

***SOUTHWESTERN BEHAVIORAL
HEALTHCARE, INC.
A Not-for-Profit Corporation***

Financial Report

June 30, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southwestern Behavioral Healthcare, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Southwestern Behavioral Healthcare, Inc., a Not-for-Profit Corporation, which comprise the statement of financial position as of June 30, 2021, the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinion



In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of Southwestern Behavioral Healthcare, Inc., a Not-for-Profit Corporation, as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Southwestern Behavioral Healthcare, Inc., a Not-for-Profit Corporation's June 30, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 8, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Reporting Required by Government Auditing Standards



In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2022, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the Corporation'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 the Corporation's internal control over financial reporting and compliance.

Wardig, Slynanski & Company, P.S.C.

Evansville, Indiana
February 14, 2022

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.
A Not-for-Profit Corporation

STATEMENTS OF FINANCIAL POSITION

June 30, 2021 and Comparative Totals for June 30, 2020

	2021		2020	
	Without Donor Restrictions	With Donor Restrictions	Total	Total
ASSETS				
Current Assets				
Cash	\$ 8,872,673	\$ 20,302	\$ 8,892,975	\$ 7,593,717
Investments - other	2,454,000	0	2,454,000	1,947,000
Accounts receivable				
Patients, less allowance for doubtful accounts				
2021 \$55,000; 2020 \$141,805	602,329	0	602,329	663,407
Affiliates	10,268	0	10,268	6,776
Hoosier Assurance Program	167,222	0	167,222	141,714
Mental Health Funds Recovery Program	1,113,669	0	1,113,669	1,032,704
Other	272,503	0	272,503	510,723
Prepaid expenses	331,652	0	331,652	275,984
Total current assets	13,824,316	20,302	13,844,618	12,172,025
Other Assets				
Investment in joint venture	5,434	0	5,434	5,449
Cash surrender value of life insurance	448,994	0	448,994	423,094
Marketable equity securities	299,559	0	299,559	208,710
Investments - other	1,247,000	0	1,247,000	1,455,000
Total other assets	2,000,987	0	2,000,987	2,092,253
Property and Equipment, Net	1,472,713	0	1,472,713	1,506,489
Total assets	\$ 17,298,016	\$ 20,302	\$ 17,318,318	\$ 15,770,767
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable				
Trade	\$ 585,934	\$ 0	\$ 585,934	\$ 195,179
Affiliates	23,016	0	23,016	8,302
Accrued expenses	1,654,383	0	1,654,383	1,037,945
Refundable advances	626,348	0	626,348	569,756
Total current liabilities	2,889,681	0	2,889,681	1,811,182
Long-Term Liabilities				
Note payable	0	0	0	2,565,700
Deferred compensation	297,780	0	297,780	207,382
Total liabilities	3,187,461	0	3,187,461	4,584,264
Net Assets	14,110,555	20,302	14,130,857	11,186,503
Total liabilities and net assets	\$ 17,298,016	\$ 20,302	\$ 17,318,318	\$ 15,770,767

See notes to financial statements.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.
A Not-for-Profit Corporation

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2021 with Comparative Totals for Year Ended June 30, 2020

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Support and revenue				
Public support				
Contributions	\$ 6,314	\$ 225	\$ 6,539	\$ 17,227
County funds				
Gibson	268,861	0	268,861	259,954
Posey	372,881	0	372,881	370,001
Vanderburgh	1,158,986	0	1,158,986	1,119,008
Warrick	492,072	0	492,072	477,238
Other grants	131,993	9,859	141,852	7,678
Mental Health Funds Recovery Program	2,186,106	0	2,186,106	2,089,886
State funds				
Mental health	3,418,345	0	3,418,345	3,694,864
Substance abuse	118,629	0	118,629	118,629
Primary healthcare	94,814	0	94,814	101,580
Federal funds				
Mental health	560,354	0	560,354	449,742
Substance abuse	1,165,574	0	1,165,574	1,113,062
Primary healthcare	0	0	0	114,628
COVID-19 Relief	1,865,661	0	1,865,661	358,605
Total public support	11,840,590	10,084	11,850,674	10,292,102
Net patient service revenue				10,960,574
Provision for uncollectible accounts				(234,767)
Net patient service revenue	11,145,183	0	11,145,183	10,725,807
Other revenue (expense)				
Service contract income	318,195	0	318,195	326,922
Investment revenue	128,024	0	128,024	108,081
Miscellaneous	141,861	0	141,861	211,263
Gain on life insurance proceeds	0	0	0	241,203
Gain on extinguishment of PPP loan and interest expense	2,595,083	0	2,595,083	0
Gain (loss) on sale of property and equipment	(1,365)	0	(1,365)	100
Income (loss) on investment in joint venture	(15)	0	(15)	6
Total other revenue	3,181,783	0	3,181,783	887,575
Net assets released from restriction	7,214	(7,214)	0	0
Total support and revenue	26,174,770	2,870	26,177,640	21,905,484
Expenses				
Program services	18,348,354	0	18,348,354	17,237,325
Management and general	4,884,932	0	4,884,932	5,128,841
Total expenses	23,233,286	0	23,233,286	22,366,166
Change in net assets	2,941,484	2,870	2,944,354	(460,682)
Net assets at beginning of year	11,169,071	17,432	11,186,503	11,647,185
Net assets at end of year	\$ 14,110,555	\$ 20,302	\$ 14,130,857	\$ 11,186,503

See notes to financial statements.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2021 with Comparative Summarized Totals for the Year Ended June 30, 2020

	MENTAL HEALTH AND ADDICTION PROGRAM SERVICES					SUPPORTIVE SERVICES	TOTAL PROGRAM AND SUPPORTIVE SERVICES	
	Mental Health and Addiction Outpatient and Assessment Centers	Community Based Services	Supervised Group Living	Residential, Detox and Outpatient Addiction Centers	Total Program Services	Management and General	2021	2020
Salaries and wages	\$ 5,574,096	\$ 3,232,180	\$ 636,615	\$ 1,897,036	\$ 11,339,927	\$ 363,082	\$ 11,703,009	\$ 11,613,054
Employee benefits	1,552,171	1,122,257	235,111	623,638	3,533,177	111,429	3,644,606	3,456,872
Supplies	25,046	11,966	50,705	51,482	139,199	19,543	158,742	199,420
Purchased services	187,173	129,536	22,735	431,397	770,841	401,132	1,171,973	998,867
Management fee	0	0	0	0	0	3,676,800	3,676,800	3,504,960
Program activities	171	5,473	1,275	6,275	13,194	0	13,194	14,694
Marketing and outreach	170	0	187	0	357	1,862	2,219	6,224
Travel, meetings, and education	46,341	90,713	2,596	10,403	150,053	6,615	156,668	245,202
Office and communications	79,539	47,359	14,160	18,169	159,227	8,370	167,597	173,339
Insurance	53,926	0	0	9,106	63,032	123,613	186,645	168,409
Building and equipment maintenance	19,671	5,671	16,522	18,719	60,583	1,469	62,052	55,303
Minor equipment	137,847	28,443	6,113	22,249	194,652	3,097	197,749	126,726
Building rent	458,244	390,432	132,732	441,024	1,422,432	36,732	1,459,164	1,394,355
Depreciation	124,283	46,069	32,663	51,088	254,103	16,006	270,109	278,070
Interest expense	0	0	0	0	0	24,111	24,111	5,272
Bad debt expense	85,408	3,321	1,869	84,542	175,140	0	175,140	0
Other expense	53,017	4,466	3,592	11,362	72,437	91,071	163,508	125,399
Total expenses	\$ 8,397,103	\$ 5,117,886	\$ 1,156,875	\$ 3,676,490	\$ 18,348,354	\$ 4,884,932	\$ 23,233,286	\$ 22,366,166

See notes to financial statements.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.
A Not-for-Profit Corporation

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 2,944,354	\$ (460,682)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Depreciation	270,109	278,070
Increase in cash surrender value	(8,765)	(17,373)
Net unrealized gain on investments	(78,869)	(45)
Net discounts on certificates of deposit	(4)	0
Provision for uncollectible accounts	175,140	234,767
Gain on extinguishment of PPP loan and interest expense	(2,595,083)	0
(Gain) loss on sale of property and equipment	1,365	(100)
Gain on life insurance proceeds	0	(241,203)
(Income) loss on investment in joint venture	15	(6)
Changes in assets and liabilities:		
Decrease (increase)		
Accounts receivable		
Patients	(114,062)	(74,444)
County funds	0	551,657
Affiliate	(3,492)	7,174
Hoosier Assurance Program	(25,508)	(70,090)
Mental Health Funds Recovery Program	(80,965)	(88,408)
Other	238,220	(256,215)
Prepaid expenses	(55,668)	(38,721)
Increase (decrease)		
Accounts payable		
Trade	390,755	(11,418)
Affiliate	14,714	(4,079)
Accrued expenses	645,821	245,983
Refundable advances	56,592	564,977
Deferred compensation	90,398	11,855
Net cash provided by operating activities	1,865,067	631,699
Cash Flows from Investing Activities		
Premiums paid on life insurance policies	(17,135)	0
Proceeds from life insurance policies	0	259,071
Proceeds from sale of property and equipment	0	100
Purchase of property and equipment	(237,698)	(674,909)
Purchase of marketable equity securities	(11,980)	(12,031)
Proceeds from sale of other investments	1,947,000	2,783,000
Purchase of other investments	(2,245,996)	(3,142,000)
Net cash used in investing activities	(565,809)	(786,769)
Cash Flows from Financing Activities		
Proceeds from long term borrowings	0	2,565,700
Net increase in cash	1,299,258	2,410,630
Cash at beginning of year	7,593,717	5,183,087
Cash at end of year	\$ 8,892,975	\$ 7,593,717
Supplemental Schedule of Noncash Investing and Financing Activities		
Forgiveness of PPP loan and interest expense (see Note 1)	\$ 2,595,083	\$ 0

See notes to financial statements.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 1 – Nature of Activities and Significant Accounting Policies

Nature of Activities

Southwestern Behavioral Healthcare, Inc. (Corporation) is a not-for-profit certified Indiana Community Mental Health Center providing comprehensive mental health and addiction services in Vanderburgh, Gibson, Posey, and Warrick counties since 1967. The Corporation offers services at 13 primary locations including six outpatient offices, three adult supervised group living homes, two residential addiction centers, and two community support services centers. The Corporation also provides community based services in-home and in schools.

COVID-19 Pandemic

On January 30, 2020, the World Health Organization declared the COVID-19 outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of COVID-19 include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The impacts of COVID-19 and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Corporation operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Corporation, it cannot estimate, with any degree of certainty, the full impact of COVID-19 on future operations and financial results.

Paycheck Protection Program

On April 16, 2020, the Corporation received a loan in the amount of \$2,565,700 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act and implemented by the U.S. Small Business Administration (SBA), provided for loans to qualifying businesses for amounts up to 2.5 times those entities' average monthly payroll expenses for the qualifying time period. The loan and accrued interest are forgivable after the applicable time period in the CARES Act, as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities, as well as maintains its payroll levels. The unforgiven portion of the PPP loan, if any, is payable over two years in accordance with the terms of the loan.

The Corporation has applied for and received forgiveness, with respect to these eligible expenses, and was notified by the SBA and its lender that they have been granted full legal release as of June 8, 2021. The Corporation has elected to treat the loan as debt, in accordance with ASC 470, and has presented the forgiveness of the loan as a gain on extinguishment of debt during the year ended June 30, 2021.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Comparative Amounts

The financial statements and notes include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended June 30, 2020, from which the summarized information was derived.

Basis of Presentation

The financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which require the Corporation to report information regarding its financial position and activities according to the following net asset classifications:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Corporation. The Corporation's Board of Directors may designate assets without donor restrictions for specific purposes.

Net Assets With Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Corporation or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires or when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities. Donor-restricted contributions whose restrictions are met within the same reporting year as received are included in net assets without donor restrictions.

Contributions, Gifts, and Expenses

Contributions received and unconditional promises to give cash and other assets are reported at fair value on the date the contribution or promise is received as an increase in net assets. The gifts are reported as with donor restrictions if they are received with donor-imposed stipulations that limit the use of the donated assets.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Contributions, Gifts, and Expenses (Continued)

Gifts of long-lived assets with restrictions on how the assets must be maintained or used and contributions with donor-imposed restrictions for the purchase of long-lived assets are considered to have met the restrictions upon the asset being placed in service, absent explicit donor stipulations on how long the assets must be maintained.

The Corporation reports on the accrual basis of accounting and expenses are recorded in the period incurred.

COVID-19 Relief Funding

The Corporation was awarded \$1,447,586 and \$236,182 in general distributions from the Provider Relief Fund (PRF) as provided under the Coronavirus Aid, Relief, and Economic Security (CARES) Act for the years ended June 30, 2021 and 2020, respectively. The PRF provides relief funds to healthcare providers to support healthcare related expenses or lost revenue attributable to COVID-19. PRF distributions are accounted for as a government grant and the Corporation recognizes as revenue when the applicable terms and conditions to retain the funds have been met, such as qualifying expenses have been incurred and/or revenues have been lost. The Corporation determined the awards met the terms and conditions at June 30, 2021 and recognized \$1,447,586 and \$236,182 as federal COVID-19 Relief funds in the statements of activities and changes in net assets for the years ended June 30, 2021 and 2020, respectively. Only PRF funds received in Period 1 (April 10, 2020 to June 30, 2020) have been included in the Corporation's Schedule of Expenditures of Federal and State Awards in accordance with applicable guidance issued.

The Corporation also was awarded \$118,558 and \$122,423 from the Coronavirus Relief Fund (CRF) as provided under the CARES Act for the years ended June 30, 2021 and 2020, respectively. The CRF provides relief funds to organizations to cover necessary expenditures incurred due to the public health emergency with respect to COVID-19. CRF awards are accounted for as a government grant and the Corporation recognizes the awards as revenue when the applicable terms and conditions to retain the funds have been met. The Corporation determined the amount of the awards that met the terms and conditions at June 30, 2021 and 2020 and recognized \$82,435 and \$122,423 as federal COVID-19 Relief funds in the statements of activities and changes in net assets for the years ended June 30, 2021 and 2020, respectively. The Corporation recognized \$36,123 in CRF funds as refundable advances at June 30, 2021.

The Corporation also was awarded \$51,304 through the National Bioterrorism Hospital Preparedness Program as provided under the Consolidated Appropriations Act, 2021. The National Bioterrorism Hospital Preparedness Program provides funds to cover necessary expenditures incurred due to the public health emergency with respect to COVID-19. The Corporation determined the awards met the terms and conditions at June 30, 2021 and recognized \$51,304 as federal COVID-19 Relief funds in the statements of activities and changes in net assets for the year ended June 30, 2021.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

COVID-19 Relief Funding (Continued)

The Corporation also was awarded \$284,336 through the Demonstration Programs to Improve Community Mental Health Services program (a Certified Community Behavioral Health Clinic (CCBHC) expansion grant) as provided under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The Program provides funds to be used primarily to support direct treatments services for individuals impacted by the COVID-19 pandemic. The Corporation determined the awards met the terms and conditions at June 30, 2021 and recognized \$284,336 as federal COVID-19 Relief funds in the statements of activities and changes in net assets for the year ended June 30, 2021.

The Corporation's accounting for COVID-19 relief funds could change in the future based on operating performance or COVID-19 activities, as well as evolving grant compliance guidance provided by the government.

Concentration of Credit Risk

Financial instruments, which potentially subject the Corporation to concentrations of credit risk, consist principally of cash, certificates of deposits, fixed annuities, and accounts receivable. At times, such cash in banks may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

Revenue Recognition

Prior to July 1, 2020, the Corporation recognized patient service revenue when it was realized or realizable and earned. The Corporation considered revenue realized or realized and earned when it had persuasive evidence of an arrangement, the sales price was fixed and determinable, and collectability was reasonably assured.

On July 1, 2020, the Corporation adopted Topic 606 which outlines a five-step model for recognizing revenue from contracts with customers as follows:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when or as performance obligations are satisfied

Topic 606 also requires expanded disclosures regarding the Corporation's revenue recognition policies and significant judgments employed.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

The Corporation's ASC Topic 606 revenue is primarily derived from patient service revenues. These services are marketed and provided to customers (patients) in Vanderburgh, Posey, Gibson, and Warrick counties of Indiana. The Corporation has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Patient third-party payors
- Types of services provided
- Economic conditions

The Corporation assesses the contract term as the period in which the parties to the contract have presently enforceable rights and obligations. Patient service revenue billings are submitted to third party payors weekly and statements are issued to patients monthly.

Patient service revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing services. Services can be summarized into three categories: clinic outpatient, community based, and residential. Each of these services are considered to be a single performance obligation and have a duration of less than one year. Revenues are recorded over-time as these services are provided as the customer simultaneously receives and consumes the services provided by the Corporation. Amounts are due from patients and third-party payors and revenue is recognized after a service has been provided, which is when the performance obligations are satisfied. The method of reimbursement for the Corporation is fee for service.

Revenue under third-party agreements is subject to audit and retroactive adjustment. The ultimate legal and financial liability of the Corporation with respect to future audits by third-party payors cannot be estimated with any certainty.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and noncompliance with those laws and regulations could result in providers entering into settlement agreements. Compliance with such laws and regulations may also be subject to future government review. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with these laws and regulations, and it is not possible to determine the impact, if any, this would have upon the Corporation. In addition, the contracts the Corporation has with commercial payors also provide for retroactive audit and review of claims.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

The amount of variable consideration included in the transaction price is constrained and is included only to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Corporation has agreements with third-party payors that provide payments at amounts less than established charges. The Corporation determines the transaction price based on standard charges for services provided reduced by contractual adjustments provided to third-party payors and charity discounts provided to low-income patients (implicit price concessions).

The Corporation provides services to eligible individuals regardless of their ability to pay. Generally, patients who are covered by third-party payors are responsible for related copays, deductibles, and coinsurance, which vary in amount. Patients that do not have a third-party payor source or whose third-party payor source does not cover services can be eligible for a reduction of service fees at amounts less than established rates under the Corporation's charity care policy. The charity care policy is a graduated discount scale up to 150 percent of Federal Poverty Income Guidelines, published by the Department of Health and Human Services, and is based on income, number of dependents, and other pertinent financial information as described in the policy. The Corporation has determined it has provided implied price concessions to these individuals. The implied price concessions included in estimating the transaction price represents the difference between standard charges for services and self-pay balance after applying the charity discount. Such amounts determined to qualify as charity care are not reported as revenue.

There are no significant financing components in customer contracts, warranties, or bill and hold sales.

The Corporation recognized revenue from services that transfer to the patient over time of \$11,145,183 and \$10,725,807 for the years ended June 30, 2021 and 2020, respectively.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

A summary of patient service revenue for the years ended June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Patient service revenue	\$ 18,024,821	\$ 18,531,015
Implied price concessions	(1,075,975)	(1,724,577)
Contractual allowance	(5,803,663)	(5,845,864)
Provision for bad debt	<u>0</u>	<u>(234,767)</u>
Net patient service revenue	<u><u>\$ 11,145,183</u></u>	<u><u>\$ 10,725,807</u></u>

A summary of patient service revenue by payor for the years ended June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Medicaid	\$ 9,352,509	\$ 9,071,481
Medicare	475,566	341,799
Department of Child Services	403,838	398,895
Commercial	532,708	446,050
Patient	<u>380,563</u>	<u>467,582</u>
	<u><u>\$ 11,145,184</u></u>	<u><u>\$ 10,725,807</u></u>

There are no contract assets or liabilities related to patient service revenues at June 30, 2021 and 2020. Accounts receivable related to patient service revenues are separately stated on the statement of financial position at June 30, 2021 and 2020. The opening balance of accounts receivable related to patient service revenues at July 1, 2019 was \$823,730.

Public Support

The Corporation also receives contributions through contracts and grants to provide the full continuum of mental health and addictions care to the patients it serves. Contributions received from contracts, grants, and gifts are outside the scope of ASC Topic 606, *Revenue from Contracts with Customers* and are reported as public support in the statement of activities and changes in net assets. The Corporation does not provide donors with benefits in return for the contributions received, nor does the Corporation provide services to a grantor in exchange for grants. Therefore, there is no exchange transaction and ASC 606 does not apply.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Mental Health Funds Recovery Program

The Corporation participates in the Mental Health Funds Recovery Program which provides funding to eligible providers for administrative activities required as part of participation in the Medicaid program. Revenue is included as public support on the statements of activities and changes in net assets.

Patient Accounts Receivable

Patient accounts receivable are recorded at net realizable value based on the composition of services and payors included in the balance. For third-party payors which include Medicaid, Medicare, Department of Child Services, and commercial insurances, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices and historical paid claims data by payor. For self-pay accounts receivable, which includes patients who are uninsured or insured with copays, coinsurance and deductible balances due, the net realizable value is determined using estimates of historical collection experience with regard to the service type and aging category. Significant changes in payor mixes, volumes of services types provided, economic conditions or trends in federal and state governmental healthcare coverage could affect the net realizable value of patient accounts receivable. The Corporation continually evaluates net realizable value based on current and historical trending.

Other Accounts Receivable

Other accounts receivable relate to services rendered mainly to government entities and agencies for which payment was not received by year-end. The balance consists primarily of amounts due from the Hoosier Assistance Program, Mental Health Funds Recovery Program, and from other governmental and nonprofit agencies to support health services. See the “Public Support” section of this Note for further information. The other receivables are classified as current as they are expected to be collected during the next fiscal year.

Investment in Joint Venture

The Corporation has a 20 percent interest in Trillium, Inc., a non-profit 501(c)(3) corporation. The equity method of accounting is being used for the joint venture. The Corporation uses the equity method for investments between 20 percent and 49 percent because the Corporation has the ability to exercise significant influence over this entity. Under the equity method of accounting, the Corporation’s share of the net income (loss) of the affiliate is recognized as income (loss) in the Corporation’s statements of activities and changes in net assets and the investment account is adjusted accordingly. Capital contributions made to the joint venture are treated as an increase to the investment account and dividends received are treated as a reduction in the investment account. There were no capital contributions to or dividends received from the joint venture for the years ended June 30, 2021 and 2020. As of June 30, 2021 and 2020, the investment in joint venture was \$5,434 and \$5,449, respectively.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Marketable Equity Securities

Marketable equity securities consist of equity securities with readily determinable fair values. Marketable equity securities are measured and recorded at fair value on a recurring basis with changes in fair value recorded in net income. Realized and unrealized gains and losses are included in other revenue as investment revenue, along with interest and dividends in the statements of activities and changes in net assets. Investment revenue is presented net of investment fees.

Investments – Other

Certificates of deposit and fixed annuity contracts held for investment that do not meet the definition of a security as defined in ASC 320-10-20 are included in "Investments - other". These investments are recorded at acquisition cost and related investment income is recorded when realized. The Company's other investments with original maturities greater than three months and remaining maturities less than one year are classified as current and those with remaining maturities greater than one year are classified as long-term in the Corporation's statement of financial position. All certificates of deposit are within the FDIC insurance limit. The carrying value of the Company's other investments are presented at cost, which approximates fair value, and are comprised of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Current		
Certificates of deposit	<u>\$ 2,454,000</u>	<u>\$ 1,947,000</u>
Long-Term		
Certificates of deposit	\$ 747,000	\$ 1,455,000
Fixed annuity contract	<u>500,000</u>	<u>0</u>
	<u>1,247,000</u>	<u>1,455,000</u>
	<u><u>\$ 3,701,000</u></u>	<u><u>\$ 3,402,000</u></u>

Property, Equipment, and Depreciation

Property and equipment are stated at cost, with the exception of donations to the Corporation which are stated at fair market value at the date of the gift if a value can be measured on an objective basis. The Corporation capitalizes expenditures in excess of \$1,500 with useful lives of one year or more. Provisions for depreciation of property and equipment have been computed on the straight-line method over the estimated useful life.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Property, Equipment, and Depreciation (Continued)

Improvements to leased property owned by affiliates are being amortized over the estimated useful life of the improvement rather than the lease term. An annual assessment is performed by management to determine the likelihood of whether the carrying value of the improvements has been impaired. Improvements to property under leases with affiliates had a net book value of \$554,357 and \$592,101 at June 30, 2021 and 2020, respectively.

Long-Lived Assets

Long-lived assets are reviewed for impairment in accordance with guidance issued by the Financial Accounting Standards Board (FASB). The Corporation records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. Impairment losses are measured by comparing the estimated fair value of the assets to their carrying amount. There were no impairment losses for the years ended June 30, 2021 and 2020.

Refundable Advances

A portion of the Corporation's revenue is derived under county, state, and federal contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized prior to meeting performance requirements or incurring qualifying expenditures are reported as refundable advances in the statement of financial position.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions. Therefore, these expenses require an allocation by management on an equitable basis that is consistently applied. These expenses include depreciation, rent, salaries and wages, and employee benefits. Depreciation and rent are allocated based on estimated use of square footage and salaries and wages and employee benefits are allocated based on estimates of time and effort.

Subsequent Events Evaluation

The Corporation has evaluated subsequent events through February 14, 2022, the date on which the financial statements were available to be issued.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassification

Certain items in the June 30, 2020 financial statements have been reclassified to conform to the June 30, 2021 classifications.

Recently Adopted Accounting Standards

Revenue Recognition

In May 2014, FASB issued new accounting guidance, ASU 2014-09, *Revenue from Contracts with Customers (ASC 606)*, related to how 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. ASC 606 sets forth a new five-step revenue recognition model that replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed. In addition, the new guidance requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Corporation adopted ASC 606 using the modified retrospective method to all contracts effective July 1, 2020. Under this method, results for the reporting year beginning July 1, 2020 are presented under ASC 606, while prior amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior year. As a result, the majority of what was classified as provision for uncollectible accounts in the statements of activities and changes in net assets is now reflected as implied price concessions (as defined by ASC 606) and; therefore, included as a reduction to patient service revenue for the year ended June 30, 2021. For changes in credit issues not assessed at the date of service, the Corporation prospectively recognizes those amounts in management and general expenses on the statements of activities and changes in net assets, if any. For periods prior to the adoption of ASC 606, the provision for bad debts was presented consistent with the previous revenue recognition standards that required such provision to be presented separately as a component of patient service revenue.

Additionally, upon adoption of ASC 606, the allowance for doubtful accounts of approximately \$203,600 as of July 1, 2020 was reclassified as a component of patient accounts receivable. Other than these changes, adoption of this standard did not have a significant effect on the timing of the Corporation's revenue recognition or on the Corporation's financial statements other than adding and modifying certain disclosures and no adjustment to net assets was recorded upon this transition. The Corporation's method of recognizing revenue is described earlier in Note 1.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Recently Adopted Accounting Standards (Continued)

Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. The Corporation adopted the provisions of ASU 2018-08 applicable to transactions where the Corporation is the resource recipient in the previous year. The Corporation adopted the provisions of ASU 2018-08 applicable to transactions where the Corporation is the resource provider on July 1, 2020. The adoption of this standard did not have a material impact on the Corporation's financial statements.

Recently Issued Accounting Standards

Leases

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. An entity may adopt the guidance, as well as certain practical expedients, either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented, or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. In June 2020, FASB issued ASU 2020-05, which defers the effective date of ASU 2016-02, making it effective for annual reporting periods beginning after December 15, 2021, which will be the Corporation's June 30, 2023 year-end. The Corporation is currently evaluating the impact the adoption of this guidance will have on the financial statements.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 2 – Property and Equipment

Property and equipment at June 30, 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Furniture, fixtures, and equipment	\$ 2,395,755	\$ 2,246,618
Leasehold improvements	973,398	934,329
Construction in progress	<u>394,286</u>	<u>347,944</u>
	3,763,439	3,528,891
Accumulated depreciation	<u>(2,290,726)</u>	<u>(2,022,402)</u>
	<u>\$ 1,472,713</u>	<u>\$ 1,506,489</u>

Depreciation expense for the years ended June 30, 2021 and 2020 was \$270,109 and \$278,070, respectively.

Note 3 – Note Payable

Pursuant to the PPP, which is described in more detail in Note 1, on April 16, 2020, the Corporation received a loan in the amount of \$2,565,700. The loan bears interest at a fixed rate of one percent per year, with interest deferred through August 10, 2021, had a term of two years, and was unsecured and guaranteed by the SBA. The Corporation has applied for and received forgiveness, with respect to these eligible expenses, and was notified by the SBA and its lender that they have been granted full legal release as of June 8, 2021. The Corporation has elected to treat the loan as debt, in accordance with ASC 470, and has presented the forgiveness of the loan as a gain on extinguishment of debt during the year ended June 30, 2021. Total interest expense for the years ended June 30, 2021 and 2020 was \$24,111 and \$5,272, respectively.

Note 4 – Commitment and Contingencies

The Corporation, along with two other affiliated not-for-profit corporations, participates in a self-funded health insurance plan that covers substantially all of its employees. The Corporation and the affiliated not-for-profit corporations are liable for claims up to \$150,000 per employee, and aggregate claims up to \$3,815,168 annually. Self-insurance costs are accrued as claims are incurred. The Corporation's portion of health insurance expense, including claims, stop loss insurance, premiums and administrative fees, for the years ended June 30, 2021 and 2020 was \$2,115,736 and \$2,005,473, respectively.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 4 – Commitment and Contingencies (Continued)

The Corporation was reviewed by the Health Care Excel Surveillance and Utilization Review team in 1999 and 2005. As a result of the reviews, it was determined that Medicaid had overpaid funds to the Corporation. An estimated \$61,250 was included in accounts payable at June 30, 2020. Medicaid did not collect or bill the Corporation for any amount. The contingent liability was recognized into income during the year ended June 30, 2021.

The Corporation maintains medical professional liability insurance with a limit of \$500,000 per occurrence (\$1,500,000 annual aggregate) pursuant to the Indiana Medical Malpractice Act (Act). The Act provides coverage of \$1,800,000 per occurrence, of which the first \$500,000 per occurrence would be covered by the Corporation's medical professional liability insurance and the remainder by the State of Indiana Patient Compensation Fund (Fund).

In addition, the Corporation, along with two other affiliated not-for-profit corporations, share in general liability coverage of \$1,000,000 per occurrence (\$3,000,000 annual aggregate), professional liability coverage of \$1,000,000 per occurrence (\$3,000,000 annual aggregate), worker's compensation of \$1,000,000 per incident, and umbrella liability coverage of \$5,000,000 per occurrence and in the aggregate.

At June 30, 2021 the Company had a letter of credit totaling \$3,000 with no outstanding borrowings. The letter of credit expired August 7, 2021.

During the year ended June 30, 2020, the Corporation received a PPP loan under the CARES Act. The Corporation believes they met the eligibility criteria for qualification to receive the PPP loan and used the proceeds only for qualifying expenses eligible under the CARES Act. The Corporation received formal forgiveness from the SBA on June 8, 2021. The Corporation believes they have met the subsequent criteria for forgiveness of the PPP loan as set forth in the CARES Act; however, the loans are subject to audit by the SBA, which could result in the partial or full repayment of the loan by the Corporation.

Note 5 – Representative Payee

The Corporation has been engaged as the Representative Payee for certain patients. As part of the fiduciary responsibilities, the Corporation deposits Social Security benefits received on behalf of the patient and manages the disbursement of living and other expenses.

The funds are held in an account separate from the Corporation's operating cash account. The funds held at June 30, 2021 and 2020 were \$141,262 and \$135,682, respectively, and presented as cash and accrued expenses on the statements of financial position. Since the Corporation is the agent to transfer assets between the patient and a third party, these amounts have not been recorded on the Corporation's statements of activities and changes in net assets.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 6 – Fair Value Measurements

Under FASB's authoritative guidance on fair value measurements, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Corporation uses various methods including market, income, and cost approaches. Based on these approaches, the Corporation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Corporation is required to provide the following information according to the fair value hierarchy.

The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange

Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data. Level 2 also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data.

Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data.

While the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

During the years ended June 30, 2021 and 2020, there were no changes to the Corporation's valuation techniques that had, or are expected to have, a material impact on its financial position or results of operations.

The following is a description of the valuation methodology used for instruments measured at fair value:

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 6 – Fair Value Measurements (Continued)

Marketable Equity Securities

The fair value of equity securities and mutual funds is the market value based on quoted market prices, if available, or market prices provided by recognized broker dealers.

At June 30, 2021 and 2020, the balances of assets measured at fair value on a recurring basis are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>June 30, 2021</u>				
Mutual funds	\$ 299,559	\$ 299,559	\$ 0	\$ 0
<u>June 30, 2020</u>				
Mutual funds	\$ 208,710	\$ 208,710	\$ 0	\$ 0

The net unrealized investment gain for the years ended June 30, 2021 and 2020 was \$78,869 and \$45, respectively.

Note 7 – Income Taxes

The Internal Revenue Service (IRS) has ruled that the Corporation is exempt from the payment of federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Corporation has been classified as an organization that is not a private foundation and has been designated as a “publicly-supported” organization.

Management evaluated the Corporation's uncertain tax positions and concluded that the Corporation had taken no uncertain tax positions that require adjustment to the financial statements.

Note 8 – Defined Contribution Plan

The Corporation has a 401(k) defined contribution plan that allows for both pre-tax and after-tax employee deferral contributions up to the IRS defined limits. All current and new employees are automatically enrolled at five percent, unless otherwise elected. Employees receive an auto escalation of one percent of their deferral amount each year up to a maximum of ten percent, unless otherwise elected.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 8 – Defined Contribution Plan (Continued)

An employee who is 21 years of age and has completed one year of service with a minimum of 1,000 hours in that year of service will begin to receive an employer contribution on the next enrollment date of July 1 or January 1. The employer contribution is three percent of their gross pay. Additionally, the employee will be eligible for an annual employer matching contribution if the employee was employed on December 31 of the plan year, was an active participant at any time during the plan year, and had 1,000 or more hours during the plan year.

The matching contribution for the years ended June 30, 2021 and 2020 was 50 percent of the employees' deferrals up to five percent of their gross pay. Employees vest in employer contributions based on a six-year grading schedule. Total contributions made by the Corporation, net of forfeitures, for the years ended June 30, 2021 and 2020 were \$432,811 and \$400,350, respectively.

Note 9 – Deferred Compensation Plans

The Corporation is a participating employer in a 457(b) deferred compensation plan available for certain highly compensated employees. Contributions are 100 percent employee deferrals and; therefore, employees are immediately vested in all deferred amounts. The ultimate payment of the deferred compensation is subject to conditions specified within the plan. Under certain circumstances, benefits are payable to a beneficiary. No deferred compensation payments were made during the years ended June 30, 2021 and 2020. As of June 30, 2021 and 2020, the 457(b) Plan assets totaled \$297,780 and \$207,382, and are included in investments and in deferred compensation in the accompanying statements of financial position.

Until paid or made available to the participant or beneficiary, all deferred amounts and investments earnings related to deferral amounts are solely the property and rights of the Corporation and are subject to claims of the Corporation's general creditors. Participant's rights under the 457(b) Plan are equal to those of a general creditor of the Corporation.

Note 10 – Litigation

The Corporation is involved in lawsuits, claims, investigations, and proceedings, which arise in the ordinary course of business. If management believes that a loss arising from these matters is probable and can be reasonably estimated, a loss is recorded. As additional information becomes available, these matters are assessed and the estimates are revised, if necessary. Based on currently available information, management believes that the ultimate outcome of these matters, individually and in the aggregate, will not have a material adverse effect on the Corporation's business, financial condition, or results of operation.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 11 – Related Party Transactions

The Corporation is related through common Board members to other not-for-profit corporations. Transactions with the affiliated not-for-profit corporations for the years ended June 30, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Service contract income	\$ 96,758	\$ 118,077
Management fee expense	3,676,800	3,504,960
Building rent	1,459,164	1,394,355
Affiliate contracted services	23,251	0

The accompanying statements of financial position include the following related party amounts:

Accounts receivable	\$ 10,268	\$ 6,776
Prepaid rent	121,597	121,597
Accounts payable	23,016	8,302

Note 12 – Leases

The Corporation is obligated under operating leases with an affiliated corporation for offices throughout the counties it serves, and an unaffiliated corporation for a vehicle. At June 30, 2021, aggregate future minimum rental payments required under these leases, which expire on various dates through September 30, 2026, are as follows:

<u>Years Ending June 30,</u>	<u>Other</u>	<u>Affiliates</u>	<u>Total</u>
2022	\$ 2,150	\$ 1,162,805	\$ 1,164,955
2023	0	256,223	256,223
2024	0	83,304	83,304
2025	0	68,448	68,448
2026	0	85,560	85,560
	<u>\$ 2,150</u>	<u>\$ 1,656,340</u>	<u>\$ 1,658,490</u>

The Corporation also leases certain property under short-term operating lease agreements. Total rental expense under all operating leases for the years ended June 30, 2021 and 2020 was \$1,465,324 and \$1,400,514, respectively.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 13 – Concentration in Revenue

The Corporation participates in the Medicaid program. Revenue derived from this program as a percentage of public support and net service revenue for the years ended June 30, 2021 and 2020 was 41 and 42 percent, respectively.

Note 14 – Net Assets

Net assets with donor restrictions for the years ended June 30, 2021 and 2020 were available for the following purposes:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Posey County Drug Free Council	\$ 0	\$ 837
Substance Abuse Council	4,140	6,247
Robert Wetzel Scholarship	500	500
Next Levell Scholarship	9,823	9,848
William E. Schmidt Foundation - School Based Services Grant	<u>5,839</u>	<u>0</u>
	<u>\$ 20,302</u>	<u>\$ 17,432</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose are as follows for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Satisfaction of purpose restrictions		
Next Levell Scholarship	\$ 250	\$ 0
Substance Abuse Council	6,127	0
Posey County Drug Free Council	<u>837</u>	<u>0</u>
	<u>\$ 7,214</u>	<u>\$ 0</u>

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2021 and 2020

Note 15 – Liquidity

The Corporation's financial assets available within one year of the statements of financial position dates for general expenditure at June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Cash	\$ 8,892,975	\$ 7,593,717
Certificates of deposit	2,454,000	1,947,000
Receivables	<u>2,165,991</u>	<u>2,355,324</u>
 Total financial assets	 \$ 13,512,966	 \$ 11,896,041
 Less amounts not available to be used within one year:		
Net assets with donor restrictions	<u>(20,302)</u>	<u>(17,432)</u>
 Financial assets available to meet general expenditures over the next 12 months	 <u>\$ 13,492,664</u>	 <u>\$ 11,878,609</u>

The Corporation's financial assets have been reduced by amounts not available for general use because of donor imposed restrictions within one year of the balance sheet date.

As part of the Corporation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Corporation invests cash in excess of daily requirements in certificates of deposit with maturity dates of 24 months or less.

Note 16 – Subsequent Events

Subsequent to year-end, the Corporation received an American Rescue Plan Rural Payment on November 23, 2021 for \$115,616.

--- SUPPLEMENTARY INFORMATION ---

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.
A Not-for-Profit Corporation

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal Assistance Listing Number	Agency or Pass-Through Entity Identifying Number	Total Expenditures
Federal Awards			
<u>U.S. Department of Health and Human Services</u>			
Passed through Indiana Family and Social Services Administration, Division of Mental Health and Addiction:			
Substance Abuse Prevention and Treatment Block Grant (July 1, 2020 - June 30, 2021)	93.959	42018	\$ 1,016,624
(October 1, 2019 - September 30, 2020)	93.959	38163	148,950
Community Mental Health Block Grant (July 1, 2020 - June 30, 2021)	93.958	42018	285,892
(May 1, 2020 - September 30, 2020)	93.958	43722	1,183
(October 1, 2020 - September 30, 2021)	93.958	48413	12,607
(January 1, 2020 - September 30, 2020)	93.958	42551	3,704
Social Services Block Grant	93.667	42018	149,156
Passed through the University of Southern Indiana: Advanced Nursing Education Workforce	93.247	21-019-E	107,812
Passed through the Indiana Hospital Association: COVID-19 National Bioterrorism Hospital Preparedness Program	93.889	1U3REP200655-01-00	51,304
COVID-19 Section 223 Demonstration Programs to Improve Community Mental Health Services	93.829	Not applicable	284,336
COVID-19 Public Health and Social Services Emergency Fund for Provider Relief, General Distribution	93.498	Not applicable	17,476
Total Department of Health and Human Services Expenditures of Federal Awards			2,079,044
<u>U.S. Department of Treasury</u>			
Passed through Indiana Family and Social Services Administration, Division of Mental Health and Addiction:			
Covid-19 Coronavirus Relief Fund FMAP Distribution	21.019	083384771	82,435
Total Expenditures of Federal Awards			2,161,479
State Awards			
Indiana Family and Social Services Administration, Division of Mental Health and Addiction:			
(March 1, 2018 - June 30, 2021)	N/A	25096	94,814
(July 1, 2020 - June 30, 2021)	N/A	42018	3,536,974
Total Expenditures of State Awards			3,631,788
Total Expenditures of Federal and State Awards			\$ 5,793,267

See accompanying notes to Schedule of Expenditures of Federal and State Awards.

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2021

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (Schedule) includes the federal and state grant activity of Southwestern Behavioral Healthcare, Inc. under programs of the federal and state of Indiana governments for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Corporation.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3 – Indirect Cost Rate

The Corporation has elected to use the ten percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4 – Subrecipient Awards

There were no pass-through awards to subrecipients for the year ended June 30, 2021.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



**HARDING, SHYMANSKI
& COMPANY, P.S.C.**

Certified Public Accountants
and Consultants

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An Independently
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RSM US Alliance

Board of Directors
Southwestern Behavioral Healthcare, Inc.

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 Southwestern Behavioral Healthcare, Inc., a Not-for-Profit Corporation, which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 14, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(CONTINUED)**



Internal Control over Financial Reporting (Continued)

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

Purpose of this Report

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

Wardig, Szymanski & Company, P.S.C.

Evansville, Indiana
February 14, 2022

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE



**HARDING, SHYMANSKI
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Report on Compliance for Each Major Federal Program

We have audited Southwestern Behavioral Healthcare, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2021. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation'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 each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (CONTINUED)



Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to on the previous page that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to on the previous page. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE (CONTINUED)***

Report on Internal Control Over Compliance (Continued)



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.

Wardig, Olynski & Company, P.S.C.

Evansville, Indiana
February 14, 2022

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2021

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weaknesses identified? No
- Significant deficiencies identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

- Material weaknesses identified? No
- Significant deficiencies? None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) No

Identification of major federal programs:

<u>Federal Assistance Listing Number</u>	<u>Name of Federal Program</u>
93.959	Substance Abuse Prevention and Treatment Block Grant
93.829	Demonstration Programs to Improve Community Mental Health Services

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

Auditee qualified as low-risk auditee? Yes

Section II - Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported

SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.

A Not-for-Profit Corporation

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2021

There were no prior audit findings which require an update in this report.