

**Southeast Arkansas Behavioral
Healthcare System, Inc.**

Independent Auditor's Reports and Financial Statements

June 30, 2015 and 2014

Southeast Arkansas Behavioral Healthcare System, Inc.

June 30, 2015 and 2014

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June 30, 2015 and 2014

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Section I

Independent Auditor's Reports, Financial Statements and Supplementary Information

Independent Auditor's Report

Board of Directors
Southeast Arkansas Behavioral Healthcare System, Inc.
Pine Bluff, Arkansas

Report on the Financial Statements

We have audited the accompanying financial statements of Southeast Arkansas Behavioral Healthcare System, Inc. (the Organization), which comprise the balance sheets as of June 30, 2015 and 2014, and the related statements of operations and changes in net assets 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southeast Arkansas Behavioral Healthcare System, Inc. as of June 30, 2015 and 2014, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information consisting of the combining schedule of changes in net assets, schedules of revenue and deductions from revenue, combining schedule of direct functional and supporting services expenses and budget, schedule of revenues and expenses – Mental Health Block Grant, and schedules of expenditures of federal and state 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 our report dated September 24, 2015, on our consideration of the Organization's 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 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 the Organization's internal control over financial reporting and compliance.

BKD, LLP

Little Rock, Arkansas
September 24, 2015

Southeast Arkansas Behavioral Healthcare System, Inc.

Balance Sheets

June 30, 2015 and 2014

Assets

	<u>2015</u>	<u>2014</u>
Current Assets		
Cash and cash equivalents	\$ 1,727,614	\$ 1,183,586
Certificates of deposit	1,218,054	913,349
Patient accounts receivable, net of allowance: 2015 – \$198,183; 2014 – \$324,187	389,470	317,409
Prepaid expenses and other	<u>78,625</u>	<u>70,977</u>
Total current assets	<u>3,413,763</u>	<u>2,485,321</u>
Property and Equipment, at Cost		
Land	165,312	165,313
Buildings	3,692,920	3,678,279
Equipment	<u>1,433,222</u>	<u>1,474,465</u>
	5,291,454	5,318,057
Less accumulated depreciation	<u>3,367,358</u>	<u>3,262,144</u>
	<u>1,924,096</u>	<u>2,055,913</u>
Total assets	<u>\$ 5,337,859</u>	<u>\$ 4,541,234</u>

Liabilities and Net Assets

	<u>2015</u>	<u>2014</u>
Current Liabilities		
Accounts payable – trade	\$ 43,683	\$ 63,957
Deferred income	39,106	3,698
Accrued expenses	<u>326,727</u>	<u>282,999</u>
Total current liabilities	<u>409,516</u>	<u>350,654</u>
Net Assets		
Unrestricted		
Available for general activities	2,988,920	2,119,340
Board designated	15,327	15,327
Land, buildings and equipment fund	<u>1,924,096</u>	<u>2,055,913</u>
Total net assets	<u>4,928,343</u>	<u>4,190,580</u>
Total liabilities and net assets	<u>\$ 5,337,859</u>	<u>\$ 4,541,234</u>

Southeast Arkansas Behavioral Healthcare System, Inc.
Statements of Operations and Changes in Net Assets
Years Ended June 30, 2015 and 2014

	2015	2014
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual allowances and discounts)	\$ 5,332,139	\$ 5,197,028
Provision for uncollectible accounts	(303,224)	(474,237)
Net patient service revenue less provision for uncollectible accounts	5,028,915	4,722,791
Grant revenue	1,861,445	2,087,055
Other	122,338	131,558
Total unrestricted revenues, gains and other support	7,012,698	6,941,404
Expenses and Losses		
Salaries, wages and benefits	5,036,313	5,132,591
Contract labor	164,828	340,513
Purchased services and professional fees	31,250	32,875
Supplies and other	361,129	348,744
Maintenance and vehicle expense	234,290	244,752
Utilities and telephone	176,822	162,211
Travel expenses	79,592	69,745
Depreciation	189,804	166,530
Insurance and taxes	128,077	129,700
Total expenses and losses	6,402,105	6,627,661
Operating Income	610,593	313,743
Other Income		
Interest income	7,062	14,563
Other	120,108	91,800
Total other income	127,170	106,363
Excess of Revenues Over Expenses and Changes in Net Assets	737,763	420,106
Net Assets, Beginning of Year	4,190,580	3,770,474
Net Assets, End of Year	\$ 4,928,343	\$ 4,190,580

Southeast Arkansas Behavioral Healthcare System, Inc.
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Activities		
Changes in net assets	\$ 737,763	\$ 420,106
Item not requiring cash		
Loss on disposal of property and equipment	225	1,448
Depreciation	189,804	166,530
Changes in		
Accounts receivable	(72,061)	(20,562)
Prepaid expenses	(7,648)	(18,761)
Accounts payable	(20,274)	(44,857)
Accrued expenses	43,728	(13,745)
Deferred income	35,408	(10,768)
	<u>906,945</u>	<u>479,391</u>
Net cash provided by operating activities		
Investing Activities		
Purchase of property and equipment	(58,212)	(29,377)
Purchases of certificates of deposit	(1,054,385)	(913,349)
Maturities of certificates of deposit	749,680	904,720
	<u>(362,917)</u>	<u>(38,006)</u>
Net cash used in investing activities		
Increase in Cash and Cash Equivalents	544,028	441,385
Cash and Cash Equivalents, Beginning of Year	<u>1,183,586</u>	<u>742,201</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,727,614</u>	<u>\$ 1,183,586</u>

Southeast Arkansas Behavioral Healthcare System, Inc.
Notes to Financial Statements
June 30, 2015 and 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Southeast Arkansas Behavioral Healthcare System, Inc. (the Organization) is a nonprofit entity established to provide services primarily to mentally ill residents of southeast Arkansas. It also provides various other services to the community, such as youth counseling. The Organization's major sources of funds are provided by federal and state agencies.

Use of Estimates

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

Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2015 and 2014, cash equivalents consisted primarily of money market accounts and certificates of deposit held with regional banking institutions.

At June 30, 2015, the Organization's cash accounts did not exceed federally insured limits.

Investments

Certificates of deposit in the amounts of \$1,218,054 and \$913,349 at June 30, 2015 and 2014, respectively, are carried at cost.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

Southeast Arkansas Behavioral Healthcare System, Inc.

Notes to Financial Statements

June 30, 2015 and 2014

For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

Property, Equipment and Depreciation

Property and equipment are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset as follows:

Buildings	5–50 years
Equipment	3–15 years

Long-lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2015 and 2014.

Net Patient Service Revenue

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods as adjustments become known.

Southeast Arkansas Behavioral Healthcare System, Inc.

Notes to Financial Statements

June 30, 2015 and 2014

Additionally, in accordance with grant requirements, the Organization provides care without charge or at amounts less than its established rates using sliding fee scale adjustments to patients who meet certain criteria. These adjustments are a component of net patient service revenue.

Income Taxes

The Organization has been recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Organization is no longer subject to U.S. federal examinations by tax authorities for years before 2012.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to confirm to the 2015 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

Note 2: Net Patient Service Revenue

Net patient service revenue consists of charges to patients and third-party payers adjusted for contractual adjustments and fee reductions due to the inability of the patient to pay. Patient revenues are recognized at the time services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended June 30, 2015 and 2014, was approximately:

	<u>2015</u>	<u>2014</u>
Medicare	\$ 330,758	\$ 281,884
Medicaid	3,914,082	3,953,847
Other third-party payers	788,745	528,183
Self-pay	287,095	444,241
Recovery of uncollectible accounts	13,750	15,516
	<u>5,334,430</u>	<u>5,223,671</u>
Contractual allowances and discounts	<u>(2,291)</u>	<u>(26,643)</u>
	<u>\$ 5,332,139</u>	<u>\$ 5,197,028</u>

Southeast Arkansas Behavioral Healthcare System, Inc.

Notes to Financial Statements

June 30, 2015 and 2014

Note 3: Concentration of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2015 and 2014, was:

	<u>2015</u>	<u>2014</u>
Medicare	11 %	20 %
Medicaid	71	66
Other third-party payers	13	13
Patients	<u>5</u>	<u>1</u>
	<u>100 %</u>	<u>100 %</u>

Patient accounts receivable from third-party payers and private-pay individuals have been recorded upon the providing of services. An allowance for uncollectible accounts has been recorded to reduce the receivables to the expected collectible amount. Subsequent write-offs of accounts receivable will be charged to the allowance account. It is reasonably possible that actual bad debts incurred may be materially different than the estimated allowance recorded as of June 30, 2015 and 2014.

Note 4: Board-Designated Net Assets

The board of directors has limited the use of certain funds for employee educational scholarship purposes.

Note 5: Medical Malpractice Coverage and Claims

The Organization purchases medical malpractice insurance under a claims-made policy. Under such policy, only claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred, are covered. For covered claims, in general, the Organization bears no costs of litigating or settling any asserted claim. However, the Organization bears (1) unlimited risk for any individual claims with costs exceeding \$2,000,000 and (2) the excess, if any, over aggregate costs of \$4,000,000 for claims occurring during the policy year. The Organization accrues the expense of its share of covered claims plus unasserted claims and unreported incidents occurring during the year by estimating the probable ultimate cost of any related claims. Such estimates are based on the Organization's own claims experience, and no accrual has been made in these financial statements as of June 30, 2015 and 2014. It is reasonably possible that this estimate could change materially in the near term.

Southeast Arkansas Behavioral Healthcare System, Inc.

Notes to Financial Statements

June 30, 2015 and 2014

Note 6: Functional Expenses

The Organization provides mental health services to residents within its geographic location. Expenses related to providing these services were as follows:

	<u>2015</u>	<u>2014</u>
Mental health services	\$ 5,271,156	\$ 5,521,029
Management and general	<u>1,130,949</u>	<u>1,106,632</u>
	<u>\$ 6,402,105</u>	<u>\$ 6,627,661</u>

Note 7: Pension Plan

The Organization has a money purchase pension plan covering substantially all employees. The defined contribution plan provides for mandatory employer contributions each year in an amount equal to 4% of the covered employees' compensation for the plan year. Pension expense for the year ended June 30, 2015 and 2014, was \$156,400 and \$129,749, respectively.

Note 8: Significant Estimates and Concentrations

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

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1, 2 and 3*.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Note 5*.

Economic Dependency

The Organization is economically dependent on revenues provided by federal and state grants. During the years ended June 30, 2015 and 2014, approximately 25% and 28%, respectively, of the Organization's revenue was provided by federal and state agencies.

Southeast Arkansas Behavioral Healthcare System, Inc.

Notes to Financial Statements

June 30, 2015 and 2014

Note 9: *Patient Protection and Affordable Care Act*

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. The legislation required the establishment of health insurance exchanges, which provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

While the State of Arkansas enacted a form of Medicaid expansion through private insurance companies, how that will affect provider reimbursement is still unclear.

PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of PPACA cannot currently be estimated, it is possible it will have a negative impact on the Organization's net patient service revenue. In addition, it is possible the Organization will experience payment delays and other operational challenges during PPACA's implementation.

Supplementary Information

Southeast Arkansas Behavioral Healthcare System, Inc.
Combining Schedules of Changes in Net Assets
Year Ended June 30, 2015 (with comparative totals for 2014)

	Mental Health Unit	Management and General	Total	2014 Total
Revenue				
Gross patient service revenue	\$ 5,334,430	\$ -	\$ 5,334,430	\$ 5,223,671
Other revenue	2,110,953	-	2,110,953	2,324,976
Less:				
Deductions from gross patient service revenue	305,515	-	305,515	500,880
	<u>7,139,868</u>	<u>-</u>	<u>7,139,868</u>	<u>7,047,767</u>
Operating Expenses*	<u>6,390,861</u>	<u>15,624</u>	<u>6,406,485</u>	<u>6,627,661</u>
Change in Net Assets	<u>\$ 749,007</u>	<u>\$ (15,624)</u>	<u>\$ 733,383</u>	<u>\$ 420,106</u>

*Represents amounts after allocation of supporting services (see combining schedules of direct functional and supporting services expenses and budget)

Southeast Arkansas Behavioral Healthcare System, Inc.
Schedules of Revenue and Deductions from Revenue
Year Ended June 30, 2015 and 2014

	<u>Mental Health</u>		<u>Budget</u> <u>2015</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
	<u>2015</u>	<u>2014</u>		
Gross Patient Service Revenue				
Medicaid services	\$ 3,914,082	\$ 3,953,847	\$ 3,871,054	\$ 43,028
Self-pay services	287,095	444,241	150,000	137,095
Insurance services	788,745	528,183	388,000	400,745
Medicare services	330,758	281,884	210,000	120,758
Recovery of uncollectible funds	13,750	15,516	14,000	(250)
	<u>5,334,430</u>	<u>5,223,671</u>	<u>4,633,054</u>	<u>701,376</u>
Other Revenue				
Title XX services	26,588	19,682	31,372	(4,784)
CODAP	-	6,364	-	-
CASSP services income	59,673	62,535	68,579	(8,906)
Acute inpatient	282,896	499,832	282,895	1
System of Care income	113,112	128,268	107,500	5,612
Forensic revenue	32,000	26,500	23,000	9,000
DCP services	42,588	21,988	41,110	1,478
Forfeiture revenue	-	25,236	-	-
Disability determination	15,439	13,224	12,000	3,439
USDA nutrition income	48,593	49,738	46,000	2,593
State quarterly allotment	411,760	376,729	329,460	82,300
Block Grants –				
Mental Health	193,401	163,401	193,402	(1)
Community Support Program	652,128	615,208	652,128	-
Miscellaneous income	22,108	10,151	5,000	17,108
Interest income	7,062	14,563	16,000	(8,938)
United Way – Mental Health	83,326	77,038	86,000	(2,674)
Miscellaneous	4,904	3,853	-	4,904
Donations	31,602	12,357	-	31,602
Gain (loss) on disposal of assets	276	(1,448)	-	276
Inpatient revenue	75,000	75,000	75,000	-
Outpatient revenue	-	9,983	-	-
Administration health	-	106,984	-	-
Reimbursement for copies	8,497	7,790	6,000	2,497
	<u>2,110,953</u>	<u>2,324,976</u>	<u>1,975,446</u>	<u>135,507</u>
Deductions from Gross Patient Service Revenue				
Provision for uncollectible accounts	(303,224)	(474,237)	-	(303,224)
Service discounts	(2,291)	(26,643)	-	(2,291)
	<u>(305,515)</u>	<u>(500,880)</u>	<u>-</u>	<u>(305,515)</u>
	<u>\$ 7,139,868</u>	<u>\$ 7,047,767</u>	<u>\$ 6,608,500</u>	<u>\$ 531,368</u>

Southeast Arkansas Behavioral Healthcare System, Inc.
Combining Schedules of Direct Functional and
Supporting Services Expenses and Budget
Year Ended June 30, 2015 (with comparative totals for 2014)

	Mental Health Unit	Management and General	Total	Budget	Variance Favorable (Unfavorable)	2014 Total
Direct labor	\$ 3,563,177	\$ 642,830	\$ 4,206,007	\$ 4,301,357	\$ 95,350	\$ 4,335,705
Contract labor and services	214,044	360	214,404	223,000	8,596	391,425
Payroll taxes and employee benefits	702,786	131,903	834,689	844,888	10,199	796,885
Supplies	57,473	28,250	85,723	112,700	26,977	85,867
Utilities and telephone	156,537	20,285	176,822	162,920	(13,902)	162,212
Maintenance	97,879	125,154	223,033	245,900	22,867	228,810
Insurance and taxes	112,095	15,982	128,077	125,759	(2,318)	129,699
Rent	722	-	722	700	(22)	702
Equipment leases	21,194	14,342	35,536	37,000	1,464	37,676
Food	87,019	3,330	90,349	100,000	9,651	88,066
Local travel	59,712	5,279	64,991	51,500	(13,491)	59,995
Conferences and seminars	3,553	11,047	14,600	10,000	(4,600)	9,751
Agency vehicle expense	13,259	200	13,459	25,000	11,541	18,112
Legal	-	-	-	5,000	5,000	125
Audit and professional services	-	31,250	31,250	33,000	1,750	32,750
Depreciation	145,968	43,836	189,804	200,000	10,196	166,530
Other	40,117	56,902	97,019	129,776	32,757	83,351
	<u>5,275,535</u>	<u>1,130,950</u>	<u>6,406,485</u>	<u>6,608,500</u>	<u>202,015</u>	<u>6,627,661</u>
Add allocation of supporting services	<u>1,115,326</u>	<u>(1,115,326)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,390,861</u>	<u>\$ 15,624</u>	<u>\$ 6,406,485</u>	<u>\$ 6,608,500</u>	<u>\$ 202,015</u>	<u>\$ 6,627,661</u>

Southeast Arkansas Behavioral Healthcare System, Inc.
Schedule of Revenues and Expenses
Mental Health Block Grant
Year Ended June 30, 2015 and 2014

Revenues		<u>\$ 193,401</u>
Expenses		
Salaries		159,344
Fringe benefits		
FICA		12,192
Retirement		8,386
Health insurance		<u>13,479</u>
		<u>193,401</u>
Deficiency of Revenues Over Expenses		<u><u>\$ -</u></u>
Total expended from:		
Federal sources		\$ 193,401
Nonfederal sources		<u>-</u>
		<u><u>\$ 193,401</u></u>

Southeast Arkansas Behavioral Healthcare System, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Block Grant for Community Mental Health Services	U.S. Department of Health and Human Services/Arkansas Department of Human Services	93.958	N/A	\$ 193,401
Social Services Block Grant	U.S. Department of Health and Human Services/Arkansas Department of Human Services	93.667	N/A	47,699
Child and Adult Care Food Program	U.S. Department of Agriculture/Arkansas Department of Human Services	10.558	N/A	<u>48,593</u>
				<u>\$ 289,693</u>

Notes to Schedule

1. This schedule includes the federal awards activity of Southeast Arkansas Behavioral Healthcare System, Inc. and is presented on the accrual basis of accounting.
2. No awards were provided to subrecipients.

Southeast Arkansas Behavioral Healthcare System, Inc.
Schedule of Expenditures of State Awards
Year Ended June 30, 2015

Grantor	Program or Grant Award	Revenues	Expenditures
Arkansas Department of Human Services			
State per capita	\$ 411,760	\$ 411,760	\$ 411,760
Community Support Program	652,128	652,128	652,128
Forensic	32,000	32,000	32,000
Children and Adolescent Services System Program	68,579	59,673	59,673
Local Acute Inpatient Care Funding	282,896	282,896	282,896
Juvenile Drug Court - Adolescent Substance Abuse	30,000	20,183	20,183
	<u>1,477,363</u>	<u>1,458,640</u>	<u>1,458,640</u>
Arkansas Department of Human Services			
Division of Behavioral Health Services			
System of Care Grant	<u>148,521</u>	<u>113,112</u>	<u>113,112</u>
Total state awards	<u>\$ 1,625,884</u>	<u>\$ 1,571,752</u>	<u>\$ 1,571,752</u>
	Program Revenue		
Arkansas Department of Human Services			
Medicaid	<u>\$ 1,056,802</u>		

NOTE: Revenue recognized from Medicaid programs is included in the total of operating revenue in the accompanying statements of operations and changes in net assets. Medicaid revenue noted above represents 27 percent (the percentage the State of Arkansas contributed) of total Medicaid revenue recognized during 2015.

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

Board of Directors
Southeast Arkansas Behavioral Healthcare System, Inc.
Pine Bluff, Arkansas

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 Southeast Arkansas Behavioral Healthcare System, Inc. (the Organization), which comprise the balance sheet as of June 30, 2015, and the related statements of operations and change in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 24, 2015.

Internal Control over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Organization's 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 the Organization's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Board of Directors
Southeast Arkansas Behavioral Healthcare System, Inc.

Compliance

As part of obtaining reasonable assurance about whether the Organization's 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this communication 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 compliance. This communication 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.

BKD, LLP

Little Rock, Arkansas
September 24, 2015

Section II

Cost Allocation Reports and Related Statement

Independent Auditor's Report on Statistical Information

Board of Directors
Southeast Arkansas Behavioral Healthcare System, Inc.
Pine Bluff, Arkansas

We have examined the accompanying statement of cost allocation – mental health of Southeast Arkansas Behavioral Healthcare System, Inc. (the Organization), for the year ended June 30, 2015. This statement is the responsibility of the Organization's management. Our responsibility is to express an opinion on this statement based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and auditing standards promulgated by the Arkansas Department of Human Services and, accordingly, included examining, on a test basis, evidence supporting the statement of statistical data and units of service of the Organization, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the statement referred to above presents, in all material respects, the cost allocation, units of service and cost per unit of service of Southeast Arkansas Behavioral Healthcare System, Inc. for the year ended June 30, 2015.

This report is intended solely for the information and use of the governing body management, the Mental Health Services Division, the Arkansas Department of Human Services, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

BKD, LLP

September 24, 2015

Southeast Arkansas Behavioral Healthcare System, Inc.
Statement of Cost Allocation – Mental Health
Year Ended June 30, 2015

	Allocation Method	Diagnosis	Case Management	Collateral Contact
Direct Expenses				
Direct labor	SAS	\$ 575,135	\$ 307,462	\$ 31,517
Contract labor and services	CLS	2,263	3,696	446
Payroll taxes and employee benefits	S	112,730	60,265	6,178
Supplies	DMVI	3,640	5,946	718
Utilities and telephone	SF	12,773	19,943	3,600
Maintenance	SF	7,987	12,470	2,251
Insurance and taxes	SF	9,147	14,281	2,578
Rent	MHV	47	77	9
Equipment leases	MHV	1,375	2,247	271
Food	D	-	-	-
Local travel	MHV	3,875	6,330	764
Conference and seminars	MHV	231	377	45
Contractual services: Social/CASSP	D	-	-	-
Agency vehicle expense	DMV2	-	-	-
Depreciation	SF	11,911	18,596	3,357
Other	MHV	2,603	4,253	513
Total direct expenses		743,717	455,943	52,247
Allocation of administration	TDE	157,372	96,476	11,042
Bad debt allocation	MHV	19,677	32,143	3,881
		<u><u>\$ 920,766</u></u>	<u><u>\$ 584,562</u></u>	<u><u>\$ 67,170</u></u>
Units of service		11,544 Qtr. Hour	31,886 Qtr. Hour	3,244 Qtr. Hour
Cost per unit of service		\$79.76	\$18.33	\$20.71

See Notes to Statement of Cost Allocation – Mental Health

Committed Services	Consultation	Crisis Services	Day Treatment	Forensic Evaluation	Group Therapy
\$ 4,657	\$ 5,082	\$ 64,074	\$ 314,668	\$ 366	\$ 175,278
38	7	401	5,035	28,824	5,142
913	996	12,559	61,677	72	34,356
62	11	645	8,101	39	8,271
360	172	8,735	43,830	548	3,131
225	108	5,462	27,406	343	1,958
258	123	6,255	31,387	392	2,242
1	-	8	104	1	106
23	4	244	3,061	15	3,125
-	-	-	87,019	-	-
66	12	687	8,623	41	8,805
4	1	41	513	2	524
-	-	-	-	-	-
-	-	-	13,258	-	-
336	161	8,145	40,871	511	2,919
44	8	461	5,793	28	5,916
<u>6,987</u>	<u>6,685</u>	<u>107,717</u>	<u>651,346</u>	<u>31,182</u>	<u>251,773</u>
1,450	1,450	22,753	137,966	6,580	53,313
<u>334</u>	<u>62</u>	<u>3,488</u>	<u>43,789</u>	<u>210</u>	<u>44,713</u>
<u>\$ 8,771</u>	<u>\$ 8,197</u>	<u>\$ 133,958</u>	<u>\$ 833,101</u>	<u>\$ 37,972</u>	<u>\$ 349,799</u>

263	18	2,695	274,573	61	57,728
Qtr.	Half	Qtr.	Qtr.	Per	Qtr.
Hour	Day	Hour	Hour	Evaluation	Hour
\$33.35	\$455.39	\$49.71	\$3.03	\$622.49	\$6.06

Southeast Arkansas Behavioral Healthcare System, Inc.
Statement of Cost Allocation – Mental Health (Continued)
Year Ended June 30, 2015

	Inpatient	Medication	Marital Family	Therapy Services
Direct Expenses				
Direct labor	\$ 409,222	\$ 653,451	\$ 96,544	\$ 925,719
Contract labor	102,195	5,984	973	9,463
Payroll taxes and employee	80,210	128,081	18,923	181,445
Supplies	2,244	11,005	1,565	15,226
Utilities and telephone	-	26,470	3,835	33,139
Maintenance	-	16,551	2,398	20,721
Insurance and taxes	-	18,955	2,746	23,731
Rent	29	124	20	196
Equipment leases	848	3,637	591	5,753
Food	-	-	-	-
Local travel	2,388	10,247	1,666	16,208
Conference and seminars	142	610	99	964
Contractual services: Social	-	-	-	-
Agency vehicle expense	-	-	-	-
Depreciation	-	24,683	3,576	30,902
Other	1,605	6,884	1,119	10,889
Total direct expenses	598,883	906,682	134,055	1,274,356
Allocation of administration	126,701	191,836	28,329	269,686
Bad debt allocation	12,129	52,033	8,461	82,304
	<u>\$ 737,713</u>	<u>\$ 1,150,551</u>	<u>\$ 170,845</u>	<u>\$ 1,626,346</u>
Units of service	3,519	15,133	5,769	43,943
	Per Visit	Per Visit	Qtr. Hour	Qtr. Hour
Cost per unit of service	\$209.64	\$76.03	\$29.61	\$37.01

See Notes to Statement of Cost Allocation – Mental Health

	Soc CASSP	Total
\$	-	\$ 3,563,175
	-	164,467
	-	698,405
	-	57,473
	-	156,536
	-	97,880
	-	112,095
	-	722
	-	21,194
	-	87,019
	-	59,712
	-	3,553
	49,469	49,469
	-	13,258
	-	145,968
	-	40,116
	49,469	5,271,042
	10,484	1,115,438
	-	303,224
\$	<u>59,953</u>	<u>\$ 6,689,704</u>

Southeast Arkansas Behavioral Healthcare System, Inc.
Notes to Statement of Cost Allocation – Mental Health
Year Ended June 30, 2015

Note 1: Method of Cost Allocation

The following is a summary of the methods used for allocation of costs to the various costs centers.

- CLS Contract Labor Schedule—Contract labor clinical staff allocated based on visits and others allocated directly based on cost center served.
- D Direct Allocation—The expense benefits only one cost center.
- DMV1 Direct Mental Health Visits—Direct expenses for drug screens, day treatment and the balance of supplies based on visits.
- DMV2 Direct Mental Health Visits—Direct expenses for day treatment and the balance of agency vehicle expense based on visits.
- MHV Mental Health Visits—Visits are used to equalize overhead allocations such as word processing and medical records.
- S Salaries—Allocated based on percentage of total salaries.
- SAS Salary Allocation Schedule—Professional clinical staff allocated directly based on units of service and other staff allocated based on visits.
- SF Square Footage—Allocation is based on percentage of total square feet.
- TDE Total Direct Expense—Mental health administration is allocated based on percentage of direct expenses to each cost center.

Note 2: Clients Served

Total clients served for year ended June 30, 2015: 5,226.

Southeast Arkansas Behavioral Healthcare System, Inc.
Notes to Statement of Cost Allocation – Mental Health (Continued)
Year Ended June 30, 2015

Note 3: Units of Service

The following units were provided under separate contracts:

	<u>Units Provided</u>
Title XX	
Mental Health	1,097
Medicare Services	
Mental Health	9,244
Medicaid Services	362,496
Drug Contract	2,309
CASSP	1,902
CSP	33,630

Note 4: Meals Provided

The number of meals (lunches) provided under the Child and Adult Care Food Program was 20,592.

Note 5: Units of Service

The statement of cost allocation – mental health excludes units of service and related costs that relate to the passed-through services provided by Jefferson Regional Memorial Center.

Independent Auditor's Report on Internal Control Over Statistical Information

Board of Directors
Southeast Arkansas Behavioral Healthcare System, Inc.
Pine Bluff, Arkansas

We have examined management's assertion that Southeast Arkansas Behavioral Healthcare System, Inc. (the Organization) maintained effective internal control over the statistical information system for documenting and appropriately reporting data regarding staff activities, units of service and recipients of services as of June 30, 2015, based on criteria outlined in the following paragraph. Management of Southeast Arkansas Behavioral Healthcare System, Inc. is responsible for maintaining effective internal control over the statistical information systems. Our responsibility is to express an opinion on the effectiveness of the Organization's internal control over the statistical information systems based on our examination.

The principal internal control criteria regarding reliable reporting of client and community services data by the Mental Health Services Division are the promotion of accurate and complete documentation of client admissions and discharges and the promotion of accurate and appropriate documentation of services rendered to clients and the community.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of internal control over the statistical information system, testing and evaluating the design and operating effectiveness of internal control and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination of the Organization's compliance with specified requirements.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting to future periods are subject to the risk that internal control may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Southeast Arkansas Behavioral Healthcare System, Inc. maintained, in all material respects, effective internal control over the statistical information system for documenting and appropriately reporting data regarding staff activities, units of service and recipients of services as of June 30, 2015, based on the criteria stated in the second paragraph above.

This report is intended solely for the information and use of the governing body, management, and the Arkansas Department of Human Services and is not intended to be, and should not be, used by anyone other than these specified parties.

BKD, LLP

September 24, 2015