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April 13, 2018

Board of Directors  
Southwestern Behavioral Healthcare, Inc.  
415 Mulberry St.  
Evansville, IN 47713

We have reviewed the report prepared by Southwestern Behavioral Healthcare, Inc. and opined upon by Harding, Shymanski & Company, PSC, Independent Public Accountants, for the period July 1, 2015 to June 30, 2016. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of Southwestern Behavioral Healthcare, Inc. as of June 30, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Harding, Shymanski & Company, PSC prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

  
Paul D. Joyce, CPA  
State Examiner

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

***Financial Report***

***June 30, 2016 and 2015***

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## INDEPENDENT AUDITOR'S REPORT



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

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and Consultants

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Board of Directors  
Southwestern Behavioral Healthcare, Inc.  
415 Mulberry Street  
Evansville, Indiana 47713-1230

### ***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, 2016, 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 reasonable basis for our audit opinion.

## ***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, 2016, 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, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 13, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Other Matters***

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards, as required by, Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also 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 OPEN, 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 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 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, Szymanski & Company, P.S.C.*

Evansville, Indiana  
December 5, 2016

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

STATEMENTS OF FINANCIAL POSITION  
June 30, 2016 with Comparative Totals for 2015

	2016	2015
<b>ASSETS</b>		
Current Assets		
Cash	\$ 5,112,763	\$ 3,619,546
Accounts receivable		
Patients, less allowance for contractuels and doubtful accounts		
2016 \$467,400; 2015 \$440,900	895,860	714,975
County funds	0	111,796
Affiliate	1,917	2,169
Hoosier Assurance Program	202,497	716,272
Mental Health Funds Recovery Program	641,110	590,809
Other	216,925	185,786
Prepaid expenses	246,832	225,285
<b>Total current assets</b>	<b>7,317,904</b>	<b>6,166,638</b>
Other Assets		
Investment in joint venture	6,452	10,000
Cash surrender value of life insurance	343,728	320,506
Investments	329,153	312,815
<b>Total other assets</b>	<b>679,333</b>	<b>643,321</b>
Property and Equipment, Net	809,966	869,571
<b>Total assets</b>	<b>\$ 8,807,203</b>	<b>\$ 7,679,530</b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable		
Trade	\$ 174,830	\$ 182,965
Affiliate	2,290	1,316
Accrued expenses	818,236	948,731
Deferred revenue	507,558	488,890
<b>Total current liabilities</b>	<b>1,502,914</b>	<b>1,621,902</b>
Deferred Compensation	233,168	252,070
<b>Total liabilities</b>	<b>1,736,082</b>	<b>1,873,972</b>
Unrestricted Net Assets	7,071,121	5,805,558
<b>Total liabilities and net assets</b>	<b>\$ 8,807,203</b>	<b>\$ 7,679,530</b>

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, 2016 with Comparative Totals for 2015

	2016	2015
Changes in unrestricted net assets		
Support and revenue		
Public support		
Contributions	\$ 755	\$ 5,515
County funds		
Gibson	226,498	220,652
Posey	312,805	304,731
Vanderburgh	984,404	958,997
Warrick	413,691	403,014
Other grants	115,062	29,952
Meaningful Use Funds	22,608	89,250
Mental Health Funds Recovery Program	1,243,575	1,015,062
State funds		
Mental health	4,237,817	4,179,963
Substance abuse	119,128	119,128
Federal funds		
Mental health	516,782	544,416
Substance abuse	1,194,626	1,295,962
Total public support	<u>9,387,751</u>	<u>9,166,642</u>
Net service revenue	8,215,546	7,288,592
Provision for uncollectible accounts	<u>(461,112)</u>	<u>(358,635)</u>
Net service revenue less provision for uncollectible accounts	<u>7,754,434</u>	<u>6,929,957</u>
Other revenue (expense)		
Service contract income	321,652	157,956
Miscellaneous	132,081	91,650
Gain (loss) on sale of property and equipment	(432)	3,287
Loss on investment in joint venture	<u>(3,548)</u>	<u>0</u>
Total other revenue	<u>449,753</u>	<u>252,893</u>
Total support and revenue	<u>17,591,938</u>	<u>16,349,492</u>
Expenses		
Program services	12,515,139	11,700,141
Management and general	<u>3,811,236</u>	<u>3,645,685</u>
Total expenses	<u>16,326,375</u>	<u>15,345,826</u>
Increase in unrestricted net assets	1,265,563	1,003,666
Unrestricted net assets at beginning of year	<u>5,805,558</u>	<u>4,801,892</u>
Unrestricted net assets at end of year	<u>\$ 7,071,121</u>	<u>\$ 5,805,558</u>

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS

Year Ended June 30, 2016 with Comparative Totals for 2015

	2016	2015
Cash Flows from Operating Activities		
Increase in unrestricted net assets	\$ 1,265,563	\$ 1,003,666
Adjustments to reconcile increase in unrestricted net assets to net cash provided by (used in) operating activities		
Depreciation	186,782	148,475
Excess of increase in cash surrender value over premiums paid on life insurance	(17,516)	(15,645)
Net unrealized gain on investments	(11,338)	(10,963)
Provision for uncollectible accounts	461,112	358,635
In-kind contributions of equipment	3,353	0
(Gain) loss on sale of property and equipment	432	(3,287)
Loss on investment in joint venture	3,548	0
Changes in assets and liabilities:		
Decrease (increase)		
Accounts receivable		
Patients	(641,997)	(528,820)
County funds	111,796	(111,796)
Affiliate	252	5,122
Hoosier Assurance Program	513,775	(358,592)
Mental Health Funds Recovery Program	(50,301)	(234,175)
Other	(31,139)	(85,897)
Prepaid expenses	(21,547)	13,772
Increase (decrease)		
Accounts payable		
Trade	(8,135)	26,984
Affiliate	974	(1,115)
Accrued expenses	(130,495)	(2,097)
Deferred revenue	18,668	479,515
Deferred compensation	(18,902)	18,073
<b>Net cash provided by operating activities</b>	<b>1,634,885</b>	<b>701,855</b>
Cash Flows from Investing Activities		
Premiums paid on life insurance policies	(5,706)	(19,991)
Proceeds from sale of property and equipment	35	4,500
Purchase of property and equipment	(130,997)	(238,119)
Purchase of investments	(5,000)	(9,100)
<b>Net cash used in investing activities</b>	<b>(141,668)</b>	<b>(262,710)</b>
Net increase in cash	1,493,217	439,145
Cash at beginning of year	3,619,546	3,180,401
Cash at end of year	<u>\$ 5,112,763</u>	<u>\$ 3,619,546</u>

See notes to financial statements.

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

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2016 with Comparative Totals for 2015

	MENTAL HEALTH AND ADDICTION PROGRAM SERVICES								SUPPORTIVE SERVICES	TOTAL PROGRAM AND SUPPORTIVE SERVICES	
	Mental Health and Addiction Outpatient and Assessment Centers	Community Based Child & Family Mental Health Services	Community Based Adult Mental Health Services	Supervised Group Living	Residential, Detox and Outpatient Addiction Center	Medication Management	Other Services	Total Program Services	Management and General	2016	2015
Salaries and wages	\$ 1,935,608	\$ 1,014,729	\$ 920,240	\$ 765,301	\$ 1,268,939	\$ 1,425,691	\$ 340,646	\$ 7,671,154	\$ 422,551	\$ 8,093,705	\$ 7,638,656
Employee benefits	619,050	350,109	326,779	301,225	421,751	246,947	92,327	2,358,188	119,879	2,478,067	2,121,057
Supplies	10,520	14,731	2,427	83,971	22,949	1,120	0	135,718	29,984	165,702	156,737
Purchased services	1,897	18,343	0	1,352	351,807	0	50,442	423,841	344,227	768,068	797,699
Management fee	0	0	0	0	0	0	0	0	2,565,120	2,565,120	2,451,300
Program activities	207	2,617	6,362	3,526	8,092	0	0	20,804	620	21,424	19,739
Marketing and outreach	1,710	309	0	0	4,716	0	0	6,735	9,148	15,883	20,675
Travel, meetings, and education	45,644	90,327	45,431	4,195	4,808	8,032	5,304	203,741	42,195	245,936	197,698
Office and communications	50,025	23,319	18,260	16,164	14,348	1,014	15,905	139,035	6,341	145,376	146,296
Insurance	0	0	0	0	0	44,970	0	44,970	91,057	136,027	125,022
Building and equipment maintenance	13,481	680	4,831	4,221	7,879	0	0	31,092	15,193	46,285	32,660
Minor equipment	28,897	6,484	22,002	9,150	12,450	345	686	80,014	3,224	83,238	77,148
Building rent	257,102	115,687	199,548	156,852	404,256	0	28,452	1,161,897	101,436	1,263,333	1,252,212
Depreciation	72,441	38,668	10,815	2,879	61,979	0	0	186,782	0	186,782	148,475
Other expense	2,499	3,320	2,322	15,432	4,463	14,809	8,323	51,168	60,261	111,429	160,452
<b>Total expenses</b>	<b>\$ 3,039,081</b>	<b>\$ 1,679,323</b>	<b>\$ 1,559,017</b>	<b>\$ 1,364,268</b>	<b>\$ 2,588,437</b>	<b>\$ 1,742,928</b>	<b>\$ 542,085</b>	<b>\$ 12,515,139</b>	<b>\$ 3,811,236</b>	<b>\$ 16,326,375</b>	<b>\$ 15,345,826</b>

See notes to financial statements.

# ***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***

## ***A Not-for-Profit Corporation***

### NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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#### ***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 to residents of Vanderburgh, Gibson, Posey, and Warrick counties since 1967. The Corporation offers services at 13 locations including six outpatient offices, four adult supervised group living homes, a residential and detox center, a youth school based partial hospitalization center, and a community support services center.

##### *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, 2015, from which the summarized information was derived.

##### *Financial Statement Presentation*

The Corporation presents its financial statements in conformance with the disclosure and display requirements of the Financial Accounting Standards Board (FASB) guidance with "Financial Statements of Not-For-Profit Organizations". It establishes standards for external financial reporting by not-for-profit organizations. It requires that information regarding financial position and activities be reported into three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. These classes of net assets are based on the existence or absence of donor-imposed restrictions on contributions. Unrestricted net assets are not subject to donor-imposed restrictions and may be designated for specific purposes by the Corporation's Board of Directors. The Corporation has no temporarily or permanently restricted net assets.

##### *Support and Expenses*

The Corporation reports on the accrual basis of accounting. Expenses are recorded when incurred and revenue is recognized at the net realizable amounts in the period earned.

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 either temporarily or permanently restricted if they are received with donor-imposed stipulations that limit the use of the donated assets. When a donor time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same reporting year as received are included unrestricted net assets.

# ***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***

## ***A Not-for-Profit Corporation***

### NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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

##### **Support 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.

##### **Concentration of Credit Risk**

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

##### **Accounts Receivable**

Accounts receivable are stated net of an allowance for contractual discounts and doubtful accounts. The allowance is based on experience, third-party payor contracts, aging of the accounts, and other circumstances which may affect the ability of the patients to meet their obligations. It is the Corporation's policy to charge off uncollectible accounts receivable when management determines that it is reasonable the receivable will not be collected.

##### **Investment in Joint Venture**

The Corporation has a 16.67 percent membership interest in Trillium, Inc., a non-profit 501(c)(3) corporation formed as a partnership between six Indiana Community Mental Health Centers. The equity method of accounting is being used for the joint venture. The Corporation uses the equity method for investments of less than 20 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 statement of activities and changes in net assets and the investment account is adjusted accordingly. Also, capital contributions made to the affiliate are treated as an increase to the investment account and dividends received from the affiliate are treated as a reduction in the investment account. As of June 30, 2016 and 2015, the investment in joint venture was \$6,452 and \$10,000, respectively.

##### **Investments**

Investments are recorded at fair market value.

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***

***A Not-for-Profit Corporation***

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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

**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. Provisions for depreciation of property and equipment have been computed on the straight-line method over the estimated useful life.

Improvements to leased property owned by affiliates are being amortized over the estimated useful life of the improvement rather than the lease term, if shorter. 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 \$363,074 and \$394,136 at June 30, 2016 and 2015, respectively.

**Functional Allocation of Expenses**

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Certain costs have been allocated among the program services and management and general categories based on the actual direct expenditures and other methods.

**Advertising**

Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2016 and 2015 was \$12,365 and \$17,207, respectively.

**Subsequent Events Evaluation**

The Corporation has evaluated subsequent events through December 5, 2016, the date on which the financial statements were available to be issued.

**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, 2015 financial statements have been reclassified to conform to the June 30, 2016 classifications.

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***

***A Not-for-Profit Corporation***

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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

***Recently Issued Accounting Standards***

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842). Under ASU 2016-02, lessees will need to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting. Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. Existing sale-leaseback guidance, including guidance for real estate, is replaced with a new model applicable to both lessees and lessors. The guidance in ASU 2016-02 is effective for non-public entities for annual reporting periods beginning after December 15, 2019 with early adoption permitted. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Corporation is currently evaluating the impact of this guidance on the financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This standard outlines a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018 for non-public companies. The Corporation has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

# ***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***

## ***A Not-for-Profit Corporation***

### NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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#### ***Note 2 – Property and Equipment***

Property and equipment at June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Furniture, fixtures, and equipment	\$ 2,116,926	\$ 2,119,666
Leasehold improvements	<u>486,433</u>	<u>485,043</u>
	2,603,359	2,604,709
Accumulated depreciation	<u>(1,793,393)</u>	<u>(1,735,138)</u>
	<u>\$ 809,966</u>	<u>\$ 869,571</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$186,782 and \$148,475, respectively.

#### ***Note 3 – Commitment and Contingencies***

The Corporation, along with three other affiliated not-for-profit corporations, participated in a self-funded health insurance plan that covers substantially all of its employees. As of January 1, 2016, one of the affiliates dissolved. The Corporation and remaining two affiliates continue to participate in the plan. The Corporation and other affiliated not-for-profit corporations are liable for claims up to \$75,000 plus administrative fees per employee, and aggregate claims up to \$2,198,341 annually. Self-insurance costs are accrued as claims are incurred. The Corporation's portion of health insurance expense for the years ended June 30, 2016 and 2015 was \$1,434,521 and \$1,092,525, respectively.

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 is included in accounts payable at June 30, 2016 and 2015. There is a reasonable possibility the amount could be more or less depending on the final results of the review.

The Corporation maintains medical professional liability insurance with a limit of \$250,000 per occurrence (\$750,000 annual aggregate) pursuant to the Indiana Medical Malpractice Act (Act). The Act provides coverage of \$1,250,000 per occurrence (\$7,500,000 annual aggregate), of which the first \$250,000 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), and umbrella liability coverage of \$5,000,000 per occurrence and in the aggregate.

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***

***A Not-for-Profit Corporation***

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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***Note 4 – Fiduciary Trustee***

The Corporation has been engaged as the financial trustee 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 trustee funds held at June 30, 2016 and 2015 were \$106,778 and \$75,011, 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.

***Note 5 – Net Service Revenue***

Patient service revenue is reported net of charity care discounts and contractual allowances.

*Charity Care*

The Corporation provides services to the residents of Vanderburgh, Gibson, Posey, and Warrick counties regardless of their ability to pay.

Uninsured patients and insured patients with no or less than full coverage for mental health and addictions services can be eligible for a reduction of service fees 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.

*Contractual Allowances*

The Corporation has contractual agreements with certain third-party payors that include payment rates that differ from established service rates.

Estimated contractual allowances are accrued for services billed to third-party payors until payment has been received and the contractual difference applied to individual patient accounts.

**SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.**

***A Not-for-Profit Corporation***

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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***Note 5 – Net Service Revenue (Continued)***

***Contractual Allowances (Continued)***

A reconciliation of the amount of services provided to patients at established rates to net service revenue as presented in the statements of activities and changes in net assets is as follows:

	<u>2016</u>	<u>2015</u>
Gross service revenue	\$ 15,914,985	\$ 13,831,947
Charity discount	(3,387,045)	(3,648,359)
Contractual allowance	<u>(4,312,394)</u>	<u>(2,894,996)</u>
Net service revenue	<u>\$ 8,215,546</u>	<u>\$ 7,288,592</u>

***Note 6 – Investments and 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.

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***

***A Not-for-Profit Corporation***

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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***Note 6 – Investments and Fair Value Measurements (Continued)***

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, 2016 and 2015, 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:

***Investments in Mutual Funds***

The fair value of mutual funds is the market value based on quoted market prices, if available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that are observable inputs due to the limited market activity of the instrument.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

At June 30, 2016 and 2015, 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, 2016</u>				
Investments in mutual funds	\$ 329,153	\$ 329,153	\$ 0	\$ 0
<u>June 30, 2015</u>				
Investments in mutual funds	\$ 312,815	\$ 312,815	\$ 0	\$ 0

The net unrealized investment gain for the years ended June 30, 2016 and 2015 was \$11,338 and \$10,963, respectively.

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***

***A Not-for-Profit Corporation***

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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***Note 7 – Tax Status***

The Internal Revenue Service 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.

The Corporation is subject to income tax examinations for its U.S. federal income taxes and state jurisdictions.

***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 Internal Revenue Service defined limits. Employees hired after February 1, 2014 are automatically enrolled with a salary deferral of three percent, unless otherwise elected. Employees hired after January 1, 2015, receive an auto escalation of one percent of their deferral amount each year up to a maximum of ten percent, unless otherwise elected.

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 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, 2016 and 2015 was 50 percent of the employees' deferrals up to five percent of their gross pay. Total contributions made by the Corporation for the years ended June 30, 2016 and 2015 were \$296,306 and \$288,076, respectively.

Employees vest in employer contributions based on a six-year grading schedule.

**SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.**

***A Not-for-Profit Corporation***

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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***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. 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. As of June 30, 2016 and 2015, the 457(b) Plan assets totaled \$233,168 and \$252,070, respectively, and are included in investments and in deferred compensation in the accompanying statements of financial position.

***Note 10 – 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, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Grant income	\$ 7,448	\$ 10,750
Service contract income	21,995	65,544
Purchased services	1,297	1,961
Management fee expense	2,565,120	2,451,300
Building rent	1,202,259	1,192,392

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

Accounts receivable	\$ 1,917	\$ 2,169
Prepaid rent	102,655	99,366
Accounts payable	2,290	1,316

**SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.**

***A Not-for-Profit Corporation***

NOTES TO FINANCIAL STATEMENTS

June 30, 2016 and 2015

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***Note 11 – Leases***

The Corporation is obligated under operating leases with two affiliated corporations and other organizations for offices throughout the counties it serves. At June 30, 2016, aggregate future minimum rental payments required under these leases, which expire on various dates through July 31, 2021, are as follows:

<u>Years Ending June 30,</u>	<u>Other</u>	<u>Affiliates</u>	<u>Total</u>
2017	\$ 54,339	\$ 1,218,303	\$ 1,272,642
2018	12,313	1,209,990	1,222,303
2019	1,578	1,005,195	1,006,773
2020	0	315,768	315,768
2021	0	59,400	59,400
Thereafter	0	4,950	4,950
	<u>\$ 68,230</u>	<u>\$ 3,813,606</u>	<u>\$ 3,881,836</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, 2016 and 2015 was \$1,263,333 and \$1,252,212, respectively.

***Note 12 – 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, 2016 and 2015 was 32 and 30 percent, respectively.

***--- SUPPLEMENTARY INFORMATION ---***

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

## SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Entity Identifying Number	Total Expenditures
<b>Federal Awards</b>			
U.S. Department of Health and Human Services Passed through Indiana Family and Social Services Administration, Division of Mental Health and Addiction:			
Substance Abuse Prevention and Treatment Block Grant (July 1, 2015 - June 30, 2016)	93.959	A55-5-82-15-HO-2721	\$ 1,014,626
	93.959	A55-3-82-13-WF-2721	180,000
Mental Health Services Homeless Grant (July 1, 2015 - June 30, 2016)	93.150	A55-5-82-15-Y3-2721	13,727
Community Mental Health Block Grant (July 1, 2015 - June 30, 2016)	93.958	A55-5-82-15-HO-2721	285,894
	93.958	A55-3-82-13-2I-2721	3,005
	93.958	A55-6-82-16-SC-2721	65,000
Social Services Block Grant (July 1, 2015 - June 30, 2016)	93.667	A55-5-82-15-HO-2721	<u>149,156</u>
Total Department of Health and Human Services Expenditures of Federal Awards			<u>1,711,408</u>
<b>State Awards</b>			
Indiana Family and Social Services Administration, Division of Mental Health and Addiction: (July 1, 2015 - June 30, 2016)	N/A	A55-5-82-15-HO-2721	3,961,237
	N/A	A55-6-82-16-2G-2721	230,000
	N/A	A55-4-82-14-GB-2721	2,845
	N/A	A55-5-82-15-3A-2721	49,988
	N/A	A55-6-93-16-2G-2721	<u>112,875</u>
Total Expenditures of State Awards			<u>4,356,945</u>
Total Expenditures of Federal and State Awards			<u>\$ 6,068,353</u>

See notes to the schedule of expenditure of federal awards.

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***

***A Not-for-Profit Corporation***

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2016

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***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, 2016. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of 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.

**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  
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An Independently  
Owned Member,  
McGladrey Alliance

Board of Directors  
Southwestern Behavioral Healthcare, Inc.  
415 Mulberry Street  
Evansville, Indiana 47713-1230

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, 2016, 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 December 5, 2016.

***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) 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 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 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 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  
December 5, 2016

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



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

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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, 2016. 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 (CFR) 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.

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



***Auditor's Responsibility (Continued)***

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.

***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, 2016.

***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.

***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)***

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.

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

Evansville, Indiana  
December 5, 2016

**SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.**

***A Not-for-Profit Corporation***

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2016

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**Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued: 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 programs:

- Material weaknesses identified? No
- Significant deficiencies identified? 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>CFDA Number</u>	<u>Name of Federal Program</u>
93.959	Substance Abuse Prevention and Treatment Block Grant (July 1, 2015 - June 30, 2016)

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

Auditee qualified as low-risk auditee? Yes

**Findings – Financial Statement Audit**

No matters were reported.

**Findings and Questioned Costs – Major Federal Award Programs Audit**

No matters were reported.

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***

***A Not-for-Profit Corporation***

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2016

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The prior year single audit disclosed no findings in the *Schedule of Findings and Questioned Costs* and no uncorrected or unresolved findings exist from the prior audit's *Summary of Prior Audit Findings*.