

Consolidated Financial Statements and
Report of Independent Certified Public
Accountants in Accordance with the
Uniform Guidance

Merakey Pennsylvania

June 30, 2021 and 2020

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Merakey Pennsylvania

Report on the financial statements

We have audited the accompanying consolidated financial statements of Merakey Pennsylvania, which comprise the consolidated balance sheets as of June 30, 2021 and 2020, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the balance sheets of Merakey Pennsylvania as of June 30, 2021 and 2020, and the consolidated results of operations and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of matter

As discussed in Note B to the consolidated financial statements, during the year ended June 30, 2021, Merakey Pennsylvania adopted the following Accounting Standards Update: 2014-09, *Revenue from Contracts with Customers*. Our opinion is not modified with respect to this matter.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 19, 2021 on our consideration of Merakey Pennsylvania's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Merakey Pennsylvania's 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 Merakey Pennsylvania's internal control over financial reporting and compliance.

Grant Thornton LLP

Philadelphia, Pennsylvania
November 19, 2021

Merakey Pennsylvania
CONSOLIDATED BALANCE SHEETS
June 30,

	2021	2020
ASSETS		
Current assets		
Cash	\$ 987,787	\$ 360,861
Restricted cash	87,299	177,493
Accounts receivable	18,515,828	15,653,006
Due from affiliates	25,767,729	23,680,950
Prepaid expenses and other current assets	569,475	722,716
Total current assets	45,928,118	40,595,026
Property and equipment, net	9,851,309	9,633,242
Other assets	578,384	832,035
Total assets	\$ 56,357,811	\$ 51,060,303
LIABILITIES AND NET ASSETS		
Current liabilities		
Deferred revenue, current	\$ 463,191	\$ 461,125
Accrued payroll	5,017,337	5,336,246
Accrued expenses and other current liabilities	9,175,693	7,480,921
Total current liabilities	14,656,221	13,278,292
Deferred revenue and other long-term liabilities	3,405,224	3,641,308
Long-term debt	622,653	-
Total liabilities	18,684,098	16,919,600
Net assets - without donor restrictions	37,673,713	34,140,703
Total liabilities and net assets	\$ 56,357,811	\$ 51,060,303

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

Merakey Pennsylvania

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Years ended June 30,

	2021	2020
Revenues		
Consumer service revenue	\$ 165,386,439	\$ 170,286,215
Other revenue	3,887,287	258,300
	169,273,726	170,544,515
Expenses		
Salaries	80,431,372	83,073,121
Employee benefits	21,478,424	18,943,735
Purchased services	24,604,376	22,008,252
Occupancy	9,257,486	9,291,179
Insurance	2,797,035	2,672,088
Supplies and other	25,159,921	29,589,608
Depreciation	1,344,646	1,309,527
Interest	13,873	18,385
	165,087,133	166,905,895
Excess of revenues over expenses	4,186,593	3,638,620
Other changes in net assets without donor restrictions:		
Other	(653,583)	-
	3,533,010	3,638,620
Changes in net assets	3,533,010	3,638,620
Net assets, beginning of year	34,140,703	30,502,083
Net assets, end of year	\$ 37,673,713	\$ 34,140,703

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

Merakey Pennsylvania

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30,

	2021	2020
Operating activities		
Change in net assets	\$ 4,186,593	\$ 3,638,620
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	1,344,646	1,309,527
Gain on disposal of property and equipment	(28,270)	(55,663)
Changes in operating assets and liabilities		
Accounts receivable	(2,862,822)	10,537,473
Prepaid expenses and other current assets	153,241	(150,255)
Other assets	253,651	14,923
Deferred revenue, current	2,066	17,707
Accrued payroll	(318,909)	480,833
Accrued expenses and other current liabilities	1,663,842	3,176,470
Deferred revenue and other long-term liabilities	(236,084)	(355,840)
Net cash provided by operating activities before due to affiliates	4,157,954	18,613,795
Due from affiliates	(1,950,456)	(18,723,333)
Net cash provided by (used in) operating activities	2,207,498	(109,538)
Investing activities		
Purchase of property and equipment	(1,670,766)	(836,498)
Net cash used in investing activities	(1,670,766)	(836,498)
Financing activities		
Proceeds from short-term borrowings	-	13,816,472
Payments of short-term borrowings	-	(13,816,472)
Net cash used in financing activities	-	-
Net increase (decrease) in cash and restricted cash	536,732	(946,036)
Cash and restricted cash, beginning of year	538,354	1,484,390
Cash and restricted cash, end of year	\$ 1,075,086	\$ 538,354
Supplemental cash flow information		
Non-cash financing activities		
Increase in long-term debt	\$ 622,653	\$ -

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

Merakey Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2021 and 2020

NOTE A - ORGANIZATION

Merakey Pennsylvania is the sole corporate member of Merakey Stevens Center, which is the parent of Stevens Housing Corporation. Merakey Pennsylvania and its affiliates provide comprehensive community mental health and intellectual and developmental disabilities services, consisting of crisis outpatient, partial hospitalization, consulting and education. Merakey Pennsylvania also provides residential, education, aftercare, foster care and case management services to residents of central and western Pennsylvania, Louisiana and New York.

Merakey USA (Merakey) is the sole corporate member of Merakey Pennsylvania. Merakey and its affiliated organizations are leading developmental, behavioral health and education providers offering a breadth of integrated services to individuals and communities across the country. Merakey has developed a unique continuum of care providing services in the areas of mental health, substance use disorders, long term supports, education, foster care and permanency, autism, intellectual and developmental disabilities and other specialized programs.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements of Merakey Pennsylvania are prepared and presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for health care organizations. The consolidated financial statements include the accounts of Merakey Pennsylvania and its affiliates. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Recently Adopted Accounting Pronouncement

Effective July 1, 2020, Merakey Pennsylvania adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09), as amended, using the retrospective method of application to all contracts existing on July 1, 2019. The core principle of the standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of the standard had no impact on Merakey Pennsylvania current or historical balance sheet, results of operations or cash flows. Additionally, management does not anticipate that the standard will have a material impact on the amount or timing of when Merakey Pennsylvania recognizes revenue prospectively. However, in accordance with the standard, Merakey Pennsylvania now recognizes its previously reported provision for bad debts as a direct reduction to revenues as an implicit pricing concession, instead of separately as bad debt expense. Merakey Pennsylvania revenue recognition and accounts receivable policies are more fully described below.

Use of Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the special purpose combined financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant management estimates and assumptions relate to the determination of the consumer accounts receivables, service revenue, estimated useful lives of property and equipment, allocation of functional expenses, assumptions used to determine liabilities for self-insured employee benefit plans and the fair values of certain assets and liabilities. Actual results could differ from these estimates.

Merakey Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Cash and Restricted Cash

Merakey Pennsylvania participates in a consolidated cash management account with other Merakey affiliates. All cash receipts are directed to lock boxes associated with the short-term borrowings (Note 1) prior to being transferred to the consolidated account. Restricted cash represents client funds held by Merakey Pennsylvania. Client funds were \$87,299 and \$177,493 at June 30, 2021 and 2020, respectively.

The following table provides a reconciliation of cash and restricted cash reported on the accompanying consolidated balance sheets that total the amounts presented on the accompanying consolidated statements of cash flows at June 30:

	2021	2020
Cash	\$ 987,787	\$ 360,861
Restricted cash	87,299	177,493
	<u>\$ 1,075,086</u>	<u>\$ 538,354</u>

Consumer Service Revenue

Consumer revenue is reported at the amounts that reflect the consideration to which Merakey Pennsylvania is expected to be entitled to in exchange for providing consumer care within each of its programs. These amounts are due from federal, state and local government, educational and social welfare agencies and private and insurance payors under cost reimbursed programs and fee-for-service arrangements and may include variable consideration for retroactive adjustments due to settlements of audits. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits. Consumer and third-party payors, including private and insurance payors, are billed as services are performed. Consumer revenue is recognized in the period in which the performance obligations are satisfied under contracts by transferring services to consumers.

Performance obligations are determined based on the nature of the services provided. Merakey Pennsylvania recognizes revenues for cost reimbursed programs based on performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. Merakey believes that this method provides an appropriate depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Merakey Pennsylvania recognizes revenues for fee-for-service programs based on performance obligations satisfied at a point in time, which generally relate to consumers receiving daily or unit-based services.

Consumer revenue is reported on the accrual basis of accounting in the period in which services are rendered at established rates, net of contractual adjustments, discounts, and implicit price concessions. Consumer revenues also include estimated retroactive adjustments under reimbursement agreements with third-party payors and are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Laws and regulations governing these programs are complex and subject to interpretation. Merakey Pennsylvania believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future regulatory review and interpretation.

Disaggregated consumer revenues by funding source and service type for the years ended June 30, consists of the following:

Merakey Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Consumer revenues by funding source	2021	2020
Medical Assistance	26%	26%
Managed care organizations	47%	45%
Managed care organizations	16%	17%
Other	11%	12%
	100%	100%
Consumer revenues by service type	2021	2020
Intellectual and developmental disabilities	28%	27%
Adult behavioral health	47%	45%
Children and family	25%	28%
	100%	100%

Earned but Unbilled Accounts Receivable

Merakey Pennsylvania is reimbursed by funding agencies for expenses in program-funded operations. Certain expenses are accrued for financial reporting purposes, but are not billed until program expenditures are paid. To properly match revenue and expenses, Merakey Pennsylvania records an earned but unbilled accounts receivable for this accrual, and the related liability is included in accrued expenses. At June 30, 2021 and 2020, earned but unbilled accounts receivable of \$234,770 and \$240,897, respectively, are included in prepaid expenses and other current assets on the consolidated balance sheets and are attributable to accrued vacation expenses.

Property and Equipment

Property and equipment are recorded at cost. Depreciation has been provided by the straight-line method over the estimated useful lives of the related assets as follows:

Buildings and building improvements	10 - 30 years
Equipment, furniture and automobiles	5 - 20 years

Deferred Revenue

Portions of grant awards are utilized to purchase property and equipment. Merakey Pennsylvania has deferred the recognition of grant revenue related to these acquisitions until the equipment is depreciated to properly match grant revenue and depreciation expense. This revenue is recognized in consumer service revenue. This deferral is recorded as deferred revenue. Such property acquired is considered to be owned by Merakey Pennsylvania while used in the program for which it was purchased or in other future authorized programs; however, the funding agencies maintain a reversionary interest in the property. Its disposition, as well as the ownership of any proceeds therefrom, is subject to government regulations.

Income Taxes

Merakey Pennsylvania, Merakey Stevens Center, and Stevens Housing Corporation are not-for-profit 501(c)(3), tax-exempt organizations incorporated in the Commonwealth of Pennsylvania.

Merakey Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

A tax position is recognized or derecognized by Merakey Pennsylvania and its affiliates based on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return. Merakey Pennsylvania and its affiliate do not believe their consolidated financial statements include any material uncertain tax positions.

Pending Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*, as amended, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021. An entity is required to apply the amendments in the standard under the modified retrospective transition approach.

This approach includes a number of optional practical expedients, which are described in the final standard. Under these practical expedients, an organization will continue to account for leases that commence before the effective date in accordance with current U.S. GAAP, unless the lease is modified. However, lessees are required to recognize on the balance sheet leased assets and liabilities for operating leases at each reporting date. Merakey Pennsylvania has not determined the impact of this standard at this time.

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform* (Topic 848), which provides practical expedients and exceptions for applying U.S. GAAP to contracts, helping relationships, and other transactions affected by reference rate reform if certain criteria are met. The expedients and exceptions provided by the amendments in this update apply only to contracts, hedging relationships, and other transactions that reference the London Inter-bank Offered Rate (LIBOR) or another reference rate expected to be discontinued as a result of reference rate reform. These amendments are not applicable to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. ASU 2020-04 may be applied to contract modifications and hedging relationships through December 31, 2022. Merakey Pennsylvania will adopt this standard when LIBOR is discontinued or when contracts that reference LIBOR are renegotiated. Merakey Pennsylvania is currently evaluating the impact of adopting this guidance on the Merakey Pennsylvania consolidated financial statements and disclosures.

Reclassifications

Certain amounts in the prior year’s consolidated statement of operations and changes in net assets have been reclassified to conform to the presentation in the current year’s consolidated financial statements, primarily due to the recently adopted accounting pronouncement. This reclassification had no impact on the change in net assets.

NOTE C - IMPACT OF THE COVID-19 PANDEMIC

In March 2020, the World Health Organization declared COVID-19, the disease caused by the novel coronavirus, a pandemic, which started to and continues to spread throughout the United States of America. The primary focus as the effects of COVID-19 began to impact our facilities was the health and safety of the consumers in our care and employees. Merakey Pennsylvania implemented various measures to provide the safest possible environment within its facilities during this pandemic and will continue to do so. Additionally, in response to the pandemic, Merakey Pennsylvania incurred additional costs for testing, personal protective equipment, third party contract services and other operating costs associated with ensuring consumer and employee safety while operating during a pandemic.

Merakey Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Consumer volumes at certain facilities were reduced as various COVID-19 policies were implemented by Merakey Pennsylvania and federal, state and local governments. The impact of the COVID-19 pandemic did not have a material effect on Merakey Pennsylvania's financial results for the year ended June 30, 2021 and 2020. Management continues to actively monitor the effect of COVID-19 on operating revenues and expenses and based on the continuing uncertainties of COVID-19, it is unable to determine if it will have a material impact on its operations for the year ending June 30, 2022.

Merakey Pennsylvania received grant payments from the federal government distributed under the Coronavirus Aid, Recovery and Economic Security (CARES) Act. For the years ended June 30, 2021 and 2020, the payments received were \$0 and \$3,616,342, respectively. Included in other revenue on the consolidated statements of operations and changes in net assets of these CARES funds are \$3,093,246 and \$0 for the year ended June 30, 2021 and 2020, respectively. As of June 30, 2021 and 2020, \$523,096 and \$0, respectively, were unspent and are included in accrued expenses and other current liabilities in the consolidated balance sheets. These payments are subject to audit and compliance with federal regulations. Merakey Pennsylvania has until June 30, 2022 to offset future expenses against this advance. If the advance has not been entirely offset by expenses at the end of this period, Merakey Pennsylvania will repay the remaining amount to the funding source.

The Employee Retention Credit under the CARES Act encourages businesses to keep employees on their payroll. The refundable tax credit is 50% of up to \$10,000 in wages per employee paid by an eligible employer whose business has been financially impacted by COVID-19. For the year ended June 30, 2021 and 2020, respectively, Merakey Pennsylvania claimed credits of \$194,952 and \$212,577, which are included in other revenue in the consolidated statements of operations and changes in net assets.

Section 2302 of the CARES Act also allows employers to defer the deposit and payment of the employer's share of Social Security taxes during the period from March 27, 2020 through December 31, 2020. For the years ended June 30, 2021 and 2020, Merakey Pennsylvania has deferred tax amounts of \$2,487,005 and \$1,320,917, which is included in accrued expenses and other current liabilities in the consolidated balance sheets. \$1,320,917 of the deferred amount is due on December 31, 2021, and the remaining \$1,166,088 is due on December 31, 2022.

The Governor of the Commonwealth of Pennsylvania signed Act 24 of 2020 – Pennsylvania Emergency Coronavirus Relief Funds (Act 24), which allocated funds received from the CARES Act. Act 24 included retainer payments for Community Participation Supports providers and funding from the Office of Developmental programs. Merakey Pennsylvania received \$352,836 and \$2,835,968 during the year ended June 30, 2021 and 2020, respectively. Included in other revenue on the consolidated statements of operations and changes in net assets of these Act 24 funds are \$2,323,464 and \$865,340 for the years ended June 30, 2021 and 2020, respectively. At June 30, 2021 and 2020, respectively \$0 and \$1,970,628 was unspent and included in accrued expenses and other current liabilities in the consolidated balance sheets.

Merakey Pennsylvania has begun to see increases to its consumer volumes, however volumes have not returned to pre-pandemic levels. Management believes that the adverse impact that COVID-19 will have on our future operations and financial results will depend upon many factors, most of which are beyond management's capability to control or predict.

Merakey Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

NOTE D - ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30:

	2021	2020
Managed care organizations	49%	36%
Medical Assistance	22%	26%
County	20%	23%
Other third parties	9%	15%
	100%	100%

As a result of the COVID-19 pandemic (Note C), the Merakey Pennsylvania entered into Alternative Payment Agreements (APAs) with certain managed care organizations. These APAs temporarily suspend certain claims-based billing arrangements and provided compensation based on prior claims history. The APAs require the Merakey Pennsylvania to continue operations and provide continuity of care amongst compliance with other regulations. Certain APAs include a reconciliation process and other reporting requirements. For APAs that include a reconciliation process, any funds received in excess of costs were deferred and included in accrued expenses and other current liabilities in the consolidated balance sheets was \$2,490,895 and \$486,383 at June 30, 2021 and 2020, respectively. The APAs will continue through December 31, 2021.

NOTE E - PENSION PLAN

Merakey has a 403(b) plan for substantially all employees of Merakey and certain affiliates including Merakey Pennsylvania. Employee contributions to the plan are matched at 50%, up to 4% of the employee's salary.

Employer contributions for the years ended June 30, 2021 and 2020 were \$439,679 and \$420,314, respectively.

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation consisted of the following at June 30:

	2021	2020
Land and improvements	\$ 954,817	\$ 900,326
Buildings and building improvements	18,758,620	18,013,943
Furniture, equipment and automobiles	6,618,490	6,542,603
Construction in progress	72,663	24,088
	26,404,590	25,480,960
Less accumulated depreciation	(16,553,281)	(15,847,718)
	\$ 9,851,309	\$ 9,633,242

Merakey Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Depreciation expense related to the property and equipment was \$1,344,646 and \$1,309,527 for the years ended June 30, 2021 and 2020, respectively.

NOTE G - AVAILABLE RESOURCES AND LIQUIDITY

Merakey Pennsylvania regularly monitors the liquidity required to meet its operating needs and other contractual commitments. Merakey Pennsylvania has various financial assets and sources of liquidity at its disposal, including cash, accounts receivable and a line of credit.

The following financial assets and liquidity resources could readily be made available within one year of the consolidated balance sheet date to meet general expenditures, as of June 30:

	2021	2020
Financial assets:		
Cash	\$ 987,787	\$ 360,861
Accounts receivable	18,515,828	15,653,006
	<u>19,503,615</u>	<u>16,013,867</u>
Liquidity resources:		
Line of credit (see Note I)	<u>15,000,000</u>	<u>15,000,000</u>
	<u>\$ 34,503,615</u>	<u>\$ 31,013,867</u>

In addition to the financial assets and liquidity resources available to meet general expenditures over the next 12 months, Merakey Pennsylvania operates within a prudent range of fiscal responsibility and anticipates collecting sufficient revenue to cover its operating expenses. Refer to the consolidated statements of cash flows, which identify the sources and uses of Merakey Pennsylvania's cash by operating activities in 2021.

NOTE H - RELATED-PARTY TRANSACTIONS

Merakey Pennsylvania is one of a group of affiliated organizations related by way of common ownership and/or membership. Merakey is the sole corporate member or parent company of each of the affiliated organizations. Merakey Pennsylvania has significant transactions with members of the affiliated group for administrative and support services, and facility and equipment rentals. Repayment and receipt of amounts due to or from affiliated organizations is expected when cash is available. The Board of Directors authorized Merakey, at the discretion of management, to charge a management fee to all non-profit subsidiaries of which it is the sole corporate member, in an amount not to exceed net income for the fiscal year. The amount due from affiliated organizations was \$25,767,729 and \$23,680,950 at June 30, 2021 and 2020, respectively. Depreciation of assets held by one related party but used by others is charged based on usage of the respective assets.

General and administrative expenses are charged to Merakey Pennsylvania from Merakey based on an administrative services agreement. These expenses include information technology, human resources, legal, finance and accounting and occupancy costs, amongst other expenses. Other support services include compliance, training and other expenses.

Merakey Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

For the years ended June 30, 2021 and 2020, Merakey Pennsylvania incurred the following expenses with related parties:

	Location on <u>Consolidated Statement of Operations</u>	<u>2021</u>	<u>2020</u>
General and administrative services	Supplies and other	\$ 16,506,182	\$ 16,307,215
Other support services	Purchased services/supplies and other	8,011,821	5,608,474
Facilities management	Purchased services	1,444,815	1,328,795
Facility and vehicle leases	Occupancy/supplies and other	642,170	753,786
Management fees	Supplies and other	<u>1,400,000</u>	<u>4,100,000</u>
		<u>\$ 28,004,988</u>	<u>\$ 28,098,270</u>

NOTE I - SHORT-TERM BORROWINGS

Merakey Pennsylvania has a revolving line of credit loan with a financial institution with maximum borrowings to \$15,000,000. Interest is payable monthly at the one-month LIBOR rate plus 2.75% (effective rate of 2.85% and 4.15% as of June 30, 2021 and 2020, respectively). The loan expires in April 2024. There were no amounts outstanding at June 30, 2021 and 2020. This line of credit facility is secured by all assets of Merakey Pennsylvania.

NOTE J - NOTES PAYABLE

Merakey Pennsylvania has a note payable with the Pennsylvania Housing Financing Agency (PHFA) secured by property. Principal payments are deferred until November 2027 or until the property is sold or refinanced at the discretion PHFA. This note payable has an interest rate of 0% and has a balance of \$622,653 at June 30, 2021 and 2020. This amount is included in long-term debt in the consolidated balance sheets.

NOTE K - COMMITMENTS AND CONTINGENCIES

Lease Commitments

Merakey Pennsylvania has entered into lease agreements for real estate, vehicles and equipment with various vendors. Merakey Pennsylvania also enters into formal leases with affiliates. Various leases, both with vendors and affiliates, are renewed on a year-to-year basis, and are thus excluded from the future minimum rental payments in the following table.

The following is a schedule of future minimum lease payments for operating leases with noncancellable lease terms in excess of one year:

Year Ending June 30:

2022	\$ 4,691,868
2023	3,558,941
2024	2,461,743
2025	1,732,095
2026	1,108,807

Merakey Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Rental expense for the years ended June 30, 2021 and 2020 totaled \$6,520,708 and \$6,789,751, respectively, of which \$642,170 and \$753,786, respectively, are with related parties (Note G).

Professional Liability Insurance

Merakey Pennsylvania maintains professional liability insurance coverage of \$1,000,000 per occurrence, up to an annual aggregate of \$3,000,000.

Guarantee of Debt

Lines of Credit

Life Tree Pharmacy Services, Inc. (Life Tree), an affiliated entity, has a \$1,000,000 line of line of credit with a financial institution, with Merakey Pennsylvania as the guarantor, to finance working capital of Life Tree. Interest is payable monthly at the one-month LIBOR rate plus 3.50% (effective rate of 3.60% and 4.65% one June 30, 2021 and 2020, respectively). The line is secured by all assets of Life Tree. No amounts are outstanding at June 30, 2021 and 2020, on this line, which expires April 2024.

Merakey, Merakey Pennsylvania and Human Services Housing Company has a line of credit with a financial institution with maximum borrowings of \$2,500,000. Interest is payable monthly at the higher of the 5-year U.S Treasury Rate plus 300 basis point or 4.25% and 5.25%, respectively (effective rate of 4.25% and 5.25% at June 30, 2021 and 2020, respectively). The line expires in December 2022. There were no amounts outstanding on this line at June 30, 2021 and 2020.

Taxable Loan

In August 2017, the Obligated Group of Merakey USA and Merakey Pennsylvania entered into a taxable term loan for \$8,585,000 with a financial institution and having an initial funding commitment term through August 2027. The proceeds of the note were used to refinance certain existing indebtedness and general corporate purposes. Principal and interest payments range from \$21,157 to \$131,972 and are due monthly through June 1, 2035. The interest rate is fixed at 4.75% through August 10, 2027, after which the rate will be 8.75%. The loan is collateralized by gross revenues of the Obligated Group and certain real property owned by Human Services Housing Company (HSHC, a not-for profit housing company and subsidiary of Merakey USA) and assigned lease agreements for real property leased to affiliates of HSHC. The amount outstanding under this note is \$5,862,347 and \$6,337,582 at June 30, 2021 and 2020, respectively.

Self-Insured Employee Benefit Plans

Merakey provides medical, vision, dental, prescription, unemployment and workers' compensation coverage on a self-insured basis to substantially all employees of Merakey.

Management has established premiums for the self-funded plans based upon the consolidated claims history of all plan members. Additionally, Merakey maintains a reinsurance policy for workers' compensation claims that exceed specified deductibles on an individual and aggregate basis.

Due to the complexities and uncertainties involved in the actuarial evaluations, actual results could vary significantly from the estimated projections.

Litigation

Merakey Pennsylvania is from time to time subject to routine litigation incidental to its business. Management and its counsel believe that insurance policies are sufficient to cover potential settlements and that any pending litigation will not have a materially adverse effect on Merakey Pennsylvania's consolidated balance sheets.

Merakey Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

NOTE L - FUNCTIONAL EXPENSES

Merakey is committed to delivering, or supporting the delivery of, mental health, intellectual and developmental disability, drug and alcohol and other health and human-related services to the residents of Pennsylvania, New Jersey, New York, Louisiana, Delaware, Maryland, Virginia, Michigan, Tennessee, Texas, California and Ohio.

Merakey Pennsylvania's primary service lines are as follows:

Intellectual and Developmental Disabilities (IDD)

Merakey Pennsylvania supports individuals with intellectual and developmental disabilities in the enhancement of their abilities and interests. Services are aimed at partnering with individuals as they become self-sufficient and live everyday lives. Merakey Pennsylvania focuses on helping individuals find meaningful roles in their community and to feel valued as community members.

Adult Behavioral Services (ABS)

Merakey Pennsylvania offers a continuum of care assisting people struggling with mental health or addiction, integrating services in both community and site-based settings. These services provide a wide range of recovery focused therapeutic programs and personalized supports.

Children and Family Services (CFS)

Merakey Pennsylvania offers a continuum of care for children, adolescents and their families in areas of mental health, education and autism. Treatment and services focus on wrapping support around the whole child, their family and community across all service offerings.

The consolidated financial statements report certain categories of natural expenses that are attributable to more than one service line or supporting function. These expenses are allocated using a variety of cost allocation techniques based on reasonable methodologies that are consistently applied including but not limited to direct operating expenses, number of employees or square footage.

General and administrative expenses are charged to Merakey Pennsylvania from Merakey based on an administrative services agreement.

Expenses by functional classification for the year ended June 30, 2021 are as follows:

	ABS	IDD	CFS	General and Administrative	Management Fees	Total
Salaries	\$ 37,892,683	\$ 23,830,949	\$ 18,707,740	\$ -	\$ -	\$ 80,431,372
Employee benefits	10,933,941	5,701,738	4,842,745	-	-	21,478,424
Purchased services	11,916,290	5,200,935	7,487,151	-	-	24,604,376
Occupancy	3,925,708	2,310,867	3,020,911	-	-	9,257,486
Insurance	1,239,148	879,290	678,597	-	-	2,797,035
Supplies and other	3,290,882	3,167,887	1,448,553	15,852,599	1,400,000	25,159,921
Depreciation	841,510	258,304	244,832	-	-	1,344,646
Interest	12,968	905	-	-	-	13,873
	<u>\$ 70,053,130</u>	<u>\$ 41,350,875</u>	<u>\$ 36,430,529</u>	<u>\$ 15,852,599</u>	<u>\$ 1,400,000</u>	<u>\$ 165,087,133</u>

Merakey Pennsylvania

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

June 30, 2021 and 2020

Expenses by functional classification for the year ended June 30, 2020 are as follows:

	ABD	IDD	CFS	General and Administrative	Management Fees	Total
Salaries	\$ 39,100,524	\$ 21,726,091	\$ 22,246,506	\$ -	\$ -	\$ 83,073,121
Employee benefits	9,456,550	4,890,149	4,597,036	-	-	18,943,735
Purchased services	9,337,423	4,907,852	7,762,977	-	-	22,008,252
Occupancy	1,102,982	832,038	737,068	-	-	2,672,088
Insurance	4,020,019	2,280,703	2,990,457	-	-	9,291,179
Supplies and other	3,400,144	2,972,326	2,209,923	16,907,215	4,100,000	29,589,608
Depreciation	797,990	267,558	243,979	-	-	1,309,527
Interest	13,567	4,818	-	-	-	18,385
	<u>\$ 67,229,199</u>	<u>\$ 37,881,535</u>	<u>\$ 40,787,946</u>	<u>\$ 16,907,215</u>	<u>\$ 4,100,000</u>	<u>\$ 166,905,895</u>

NOTE M - SUBSEQUENT EVENTS

Merakey Pennsylvania evaluated its June 30, 2021 consolidated financial statements for subsequent events through November 19, 2021. Merakey Pennsylvania is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements, except as disclosed below.

SUPPLEMENTAL INFORMATION

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON
SUPPLEMENTARY INFORMATION**

Board of Directors
Merakey Pennsylvania

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 consolidated financial statements of Merakey Pennsylvania as of and for the years ended June 30, 2021 and 2020, and our report thereon dated November 19, 2021 expressed an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on these consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to November 19, 2021.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Grant Thornton LLP

Philadelphia, Pennsylvania
December 17, 2021

Merakey Pennsylvania

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2021

Grantor/pass-through grantor/program title	Federal program name	Pass through grantor's number	Assistance listing number	Provided to Subrecipient	Expenditures
<u>U.S. Department of Health and Human Services</u>					
Pass-through Dauphin County Department of Human Services	Medical Assistance Program (Medicaid)	Unknown	93.778	\$ -	\$ 10,854
Total assistance listing number 93.778				-	10,854
Pass-through Franklin County Children and Youth Services	Temporary Assistance for Needy Families (TANF)	Unknown	93.558	-	662
Pass-through Potter County Children and Youth Services	Temporary Assistance for Needy Families (TANF)	Unknown	93.558	-	1,196
Total assistance listing number 93.558				-	1,858
Pass-through Allegheny County MH/EI/DP	COVID-19: Coronavirus Relief Fund	Unknown	21.019	-	7,200
Pass-through Northampton County MH/EI/DP	COVID-19: Coronavirus Relief Fund	Unknown	21.019	-	40,420
Total assistance listing number 21.019				-	47,620
Pass-through Carbon-Monroe-Pike County Mental Health and Developmental Services	Block Grants for Community Mental Health Services	Unknown	93.958	-	594
Pass-through Cumberland County Mental Health and IDD	Block Grants for Community Mental Health Services	Unknown	93.958	-	31,084
Pass-through Lehigh County MH	Block Grants for Community Mental Health Services	Unknown	93.958	-	32,984
Total assistance listing number 93.958				-	64,662
Pass-through Clearfield-Jefferson County Human Services	Social Services Block Grant	Unknown	93.667	-	5,236
Pass-through Cumberland County Mental Health and IDD	Social Services Block Grant	MH15-0012	93.667	-	152,417
Pass-through Lehigh County MH	Social Services Block Grant	Unknown	93.667	-	19,717
Total assistance listing number 93.667				-	177,370
Pass-through Adams County Children and Youth	Foster Care: Title IV- E	Unknown	93.658	-	6,157
Pass-through Berks County Children and Youth	Foster Care: Title IV- E	Unknown	93.658	-	42,705
Pass-through Bradford County Human Services	Foster Care: Title IV- E	Unknown	93.658	-	515,219
Pass-through Cambria County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	2,179
Pass-through Carbon County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	71
Pass-through Centre County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	52,550
Pass-through Chester County Children and Youth Services	Foster Care: Title IV- E	16843	93.658	-	24,861
Pass-through Clarion County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	1,096
Pass-through Columbia County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	92,140
Pass-through Cumberland County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	104,694
Pass-through Dauphin County Social Services for Children and Youth and Juvenile Probation	Foster Care: Title IV- E	Unknown	93.658	-	298,580
Pass-through Delaware County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	17,026
Pass-through Erie County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	19,465
Pass-through Fayette County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	9,839
Pass-through Franklin County Children and Youth Services	Foster Care: Title IV- E	39907	93.658	-	119,781
Pass-through Fulton County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	2,981

Merakey Pennsylvania

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year ended June 30, 2021

Grantor/pass-through grantor/program title	Federal program name	Pass through grantor's number	Assistance listing number	Provided to Subrecipient	Expenditures
Pass-through Greene County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	10,962
Pass-through Indiana County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	6,364
Pass-through Jefferson County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	4,287
Pass-through Lancaster County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	32,133
Pass-through Lebanon County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	63,998
Pass-through Lehigh County Children and Youth Services	Foster Care: Title IV- E	15-CY-281	93.658	-	182,064
Pass-through Luzerne County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	2,529
Pass-through Lycoming County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	7,238
Pass-through Mifflin County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	80,317
Pass-through Monroe County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	32,554
Pass-through Montgomery County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	20,517
Pass-through Northampton County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	30,900
Pass-through Northumberland Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	22,754
Pass-through Potter County Children and Youth Services and Juvenile Probation Offices	Foster Care: Title IV- E	Unknown	93.658	-	42,185
Pass-through Schuylkill County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	22,374
Pass-through Somerset County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	18,236
Pass-through Tioga County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	19,926
Pass-through Venango County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	2,464
Pass-through Washington County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	4,724
Pass-through Wayne County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	12,736
Pass-through Westmoreland County Children and Youth Services	Foster Care: Title IV- E	Unknown	93.658	-	19,672
Pass-through York County Office of Children, Youth and Families and Juvenile Probation Offices	Foster Care: Title IV- E	Unknown	93.658	-	224,067
Total assistance listing number 93.658				-	2,172,345
Total U.S. Department of Health and Human Services				-	2,474,709
Total Expenditures of Federal Awards				\$ -	\$ 2,474,709

The accompanying notes to the Schedule of Expenditures of Federal Awards should be read in conjunction with this schedule.

Merakey Pennsylvania

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2021

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the grant expenditures of Merakey Pennsylvania and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance, *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and other guidelines of pass-through agencies. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic consolidated financial statements.

Merakey Pennsylvania did not use the 10 percent de minimis cost rate.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Merakey Pennsylvania

Report on the financial statements

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 consolidated financial statements of Merakey Pennsylvania, which comprise the consolidated balance sheet as of June 30, 2021, and the related consolidated results of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 19, 2021.

Internal control over financial reporting

In planning and performing our audit of the consolidated financial statements, we considered Merakey Pennsylvania's 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of Merakey Pennsylvania's 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 Merakey Pennsylvania's consolidated 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. Given these limitations, during our audit we did not identify any deficiencies in Merakey Pennsylvania's internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other matters

As part of obtaining reasonable assurance about whether Merakey Pennsylvania's consolidated 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 consolidated 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*.

Intended purpose

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 Merakey Pennsylvania's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Merakey Pennsylvania's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Philadelphia, Pennsylvania
November 19, 2021

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Merakey Pennsylvania

Report on compliance for the major federal program

We have audited the compliance of Merakey Pennsylvania with the types of compliance requirements described in the U.S. Office of Management and Budget's *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2021. Merakey Pennsylvania's major federal program is 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 Merakey Pennsylvania's federal program.

Auditor's responsibility

Our responsibility is to express an opinion on compliance for Merakey Pennsylvania's major federal program 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 Merakey Pennsylvania's 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 the major federal program. However, our audit does not provide a legal determination of Merakey Pennsylvania's compliance.

Opinion on the major federal program

In our opinion, Merakey Pennsylvania complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2021.

Report on internal control over compliance

Management of Merakey Pennsylvania 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 Merakey Pennsylvania's internal control over compliance with the types of compliance requirements that could have a direct and material effect on the major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Merakey Pennsylvania's 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 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. 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. Given these limitations, during our audit we did not identify any deficiencies in Merakey Pennsylvania's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Intended Purpose

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.

Grant Thornton LLP

Philadelphia, Pennsylvania
December 17, 2021

Merakey Pennsylvania

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2021

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____	yes	_____ <u>X</u> _____	no
Significant deficiency(ies) identified?	_____	yes	_____ <u>X</u> _____	none reported
Noncompliance material to financial statements noted?	_____	yes	_____ <u>X</u> _____	no

Federal Awards

Internal control over the major program:

Material weakness(es) identified?	_____	yes	_____ <u>X</u> _____	no
Significant deficiency(ies) identified?	_____	yes	_____ <u>X</u> _____	none reported

Type of auditors' report issued on compliance for the major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance? _____ X _____ no

Identification of the major programs:

<u>Name of Federal Program or Cluster</u>	<u>Federal Assistance Listing Number</u>
Foster Care: Title IV-E	93.658

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? _____ X _____ yes no

Merakey Pennsylvania

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year ended June 30, 2021

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters required to be reported.

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters required to be reported.

Merakey Pennsylvania
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year ended June 30, 2021

None noted.

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON
INDIRECT COST ALLOCATION**

Board of Directors
Merakey Pennsylvania

We have examined management's assertion that Merakey Pennsylvania complied with the Commonwealth of Pennsylvania, Department of Human Services, *Section 4300.94* of the *Title 4300 Regulations* ("specified requirements") during the year ended June 30, 2021. Merakey Pennsylvania's management is responsible for its assertion. Our responsibility is to express an opinion on management's assertion about Merakey Pennsylvania's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included examining, on a test basis, evidence about Merakey Pennsylvania's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that the evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on Merakey Pennsylvania's compliance with the Commonwealth of Pennsylvania, Department of Human Services, *Section 4300 Regulations*.

In our opinion, management's assertion that Merakey Pennsylvania complied with the Commonwealth of Pennsylvania, Department of Human Services, *Section 4300.94* of the *Title 4300 Regulations* during the year ended June 30, 2021, is fairly stated in all material respects.

This report is intended solely for the information and use of the Audit Committee, Board of Directors, and management of Merakey Pennsylvania, the Commonwealth of Pennsylvania, Department of Human Services, and any of their authorized representatives and is not intended to be, and should not be, used by anyone other than these specified parties.

Grant Thornton LLP

Philadelphia, Pennsylvania
December 17, 2021

COUNTY SUPPLEMENTAL INFORMATION

**COMMUNITY RESIDENTIAL REHABILITATION PROGRAM
THERAPEUTIC FAMILY CARE
FOSTER CARE PLUS**

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON SUPPLEMENTARY INFORMATION**

Board of Directors
Merakey Pennsylvania

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 consolidated financial statements of Merakey Pennsylvania as of and for the years ended June 30, 2021, and our report thereon dated November 19, 2021 expressed an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on these consolidated financial statements as a whole. We have not performed any procedures with respect to the audited consolidated financial statements subsequent to November 19, 2021.

The accompanying county supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Grant Thornton LLP

Philadelphia, Pennsylvania
December 17, 2021

Merakey Pennsylvania
SCHEDULE OF COUNTY PROGRAM CENSUS DAYS - CONTINUED
FY 2020-2021

County	Funding Source	TFC FY21 Days	FCP FY21 Days	FCP 1/2 FY21 Days	FCP Shelter FY21 Days	Enhanced FCP FY21 Days	CRR-ITP/RTF FY21 Days	Spec Grp Home FY21 Days	Respite FY21 Days	Emergency Respite FY21 Days	FCP-ICPC FY21 Days	Infant FY21 Days	Infant Combo FY21 Days	TFC Full Fee FY21 Days	Total
Mifflin	C&Y	-	1,230	-	-	792	-	-	19	-	-	-	-	-	2,041
Monroe	C&Y	-	226	-	-	-	-	-	212	7	-	-	-	-	445
Montana State	Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Montgomery	C&Y	-	831	-	-	-	-	-	-	-	-	-	-	-	831
Montour	C&Y	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NJ Dept of C&F	C&Y	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Northampton	C&Y	81	736	-	-	-	-	-	-	-	-	-	-	-	817
Northampton	MH/IDD	365	-	-	-	-	-	-	-	-	-	-	-	-	365
Northumberland	C&Y	-	272	-	-	-	-	-	32	-	-	-	-	-	304
Northumberland	BHID	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Oklahoma ICPC	C&Y	-	-	-	-	-	-	-	-	-	-	-	-	-	-
PA Counseling Services	Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Perry	C&Y	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Philhaven	Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pike	C&Y	-	11	-	-	-	-	-	-	7	-	-	-	-	18
Potter	C&Y	-	981	-	-	-	-	-	12	-	-	-	-	-	993
Potter	JPO	-	65	-	-	-	-	-	-	-	-	-	-	-	65
Sam Inc - Berks	Other	370	-	-	-	-	-	-	-	-	-	-	-	-	370
Sam Inc - Schuylkill	Other	1,084	-	-	-	-	-	-	13	-	-	-	-	-	1,097
Schuylkill	C&Y	-	823	-	-	-	-	-	48	-	-	-	-	-	871
Schuylkill	JPO	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Self Pay	Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Snyder	C&Y	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Somerset	C&Y	-	553	-	-	161	-	-	32	-	-	-	-	-	746
Somerset	SPHS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sullivan	C&Y	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tioga	C&Y	-	547	-	-	-	-	-	44	-	-	-	-	-	591
UCBH Family Base	Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Union	C&Y	-	68	-	-	-	-	-	29	-	-	-	-	-	97
Venango	C&Y	-	194	-	-	-	-	-	-	-	-	-	-	-	194
Venango	JPO	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Washington	C&Y	535	22	-	-	-	-	-	-	-	-	-	-	-	557
Washington	BHDS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Washington Communities	Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Wayne	C&Y	-	298	-	-	-	-	-	38	-	-	-	-	-	336
Wayne	QBDP	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Westmoreland	C&Y	1,118	631	-	-	-	-	-	65	-	-	-	-	-	1,814
Westmoreland	MH/IDD	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Wyoming	C&Y	-	-	-	-	-	-	-	-	-	-	-	-	-	-
York	C&Y	-	6,808	-	-	4,242	-	-	4	-	-	-	34	-	11,088
York	JPO	-	-	-	-	-	-	-	-	-	-	-	-	-	-
York/Adams	HCMU	566	-	-	-	-	-	-	-	-	-	-	-	-	566
York/Adams	MH/IDD	-	-	-	-	-	-	-	4	-	-	-	-	-	4
Total		10,812	66,505	-	63	6,514	2,613	5,548	1,492	38	-	-	322	3,667	97,575

Merakey Pennsylvania
SCHEDULE OF FINDINGS - LOUISIANA
June 30, 2021

Louisiana Award Finding

Finding #2021-01 – Instance of non-compliance
Louisiana Clinical Services
Award period – 7/1/20 – 6/30/21

Criteria

Per the agreement, the entity was required to file their report by December 31, 2021.

Condition

The report was filed on January 18, 2022.

Cause

Filing was missed in error.

Effect

No financial impact.