SMITH BUNDAY BERMAN BRITTON, P.S.

EVERGREEN TREATMENT SERVICES

FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

JUNE 30, 2020 AND 2019

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CONTENTS

Independent Auditor's Report

June 29, 2021

To the Board of Directors
Evergreen Treatment Services

Report on the Financial Statements

We have audited the accompanying financial statements of Evergreen Treatment Services (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

11808 Northup Way, Suite 240 • Bellevue, Washington 98005-1959
Phone (425) 827-8255 • Fax (425) 827-0641 • www.sbbb.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Evergreen Treatment Services as of June 30, 2020, and 2019, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis 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 information is fairly stated in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 29, 2021, on our consideration of Evergreen Treatment Services' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Evergreen Treatment Services' 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 Evergreen Treatment Services' internal control over financial reporting and compliance.

Smith Bunday Berman Britton, P.S.

EVERGREEN TREATMENT SERVICES

STATEMENTS OF FINANCIAL POSITION

	June 30, 2020	June 30, 2019
Assets		
Current assets:		
Cash and cash equivalents	$3,000,133	$1,360,086
Contract funds receivable, net - Notes 1 and 3	4,538,821	2,311,625
Accounts receivable, private pay, net - Note 4	703,827	586,014
Sub-lease rent receivable	1,550	750
Prepaid expenses and other assets	328,675	235,458
Total current assets	8,573,006	4,493,933
Property and equipment: - Notes 10 and 17		
Office furniture, fixtures and equipment	3,110,469	3,179,498
Leasehold improvements	3,387,856	3,708,387
	6,498,325	6,887,885
Less accumulated depreciation and amortization	(3,359,037)	(3,202,321)
	3,139,288	3,685,564
Deposits - Note 5	183,011	146,844
Total assets	$11,895,305	$8,326,341
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$325,294	$300,873
Accrued vacation	640,716	459,743
Accrued expenses	659,320	328,741
Advances from King County Behavioral Health Organization - Note 9	-	300,000
Payroll protection program loan, current portion - Note 8	1,610,573	-
Deferred revenue	239,926	240,685
Total current liabilities	3,475,829	1,630,042
Payroll protection program loan, net of current portion - Note 8	1,376,481	-
Contingent property and equipment liabilities - Notes 10 and 17	1,623,104	2,682,321
Total liabilities	6,475,414	4,312,363
Commitments and Contingencies - Notes 6, 7, 9, 10, 15, 16 and 18		
Net assets - Note 17:		
Without donor restrictions	4,297,870	3,039,525
With donor restrictions	1,122,021	974,453
Total net assets	5,419,891	4,013,978
Total liabilities and net assets	$11,895,305	$8,326,341

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

EVERGREEN TREATMENT SERVICES

STATEMENTS OF ACTIVITIES

	Year ended June 30,	
	2020	2019
Changes in net assets without donor restrictions:		
Revenues and support:		
Contract revenue -		
government - Notes 1 and 3	$24,418,666	$24,604,238
Client fees	1,192,040	1,303,345
Contributions	57,548	154,220
In-kind	2,145	7,148
Other revenue	1,531,400	840,662
Total revenues and support without donor restrictions	27,201,799	26,909,613
Net assets released from restrictions - Note 11	127,943	40,000
Expenses:		
Program services -		
Treatment services	14,331,167	16,253,700
Research	21,579	39,769
Outreach and other	8,545,192	6,305,603
Total program services	22,897,938	22,599,072
Management and general - Note 1	3,793,440	3,446,108
Fundraising	178,514	230,367
Total expenses	26,869,892	26,275,547
Increase in net assets without donor restrictions	459,850	674,066
Changes in net assets with donor restrictions:		
Contributions	275,511	33,344
Net assets released from restriction - Note 11	(127,943)	(40,000)
Increase (decrease) in net assets with donor restrictions	147,568	(6,656)
Increase in net assets	607,418	667,410
Net assets at beginning of year, as previously stated	4,013,978	3,346,568
Prior period adjustment - Note 17	798,495	-
Net assets at beginning of year, as restated	4,812,473	3,346,568
Net assets at end of year	$5,419,891	$4,013,978

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

EVERGREEN TREATMENT SERVICES

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2020

	Program Services			Supporting Activities		
	Treatment	Research	Outreach and Other	Fundraising	Management and General	Total Expenses
Expenses:						
Salaries	$8,338,772	$16,446	$5,424,608	$89,166	$2,238,734	$16,107,726
Payroll taxes and benefits	1,889,219	2,492	1,405,486	19,633	483,358	3,800,188
Building leases and costs	1,300,614	-	242,702	8,077	149,068	1,700,461
Professional services	772,722	-	112,739	24,342	398,787	1,308,590
Client remuneration and supplies	3,209	48	882,311	-	32	885,600
Medical and dispensary supplies	590,008	350	-	-	31	590,389
Bad debt	513,209	-	-	-	-	513,209
Technology	148,755	826	25,580	573	194,514	370,248
Communications	85,551	-	124,309	1,811	41,360	253,031
Office and operating supplies	110,395	681	42,643	8,769	84,216	246,704
Insurance	113,505	597	68,512	864	22,874	206,352
Travel and transportation	33,292	139	96,967	88	16,180	146,666
Laboratory supplies	120,941	-	-	-	-	120,941
Depreciation and amortization	70,880	-	-	-	40,848	111,728
Utilities	100,227	-	-	226	7,022	107,475
Conferences/seminars/training	14,587	-	23,102	116	61,331	99,136
Repairs and maintenance	62,913	-	22,890	-	3,440	89,243
Taxes and licenses	40,914	-	13,462	91	32,067	86,534
Contingent asset purchases	-	-	59,599	-	-	59,599
Miscellaneous	21,454	-	282	1,128	7,203	30,067
Fundraising	-	-	-	21,400	7,360	28,760
Interest	-	-	-	85	5,015	5,100
In-kind	-	-	-	2,145	-	2,145
Total expenses	$14,331,167	$21,579	$8,545,192	$178,514	$3,793,440	$26,869,892

EVERGREEN TREATMENT SERVICES

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2019

	Program Services			Supporting Activities		
	Treatment	Research	Outreach and Other	Fundraising	Management and General	Total Expenses
Expenses:						
Salaries	$8,539,854	$34,760	$3,875,516	$96,250	$1,973,911	$14,520,291
Payroll taxes and benefits	1,852,566	4,793	957,708	20,028	412,860	3,247,955
Building leases and costs	1,300,698	-	218,486	-	164,516	1,683,700
Bad debt	1,567,247	-	4,010	-	-	1,571,257
Professional services	792,541	15	27,181	14,960	383,794	1,218,491
Client remuneration and supplies	6,493	89	812,315	-	-	818,897
Medical and dispensary supplies	516,002	-	-	-	-	516,002
Contingent asset purchases	438,264	-	53,765	-	-	492,029
Technology	116,930	-	74,089	4,329	210,234	405,582
Depreciation and amortization	333,298	-	29,564	-	35,180	398,042
Office and operating supplies	165,679	109	41,421	-	65,478	272,687
Communications	121,999	-	64,445	-	31,823	218,267
Insurance	133,433	-	54,299	-	27,272	215,004
Travel and transportation	42,606	3	46,367	-	36,709	125,685
Laboratory supplies	122,682	-	-	-	-	122,682
Conferences/seminars/training	8,225	-	36,571	511	59,328	104,635
Utilities	77,898	-	1,124	-	10,996	90,018
Fundraising	-	-	-	87,141	-	87,141
Taxes and licenses	39,603	-	8,742	-	31,842	80,187
Repairs and maintenance	77,682	-	-	-	-	77,682
In-kind	-	-	-	7,148	-	7,148
Interest	-	-	-	-	2,165	2,165
Total expenses	$16,253,700	$39,769	$6,305,603	$230,367	$3,446,108	$26,275,547

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

EVERGREEN TREATMENT SERVICES

STATEMENTS OF CASH FLOWS

	Year ended June 30, 2020	2019
Cash flows from operating activities:		
Cash received from contracts	$21,677,502	$25,541,646
Cash received from clients, grants and other	3,282,913	1,890,768
Cash paid to suppliers and employees	(25,774,477)	(25,453,528)
Interest received	1,099	1,309
Interest paid	(2,145)	(2,165)
Cash provided by (used in) operating activities	(815,108)	1,978,030
Cash flows from investing activities:		
Capital expenditures	(231,899)	(921,457)
Cash used in investing activities	(231,899)	(921,457)
Cash flows from financing activities:		
Repayments of King County Behavioral Health Organization advance	(300,000)	(450,000)
Principal payments on note agreements	-	(89,376)
Borrowings from payroll protection program	2,987,054	-
Cash provided by (used in) financing activities	2,687,054	(539,376)
Net increase in cash	1,640,047	517,197
Cash and cash equivalents at beginning of year	1,360,086	842,889
Cash and cash equivalents at end of year	$3,000,133	$1,360,086

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

EVERGREEN TREATMENT SERVICES

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

This description of Evergreen Treatment Services ("Evergreen" or the "Agency"), its operations, and summary of its significant accounting policies, is presented to assist in understanding the Agency's financial statements. The financial statements and notes are representations of the Agency's management, who are responsible for their integrity and objectivity. The accounting policies conform to U.S. generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Nature of organization -

Evergreen Treatment Services is a not-for-profit medication assisted treatment ("MAT"), intensive outpatient and research agency, which was founded in 1973. Since its founding, the Agency treats persons suffering with Opioid Use Disorder ("OUD") and has expanded over time to four fixed-site licensed treatment facilities in Washington State. The main clinic location contains two distinct dispensaries and is located in Seattle, and the other two are in Thurston County and South King County of the Greater Puget Sound area. Effective July 1, 2019, the Agency closed its Gray Harbor location. In addition, the Agency operates one mobile dispensary clinic that provides services in the greater Seattle area. As of June 30, 2020, the Agency has been awarded a total of five licenses to operate Opioid Treatment Programs ("OTPs").

In addition to OTPs, Evergreen participates in several drug treatment research programs that span from testing new drug treatment methods to conducting AIDS education and other related treatments for drug use disorders. Research contracts have primarily been funded by the National Institute of Drug Abuse (NIDA), passed through the University of Washington.

Evergreen also operates an intensive street-based outreach, referral and case management program for homeless adults, many of whom suffer with OUD, substance use disorders ("SUD") and mental health conditions known as REACH. Funding for REACH's services come from many different individual contracts with the Behavioral Health Organizations (Medicaid), the King County Department of Community and Human Services, Seattle-King County Department of Public Health and other governmental related entities. Although each REACH program may have unique objectives and funders, they share a dedication to locating, serving, referring to needed services and housing to the homeless community in the greater Seattle area.

In 2014, the State of Washington Legislature passed Senate Bill 6312 which directed the State of Washington, Department of Community and Health Services to integrate funding and oversight for behavioral health (mental health and substance use) treatment services. The goal of this restructuring was to allow some transition time to service providers and funders to develop and eventually implement a fully integrated healthcare model by 2020 which ensures that clients suffering with behavioral health issues have integrated access to both primary care and behavioral health services. Effective April 1, 2016, the State of Washington began purchasing behavioral health services through newly formed regionally operated Behavioral Health Organizations (BHOs).

NOTE 1 - continued:

Effective January 1, 2020, the full integration of the Washington Behavioral Health system was finalized. The last step took the form of transitioning Medicaid oversight and payment from the BHOs to the Managed Care Organizations ("MCO"). In Washington, several insurance companies elected to become or started MCOs, and the Agency secured direct contracts with them all in the service areas where it provides services. However, in King County, their BHO chose to evolve to become an Accountable Care Organizations ("ASO") and as such, they placed themselves between local Behavioral Health providers, such as the Agency, and the MCOs for patients living in King County. Thus, across the Agency's service area, it has contracts with each of the MCOs that operate in those locations, and in King County the Agency has a contract with the newly renamed King County Integrated Care Network ("KC ICN").

Basis of accounting and financial statement presentation -

The accompanying financial statements have been prepared in conformity with the disclosure and display requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification 958, *Not-for-Profit Entities*. Under these provisions, net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Agency and changes therein are classified and reported as follows:

- *Net Assets Without Donor Restrictions* - Net assets that are not subject to or are no longer subject to donor-imposed restrictions.
- *Net Assets With Donor Restrictions* – Net assets whose use is limited by donor-imposed restrictions. Net assets with donor restrictions include contributions and grants.

Revenues and support are reported as increases in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. When a restriction expires, (that is when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction.

New Accounting Pronouncements -

During the fiscal year ended June 30, 2020, the Agency adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2018-08 – Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made. This update was issued to clarify and improve the scope and accounting guidance for contributions received and contributions made. The update assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional. As a result, it enhances the comparability of financial information among not-for-profit entities. The Agency adopted ASU 2018-08 using a modified prospective method effective July 1, 2019. Under the modified prospective method, this ASU is only applied to agreements not completed or entered into (revenue or expense that has not been recognized) as of July 1, 2019. As a result, the 2019 financial statements are not restated and there was no cumulative-effect adjustment to opening net assets as of July 1, 2019.

NOTE 1 - continued:

On July 1, 2019, the Agency adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2014-09 - Revenue from Contracts with Customers (Topic 606) and other related ASUs. These ASUs replaced the existing revenue recognition guidance in U.S. GAAP and require entities to recognize revenues when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Agency adopted Topic 606 using the modified retrospective method applied to those contracts which were not completed as of July 1, 2019, (the practical expedient elected). Results for reporting periods beginning after July 1, 2019, are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Organization's historic accounting under Topic 605. Topic 606 applies to the Agency's agreements with government programs (Medicare or Medicaid), clients, and insurers; however, application of the new standard did not result in changes to the revenue recognition methods used by the Agency for these contracts.

Cash and cash equivalents -

For purposes of the statement of cash flows, the Agency considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts and contract funds receivable -

The Agency extends unsecured credit to insurance companies and individuals who privately pay for adult opiate use disorders. The Agency does not accrue interest on past due accounts and accounts that are written off are noted in the patient file because patients often return to the Agency after an absence. Management's periodic evaluation of the adequacy of the allowance for doubtful accounts is based upon the Agency's evaluation of Medicaid and insurance re-billing rules, past experience, the patient's ability to pay and current economic conditions. Accounts are written off in the period in which the receivable is determined to be uncollectible.

Property and equipment -

Property and equipment are stated at cost when purchased. Donated property and equipment are recorded as contributions at their estimated fair market values at the date of receipt. Expenditures in excess of $2,000 for additions and major improvements are capitalized; maintenance and repair costs are expensed as incurred. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets that range from five to fifteen years. Leasehold improvements are amortized over the remaining period of the lease or the life of the property, whichever is shorter.

Ownership of any property and equipment purchased with grant money is retained by the grantor and is both capitalized and expensed due to the uncertain probability that title will be granted to the Agency at the conclusion of the award's time horizon. The capitalized value of the property and equipment acquired with such grant money is offset by a contingent liability in the same amount. See Notes 10 and 17. These amounts will remain on the books until the award's time horizon is reached, at which point the property and equipment will be returned to the grantor, or they transfer ownership to the Agency.

Revenue recognition and deferred revenue -

Medication assisted treatment services are recognized at the amount that reflects the consideration to which Agency expects to be entitled in exchange for providing the services. These amounts are due from third party payors (including governmental programs and

NOTE 1 - continued:

insurance carriers) and clients and include variable consideration for revenue adjustments. The Agency bills third party payors (weekly or monthly) after the services are performed and revenue is recognized as performance obligations are satisfied.

The Agency determines the transaction price based on standard bundled rate charges for the services provided reduced by contractual adjustments provided by third party payors and discounts provided to uninsured clients. The Agency determines its estimates of contractual adjustments and discounts based upon contractual agreements and historical experience.

Under the Medicare and Medicaid programs, the Agency is entitled to reimbursement for billed services at rates determined by federal and state governments.

Governmental and private grant agreements are evaluated and determined whether they are non reciprocal, meaning the Agency has not received a direct benefit of commensurate value in exchange for the resources provided. Instead, revenue is recognized like a conditional contribution when the barrier to entitlement is overcome. The barrier to entitlement is considered overcome when expenditures associated with each grant are determined to be allowable and all other significant conditions of the grant are met.

For governmental and private grant arrangements that are reciprocal, revenue is recognized as services are provided, which is generally as allowable expenditures are incurred.

Contract funds receivable represent amounts due from funding organizations for reimbursable expenses incurred. Cash received under grants and contracts in advance of incurring the related expenses is reported as deferred revenue.

Contributions -

Contributions are available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions. However, if the restrictions expire in the fiscal year in which the contributions are recognized, they are reported as increases in net assets without donor restrictions. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions.

Contributed property and equipment are recorded at fair value at date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as increases in net assets with donor restrictions. In the absence of such stipulations, contributions of property and equipment are recorded as increases in net assets without donor restrictions.

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, that are provided by individuals possessing those skills, and that would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. During the years ended June 30, 2020 and 2019, the Agency did not recognize revenue from any donated services.

Functional allocation of expenses -

The costs incurred in providing program and supporting services have been summarized on the statements of functional expenses and in the statements of activities. These expenses include direct and indirect costs that have been allocated on a consistent basis, among program and

NOTE 1 - continued:

support services benefited. Natural expenses are accounted for on a direct cost basis to the program or service upon which the expense in incurred. Indirect expenses require allocation which is done based on relative full-time equivalent headcount, facilities usage or activities of personnel.

Income taxes -

Evergreen Treatment Services is exempt from Federal income tax as a non-profit corporation under Section 501(c) (3) of the Internal Revenue Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken and recognize a tax liability if the Agency has taken an uncertain position that more likely than not would not be sustained upon examination by the U.S. government. The Agency has analyzed the tax positions taken and has concluded that as of June 30, 2020 and 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

The Agency's Forms 990, *Return of Organization Exempt for Income Tax,* for the fiscal years ending 2017, 2018 and 2019 are open to examination by the IRS, generally for three years after they were filed.

Use of estimates -

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

In preparing the accompanying financial statements, management used estimates that have a significant effect on the financial position of the Agency. These estimates are based on factors that are sensitive to change. It is at least reasonably possible that if these factors change in the near term, management's estimates will change. These estimates include the allowance for doubtful accounts, allocation expenses, and depreciable lives of equipment.

Reclassification -

Certain amounts in the 2019 presentation have been reclassified to conform to the 2020 presentation.

NOTE 2 - CONCENTRATIONS:

Many of Evergreen's MAT services are provided to low income and Medicaid recipients and are performed on a fee for service basis under the Agency's contracts with Behavioral Health Organizations ("BHO") (until December 31, 2019) and effective January 1, 2020, with Managed Care Organizations ("MCO") and King County Integrated Care Network (KC ICN). BHO, MCO and KC ICN contracts covering MAT services account for substantially all of the 2020 and 2019 contract revenue and contract funds receivable at June 30, 2020 and 2019. The contract funds receivable are not collateralized, however credit risk with respect to such receivables is limited due to the governmental nature of the creditors and the underlying contractual arrangements.

The Agency maintains accounts with several financial institutions. Balances on deposit may exceed federally insured limits.

NOTE 3 - CONTRACT REVENUE AND CONTRACT FUNDS RECEIVABLE:

Contract revenue consisted of the following:

	Year ended June 30,	
	2020	2019
Federal awards, passed through:		
Seattle-King County Department of Public Health	$385,438	$473,163
Washington State Department of Social and Health Services – Behavioral Health and Service Integration	-	57,222
University of Washington	48,534	70,954
Downtown Emergency Service Center	-	6,483
King County, Department of Community & Human Services – Community Services Division	478,657	344,455
Thurston County Public Health and Social Services - Housing and Community Renewal	-	246,690
Total federal awards	912,629	1,198,967
State and local funds:		
Seattle-King County Department of Public Health	1,356,908	984,109
Washington State Department of Social and Health Services – Behavioral Health and Service Integration	322,319	723,501
The LEAD Policy Coordinating Group	3,734,490	3,121,044
King County, Department of Community & Human Services – Behavioral Health and Recovery Division	2,406,565	2,213,878
King County Housing and Community Development	493,168	430,066
King County, Department of Community & Human Services – Community Services Division	707,988	977,054
Grays Harbor County Public Health and Social Services Department	-	12,845
Harborview Medical Center	506,498	497,468
United Way of King County	90,000	75,000
Other	614,456	186,829
Total state and local funds	10,232,392	9,221,794
Title XIX (Medicaid and Medicare), net	13,273,645	14,183,477
Total other contract revenue	13,273,645	14,183,477
Total contract revenue	$24,418,666	$24,604,238

Contract funds receivable consist of the following at June 30:

	2020	2019
King County BHO – Title XIX (Medicaid)	$864,192	$52,695
King County BHO – Title XIX (Medicare)	1,384,395	-
Great Rivers BHO – Title XIX (Medicaid)	-	48,629
Thurston-Mason BHO – Title XIX (Medicaid)	65,636	366,989
Salish BHO – Title XIX (Medicaid)	18,110	47,879
Seattle-King County Department of Public Health	283,901	319,788
King County, Department of Community & Human Services – Behavioral Health and Recovery Division	188,609	860,363
The LEAD Policy Coordinating Group	532,501	283,570
King County Housing and Community Development	623,563	72,314
Harborview Medical Center	105,278	86,843

NOTE 3 - continued:

King County, Department of Community & Human Services – Community Services Division	70,705	49,598
Thurston Cunty Public Health and Social Services - Housing and Community Renewal	-	53,784
University of Washington	7,486	11,973
United Way of King County	15,000	12,500
HealthierHere	102,516	72,000
Other	554,798	33,811
	4,816,690	2,372,736
Less allowance for doubtful accounts	(277,869)	(61,111)
	$4,538,821	$2,311,625

NOTE 4 - ACCOUNTS RECEIVABLE - PRIVATE PAY:

Accounts receivable-private pay consisted of the following at June 30:

	2020	2019
Private pay-clients	$143,360	$191,098
Private pay-insurance	1,863,147	1,271,686
	2,006,507	1,462,784
Less allowance for doubtful accounts	(1,302,680)	(876,770)
	$703,827	$586,014

NOTE 5 - 501(c) AGENCIES TRUST RESERVE:

The Agency is a member of the 501(c) Agencies Trust (the Trust). The Trust facilitates the utilization by member agencies of the reimbursement financing method of meeting obligations under State Unemployment Insurance Statutes. At June 30, 2020 and 2019, the Agency had $151,880 and $126,013, respectively, on deposit with the Trust to fund these obligations. This deposit is included in deposits in the statements of financial position. At June 30, 2020 and 2019, the Agency has an estimated unrecognized liability of $93,554 and $145,152 respectively, for claims incurred but not reported.

NOTE 6 - LEASE COMMITMENTS:

The Agency leases its office and clinic spaces and certain office equipment under non-cancelable operating leases. The lease expiration dates are as follows:

Location	Expiration Date
Seattle – Marginal Way	December 16, 2024
South Sound Clinic	December 31, 2032
South King County (Renton)	March 31, 2028
Hoquiam	January 14, 2019
Markham Building	January 31, 2021
Seattle – 1700 Airport Way	March 31, 2022
Kent – 1601 Meeker	May 31, 2022

NOTE 6 - continued:

The future minimum rental payments under non-cancelable operating leases in existence as of June 30, 2020 are as follows:

Year ending June 30,	
2021	$1,149,523
2022	943,407
2023	528,527
2024	415,367
2025	370,795
Thereafter	1,174,866
	$4,582,485

Facility rental expense totaled $1,445,323 and $1,449,812 for the years ended June 30, 2020 and 2019, respectively.

The Agency's lease for 1700 Airport Way contained an option until March 31, 2021 to purchase the entire property for $10,200,000. See Notes 9, 12, 15 and 18.

The Agency's South Sound clinic lease contains an option to extend the lease term for two additional five year periods. The Hoquiam lease will revert to month to month upon expiration.

NOTE 7 - LINE OF CREDIT:

The Agency had a revolving line of credit through August 1, 2020 which was subsequently renewed through August 1, 2021. The new agreement permits maximum borrowings of $850,000 and the borrowing base limitation was removed. Interest is calculated daily at lender's bank base rate plus 1.00% (4.25% at June 30, 2020). The line of credit is collateralized by a security agreement covering substantially all assets. The credit agreement contains certain restrictive financial covenants including a debt service coverage ratio of 1.10 (measured as of each fiscal year) and a minimum liquidity of $1,000,000 at June 30, 2020. At June 30, 2020, the Agency was in compliance with these covenants. There were no borrowings under this facility at June 30, 2020 and 2019.

NOTE 8 – PAYCHECK PROTECTION PROGRAM LOAN:

In April 2020, the Agency obtained a Payroll Protection Program loan with a bank. The Payroll Protection Program is an extension of the Small Business Administration 7(a) ("SBA 7(a)") program. The SBA 7(a) program has been temporarily modified to support small businesses facing economic stress and uncertainty as a result of Covid-19. The Payroll Protection Program provides loans to support ongoing payments of payroll, insurance, benefits, rent or mortgage, and utilities. The balance of the loan at June 30, 2020 was $2,987,054.

The program allows loan forgiveness based on eligible expenses incurred for up to twenty-four weeks from loan inception to June 30, 2020. The Agency has neither evaluated nor recorded loan forgiveness at June 30, 2020.

NOTE 8 - continued:

Scheduled maturities of the PPP loan for future years is as follows:

Year ending June 30,	
2021	$1,610,573
2022	1,376,481
	$2,987,054

NOTE 9 - ADVANCES FROM KING COUNTY BEHAVIORAL HEALTH ORGANIZATION:

In March 2016 and June 2017, the Agency received $1,200,00 and $600,000, respectively, of cash advances from King County Behavioral Health Organization (KCBHO) which was used for working capital to fund operations during the transition of Medicaid in Washington State from the Department of Social and Health Services (DSHS) to the BHOs. Prior to April 1, 2016, DSHS paid Medicaid claims on a weekly basis. KCBHO remits payment for billings monthly based upon the complete submission of data in the KCBHO Information System.

The $1,200,000 advance was originally due on December 31, 2016 and was subsequently extended to September 30, 2017. The $600,000 advance was originally due on September 30, 2017. The commencement of monthly payments of $37,500 for both advances began in March 2018. In March 2018, King County notified the Agency of its intent to forgive $900,000 of the total advances. Accordingly, the Agency recognized this amount as debt forgiveness (net assets with donor restrictions) in fiscal year 2018. The balance of the advance at June 30, 2020 and 2019 was $0 and $300,000, respectively.

The forgiveness of the $900,000 was contingent upon the Agency applying a like amount of money towards the future purchase of a medication assisted treatment facility. See Notes 15 and 18.

NOTE 10 - GRANT ACQUIRED ASSETS AND RELATED CONTINGENT LIABILITIES:

Several of the Agency's government contracts include a provision that any reimbursed equipment purchased that is $5,000 or more per item shall be the property of the county/federal/state government. All such equipment shall be returned to the county/federal/state government upon termination of the contract unless otherwise agreed upon by the parties. The total value of property and equipment included on the balance sheet and acquired using government grant and contract funds and the offsetting contingent liabilities to those agencies at June 30, was as follows:

	2020	2019
State of Washington, Department of Social and Health Services – Behavioral Health & Service Integration-Block Grant for Substance Abuse and Mental Health	$-	$49,200
Seattle-King County Department of Public Health, Health Care for the Homeless	34,744	73,413
City of Seattle-Human Services Department-REACH-Multi-Disciplinary Outreach Team	27,410	66,690
Grays Harbor County Public Health and Social Services Department	-	11,000
The LEAD Policy Coordinating Group	-	3,612
Public Defender Association	12,164	14,654

NOTE 10 - continued:

King County Department of Community and Human Services, Behavioral Health and Recovery Division	889,078	1,195,161
King County Department of Community and Human Services Mental Health, Chemical Abuse & Dependency Services Division	473,162	1,021,901
Thurston County Public Health and Social Services - Housing and Community Renewal	186,546	246,690
	$1,623,104	$2,682,321

The Agency expanded its South Sound Clinic partially using a Community Development Block Grant of $246,690 which was passed through by the Thurston County Public Health and Social Services under the CDBG Entitlement Grants Program. In connection with this grant, the Agency signed a Leasehold Deed of Trust to secure reversion of the leasehold improvements through the termination of the lease of the South Sound Clinic on December 1, 2032. See Note 6.

See Note 17.

NOTE 11 - NET ASSETS RELEASED FROM RESTRICTION:

The net assets released from donor restrictions during the year ended June 30, 2020 were expended primarily for coronavirus pandemic related expenses. The net assets release for donor restrictions during the year ended June 30, 2019 were expended primarily for installing accessible doors for people with disabilities on the treatment facilities.

NOTE 12 - NET ASSETS WITH DONOR RESTRICTION:

Net assets with donor restrictions are restricted for specific programs. They consist of the following at June 30:

	2020	2019
REACH Program	$61,171	$48,603
Defibrillators	850	850
Capital Campaign	90,000	10,000
Facility Safety, Security, and Compliance Upgrade	70,000	15,000
King County Debt Forgiveness for 1700 Airport Way - Notes 9, 15 and 18	900,000	900,000
	$1,122,021	$974,453

NOTE 13 - LIQUIDITY AND AVAILABILITY:

The Agency's financial assets available within one year to meet general expenditures include the following as of June 30, 2020:

Cash and cash equivalents	$3,000,133
Contract funds receivable, net	4,538,821
Accounts receivable, private pay, net	703,827
Sub-lease rent receivable	1,550
Available financial assets	8,244,331
Less: financial assets unavailable for general expenditures due to designations	
Donor imposed purpose restrictions	(1,122,021)
	$7,122,310

NOTE 14 - RETIREMENT PLAN:

The Agency sponsors a retirement plan that is available to substantially all employees. Under the plan, employees may elect to defer a portion of their salary subject to annual limits under Section 403(b) of the Internal Revenue Code.

The retirement plan contains provisions whereby the Agency may match a percentage of employee contributions. The Agency matched contributions up to 3% of eligible wages or 50% of the employee contribution. Total employer contributions for 2020 and 2019 were $282,155 and $164,878, respectively.

NOTE 15 - PURCHASE OF 1700 AIRPORT WAY BUILDING:

On August 6, 2018, the Agency was notified that the 2017-2019 State Capital Budget includes an appropriation of $3,000,000 for the building purchase of 1700 Airport Way. The Department of Commerce administers the state of Washington's Behavioral Health Facilities programs and will retain three percent of the award (up to a maximum of $50,000) for its direct administrative costs. The Agency must fulfill certain requirements prior to receiving the funds. The funds were initially available through June 30, 2019. On August 2, 2019, the 2019-2021 Washington State Legislature re-appropriated the $3,000,000 for the building purchase of 1700 Airport Way and provided the Agency until June 30, 2021 to use the funds. See Note 18.

On December 3, 2018, the Agency and King County Department of Community and Human Services Behavioral Health and Recovery Division formally entered into an amendment to their Substance Use Disorder Treatment Services contract ('the Contract") that was agreed to in March 2018. The amendment added $900,000 of County funds to the Agency for the anticipated purchase of a facility (1700 Airport Way) for the purpose of providing behavioral health services, including medication assisted treatment and substance use disorder outpatient treatment. Upon purchasing the facility, the Agency will be required to execute and record a covenant (among other documents) that requires behavioral health services specified in the Contract to be provided at the site for no less than twenty years. In the event of default of the Contract that is not cured in a timeframe agreed to by the County, the County will be entitled to a Recovery Amount that equals the Amount of Funds advanced to the Agency less the cumulative principal reductions awarded prior to the time of the breach. See Note 18.

NOTE 15 - continued:

On November 19, 2018, the Seattle City Council passed a budget plan for 2019-2020 that includes a $1,000,000 appropriation of unspent prior periods entitlements for an Opioid Treatment Clinic Capital Project for the Agency to be used for the anticipated purchase of 1700 Airport Way. This project is subject to federal Community Development Block Grant eligibility requirements, among others. See Note 18.

NOTE 16 - CONTINGENCY:

Coronavirus COVID-19 pandemic

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic. The related adverse public health developments, including orders to shelter-in-place, travel restrictions, and mandated business closures, have adversely affected workforces, organizations, their customers, economies, and financial markets globally, leading to increased market volatility and disruptions in normal business operations, including the Agency's operations.

The Agency transitioned almost all of its employees to remote work in mid-March of 2020. The State of Washington and King County Public Health officials have released guidance for bringing employees back to in-person, which the Agency has implemented.

The Agency has been closely monitoring the impact of COVID-19 on the Agency's operations, including the impact on its patients and employees. The duration and intensity of the pandemic are uncertain but may influence outpatient treatment, donor decisions, investment performance, and may also negatively impact collections of the Agency's receivables.

NOTE 17 - CORRECTION OF ERROR:

During the year ended June 30, 2020, management detected an error in the recording of depreciation of grant acquired property and equipment acquired during 2016-2019. Prior year financial statements included depreciation expense for these assets aggregating $798,495. As a result of this error, depreciation expense in the statement of activities for the fiscal years 2016-2019 was overstated by $798,495 and the contingent property and equipment liabilities on June 30 of the respective years were overstated by the same amount. Accordingly on July 1, 2019, net assets without donor restrictions has been increased by $798,495 and contingent property and equipment liabilities have been decreased by this same amount to correct this error.

NOTE 18 - SUBSEQUENT EVENTS:

The Agency has evaluated subsequent events through June 29, 2021, the date these financial statements were available to be issued.

In March 2021, the Agency entered into amendment of its non-cancellable operating lease for its Markham Building location extending the lease to January 31, 2026.

NOTE 18 - continued:

In February 2021, the Agency entered into a purchase and sale agreement for the purchase of the 1700 Airport Way Building for $9.5 million. On May 5,2021, the purchase of the building was finalized and the Agency entered into a lease termination agreement with the landlord effective on that same date.

The purchase of the building was financed as follows:

Note payable – Craft 3	$5,500,000
State of Washington – Department of Commerce	2,950,000
City of Seattle	1,000,000
Earnest money	50,000
	$9,500,000

Concurrent with the closing, the King County Covenant that is described in Note 15 was also recorded.

SUPPLEMENTARY INFORMATION

EVERGREEN TREATMENT SERVICES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020

Federal Grantor/ Pass-Through Grantor/ *Program Title*	Federal CFDA Number	Pass-through Grantor's Number	Federal Program Expenditures
U.S. Department of Health and Human Services			
Passed through University of Washington			
Drug Abuse and Addiction Research Programs	93.279	725649	$4,516
Drug Abuse and Addiction Research Programs	93.279		3,536
Drug Abuse and Addiction Research Programs	93.279		40,482
Drug Abuse and Addiction Research Programs - Sub-total			48,534
Passed through Seattle-King County, Department of Public Health			
Health Care for the Homeless	93.224	CHS 3003, 3004 & 1596	114,832
Health Care for the Homeless	93.224	CHS 3003, 3004 & 1596	270,606
			385,438
Passed through King County, Department of Community and Human Services			
Opioid STR	93.778		16,254
Opioid STR	93.778		437
Opioid STR - Sub-total			16,691
U.S. Department of Housing and Urban Development			
Passed through City of Seattle, Human Services Department			
Continuum of Care	14.267	6025808	34,201
Continuum of Care	14.267	6025808	408,698
Continuum of Care	14.267	6025808	19,067
Continuum of Care - Sub-total			461,966
Total Federal Awards Expended			$912,629

EVERGREEN TREATMENT SERVICES

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Evergreen Treatment Services ("Evergreen") under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) 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 Evergreen, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Evergreen.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The pass through agencies that provide funding to Evergreen derive their support from various funding sources including federal, state and local. Therefore, expenditures reported on the Schedule are reported when the disbursement is received from the pass-through entity. 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.

Expenditures reported on the Schedule are reported on the accrual basis of accounting.

NOTE 3 – MEDICAID AND MEDICARE:

Uniform Guidance does not consider a state's Medicaid and Medicare payments to a nonfederal entity for providing patient care services to eligible individuals to be expenditures of federal awards unless the state requires the funds to be treated as federal awards expended because the payments are on a cost-reimbursement basis.

NOTE 4 - INDIRECT COST RATE:

Evergreen has elected not to use the 10% *de minimis* indirect cost rate allowed under the Uniform Guidance for all federal awards except CFDA 14.267.

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*

June 29, 2021

To the Board of Directors
Evergreen Treatment Services

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, the financial statements of Evergreen Treatment Services (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, 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 June 29, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Evergreen Treatment Services' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Evergreen Treatment Services' internal control. Accordingly, we do not express an opinion on the effectiveness of Evergreen Treatment Services' 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 the 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 did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a material weakness.

11808 Northup Way, Suite 240 • Bellevue, Washington 98005-1959
Phone (425) 827-8255 • Fax (425) 827-0641 • www.sbbb.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Evergreen Treatment Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2020-002.

Evergreen Treatment Services Response to Findings

Evergreen Treatment Services' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Evergreen Treatment Services' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Smith Bunday Berman Britton, P.S.

Independent Auditor's Report on Compliance For Each Major Program and On Internal Control Over Compliance Required by the Uniform Guidance

June 29, 2021

To the Board of Directors
Evergreen Treatment Services

Report on Compliance for Each Major Federal Program

We have audited Evergreen Treatment Services' (a nonprofit organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Evergreen Treatment Services' major federal programs for the year ended June 30, 2020. Evergreen Treatment Services' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Evergreen Treatment Services complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

11808 Northup Way, Suite 240 • Bellevue, Washington 98005-1959
Phone (425) 827-8255 • Fax (425) 827-0641 • www.sbbb.com

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-002. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Management of Evergreen Treatment Services is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Evergreen Treatment Services' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Evergreen Treatment Services' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2020-02 that we consider to be a significant deficiency.

Evergreen Treatment Services' response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Evergreen

Treatment Services' response was not subjected to the 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.

Smith Bunday Berman Britton, P.S.

Evergreen Treatment Services
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Section I - Summary of Auditor's Results

Financial Statements		
Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP	Unmodified	
Internal Control over financial reporting:		
• Material weakness(es) identified	_X_ yes	__ no
• Significant deficiency(ies) identified?	___ yes	_X_ none reported
Noncompliance material to financial statements noted?	___ yes	_X_ no
Federal Awards		
Internal control over major federal programs:		
• Material weakness(es) identified	__ yes	_X_ none reported
• Significant deficiency(ies) identified?	_X_ yes	__ no
Type of auditor's report issued on compliance for major federal programs	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_X_ yes	__ no
Identification of major federal programs CFDA Number(s)	Continuum of Care, CFDA #14.267	
Dollar threshold used to distinguish between type A and type B programs	$750,000	
Auditee qualified as low-risk auditee?	___ yes	_X_ no

Section II - Financial Statement Findings

Finding 2020-001-Treatment Billings & Accounts Receivable

Criteria

Management should establish a well-defined process for integrating detail transactions (including initial postings, re-billings and write-offs) posted in SMART (the Agency's medical billing software) with transactions that are batch posted in Sage-MIP (the Agency's non-profit accounting software). The current process needs refinement to ensure consistency in data processing and accuracy of the general ledger.

Conditions Found

We haphazardly selected sixty treatment revenue entries from the general ledger detail for Medicaid, Medicare, Non-Medicaid (MHCADS: MIDD and LIGAU), and Non-Medicaid and non-MHCADS and obtained reports in support of the billings generated from SMART and other documentation for each treatment revenue entry. We agreed each report and other documentation to the treatment revenue entry. We found:

1. No report generated from SMART for three treatment revenue entries.
2. Reports generated from SMART and other documentation did not agree for fourteen treatment revenue entries. The supporting reports were both less than and more than the amounts recorded in the general ledger.

From each report generated from SMART, we selected one client billing transaction. For each transaction selected, we performed procedures to test existence of documentary evidence in support of the billings. We found:

1. One non-Medicaid client is missing low-income eligibility documentation.
2. One non-Medicaid and non-MHCADS billing was billed but dosing documentation was not provided.
3. One Medicaid billing was billed to the MCO, but dosing documentation was not provided.
4. One non-Medicaid and non-MHCADS billing was recorded in fiscal year 2020 when payment was received for dosing provided in the prior fiscal year.
5. Three Medicaid billings were billed to the State but the client's race in SMART shows different race (not American Indians or Alaskan Native).

We found no evidence that the billings to the BHOs and non-Medicaid and non-MHCADS billings were subsequently adjusted or voided in MIP, if necessary.

Furthermore, consistent with prior years, we also were unable to reconcile the accounts receivable balances between SMART, its derivative spreadsheets and Sage-MIP.

Cause

This finding is very similar to the Finding 2019-001 since the Agency's process was largely unchanged during fiscal year 2020. The Agency uses SMART as a sub-leger for amounts that are recorded in MIP. Information from SMART is summarized on a billing basis and, in effect, batch posted in MIP as invoices. However, detailed service transactions in SMART that form the basis for invoicing may not be initially approved for payment in full and are routinely short paid, subsequently adjusted, rebilled and/or written off. All these detailed level tracking and adjustments are handled within SMART, but those details can get lost in the batch posting of invoices within MIP.

The Agency's process for managing this document flow is very labor intensive and requires coordination and follow through by Agency staff to ensure that transactions are reflected properly in both SMART and MIP. As a result, modifications to the initial posting in MIP arising from billing adjustments are not always timely modified to the associated invoice in MIP.

Effect

The Agency's financial reporting will continue to contain a level of imprecision until the new electronic medical system is implemented, tested and staff received ongoing training.

Questioned costs

Not applicable as none of the client billing transactions that were selected involved federal financial assistance.

Perspective Information - Compliance exception rate

The client billing transaction sample that we selected indicated potential Medicaid, non-Medicaid, and non-Medicaid and non-MHCADs exception rates of 7%, 2%, and 3%, respectively. The compliance exception rates are calculated as follows:

Sample size-60
Exceptions-4 (Medicaid), 1 (non-Medicaid), and 2 (Non-Medicaid and non-MHCADS)
Compliance exception rate = 7% (4/60) for Medicaid, 2% (1/60) for non-Medicaid, and 3% (2/60) for Non-Medicaid and non-MHCADS, 12% combined

Recommendation

In September 2018, the Agency's board of directors approved funds for a new electronic medical records system (SAAMS) which, when implemented, will integrate with the Agency's financial software and will eliminate many of the manual processes that are currently required, increase efficiency in the billing and collecting of treatment revenues and will provide management with useful financial reporting.

While the new electronic medical records system initiative progresses, we recommend that management review its current processes to ensure that information is communicated timely among all departments and employees, that transactions are posted to MIP in a timely manner and to the extent possible, information in SMART is reconciled with MIP on a periodic basis.

View of Responsible Officials

We agree with the finding, conclusion, and recommendation.

We are now eight months into our transition to the SAAMS system. Accounts receivable and revenue recognition continues to be the priority for the finance department. We are in the process of establishing a revenue recognition model to ensure that billings occurring in SAAM are properly recognized in MIP. In addition, we will make sure that the aging schedules synergistically reconcile between the two systems. In addition, the SAAM third party reporting system, we will be utilizing the Power BI technology to continue to ensure our billings and accounts receivable functions are reconciled properly and according to proper accounting standards. Lastly, we are in the process of developing a true bad debt and collections process to ensure we understand our payer mix.

Finding 2020-002-Compliance with Requirements of Continuum of Care, CFDA #14.267

Criteria

Management must comply with the following compliance/contract requirement of the Continuum of Care program: housing stability plan for each household, updated every 90 days.

Conditions Found

We haphazardly selected thirty-seven clients. For each client selected, we performed procedures to test that a housing stability plan was prepared during the fiscal year ended June 30, 2020. We found 25 clients/household do not have housing stability plan and 11 clients have housing stability plan but was not updated.

Cause

Completing the housing stability plan with clients with person-centered focus has been difficult with social distancing requirements due to the COVID-19 pandemic and there were challenges in locating clients that are at a disadvantage accessing technology to provide electronic signatures.

Effect

The effect of the above on the operation of the program is not known.

Questioned costs

This section is not applicable as the compliance attributes that were tested were nonmonetary.

Recommendation

We recommend that management review its current processes to ensure compliance with the contract requirements and documentation evidencing compliance is maintained.

View of Responsible Officials

We agree with the finding, conclusion, and recommendation.

Housing stability plan (included in the individual service plan) is an improvement opportunity for the Agency.

EVERGREEN TREATMENT SERVICES
Management's Corrective Action Plan
Year Ended June 30, 2020

FINDING 2020-001:

Contact Person: Donavan Lam, CPA, ***Chief Financial Officer***

Corrective Action:

As referred to in the "View of Responsible Official" answer to this Finding, we are now 8 months into our transition to the SAAMs system, AR and revenue recognition continues to be the priority for the finance department. We are in the process of establishing a revenue recognition model to ensure billings occurring in SAAM are properly recognized in MIP. In addition, we will make sure that the aging schedules synergistically reconcile between the two systems. In addition to the SAAM third party reporting system, we will be utilizing the Power BI technology to continue to ensure our billings and AR functions are reconciled properly and according to proper accounting standards. Lastly, we are in the process of developing a true bad debt and collections process to ensure we understand our payer mix and can more accurately differentiate and report implicit price concessions and bad debt expense.

Anticipated Completion Date:

June 30, 2021

FINDING 2020-002:

Contact Person: Chloe Gale

Corrective Action:

We are constantly in the process of ensuring we bring the best services to the client. With the arrival of our new CEO, we are in the midst of the strategic plan and part of our plan is to ensure we understand and have program outcomes and deliverables of all our services. REACH recently went through a restructure with the introduction of 4 new directors position to oversee 4 of our main REACH disciplines. These directors will be overseeing the program deliverables more closely and work toward addressing issues including lack of documentation of Individual Service Plans/Housing Stability Plans.

Anticipated Completion Date: TBD

EVERGREEN TREATMENT SERVICES
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

FINANCIAL STATEMENT FINDINGS

Finding 2019-001-Treatment Billings & Accounts Receivable

Status: In process. The same general finding was repeated in 2020-001.

Finding 2019-002-Internal Controls Over Federal Grant Schedule

Status: Corrected.

Finding 2019-003-Compliance with Requirements of Continuum of Care, CFDA #14.267

Status: Partially corrected. The same general finding was repeated in 2020-002 with respect to documentation of Housing Stability Plans.

Finding 2019-004-Compliance with Procurement Standards of OMB's Uniform Guidance, CFDA #93.778

Status: In process. The Agency's CFO is in the process of updating the procurement policy and has circulated a draft to the management team for review.