

SOUTHWEST ALABAMA BEHAVIORAL  
HEALTH CARE SYSTEMS,  
A NON-PROFIT CORPORATION

MONROEVILLE, ALABAMA

AUDITED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

SEPTEMBER 30, 2018

Audited Financial Statements  
and Other Financial Information

SOUTHWEST ALABAMA BEHAVIORAL HEALTH CARE SYSTEMS,  
A Nonprofit Corporation

September 30, 2018

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# KUBINA, HAYLES & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 970 • 2100 HAND AVENUE

BAY MINETTE, ALABAMA 36507

(251) 937-5535 • FAX 937-4805

JIMMY C. KUBINA, C.P.A.

GEORGE A. HAYLES, C.P.A.

HANNAH B. RAY, C.P.A.

MEMBERS  
ALABAMA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Southwest Alabama  
Behavioral Health Care Systems  
Monroeville, Alabama

### Report on the Financial Statements

We have audited the accompanying financial statements of Southwest Alabama Behavioral Health Care Systems, A Non-Profit Corporation, as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Southwest Alabama Behavioral Health Care Systems' basic financial statements as listed in the table of contents.

### 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 of material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions 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 auditors' 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 auditors consider 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.

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America Counts on CPAs<sup>SM</sup>

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwest Alabama Behavioral Health Care Systems as of September 30, 2018, and September 30, 2017 and the respective changes in financial position, and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southwest Alabama Behavioral Health Care Systems' basic financial statements. The Schedule of Revenues and Schedule of Expenditures on pages 24 and 25 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2019 on our consideration of the Southwest Alabama Behavioral Health Care Systems' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and

not to provide an opinion on 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 Southwest Alabama Behavioral Health Care Systems' internal control over financial reporting and compliance.

*Kubina, Hayles & Associates, P.C.*

KUBINA, HAYLES & ASSOCIATES, P. C.  
Bay Minette, Alabama  
August 16, 2019

## **Management's Discussion and Analysis**

**Southwest Alabama Behavioral Health Care Systems  
Management's Discussion and Analysis  
September 30, 2018**

The management of Southwest Alabama Behavioral Health Care Systems provides our discussion and analysis of the Center's financial performance for the fiscal year ended September 30, 2018. The purpose of the discussion and analysis is to provide the reader an objective and easily readable analysis of the Board's decisions and financial conditions.

**Programming and Contract Notes**

- Secured a contract with Monroe County Hospital to provide full-time therapist in the hospital emergency department for consultation with hospital staff. Hospital to pay one-half of the cost of therapist salary, benefits and other related operating costs.

**Financial Highlights**

- The Center's total operating expenses exceeded total operating revenues by \$52,916 (before special or non-operating items). This compares to last year's operating surplus of \$50,120.
- As of the close of the current fiscal year, the Center's assets exceeded its liabilities by \$4,047,831. Of this total \$2,067,248 may be used to meet the Center's ongoing obligations.
- Cash balances increased from prior year by \$205,207 with an ending balance of \$1,076,885.
- Board approved a 2% salary bonus for all full-time staff employed for more than 6 months.
- Health insurance costs increased by 5%.

**Overview of Financial Statements**

The annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and the required supplementary information. The financial statements also include notes that explain some of the information in the statements and provide additional detailed information. The statements are followed by a section of required information that further explains and supports the financial statements.

**Southwest Alabama Behavioral Health Care Systems  
Management's Discussion and Analysis  
September 30, 2018**

**Condensed Financial Information/Analysis**

Net assets, as noted in the Center's Balance Sheet below, may serve over time as a useful indicator of the Center's financial condition. At the close of the 2018 fiscal year, the Center's assets exceeded liabilities by \$4,047,831. Forty-eight (48%) of the Center's net assets reflects its investment in capital assets (e.g. land, buildings, and equipment); less any related outstanding debt incurred to acquire the asset. The balance of the unrestricted net assets \$2,067,248 may be used to meet the Center's on-going obligations.

**Condensed Balance Sheet  
September 30,**

<b>Assets</b>	<b>2018</b>	<b>2017</b>
Current Assets	\$ 2,111,849	\$ 2,178,480
Other Noncurrent Assets	255,621	249,060
Capital Assets-Net of Depreciation	<u>1,980,583</u>	<u>2,068,985</u>
Total Assets	<u>\$ 4,348,053</u>	<u>\$ 4,496,525</u>
<b>Liabilities</b>		
Current Liabilities	\$ 129,925	\$ 188,738
Noncurrent Liabilities-Long Term Debt		
Noncurrent Liabilities-Accrued Compensated Absences	<u>170,297</u>	<u>207,227</u>
Total Liabilities	\$ 300,222	\$ 395,965
<b>Net Position</b>		
Net Investment in Capital Assets	\$ 1,980,583	\$ 2,068,985
Unrestricted	<u>2,067,248</u>	<u>2,031,575</u>
Total Net Position	<u>\$ 4,047,831</u>	<u>\$ 4,100,560</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 4,348,053</u>	<u>\$ 4,496,525</u>



**Southwest Alabama Behavioral Health Care Systems  
Management's Discussion and Analysis  
September 30, 2018**

**Condensed Financial Information/Analysis – Continued**

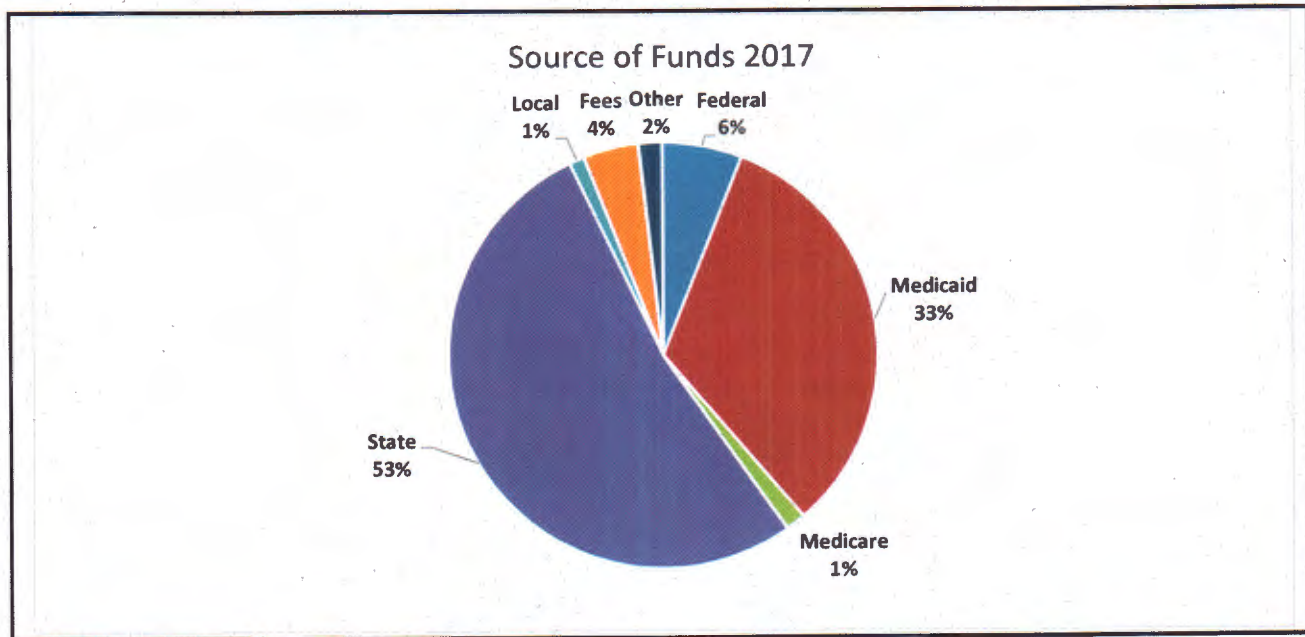
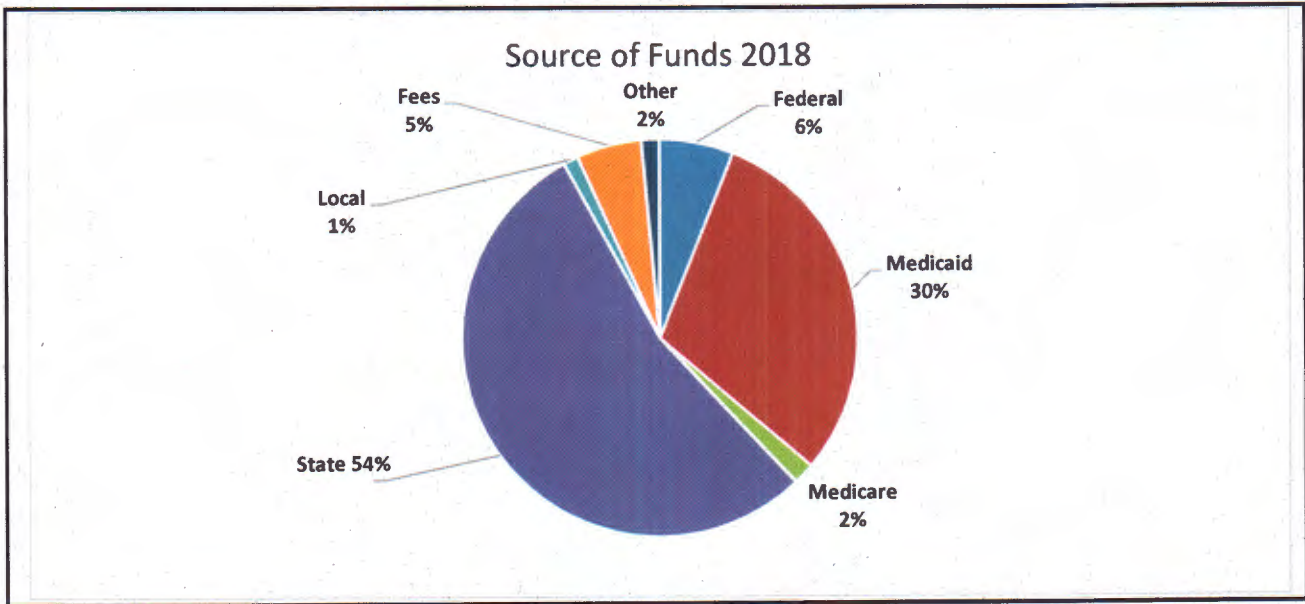
**Condensed Statement of Revenues, Expenses and Changes in Net Assets  
For the Year Ended September 30,**

	<u>2018</u>	<u>2017</u>
Operating Revenue	\$ 7,304,083	\$ 7,498,441
Operating Expense	<u>7,356,999</u>	<u>7,448,321</u>
Operating Income (Loss)	\$ (52,916)	\$ 50,120
Net Non-Operating Revenues (Expenses)	<u>187</u>	<u>176</u>
Increase (Decrease) in Net Position	\$ (52,729)	\$ 50,296
Net Position-Beginning	<u>4,100,560</u>	<u>4,050,264</u>
Net Position-Ending	<u>\$ 4,047,831</u>	<u>\$ 4,100,560</u>

**Southwest Alabama Behavioral Health Care Systems  
Management's Discussion and Analysis  
September 30, 2018**

**Sources of Funds**

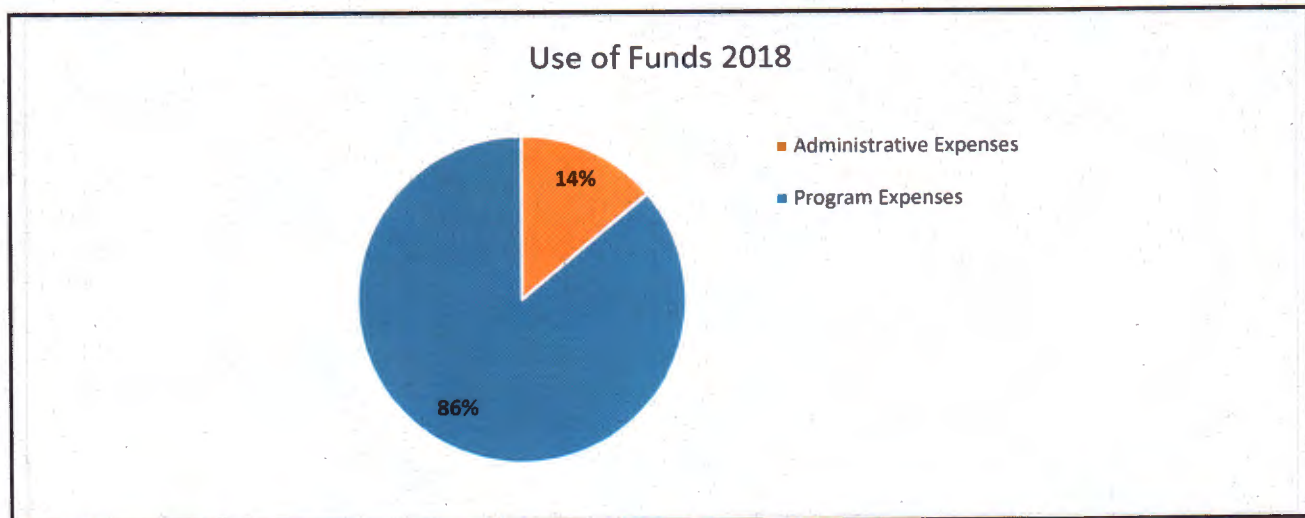
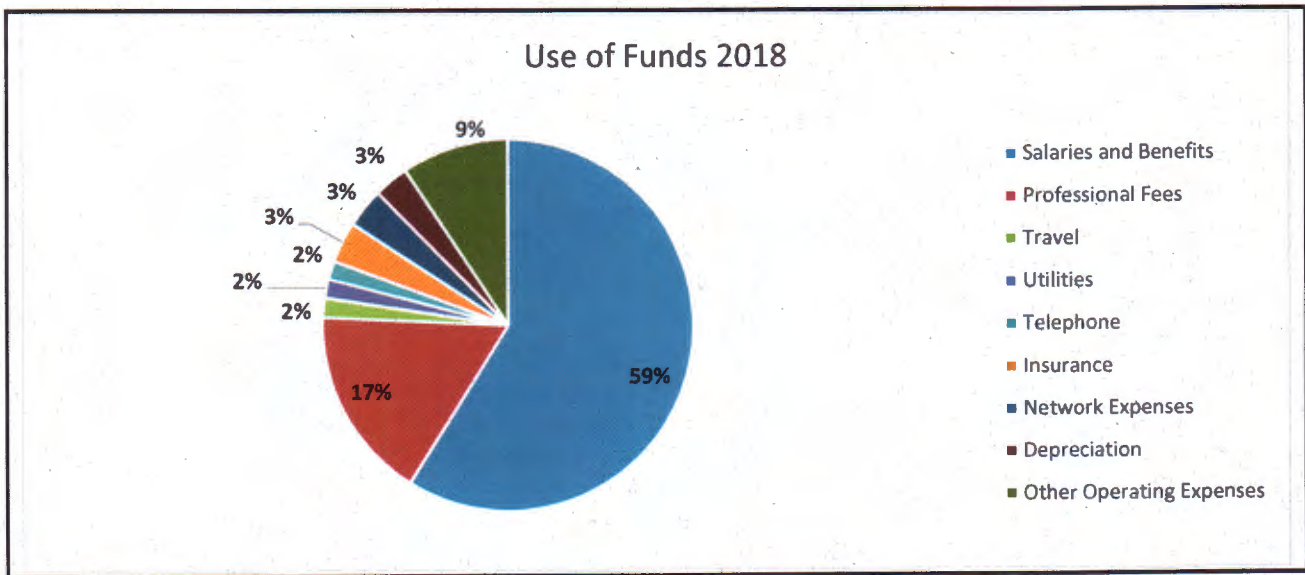
The charts below illustrate the sources of the Center's revenues for the years ended September 30, 2018 with a comparison chart for and September 30, 2017.



**Southwest Alabama Behavioral Health Care Systems  
Management's Discussion and Analysis  
September 30, 2018**

**Use of Funds**

The following two charts depict the center's use of operating funds. As indicated in the charts, the center's primary expenses are provided for salaries, benefits and professional fees. Eighty-six percent (86%) of the center's funds are used to provide direct service for consumers of mental health, mental retardation and substance abuse services. retardation and substance abuse services.



**Southwest Alabama Behavioral Health Care Systems  
Management's Discussion and Analysis  
September 30, 2018**

**Capital Assets**

At the end of fiscal year 2018, the center had a net investment in capital assets of \$1,980,583. During the year ended September 30, 2018 depreciation expense was recorded in the amount of \$222,713. Additions to capital assets totaled \$134,311. The additions consisted of purchase of vehicles, building improvements and furniture and equipment.

**Long-Term Debt**

At September 30, 2018 the Center's had no long-term debt. There were no additions to long-term debt during the year.

**Contacting the Center's Management**

The financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Center's financial health and to demonstrate the Center's accountability for the funds it receives. If readers have any questions concerning this report or need additional information, contact Candace Harden, Executive Director, Southwest Alabama Behavioral Health Care Systems, 328 West Claiborne Street, Monroeville, Alabama 36461.

**Audited Financial Statements**

SOUTHWEST ALABAMA BEHAVIORAL HEALTH CARE SYSTEMS  
BALANCE SHEETS  
SEPTEMBER 30,

**ASSETS**

	2018	2017
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 1,076,885	\$ 871,678
Accounts Receivable, net	982,739	1,266,018
Prepaid Expenses	52,225	40,784
<b>Total Current Assets</b>	<b>\$ 2,111,849</b>	<b>\$ 2,178,480</b>
<b>Noncurrent Assets</b>		
Accounts Receivable - Pineview, net	\$ 253,304	\$ 246,743
Deposits	2,317	2,317
<b>Capital Assets:</b>		
Land	139,243	139,243
Depreciable Buildings, Property, and Equipment, Net	1,841,340	1,929,742
<b>Total Noncurrent Assets</b>	<b>\$ 2,236,204</b>	<b>\$ 2,318,045</b>
<b>Total Assets</b>	<b>\$ 4,348,053</b>	<b>\$ 4,496,525</b>

**LIABILITIES AND NET POSITION**

	2018	2017
<b>Current Liabilities</b>		
Accounts Payable	\$ 129,925	\$ 188,738
<b>Total Current Liabilities</b>	<b>\$ 129,925</b>	<b>\$ 188,738</b>
<b>Noncurrent Liabilities</b>		
Accrued Employee Leave	\$ 170,297	\$ 207,227
<b>Total Long-Term Liabilities</b>	<b>\$ 170,297</b>	<b>\$ 207,227</b>
<b>Net Position</b>		
Net Investment in Capital Assets	\$ 1,980,583	\$ 2,068,985
Restricted		
Unrestricted	2,067,248	2,031,575
<b>Total Net Position</b>	<b>\$ 4,047,831</b>	<b>\$ 4,100,560</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 4,348,053</b>	<b>\$ 4,496,525</b>

The Notes are an Integral Part of These Financial Statements

**SOUTHWEST ALABAMA BEHAVIORAL HEALTH CARE SYSTEMS**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30,**

	2018	2017
<b>Operating Revenues</b>		
Fees, net (including		
Medicaid and Medicare)	\$ 2,718,304	\$ 2,878,389
Federal Grants and Contracts	444,204	385,530
State and Local Grants and Contracts	4,034,931	4,014,513
Other Operating Revenues	106,644	220,009
Total Operating Revenues	\$ 7,304,083	\$ 7,498,441
<b>Operating Expenses</b>		
Salaries and Fringe Benefits	\$ 4,002,927	\$ 4,185,801
Professional Fees	1,238,090	1,078,760
Insurance	261,882	221,378
Telephone	115,367	109,104
Utilities	122,669	116,489
Depreciation	222,713	223,437
Travel	124,006	155,764
Other Operating Expenses	1,269,345	1,357,588
Total Expenses	\$ 7,356,999	\$ 7,448,321
Operating Income (Loss)	\$ (52,916)	\$ 50,120
<b>NonOperating Revenues (Expenses)</b>		
Interest Income	\$ 187	\$ 176
Interest on Capital Asset-Related Debt	-	-
Net Nonoperating Revenues (Expenses)	\$ 187	\$ 176
Income (Loss) Before Other Revenues, Expenses, Gains or Losses	\$ (52,729)	\$ 50,296
Increase (Decrease) in Net Position	\$ (52,729)	\$ 50,296
Net Position, Beginning	4,100,560	4,050,264
Net Position, Ending	\$ 4,047,831	\$ 4,100,560

The Notes are an Integral Part of These Financial Statements

SOUTHWEST ALABAMA BEHAVIORAL HEALTH CARE SYSTEMS  
 STATEMENTS OF CASH FLOWS  
 FOR THE YEAR ENDED SEPTEMBER 30,

	<u>2018</u>	<u>2017</u>
<b>Cash Flows From Operating Activities:</b>		
Cash Received from Service Fees,		
Government Grants, and Other Operating Income	\$ 7,580,802	\$ 6,873,540
Payments to Employees	(3,563,707)	(3,723,166)
Payments to Suppliers and Others	<u>(3,677,764)</u>	<u>(3,493,446)</u>
Net Cash Provided (Used)		
by Operating Activities	\$ 339,331	\$ (343,072)
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Purchases of Capital Assets	\$ (134,311)	\$ (44,234)
Principal Paid on Capital Debt	-	-
Interest Paid on Capital Debt	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by		
Capital and Related Financing Activities	\$ (134,311)	\$ (44,234)
<b>Cash Flows From Investing Activities:</b>		
Interest on Investments	<u>\$ 187</u>	<u>\$ 176</u>
Net Cash Provided (Used)		
by Investing Activities	<u>\$ 187</u>	<u>\$ 176</u>
Net Increase (Decrease)		
in Cash and Cash Equivalents	\$ 205,207	\$ (387,130)
Cash and Cash Equivalents at Beginning of Year	<u>871,678</u>	<u>1,258,808</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,076,885</u>	<u>\$ 871,678</u>

The Notes are an Integral Part of These Financial Statements



SOUTHWEST ALABAMA BEHAVIORAL HEALTH CARE SYSTEMS  
 STATEMENTS OF CASH FLOWS - CONTINUED  
 FOR THE YEAR ENDED SEPTEMBER 30,

	2018	2017
<b>Reconciliation of Net Operating Revenues to Net Cash Provided (Used) by Operating Activities</b>		
Operating Income	\$ (52,916)	\$ 50,120
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	\$ 222,713	\$ 223,437
(Increase) or Decrease in Assets:		
Accounts Receivable	276,718	(624,903)
Inventory and Prepaid Expenses	(11,441)	(8,507)
Increase or (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	(95,743)	16,781
	\$ 392,247	\$ (393,192)
Net Cash Provided (Used) by Operating Activities	\$ 339,331	\$ (343,072)

The Notes are an Integral Part of These Financial Statements.

SOUTHWEST ALABAMA BEHAVIORAL HEALTH CARE SYSTEMS  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2018

**Note 1 - Summary of Significant Accounting Policies**

The Southwest Alabama Behavioral Health Care Systems (Southwest) is a public not-for-profit corporation formed in May, 1972, as authorized by Act 310, enacted in the regular session of the 1967 Alabama State Legislature. The purposes of Southwest are to plan, study needs and resources, and provide and administer community mental health services within its area, which includes Escambia, Clarke, Conecuh, and Monroe Counties. Services are provided both by programs administered directly by Southwest and occasionally through contracts with other agencies.

The financial statements of Southwest are prepared in accordance with accounting standards generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Southwest follows GASB Statements as well as relevant Financial Accounting Standards Board (FASB) Statements and Accounting Principles Board (APB) Opinions, unless those pronouncements conflict with or contradict GASB pronouncements.

The more significant accounting policies of Southwest are described below:

A. **Reporting Entity** - In evaluating how to define Southwest for financial reporting purposes, management considered all the criteria for determining component units. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the government's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

SOUTHWEST ALABAMA BEHAVIORAL HEALTH CARE SYSTEMS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

**Note 1 - Summary of Significant Accounting Policies (Continued)**

A fourth criterion is the nature and significance of the relationship between the primary government and the potential component unit. Based upon the application of these and other criteria, Southwest does not exercise oversight duties or responsibilities over other units of government.

- B. **Fund Accounting** - Southwest uses a general fund to report its financial position and the results of its operations. Fund Accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.
- C. **Basis of Accounting** - Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Southwest operates on the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

- D. **Operating Revenues and Expenses** - Southwest's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing mental health and mental retardation services, Southwest's principal activity. Nonexchange revenues, excluding operating grants and contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide mental health and mental retardation services, other than financing costs.
- E. **Cash** - Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government.
- F. **Inventory** - Drug inventory is valued at cost (first-in, first-out). The cost is recorded as an expense at the time individual inventory items are consumed.
- G. **Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

SOUTHWEST ALABAMA BEHAVIORAL HEALTH CARE SYSTEMS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

**Note 1 - Summary of Significant Accounting Policies (Continued)**

- H. **Fixed Assets** - All purchased fixed assets are valued at cost where historical records are available or at estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Fixed assets are shown at cost less accumulated depreciation (net) on the financial statements.

Depreciation is provided on the straight-line basis over the estimated useful lives of the assets ranging from three to thirty-nine years. Depreciation expense for the years ended September 30, 2018 and 2017, respectively, was \$222,713 and \$223,437.

- I. **Accrued Annual Leave / Accumulated Unpaid Sick Leave** - Annual leave accrual is limited to 240 hours. When certain criteria are met at resignation or retirement, employees will receive payment for accrued annual leave. The amount of accrued annual leave is \$170,297 and \$207,227 at September 30, 2018 and 2017, respectively.

No liability is recorded for sick leave. Substantially all employees of Southwest earn 8 hours of sick leave each month. No payment is made for unused sick leave at retirement or termination. The amount of unrecorded liabilities for unused sick leave exceeds the value of a normal year's accumulation. This amount is material but is not readily determinable.

- J. **Concentrations of Credit Risk** - Southwest's financial instruments that are exposed to concentrations of credit risk consist mainly of cash and cash equivalents and trade receivables. See Note 2 for a discussion of cash. Southwest's trade receivables consist mainly of contractual grants from federal, state, and local governmental agencies. As a consequence, concentrations of credit risk are limited.

- K. **Net Position** - In accordance with GASB Statement 34, Southwest classifies net position into three components: net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

**Net Investment in Capital Assets** - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

SOUTHWEST ALABAMA BEHAVIORAL HEALTH CARE SYSTEMS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

Note 1 - Summary of Significant Accounting Policies (Continued)

**Restricted** - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

**Unrestricted net position** - This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets".

Southwest's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. **Date of Managements Review** - Subsequent events were evaluated by management for disclosure through August 16, 2019, the date the financial statements were available to be issued.

M. **Net Patient Service Revenue** - Southwest has agreements with third-party payors that provide for payments at amounts different from established rates. Contractual adjustments under third-party reimbursement programs represent the difference between established rates and amounts reimbursed by third-party payors. Net patient revenue is reported at the estimated net realizable amounts from patients, third party payors, and others for services rendered. A summary of the basis of reimbursement with major third-party payors follows:

**Medicare** - Services rendered to Medicare program beneficiaries are paid at prospectively determined rates. Contractual adjustments to patient billings represent the difference between the amounts actually billed and amounts approved for services. Medicare pays approximately eighty percent of the approved amounts and patients are billed for the remaining twenty percent.

**Medicaid** - Services are rendered to Medicaid program recipients on a fee-for-service rate.

**Blue Cross** - Services provided to Blue Cross subscribers are reimbursed eighty percent of the billed amount and patients are billed for the remaining twenty percent.

Revenue from Medicare and Medicaid programs accounted for approximately 4.8% and 80.9%, respectively, of Southwest's net patient revenue for the year ended September 30, 2018, and 3.9% and 85.2%, respectively, of Southwest's net patient revenue, for the year ended September 30, 2017.

**SOUTHWEST ALABAMA BEHAVIORAL HEALTH CARE SYSTEMS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**Note 2. - Cash and Cash Equivalents**

At September 30, 2018 and 2017, respectively, the balance of cash on deposit at Trustmark Bank was \$90,783 and \$90,692, the balance of cash on deposit at The Peoples Exchange Bank was \$380,164 and \$214,386, the balance of cash on deposit at Regions Bank was \$587,459 and \$553,836, and the balance of cash on deposit at Merchant's Bank was \$44,194 and \$37,179.

The above funds are deposited in institutions designated as qualified public depositories under the Security for Alabama Funds Enhancement Act (SAFE). The SAFE Act provides protection for deposits of public funds in excess of FDIC Coverage.

**Note 3 - Accounts Receivable**

Accounts Receivable are recorded on the accrual basis of accounting and are recorded at contractually negotiated prices. Receivables are reduced to reflect estimates of uncollectible amounts through the allowance for doubtful accounts. Accounts are written off against the allowance account after they are determined to be uncollectible using a combination of contractual terms and historical data, and are recorded as recoveries of bad debts if subsequently collected. The net accounts receivable include those amounts estimated by management to be collectible. Southwest generally does not charge interest on its accounts receivable.

Accounts Receivable consists of the following at September 30, 2018:

	<u>Accounts Receivable</u>	<u>Allowance</u>	<u>Net</u>
Contracts and Grants - Government	\$ 351,239	\$ -0-	\$ 351,239
Medicaid	524,641	60,000	464,641
Medicare	45,000	-0-	45,000
Fees and Other	<u>211,516</u>	<u>89,657</u>	<u>121,859</u>
Total Accounts Receivable	<u>\$1,132,396</u>	<u>\$ 149,657</u>	<u>\$ 982,739</u>

Accounts Receivable consists of the following at September 30, 2017:

	<u>Accounts Receivable</u>	<u>Allowance</u>	<u>Net</u>
Contracts and Grants - Government	\$ 437,655	\$ -0-	\$ 437,655
Medicaid	632,042	-0-	632,042
Medicare	44,469	10,000	34,469
Fees and Other	<u>193,157</u>	<u>31,305</u>	<u>161,852</u>
Total Accounts Receivable	<u>\$1,307,323</u>	<u>\$ 41,305</u>	<u>\$1,266,018</u>

Accounts Receivable - Pineview were \$253,304 and \$246,743 at September 30, 2018 and 2017, respectively. In management's opinion, the entire balance is collectible; however, the current portion is indeterminable. Therefore, the balance is not included in current assets.

SOUTHWEST ALABAMA BEHAVIORAL HEALTH CARE SYSTEMS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

**Note 4 - Fair Value of Financial Instruments**

The following methods and assumptions were used by Southwest in estimating the fair value of its financial instruments: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value. The carrying amount reported in the balance sheet for accounts receivable approximates its fair value. The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

**Note 5 - Capital Assets**

Capital Assets consist of the following at September 30, 2018:

	<u>Balance</u> <u>10/01/17</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>9/30/18</u>
Land	\$ 139,243	\$ -0-	\$ -0-	\$ 139,243
Buildings & Improvements	2,824,369	22,792	-0-	2,847,161
Vehicles	766,541	89,050	-0-	855,591
Furniture & Equipment	<u>1,330,684</u>	<u>22,469</u>	<u>-0-</u>	<u>1,353,153</u>
Total at Historical Cost	\$ 5,060,837	\$ 134,311	\$ -0-	\$ 5,195,148
Less Accumulated Depreciation For:				
Buildings & Improvements	\$(1,435,143)	\$ (74,924)	\$ -0-	\$(1,510,067)
Vehicles	(580,694)	(65,605)	-0-	(646,299)
Furniture & Equipment	<u>(976,015)</u>	<u>(82,184)</u>	<u>-0-</u>	<u>(1,058,199)</u>
	<u>\$(2,991,852)</u>	<u>\$(222,713)</u>	<u>\$ -0-</u>	<u>\$(3,214,565)</u>
Total Capital Assets, Net	<u>\$ 2,068,985</u>	<u>\$ (88,402)</u>	<u>\$ -0-</u>	<u>\$ 1,980,583</u>

Capital Assets consist of the following at September 30, 2017:

	<u>Balance</u> <u>10/01/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>9/30/17</u>
Land	\$ 139,243	\$ -0-	\$ -0-	\$ 139,243
Buildings & Improvements	2,827,609	114,188	(117,428)	2,824,369
Vehicles	755,616	10,925	-0-	766,541
Furniture & Equipment	<u>1,330,684</u>	<u>-0-</u>	<u>-0-</u>	<u>1,330,684</u>
Total at Historical Cost	\$ 5,053,152	\$ 125,113	\$(117,428)	\$ 5,060,837
Less Accumulated Depreciation For:				
Buildings & Improvements	\$(1,378,013)	\$ (93,679)	\$ 36,549	\$(1,435,143)
Vehicles	(516,481)	(64,213)	-0-	(580,694)
Furniture & Equipment	<u>(910,470)</u>	<u>(65,545)</u>	<u>-0-</u>	<u>(976,015)</u>
	<u>\$(2,804,964)</u>	<u>\$(223,437)</u>	<u>\$ 36,549</u>	<u>\$(2,991,852)</u>
Total Capital Assets, Net	<u>\$ 2,248,188</u>	<u>\$ (98,324)</u>	<u>\$ (80,879)</u>	<u>\$ 2,068,985</u>

SOUTHWEST ALABAMA BEHAVIORAL HEALTH CARE SYSTEMS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

**Note 5 - Capital Assets (Continued)**

For purposes of capitalization of assets, Southwest's policy during the years ended September 30, 2018 and 2017 was to expense items that cost less than \$2,000. Interest is capitalized in connection with the construction of major facilities and recorded as part of the asset to which it relates. No interest was capitalized during the years ended September 30, 2018 and 2017.

**Note 6 - Income Taxes**

Southwest is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and the *Code of Alabama 1975*, Sections 22-51-1 through 22-51-14.

**Note 7 - Retirement Plan**

Southwest participates in an employee retirement plan under the terms of Section 401(k) of the Internal Revenue Code. Principal Financial Group is administering this plan. Employees can voluntarily contribute to the plan and Southwest will match an employee contribution of up to 5% of the covered employee's gross salary. For the years ended September 30, 2018 and 2017 respectively, Southwest contributed \$64,590 and \$71,216 to this plan.

**Note 8 - Operating Leases**

Future minimum rental payments required under operating leases for the rental of office space having remaining non-cancelable lease terms in excess of one year were \$-0- and \$-0- as of September 30, 2018 and 2017, respectively.

The total rental expense for all operating leases, except those with terms of one month or less that were not renewed, amounted to \$23,917 and \$33,313 for the fiscal years ended September 30, 2018 and 2017, respectively.



**SOUTHWEST ALABAMA BEHAVIORAL HEALTH CARE SYSTEMS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED**

**Note 9 - Accounts Payable**

Accounts payable is recorded on the accrual basis of accounting and consists of the following at September 30,

	<u>2018</u>	<u>2017</u>
Professional Fees	\$ 34,181	\$ 40,544
Employee Benefits	50,433	54,060
Utilities	5,594	14,759
Payroll Taxes	10,545	9,759
Building Repairs	-0-	44,937
Misc. Trade Payables	29,172	24,679
	<u>\$ 129,925</u>	<u>\$ 188,738</u>

**Note 10 - Related Party Transactions**

Southwest acts as management agent for HUD Project #062-HD021, Pineview Housing Corporation (Pineview). Southwest receives management fees and reimbursements as part of that management agreement. Southwest received/accrued \$26,241 and \$26,274 in management fees and reimbursements for the fiscal years ended September 30, 2018 and 2017, respectively.

Southwest's accounts receivable from Pineview was \$253,304 and \$246,743 as of September 30, 2018 and 2017, respectively.

**Note 11 - Contingencies**

Southwest is party to various legal proceedings which normally occur in governmental operations. Management is of the opinion that these legal proceedings are not likely to have a material adverse impact on Southwest.

In the normal course of operations, Southwest receives grant funds from various federal, state, and local agencies. The grant programs are subject to audit and review by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Management believes any liability for reimbursement that may arise as the result of these audits will not be material.

**Note 12 - Risk Management**

Southwest is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, workers compensation, and health care of its employees. These risks are covered through the purchase of commercial insurance purchased from third parties. Settled claims have not exceeded coverage in any of the last three years. There were no significant changes in coverage compared to the prior year.

SOUTHWEST ALABAMA BEHAVIORAL HEALTH CARE SYSTEMS  
NOTES TO FINANCIAL STATEMENTS - CONTINUED

**Note 13 - Reclassifications**

Certain reclassifications have been made to the 2017 financial statement presentation to correspond to the current year's format. Total equity and net income are unchanged due to these reclassifications.

SUPPLEMENTARY INFORMATION

SOUTHWEST ALABAMA BEHAVIORAL HEALTH CARE SYSTEMS  
 SCHEDULE OF REVENUES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>Federal Government</u>	<u>State Government</u>	<u>Local Government</u>	<u>Fees</u>	<u>Other</u>
Department of Health and Human Services Grants and Contracts	\$ 341,357				
Department of Education Grants and Contracts	59,147				
Department of Transportation Grants and Contracts	43,700				
Medicaid Fees for Services	2,199,752				
Medicare Fees for Services	130,386				
State Department of Mental Health		\$ 3,946,289			
Escambia County			\$ 42,000		
Monroe County			25,000		
Clarke County			4,000		
Conecuh County			13,142		
Thomasville			4,500		
Patient Fees				\$ 388,166	
D. W. McMillan Foundation					5,000
Rent					5,839
Interest					187
Management Fee					26,241
Miscellaneous					69,564
Totals	<u>\$ 2,774,342</u>	<u>\$ 3,946,289</u>	<u>\$ 88,642</u>	<u>\$ 388,166</u>	<u>\$ 106,831</u>

SOUTHWEST ALABAMA BEHAVIORAL HEALTH CARE SYSTEMS  
SCHEDULE OF EXPENDITURES  
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>Administrative</u>	<u>Program</u>	<u>Total</u>
Depreciation	\$ 22,271	\$ 200,442	\$ 222,713
Dues, Fees, and Licenses	5,211	3,274	8,485
Employee Benefits	55,338	383,882	439,220
Expenditures - Furniture and Equipment	13,581	15,244	28,825
Food	5,283	118,947	124,230
General Program Supplies	468	42,293	42,761
Housing Support	-	10,902	10,902
Insurance and Bonding	20,944	240,938	261,882
Janitorial - Building and Grounds	9,968	82,601	92,569
Lab Fees	5,682	2,750	8,432
Miscellaneous	18,335	1,966	20,301
Network Expenses	35,252	215,925	251,177
Office Supplies	6,921	10,433	17,354
Payroll Taxes	44,721	222,075	266,796
Postage	10,181	2,005	12,186
Printing	8,888	4,493	13,381
Professional Fees	25,600	1,212,490	1,238,090
Publications and Subscriptions	2,402	1,703	4,105
Recruiting & Advertising	14,794	162	14,956
Rent & Rental Fees	1,681	17,008	18,689
Retirement	20,379	44,211	64,590
Repairs and Maintenance	29,148	153,507	182,655
Salaries	592,838	2,970,869	3,563,707
Employee Training	9,936	6,562	16,498
Telephone	8,958	106,409	115,367
Travel	25,806	98,200	124,006
Utilities	20,036	102,633	122,669
Vehicle Operations	7,750	62,703	70,453
	<u>\$ 1,022,372</u>	<u>\$ 6,334,627</u>	<u>\$ 7,356,999</u>

ADDITIONAL INFORMATION

SOUTHWEST ALABAMA BEHAVIORAL HEALTH CARE SYSTEMS  
SCHEDULE OF BOARD MEMBERS AND OFFICIAL  
SEPTEMBER 30, 2018

**Board Member**

Judge Rogene Booker	President	P. O. Box 149 Evergreen, AL 36401
Lou Boykin	V. Pres.	519 So. Mt. Pleasant Ave. Monroeville, AL 36460
Steve Wadlington	Secretary	P. O. Box 1484 Monroeville, AL 36461
Todd Watson	Member	P. O. Drawer 860 Evergreen, AL 36401
Kate Lett	Member	139 Jones Ave. Monroeville, AL 36460
Judge Doug Agerton	Member	P. O. Box 557 Brewton, AL 36427
Greg Albritton	Member	112-B Court Street Evergreen, AL 36401
Ricky Powell	Member	2197 So. Mt. Pleasant Ave. Monroeville, AL 36460

**Official**

Candace Harden, Executive Director

SOUTHWEST ALABAMA BEHAVIORAL HEALTH CARE SYSTEMS  
LEGAL AUTHORITY  
SEPTEMBER 30, 2018

Code of Alabama 1975, Sec. 22-51-1 through 22-51-14.



SOUTHWEST ALABAMA BEHAVIORAL HEALTH CARE SYSTEMS  
SCHEDULE OF BONDED OFFICIALS  
SEPTEMBER 30, 2018

**Public Employees Blanket Bond**

Berkshire Hathaway Specialty Insurance Company

Policy Number: 47-SPK-255673-02

Policy Period: 10/01/17 to 10/01/18

Limits and Type of Coverage: \$75,000 Employee Theft Coverage  
\$75,000 Forgery or Alteration

# KUBINA, HAYLES & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 970 • 2100 HAND AVENUE

BAY MINETTE, ALABAMA 36507

(251) 937-5535 • FAX 937-4805

JIMMY C. KUBINA, C.P.A.

GEORGE A. HAYLES, C.P.A.

HANNAH B. RAY, C.P.A.

MEMBERS  
ALABAMA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' 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

Board of Directors  
Southwest Alabama  
Behavioral Health Care Systems  
Monroeville, Alabama

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 Southwest Alabama Behavioral Health Care Systems, as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise Southwest Alabama Behavioral Health Care Systems' basic financial statements and have issued our report thereon dated August 16, 2019.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southwest Alabama Behavioral Health Care Systems' 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 Southwest Alabama Behavioral Health Care Systems' internal control. Accordingly, we do not express an opinion on the effectiveness of Southwest Alabama Behavioral Health Care Systems' 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 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.



America Counts on CPAs<sup>SM</sup>

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 Southwest Alabama Behavioral Health Care Systems' 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 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kubina, Hayles & Associates P.C.*

KUBINA, HAYLES & ASSOCIATES, P. C.  
Bay Minette, Alabama  
August 16, 2019

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## REPORT ON COMPLIANCE WITH DEPARTMENT OF MENTAL HEALTH CONTRACT

Board of Directors  
Southwest Alabama  
Behavioral Health Care Systems  
Monroeville, Alabama

We have audited contract/grant/agreement numbers G8-033949, G8-136124, G8-341328, G8-353227, G8-417237, and G8-323654H between the Department of Mental Health (DMH) and Southwest Alabama Behavioral Health Care Systems as of and for the year ended September 30, 2018.

Compliance with DMH contract(s)/grant(s)/agreement(s), and all applicable laws, rules, and regulations applicable to Southwest Alabama Behavioral Health Care Systems is the responsibility of the Southwest Alabama Behavioral Health Care Systems' management.

As part of obtaining reasonable assurance about whether the contract/grant/agreement, and all applicable laws, rules, and regulations were complied with, we performed certain tests of transactions and made other determinations as outlined in each requirement of Section 12, *Audit for Compliance with the Contract* of the DMH Audit Guidelines. Revenues or expenditures of cost reimbursement contracts were analyzed to determine if they were in compliance with applicable terms and conditions of the contract/grant/agreement. Funds claimed as match for federal programs were audited to determine if they were allowable and adequate to match the federal funds received.

The results of our tests disclosed no material instances of noncompliance with the DMH contract/grant/agreement, and all applicable laws, rules, and regulations.

This report is intended for the information of management and DMH. However, this report is a matter of public record and its distribution is not limited.

*Kubina, Hayles & Associates, P.C.*

KUBINA, HAYLES & ASSOCIATES, P. C.

Bay Minette, Alabama

August 16, 2019



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