,220	-	6,122
Office	44,696	5,873	508	17,204	-	68,281	1,139	-	69,420
Supplies	1,957	4,150	324	18,816	9	25,256	444	-	25,700
Professional and legal fees	6,530	-	-	-	-	6,530	3,079	-	9,609
Taxes	-	-	-	-	-	-	122	1,358	1,480
Rent	4,550	-	-	196,662	51,047	252,259	322,116	-	574,375
Repairs and maintenance	170,293	32,736	-	75,641	11,003	289,673	409	-	290,082
Dues and subscriptions	11,522	-	-	-	-	11,522	2,478	-	14,000
Training	118,097	8,146	-	7,384	-	133,627	1,099	-	134,726
Utilities	32,720	1,665	1,750	163,015	31,880	231,030	1,839	-	232,869
Depreciation and amortization	5,732	-	-	83,166	-	88,898	54,877	19,971	163,746
Total expenses included in the expense section on the statement of activities	<u>\$ 3,853,143</u>	<u>\$ 653,653</u>	<u>\$ 369,693</u>	<u>\$ 3,815,420</u>	<u>\$ 110,693</u>	<u>\$ 8,802,602</u>	<u>\$ 451,963</u>	<u>\$ 108,939</u>	<u>\$ 9,363,504</u>

Wallowa Valley Center for Wellness
Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services					Total Program Services	General and Administrative	Fundraising and Development	Total
	Mental Health	Substance Use Disorder	Developmental Disability	Residential Programs	Rental Apartments				
Personnel Expenses									
Salaries	\$ 1,934,207	\$ 322,233	\$ 193,574	\$ 2,183,740	\$ -	\$ 4,633,754	\$ 189,059	\$ -	\$ 4,822,813
Employee benefits	215,370	65,698	25,346	276,171	-	582,585	38,184	-	620,769
Payroll taxes	155,357	27,238	18,068	89,926	-	290,589	18,936	-	309,525
Total personnel expenses	2,304,934	415,169	236,988	2,549,837	-	5,506,928	246,179	-	5,753,107
Operating Expenses									
Service and program	785,183	14,887	70,524	220,321	10,118	1,101,033	7,338	-	1,108,371
Bad debt expense (recovery)	63,124	1,138	-	(52,382)	-	11,880	-	-	11,880
Advertising	2,945	2,600	-	-	-	5,545	2,141	6,110	13,796
Bank and credit card fees	-	-	-	-	-	-	1,592	24	1,616
Miscellaneous	7,902	-	-	-	-	7,902	284	3,027	11,213
Travel	27,963	1,769	96	15,169	-	44,997	1,235	-	46,232
Interest	-	-	-	22,234	-	22,234	-	-	22,234
Insurance	215	-	-	3,681	-	3,896	14,784	-	18,680
Office	18,066	397	708	68,125	-	87,296	28,467	22,661	138,424
Supplies	15,864	668	367	17,969	-	34,868	3,945	-	38,813
Professional and legal fees	2,408	-	-	64	-	2,472	12,833	-	15,305
Taxes	-	-	-	6,404	-	6,404	896	-	7,300
Rent	11,148	3,025	-	153,212	32,720	200,105	258,895	-	459,000
Repairs and maintenance	137,990	46	50	80,531	6,483	225,100	2,050	86,849	313,999
Dues and subscriptions	5,142	87	-	-	-	5,229	9,430	-	14,659
Training	29,806	7,026	-	22,230	-	59,062	7,505	-	66,567
Utilities	53,361	2,815	4,178	148,580	12,866	221,800	9,339	290	231,429
Depreciation and amortization	6,749	-	-	64,067	-	70,816	65,720	-	136,536
Total expenses included in the expense section on the statement of activities	<u>\$ 3,472,800</u>	<u>\$ 449,627</u>	<u>\$ 312,911</u>	<u>\$ 3,320,042</u>	<u>\$ 62,187</u>	<u>\$ 7,617,567</u>	<u>\$ 672,633</u>	<u>\$ 118,961</u>	<u>\$ 8,409,161</u>

Wallowa Valley Center for Wellness

Statements of Cash Flows

Years Ended June 30, 2023 and 2022

	2023	2022
Operating Activities		
Change in net assets	\$ 2,634,625	\$ 1,983,744
Adjustments to reconcile change in net assets to net cash from operating activities		
Bad debt expense	44,292	11,880
Depreciation and amortization	163,746	136,536
Realized and unrealized gain on operating investments	5,342	-
Gain on sale of property and equipment	-	(24,782)
Equity in earnings of Hearts for Health, LLC	(23,590)	(78,827)
Changes in operating assets and liabilities		
Accounts receivable	(265,968)	1,304,004
Promises to give	2,968	57,514
Prepaid expenses	(7,244)	(58,445)
Operating lease asset and liability	38,850	-
Accounts payable	161,812	3,650
Accrued salaries and benefits	85,580	(87,810)
Deferred revenue	(10,466)	(70,885)
Other liabilities	5,778	(11,034)
Payable to Hearts for Health, LLC	(2,968)	(57,514)
Net Cash from Operating Activities	2,832,757	3,108,031
Investing Activities		
Purchase of operating investments	(6,291,257)	-
Proceeds from sales of operating investments	2,249,980	-
Purchase of property and equipment	(1,566,575)	(272,599)
Proceeds from sale of property and equipment	-	30,500
Net Cash used for Investing Activities	(5,607,852)	(242,099)
Financing Activities		
Principal payments on notes payable	(176,951)	(54,625)
Net Cash used for Financing Activities	(176,951)	(54,625)
Net Change in Cash and Restricted Cash	(2,952,046)	2,811,307
Cash and Restricted Cash, Beginning of Year	4,220,667	1,409,360
Cash and Restricted Cash, End of Year	\$ 1,268,621	\$ 4,220,667
Cash	\$ 1,228,304	\$ 4,182,797
Restricted Cash	40,317	37,870
Total cash and restricted cash	\$ 1,268,621	\$ 4,220,667
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 23,062	\$ 22,234

Note 1 - Principal Activity and Significant Accounting Policies**Organization**

Wallowa Valley Center for Wellness (the Organization) is a non-profit organization established to offer programs to aid persons in Wallowa County who suffer from mental illness, who are developmentally disabled, or who have problems with alcohol or drug abuse.

Restricted Cash

The Organization holds cash for individuals enrolled in certain programs and contracts. Under the terms of the contracts, these funds must be maintained in a separate bank account and expended only for personal expenses on behalf of these individuals.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for grants and contracts with governmental agencies and patient services. The Organization determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable.

Promises to Give

The Organization records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Allowance for uncollectable promises to give is determined based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At June 30, 2023 and 2022 no allowance was considered necessary.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Investment in Hearts for Health, LLC

The equity method of accounting is used when the Organization has a 20% to 50% interest in other entities. Under the equity method, original investments are recorded at cost and adjusted from the Affiliate's share of undistributed earnings or losses of these entities.

Property and Equipment

The Organization records property and equipment additions over \$5,000 at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from three to thirty years. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The carrying values of property and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the years ended June 30, 2023 and 2022.

Goodwill

Goodwill represents costs in excess of purchase price over fair value of the assets of businesses acquired, including other identifiable assets.

Goodwill is amortized over a 10-year life. The Organization evaluates goodwill for impairment at the entity level (or the reporting unit level) when a triggering event occurs that indicates that the fair value of the entity (or the reporting unit) may be below its carrying amount. As of June 30, 2023, the carrying value of the Organization's goodwill was not considered impaired.

Net Assets

Net assets and revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) restrictions. Some donor imposed (or grantor) restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenue and Revenue Recognition

Program service fees are reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing client care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others. Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the facility receiving skilled care services.

The Organization recognizes grants and contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been substantially met. The Organization's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Amounts received in advance that have not yet met these conditions are recorded as deferred revenue in the accompanying financial statements.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses that can be tracked to specific use are charged accordingly, with all other expenses allocated on the basis of estimates of time and effort.

Income Taxes

Wallowa Valley Center for Wellness is organized as an Oregon non-profit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for charitable contribution deduction, and has been determined not to be a private foundation. The Organization is annually required to file a Return of Organization Exempt for Income Tax (Form 990) with the IRS. In addition, the entity is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. Management has determined that the entity is not subject to unrelated business income tax.

Management believes that the entity has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of 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 and those differences could be material.

Financial Instruments and Credit Risk

The Organization manages deposit concentration risk by placing cash and money market accounts with financial institutions believed by management to be creditworthy. The Organization maintains its cash and cash equivalents in bank deposit accounts which may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor, per insured bank, for each account ownership category. At June 30, 2023 and 2022, the Organization had approximately \$808,000 and \$3,732,000, respectively, in excess of FDIC-insured limits. To date, the Organization has not experienced losses in any of these accounts. Credit risk associated with accounts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from governmental agencies supportive of the Organization's mission.

Adoption of Accounting Standards Codification Topic 842

Effective July 1, 2022, the Organization adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases* (Topic 842). The Organization elected to apply the guidance as of July 1, 2022, the beginning of the adoption period. The comparative financial information and disclosures presented are in accordance with the legacy standard, ASC 840. The standard requires the recognition of right-of-use assets and lease liabilities for lease contracts with terms greater than 12 months. Operating lease costs are recognized in the statement of activities as a single lease cost and finance lease costs are recognized in two components, interest expense and amortization expense. The Organization has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Organization accounted for its existing leases as either finance or operating lease under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the operating lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Organization recognized on July 1, 2022, the beginning of the adoption period, no cumulative effect adjustment to net assets, an operating lease liability of \$2,316,474 and an operating right-of-use asset of \$2,316,474. The adoption of the new standard did not materially impact the Organization's Statements of Operations or Statements of Cash Flows. See Note 9 for further disclosure of The Organization's lease contracts.

Subsequent Events

Management has evaluated subsequent events through March 27, 2024, the date the financial statements were available to be issued.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2023</u>	<u>2022</u>
Cash	\$ 939,914	\$ 3,330,868
Operating investments	1,790,280	-
Accounts receivable	<u>1,015,915</u>	<u>794,239</u>
	<u>\$ 3,746,109</u>	<u>\$ 4,125,107</u>

The Organization has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 150 days of normal operating expense, which are, on average, approximately \$3,500,000. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. Currently any excess above the 90 days of operating expenses is not available to be invested in other short-term investments. The Organization is not in need of a line of credit at this time but would pursue that avenue should the need arise.

Note 3 - Fair Value Measurements and Disclosures

Certain assets are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, considering factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Organization’s assessment of the quality, risk, or liquidity profile of the asset.

A significant portion of investment assets are classified within Level 1 because they comprise open-end money market mutual funds with readily determinable fair values based on daily redemption values. The Organization invests in CDs traded in the financial markets. Those CDs are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions and are classified within Level 2.

The following table presents assets measured at fair value on a recurring basis, except those measured at cost, at June 30, 2023:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents (at cost)	\$ 750,672	\$ -	\$ -	\$ -
Certificates of Deposit	2,245,655	-	2,245,655	-
Money Market Mutual Funds	1,039,608	1,039,608	-	-
	<u>\$ 4,035,935</u>	<u>\$ 1,039,608</u>	<u>\$ 2,245,655</u>	<u>\$ -</u>

Note 4 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2023 and 2022:

	2023	2022
Within one year	\$ 6,316	\$ 6,618
In one to five years	20,000	22,666
	<u>\$ 26,316</u>	<u>\$ 29,284</u>

Note 5 - Property and Equipment

Property and equipment consists of the following at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Land improvements	\$ 150,254	\$ 85,254
Building and improvements	1,797,101	873,566
Vehicles	569,843	369,501
Equipment	144,269	144,269
Office furniture and equipment	336,149	235,399
Construction in progress	231,838	-
Land	295,971	250,861
	<u>3,525,425</u>	<u>1,958,850</u>
Less accumulated depreciation	<u>838,646</u>	<u>727,089</u>
	<u>\$ 2,686,779</u>	<u>\$ 1,231,761</u>

Depreciation expense totaled \$111,557 and \$85,053 for the years ended June 30, 2023 and 2022, respectively.

Note 6 - Goodwill

Goodwill at June 30, 2023 and 2022 consists of the following:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
June 30, 2023	<u>\$ 514,838</u>	<u>\$ 133,704</u>	<u>\$ 381,134</u>
June 30, 2022	<u>\$ 514,838</u>	<u>\$ 81,515</u>	<u>\$ 433,323</u>

Amortization expense for the years ended June 30, 2023 and 2022 totaled \$52,189 and \$51,483, respectively.

The weighted average amortization expense period is 10 years.

Note 7 - Investment in Hearts for Health, LLC

Investment in Hearts for Health, LLC is being recorded on the equity method. The Organization's share of net earnings from equity method investments, totaling \$23,589 and \$78,827 for the years ended June 30, 2023 and 2022, respectively, is included in revenue and support in the accompanying financial statements. Summary financial statement information on equity method investments as of and for the years ended June 30, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Current assets	\$ 364,864	\$ 354,386
Land, buildings, and construction in process	<u>8,499,796</u>	<u>8,540,823</u>
Total assets	<u>\$ 8,864,660</u>	<u>\$ 8,895,209</u>
Current liabilities	\$ 90,377	\$ 14,081
Noncurrent liabilities	2,754,048	2,908,072
Equity	<u>6,020,235</u>	<u>5,973,056</u>
Total liabilities and equity	<u>\$ 8,864,660</u>	<u>\$ 8,895,209</u>
Total revenue	\$ 480,099	\$ 551,493
Total expenses	<u>(432,920)</u>	<u>(398,838)</u>
Net income	<u>\$ 47,179</u>	<u>\$ 152,655</u>

The Organization has agency transactions on behalf of Hearts for Health, LLC. The Organization collected and passed to Hearts for Health \$12,080 and \$70,280 for the years ended June 30, 2023 and 2022, respectively. The Organization has promises to give of \$26,316 and \$29,284 which will be passed to Hearts for Health, LLC in the upcoming year, and are included in Payable to Hearts for Health, LLC at June 30, 2023 and 2022, respectively.

As of June 30, 2023, the Organization is contingently liable as guarantor with respect to \$2,754,048 outstanding of a total \$2,959,031 loan of Hearts for Health, LLC. The term of the guarantee is through February 22, 2032. At any time through that date, should Hearts for Health, LLC be delinquent on its debt payments, the Organization will be obligated to perform under the guarantee by primarily making the required payments, including late fees and penalties.

Note 8 - Notes Payable

Notes payable consists of the following at June 30, 2023 and 2022:

	2023	2022
Note payable to Community Bank, due in monthly installments of \$6,243 including interest at 4.5% per annum, secured by real estate, maturing in 2031	\$ 425,718	\$ 530,745
Note payable to Community Bank, due in monthly installments of \$744 including interest at 5.52% per annum, secured by real estate, maturing in 2033. On October 12, 2022 the note was paid in full	-	71,924
	\$ 425,718	\$ 602,669

Future maturities of notes payable are as follows:

Years Ending June 30,	Amounts
2024	\$ 52,087
2025	59,322
2026	62,047
2027	64,897
2028	67,879
Thereafter	119,486
	\$ 425,718

Note 9 - Leases

The Organization leases facilities under various short and long-term, noncancelable operating lease agreements. The leases expire at various dates through 2037. The Organization’s office lease was renewed subsequent to year-end and will now expire in 2024. The Organization included in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. The leases provide for increases in future minimum annual rental payments based on a set rent schedule. Also, the agreements generally require the Organization to pay real estate taxes, insurance, and repairs.

The weighted-average discount rate is based on the discount rate implicit in the lease. The Organization has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The Organization has applied the risk-free rate option to the building and office equipment classes of assets.

The Organization has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis.

Total lease costs for the year ended June 30, 2023 were as follows:

Operating lease cost	\$ 196,662
Short term lease cost	<u>377,713</u>
Total lease cost	<u>\$ 574,375</u>

Total lease expense for the year ended June 30, 2022 was \$459,000.

The following table summarizes the supplemental cash flow information for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 157,812

The following summarizes the weighted-average remaining lease term and weighted-average discount rate at June 30, 2023:

Weighted-average remaining lease term:	
Operating leases	14.35
Weighted-average discount rate:	
Operating leases	3.35%

Wallowa Valley Center for Wellness

Notes to the Financial Statements

June 30, 2023 and 2022

Future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below as June 30, 2023:

<u>Years Ending June 30,</u>	
2024	\$ 162,544
2025	167,424
2026	172,444
2027	177,620
2028	182,948
Thereafter	<u>1,994,696</u>
Total lease payments	2,857,676
Less interest	<u>623,273</u>
Present value of lease liabilities	<u>\$ 2,234,403</u>

Future minimum payments determined under the guidance in Topic 840 are listed below as of June 30, 2022:

<u>Years Ending June 30,</u>	<u>Amounts</u>
2023	\$ 459,904
2024	310,990
2025	167,424
2026	172,444
2027	177,620
Thereafter	<u>2,177,644</u>
	<u>\$ 3,466,026</u>

Note 10 - Concentrations

The following table summarizes the Organization's concentrations of program service fee and grants and contributions revenue for the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Greater Oregon Behavioral Health	20%	26%
State of Oregon	63%	53%

Note 11 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2023</u>	<u>2022</u>
Subject to the Passage of Time	\$ 62,233	\$ -
Subject to Expenditure for Specified Purpose		
Payroll, employee retention and supplies	208,420	838,775
ARPA Infrastructure Funding	79,970	-
Parole and probation services	-	13,154
	<u>\$ 350,623</u>	<u>\$ 851,929</u>

Net assets were released from donor restrictions as follows during the years ended June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Satisfaction of purpose restrictions		
Payroll, employee retention and supplies	\$ 914,355	\$ 907,556
Parole and probation services	13,154	-
	<u>\$ 927,509</u>	<u>\$ 907,556</u>

Note 12 - Employee Benefits

The Organization maintains a deferred annuity retirement plan established under Internal Revenue Code Section 403(b). All employees are eligible to participate after meeting initial eligibility requirements. Employees are eligible to participate in the plan as of the subsequent January, April, July or October after completing one year of continuous employment and a minimum of 1,000 hours. The plan requires mandatory employee contributions and allows voluntary contributions of up to the maximum IRS contribution level. Employee contributions are fully vested. The employer also contributes to the plan. Mandatory employee deferrals of 4% and mandatory employer contributions of 8% are in place regardless of the number of years of service. For the years ended June 30, 2023 and 2022, respectively, the Organization contributed a total of \$506,885 and \$628,938 toward employees' retirement.



Federal Awards Reports in Accordance
with the Uniform Guidance
June 30, 2023

Wallowa Valley Center for Wellness



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Wallowa Valley Center for Wellness
Enterprise, Oregon

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Accounting Standards*), the financial statements of Wallowa Valley Center for Wellness, which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated March 27, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Wallowa Valley Center for Wellness’ internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Wallowa Valley Center for Wellness’ internal control. Accordingly, we do not express an opinion on the effectiveness of the Wallowa Valley Center for Wellness’ internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2023-001 and 2023-002 that we consider to be material weaknesses.

Report on Compliance and Other Matters

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

Wallowa Valley Center for Wellness' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Wallowa Valley Center for Wellness' response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. Wallowa Valley Center for Wellness' response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Spokane, Washington
March 27, 2024



Independent Auditor’s Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors
Wallowa Valley Center for Wellness
Enterprise, Oregon

Report on Compliance for the Major Federal Program

Qualified Opinion

We have audited Wallowa Valley Center for Wellness compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on Wallowa Valley Center for Wellness’s major federal program for the year ended June 30, 2023. Wallowa Valley Center for Wellness’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on Section 223 Demonstration Programs to Improve Community and Mental Health Services

In our opinion, except for the noncompliance described in the Basis of Qualified Opinion section of our report, Wallowa Valley Center for Wellness complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal Program identified in the summary of auditor’s results section for the accompanying schedule of findings and questioned costs for the year ended June 30, 2023.

Basis for Qualified Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Wallowa Valley Center for Wellness and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of Wallowa Valley Center for Wellness’ compliance with the compliance requirements referred to above.

Matter Giving Rise to Qualified Opinion on Section 223 Demonstration Programs to Improve Community and Mental Health Services

As described in the accompanying schedule of findings and questioned costs, Wallowa Valley Center for Wellness did not comply with the requirements regarding Assistance Listing No. 93.829 Section 223 Demonstration Programs to Improve Community and Mental Health Services as described in finding 2023-003 for Procurement and Suspension and Debarment.

Compliance with such requirements is necessary, in our opinion, for Wallowa Valley Center for Wellness to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Wallowa Valley Center for Wellness' federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Wallowa Valley Center for Wellness' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Wallowa Valley Center for Wellness' compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Wallowa Valley Center for Wellness' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Wellness' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Wallowa Valley Center for Wellness' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Government Auditing Standards requires the auditor to perform limited procedures on Wallowa Valley Center for Wellness' response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Wallowa Valley Center for Wellness' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-003 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-004 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Wallowa Valley Center for Wellness' response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Wallowa Valley Center for Wellness' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Wallowa Valley Center for Wellness as of and for the year ended June 30, 2023, and have issued our report thereon dated March 27, 2024, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Spokane, Washington
March 27, 2024

Wallowa Valley Center for Wellness
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>			
<i>Direct Program</i>			
Section 223 Demonstration Programs to Improve Community Mental Health Services	93.829	D8748P1	<u>\$ 889,870</u>
<i>Passed through Oregon Health Authority</i>			
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	162250	171,000
Block Grants for Community Mental Health Services	93.958	173161	69,633
Block Grants for Prevention and Treatment of Substance Abuse	93.959	173161	<u>20,953</u>
Total Oregon Health Authority			<u>261,586</u>
Total U.S. Department of Health and Human Services			<u>1,151,456</u>
Total Federal Financial Assistance			<u><u>\$ 1,151,456</u></u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Wallowa Valley Center for Wellness (the Organization) under programs of the federal government for the year ended June 30, 2023. The information is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Wallowa Valley Center for Wellness, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the organization.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The Organization does not draw for indirect administrative expenses and has not elected to use the 10% de minimus cost rate.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiency identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified	Yes
Significant deficiency identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs	Qualified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a):	Yes

Identification of major programs:

Name of Federal Program	Federal Financial Assistance Listing
Section 223 Demonstration Programs to Improve Community Mental Health Services	93.829
Dollar threshold used to distinguish between Type A and Type B Programs	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Consolidated Financial Statement Findings

**2023-001 Preparation of Financial Statements
Material Weakness in Internal Control**

Criteria: A properly designed system of internal control over financial reporting includes preparation of an entity’s financial statements and accompanying notes to the financial statements by internal personnel of the entity that are materially correct. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition: The Organization does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes, statement of cash flows, and the schedule of expenditures of federal awards as required by GAAP and Uniform Guidance. As auditors, we were requested to, and did, draft the financial statements and accompanying notes to the financial statements and the schedule of expenditures of federal awards.

Cause: The Organization does not have an internal control system designed to provide for the preparation of financial statements being audited and to identify all necessary adjustments.

Effect: Inadequate controls over financial reporting could result in the Organization not being able to draft the financial statements and accompanying footnotes that are materially correct without the assistance of auditors.

Recommendation: The circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with condition because of cost or other consideration.

Views of Responsible Officials: Management agrees with the finding.

**2023-002 Audit Adjustments
Material Weakness in Internal Control**

Criteria: A complete system of internal control contemplates an adequate system for recording and processing adjusting journal entries significant to the financial statements.

Condition: Certain reconciliations were not completed appropriately which led to audit adjustments.

Cause: The Organization does not have an internal control system designed to ensure that accounts were properly reconciled and to identify all necessary adjustments.

Effect: Inadequate controls over financial reporting could result in significant misstatements to the financial statements that would not be prevented or detected and corrected, which may affect management decisions made during the course of the year.

Recommendation: We recommend the Organization enhance internal controls to ensure that accounts are reconciled timely and all necessary adjustments are identified and recorded in the financial statements.

*Views of Responsible
Officials:* Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

**2023-003: U.S. Department of Health and Human Services
Section 223 Demonstration Programs to Improve Community Mental Health Services,
Assistance Listing #93.829
Procurement and Suspension and Debarment
Material Weakness in Internal Control over Compliance and Material Non-Compliance**

Grant Award Number: 6H79SM083045-01M004

Criteria: The OMB *Compliance Supplement* requires that entities receiving federal funding have a documented policy for procurement and for assessing suspension and debarment.

Condition: Wallowa Valley Center for Wellness does not have a formally documented procurement policy nor does the organization have written procedures for assessing suspension and debarment.

Cause: Wallowa Valley Center for Wellness did not have adequate internal controls to ensure a formally documented procurement policy with provisions for assessing suspension and debarment existed.

Effect: There are not stated processes and policies for ensuring compliance with procurement and suspension and debarment.

Questioned Costs: None

*Repeat Finding from
Prior Year:* No

Recommendation: We recommend Wallowa Valley Center for Wellness formalize a procurement policy that contains provisions for purchasing thresholds and for assessing suspension and debarment as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

*Views of Responsible
Officials:* Management agrees with the finding.

**2023-004: U.S. Department of Health and Human Services
Section 223 Demonstration Programs to Improve Community Mental Health Services,
Assistance Listing #93.829
Reporting
Significant Deficiency in Internal Control over Compliance**

Grant Award Number: 6H79SM083045-01M004

Criteria: The *OMB Compliance Supplement* requires that reports submitted to the federal awarding agency include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with governing requirements. Wallowa Valley Center for Wellness must submit annual *Federal Financial Report* that contain costs incurred during the covered period. Certain critical information includes:

- Cash receipts
- Cash disbursements
- Total federal funds authorized
- Federal share of expenditures
- Total federal share

Condition: Obligation information was reported inaccurately and after the required submission date.

Cause: Wallowa Valley Center for Wellness did not have adequate internal controls to ensure the annual *Federal Financial Report* was prepared in accordance with governing requirements as payroll expenditures that occurred after the report cutoff were submitted and the report was submitted after the required submission date.

Effect: Inaccurate and untimely information was reported to the federal awarding agency.

Questioned Costs: None

Context/Sampling: This was the sole financial report submitted during the period. As such, the reporting inaccuracy is isolated and immaterial.

*Repeat Finding from
Prior Year:* No

Recommendation: We recommend Wallowa Valley Center for Wellness enhance internal controls to ensure *Federal Financial Reports* are prepared in accordance with governing requirements through using actual obligations, rather than estimated, and that they are submitted by the reporting deadline.

Views of Responsible Officials: Management agrees with the finding.