Northeast Arkansas Community Mental Health Center, Inc.
d/b/a Mid-South Health Systems, Inc.
June 30, 2018 and 2017

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Section I

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Independent Auditor's Report

Board of Directors
Northeast Arkansas Community Mental Health Center, Inc.
Jonesboro, Arkansas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Northeast Arkansas Community Mental Health Center, Inc. d/b/a Mid-South Health Systems, Inc. (the Organization), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northeast Arkansas Community Mental Health Center, Inc. d/b/a Mid-South Health Systems, Inc. as of June 30, 2018 and 2017, and the results of its operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2018, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

BKD, LLP

Little Rock, Arkansas
October 31, 2018

Northeast Arkansas Community Mental Health Center, Inc.
d/b/a Mid-South Health Systems, Inc.
Consolidated Balance Sheets
June 30, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash and cash equivalents	$ 3,691,485	$ 4,380,396
Short-term investments	1,187,932	1,162,851
Patient accounts receivable, net of allowance; 2018 - $4,238,750, 2017- $3,780,554	1,620,483	1,942,178
Grants receivable	884,840	662,559
Other receivables	34,120	55,113
Supplies	123,501	92,335
Prepaid expenses	616,324	92,910
Total current assets	8,158,685	8,388,342
Long-term Investments		
Long-term investments	3,562,590	4,031,503
Investment in PASSE	700,000	-
	4,262,590	4,031,503
Property and Equipment, At Cost		
Land	1,512,263	1,512,263
Buildings	18,830,496	18,793,606
Machinery and equipment	872,389	876,970
Vehicles	1,385,130	1,441,538
Furniture and fixtures	624,608	606,277
Data processing equipment	1,276,903	1,983,381
Construction in progress	85,821	4,500
	24,587,610	25,218,535
Less accumulated depreciation	10,210,535	10,318,579
	14,377,075	14,899,956
Other Assets	9,000	9,000
Total assets	$ 26,807,350	$ 27,328,801

See Notes to Consolidated Financial Statements

Liabilities and Net Assets

	2018	2017
Current Liabilities		
Current maturities of long-term debt	$ 719,534	$ 689,419
Accounts payable - trade	988,348	844,931
Accrued expenses	2,191,225	2,117,529
Total current liabilities	3,899,107	3,651,879
Long-term Debt	3,621,307	4,340,835
Total liabilities	7,520,414	7,992,714
Net Assets		
Unrestricted	19,286,936	19,336,087
Total liabilities and net assets	$ 26,807,350	$ 27,328,801

Northeast Arkansas Community Mental Health Center, Inc.
d/b/a Mid-South Health Systems, Inc.
Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2018 and 2017

	2018	2017
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	$ 26,230,184	$ 26,787,662
Provision for uncollectible accounts	(2,073,536)	(1,851,517)
Net patient service revenue less provision for uncollectible accounts	24,156,648	24,936,145
Federal and state financial assistance	10,543,515	10,539,959
Rent	412,804	381,283
Other	373,715	711,901
Total unrestricted revenues, gains and other support	35,486,682	36,569,288
Expenses and Losses		
Personnel	25,631,344	25,978,175
Occupancy	1,831,927	1,983,501
Office	613,259	703,044
Communications	275,490	320,799
Program related	5,145,475	5,194,038
Travel and transportation	739,191	773,521
Depreciation	717,630	728,223
Interest	191,005	220,315
Other	469,285	585,034
Total expenses	35,614,606	36,486,650
Operating Income (Loss)	(127,924)	82,638
Other income		
Investment income	181,455	173,748
Excess of Revenue over Expense	53,531	256,386
Investment return - change in unrealized losses on investments	(102,682)	(68,811)
Increase (Decrease) in Unrestricted Net Assets	(49,151)	187,575
Unrestricted Net Assets, Beginning of Year	19,336,087	19,148,512
Unrestricted Net Assets, End of Year	$ 19,286,936	$ 19,336,087

Northeast Arkansas Community Mental Health Center, Inc.
d/b/a Mid-South Health Systems, Inc.
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	$ (49,151)	$ 187,575
Items not requiring (providing) cash		
Depreciation	717,630	728,223
Provision for uncollectible accounts	(510,431)	1,070,847
Net realized and unrealized loss on investments	78,041	53,802
Gain on sale of property and equipment	(3,769)	(2,912)
Changes in		
Patient accounts receivable	832,126	(900,018)
Grants receivable	(222,281)	408,170
Other receivables	20,993	(101)
Prepaid expenses	(523,414)	195,765
Supplies	(31,166)	30,633
Accounts payable	142,295	135,994
Accrued expenses	74,818	149,011
Net cash provided by operating activities	525,691	2,056,989
Investing Activities		
Purchase of property and equipment	(198,520)	(438,350)
Proceeds from sale of property and equipment	7,540	3,747
Investment in PASSE	(700,000)	-
Purchase of investments	(355,781)	(1,116,015)
Proceeds from disposition of investments	721,572	648,321
Net cash used in investing activities	(525,189)	(902,297)
Financing Activities		
Principal payments on long-term debt	(689,413)	(660,580)
Net cash used in financing activities	(689,413)	(660,580)
(Decrease) Increase in Cash and Cash Equivalents	(688,911)	494,112
Cash and Cash Equivalents, Beginning of Year	4,380,396	3,886,284
Cash and Cash Equivalents, End of Year	$ 3,691,485	$ 4,380,396
Supplemental Cash Flows Information		
Interest paid	$ 189,883	$ 222,304

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

Nature of Operations

Northeast Arkansas Community Mental Health Center, Inc. was originally incorporated in January 1995 as a not-for-profit community mental health center. In November 1995, it began operating under the registered name of Mid-South Health Systems, Inc. (MSHS). MSHS operates under the direction of a Board of Directors and serves the public through a variety of program services consisting of child/adolescent care, counseling, community support and education. While individual program services vary, working toward improved community mental health is MSHS's main focus and revenue producing activity. While promoting these types of services, the Organization created two affiliated organizations as follows:

Organization	Primary Business Activity
Mid-South Behavioral Health and Wellness, Inc. (MSBHW)	A for-profit outpatient program, organized to participate in insurance networks, which services a seven-county area in northeast Arkansas. Services provided include individual, marital and family counseling; employee assistance programs; psychological testing and 24-hour crisis intervention. MSBHW is currently nonoperational.
Mid-South Sheltered Workshop, Inc. (MSSW)	A non-profit community support program which serves a seven-county area in northeast Arkansas. This program contains the following elements in order to address the needs of the seriously mentally ill individuals: case management services; and pre-vocational training/community job placement. MSSW is currently nonoperational.

Principles of Consolidation

The consolidated financial statements include the accounts of MSHS, MSBHW and MSSW (collectively the Organization). All material intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

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

Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2018 and 2017, cash equivalents consisted primarily of a repurchase agreement of $2,973,052 and $3,531,810, respectively, with a financial institution which is not covered by FDIC.

At June 30, 2018, the Organization's cash accounts exceeded federally insured limits by approximately $485,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

The Organization entered into an investment agreement and invested $700,000 into a Provider-led Arkansas Shared Savings Entity (PASSE). The Organization accounts for the investment in PASSE at cost.

Patient Accounts Receivable

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

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

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

The Organization's allowance for doubtful accounts for self-pay patients was 73% and 66% at June 30, 2018 and 2017, respectively. This increase is due primarily to the uncertainty around the transition to the PASSE and the Outpatient Behavioral Health Service (OBHS) new tier services.

Supplies

Supplies consist of medicine. The Organization states supply inventories at the lower of cost or net realizable value.

Property and Equipment

Property and equipment acquisition are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the net assets is restricted by the donor.

Property acquired with federal grant funds is considered owned by the Organization while used in the program for which it was purchased or in future authorized programs. In addition, the federal government has a reversionary interest in the property. The disposition of property purchased with federal grant funds, as well as any proceeds from its sale, is subject to federal regulation.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings	5-40 years
Machinery and equipment	5-10 years
Vehicles	3-7 years
Furniture and fixtures	5-12 years
Data processing equipment	5-7 years

Long-lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2018 and 2017.

Net Patient Service Revenue

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

Charity Care

The Organization provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

Government Grants

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income Taxes

MSHS and MSSW are exempt from income taxes under Section 501(c)3 of the Internal Revenue Code and a similar provision of state law. However, these entities are subject to federal income tax on any unrelated business taxable income. MSBHW had no activity in the current year; consequently, there is no provision for income taxes in the accompanying consolidated financial statements.

The Organization files tax returns in the U.S. federal jurisdiction.

Excess of Revenues over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments.

Professional Liability Claims

The Organization recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any.

The Organization has elected to self-insure certain costs related to claims in excess of its medical malpractice coverage. Costs resulting from noninsured losses are charged to income when incurred. An annual estimated provision may be accrued for the self-insured portion of professional liability claims and includes an estimate of the ultimate costs, if any, for both reported claims and claims incurred but not reported. No accrual has been made for 2018 and 2017. Professional liability claims are described more fully in *Note 6.*

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible health care providers that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the organization continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Organization recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

The Organization has recorded revenue of $0 and $78,500 for 2018 and 2017, respectively, which is included in other revenue within operating revenues in the statement of operations.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Net Patient Service Revenue

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Organization recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of net patient service revenue.

The Organization has agreements with third-party payers that provide for payments to the Organization at amounts different from its established rates. These payment arrangements include:

Medicare. - Substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Medicare will pay a percentage of the amount billed based on the type of service provided.

Medicaid. – All outpatient services rendered to Medicaid program beneficiaries are paid at the per-established rates for these services by Medicaid.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Organization has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended June 30, 2018 and June 30, 2017, was:

	2018	2017
Medicare	$ 408,292	$ 402,888
Medicaid	19,947,715	21,157,491
Other third-party payers	3,612,836	3,080,188
Self-pay	2,261,341	2,147,095
Total	$ 26,230,184	$ 26,787,662

Note 3: Concentration of Credit Risk

The Organization grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2018 and 2017 was:

	2018	2017
Medicare	5%	3%
Medicaid	18%	21%
Other third-party payers	14%	13%
Patients	63%	63%
	100%	100%

Note 4: Investments

Investments at June 30 consisted of the following:

	2018	2017
Short-term Investments		
Corporate bonds	$ 290,896	$ 223,197
Mutual funds	897,036	939,654
	1,187,932	1,162,851
Long-term Investments		
Government-sponsored enterprises	102,080	103,946
Corporate bonds	3,460,510	3,927,557
Investment in PASSE	700,000	-
	4,262,590	4,031,503
Total Investments	$ 5,450,522	$ 5,194,354

Total investment income is comprised of the following:

	2018	2017
Interest and dividend income	$ 156,814	$ 158,739
Unrealized losses on investments	(102,682)	(68,811)
Realized gains on investments	24,641	15,009
	$ 78,773	$ 104,937

Note 5: Disclosures About Fair Value of Assets and Liabilities

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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018 and 2017:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018				
Investments				
Corporate bonds	$ 3,751,406	$ 852,716	$ 2,898,690	$ -
Mutual funds	897,036	897,036	-	-
Government-sponsored enterprises	102,080	-	102,080	-
Subtotal	4,750,522	1,749,752	3,000,770	-
Investments in cash equivalents	63,495	63,495	-	-
	$ 4,814,017	$ 1,813,247	$ 3,000,770	$ -
June 30, 2017				
Investments				
Corporate bonds	$ 4,150,754	$ 4,150,754	$ -	$ -
Mutual funds	939,654	939,654	-	-
Government-sponsored enterprises	103,946	-	103,946	-
Subtotal	5,194,354	5,090,408	103,946	-
Investments in cash equivalents	81,415	81,415	-	-
	$ 5,275,769	$ 5,171,823	$ 103,946	$ -

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2018.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include corporate bonds and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include United States Treasury obligations and United States government agencies securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Note 6: Medical Malpractice Claims

The Organization purchases medical malpractice insurance under a claims-made policy. Under such policy, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred. For covered claims in general, the Organization bears no costs of litigating or settling any asserted claim. However, the Organization bears unlimited risk for individual claims in excess of $1,000,000 and aggregate claims in excess of $3,000,000. The Organization accrues the expense of its share of covered claims plus unasserted claims and unreported incidents occurring during the coverage period by estimating the probable ultimate cost of any related claims. Management is unaware of any claims or incidents that might give rise to a malpractice claim and thus no accrual has been made as of June 30, 2018 and 2017. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Long-term Debt

	2018	2017
Note payable, bank (A)	$ 698,047	$ 1,019,929
Note payable, bank (B)	461,031	540,748
Note payable, bank (C)	607,711	695,650
Note payable, bank (D)	1,002,535	1,078,903
Note payable, bank (E)	1,571,517	1,695,024
	4,340,841	5,030,254
Less current maturities	719,534	689,419
	$ 3,621,307	$ 4,340,835

(A) Due June 5, 2020; payable $30,100 monthly, including interest at 4.50%; secured by real estate.

(B) Due June 5, 2021; payable $8,535 monthly, including interest at 4.50%; secured by real estate.

(C) Due June 5, 2021; payable $9,787 monthly, including interest at 4.50%; secured by real estate.

(D) Due February 1, 2024; payable $9,627 monthly, including interest at 3.75%; secured by real estate.

(E) Due September 4, 2023; payable $15,413 monthly, including interest at 3.75%; secured by real estate.

Aggregate annual maturities of long-term debt obligations at June 30, 2018, are:

2019	$ 719,534
2020	760,202
2021	933,607
2022	232,167
2023	241,024
Thereafter	1,454,307
	$ 4,340,841

Note 8: Functional Expenses

The Organization provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	2018	2017
Clinical services	$ 28,275,865	$ 30,447,122
Administrative and general	7,338,741	6,039,528
	$ 35,614,606	$ 36,486,650

Note 9: Operating Leases

MSHS has entered into several noncancellable operating leases for buildings and equipment which expire between 2018 and 2022. These leases generally contain renewal options under the same terms as the original lease and require the Organization to pay all executory costs (utilities, maintenance and insurance). Rent expense associated with these leases totaled $188,151 and $133,882 for the years ended June 30, 2018 and 2017, respectively.

Future minimum lease payments at June 30, 2018, were:

2019	$ 129,436
2020	117,416
2021	91,153
2022	55,351
	$ 393,356

Note 10: Pension Plan

The Organization has defined contribution pension plans covering substantially all full-time employees. The Boards of Directors annually determine the amount, if any, of the Organization's contributions to the plans. Pension expense was $822,188 and $1,249,177 for the years ended June 30, 2018 and 2017, respectively.

Note 11: Significant Estimates and Concentrations

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

Allowance for Net Patient Service Revenue Adjustments

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

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 5* and *6*.

Economic Dependency

The Organization is economically dependent upon revenue provided by Medicaid and Federal/State grants. During the years ended June 30, 2018 and 2017, approximately 86 percent of the Organization's total revenue was provided by these sources.

Arkansas Organized Care Model

The State of Arkansas Act 775 of 2017 requires certain services provided by the Organization to Behavioral Health Medicaid beneficiaries to be provided by a new Medicaid Provider-Led service delivery and reimbursement model. All providers must join a Provider-led Arkansas Shared Savings Entity (PASSE). The PASSE will assume risk and share in the cost savings of treating individuals who have intensive levels of treatment or care due to mental illness, substance abuse or intellectual and developmental disabilities. This statewide transition was expected to begin in 2018 and will require approximately 40,000 behavioral health patients in Arkansas to have a needs assessment completed. However, to date, PASSE has not been fully implemented. Management is closely monitoring this matter; however, management does not expect it to have a significant impact on the Organization.

Litigation

In the normal course of business, the Organization is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Organization evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 12: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2019. The Organization is in the process of evaluating the impact the amendment will have on the financial statements.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for nonpublic entities annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. The Organization is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to recognition of additional assets and liabilities for operating leases.

Note 13: Subsequent Events

Medicaid Transition

Effective July 1, 2018, Arkansas Medicaid transitioned its provider services under Rehabilitative Services for Persons with Mental Illness (RSPMI) to the Outpatient Behavioral Health Service (OBHS) new tier services. Certain services under the OBHS program require certifications, including therapeutic communities, acute crisis units, partial hospitalization and residential community reintegration. The impact of this transition to OBHS on the Organization and other mental health facilities in Arkansas is not known at this time. Management is closely monitoring the transition and taking appropriate steps to remain in compliance with Medicaid requirements; however, management does not expect this transition to OBHS to have a significant long-term impact on the Organization.

Expansion of DHS Contracts into Seven New Counties

The Arkansas Department of Human Services (DHS) announced in July 2018 that the Organization had been awarded contracts for operations in seven counties. Effective September 1, 2018, the Organization began operations in these counties, including leasing locations and hiring additional staff, as needed. The overall impact of this expansion is not known at this time. The state contracts for these counties approximates $785,000.

Subsequent events have been evaluated through the October 31, 2018, which is the date the financial statements were available to be issued.

Supplementary Information

Northeast Arkansas Community Mental Health Center, Inc.
d/b/a Mid-South Health Systems, Inc.
Parent Only Schedule of Functional Revenue and Expenses
Year Ended June 30, 2018

	Outpatient	Community Support	Day Treatment	Crisis/ Residential
Revenue				
Patient service revenue (net of contractual discounts and allowances)	$ 3,986,988	$ 1,524,569	$ 8,334,639	$ 167,134
Provision for uncollectible accounts	(496,868)	(105,458)	(753,373)	(84,227)
Net patient service revenue less provision for uncollectible accounts	3,490,120	1,419,111	7,581,266	82,907
Federal and state financial assistance	1,080,399	125,282	352,714	1,309
Investment income	-	-	-	-
Rent	-	-	-	-
Other	72,680	6,048	9,412	32
	4,643,199	1,550,441	7,943,392	84,248
Expenses				
Personnel	6,236,914	1,179,712	3,130,452	89,500
Occupancy	337,541	80,985	634,273	-
Office	177,520	28,857	109,997	3,837
Communications	98,354	14,198	84,008	610
Program related	723,898	1,230	563,762	2,500
Travel and transportation	150,997	107,896	223,178	22,383
Depreciation	159,742	29,059	97,602	2,444
Interest	-	-	-	-
Other	42,713	190	520	-
	7,927,679	1,442,127	4,843,792	121,274
(Deficiency) Excess of Revenues over Expenses	$ (3,284,480)	$ 108,314	$ 3,099,600	$ (37,026)

Child/ Adolescent	Therapeutic Foster Care	Pharmacy	Transitional Services	Drug & Alcohol Support	Adminis- tration	Total
$ 5,317,972	$ 226,389	$ 1,343,494	$ 4,644,427	$ 684,572	$ -	$ 26,230,184
(369,020)	-	-	(217,050)	(47,540)	-	(2,073,536)
4,948,952	226,389	1,343,494	4,427,377	637,032	-	24,156,648
2,705,568	1,549,854	-	-	1,696,396	3,031,993	10,543,515
-	-	-	-	-	78,773	78,773
-	-	-	-	-	412,804	412,804
111,300	106,900	-	-	-	67,343	373,715
7,765,820	1,883,143	1,343,494	4,427,377	2,333,428	3,590,913	35,565,455
4,365,875	395,483	193,352	3,149,648	1,122,951	5,767,457	25,631,344
72,515	537	2,326	169,477	-	534,273	1,831,927
112,201	1,972	12,813	36,949	13,738	115,375	613,259
12,478	4,686	4,067	21,543	3,708	31,838	275,490
1,053,656	1,005,397	1,154,126	358,408	272,373	10,125	5,145,475
70,708	14,619	208	22,720	-	126,482	739,191
117,124	29,294	28,138	77,300	29,051	147,876	717,630
-	-	-	-	-	191,005	191,005
7,978	1,931	1,518	200	(75)	414,310	469,285
5,812,535	1,453,919	1,396,548	3,836,245	1,441,746	7,338,741	35,614,606
$ 1,953,285	$ 429,224	$ (53,054)	$ 591,132	$ 891,682	$ (3,747,828)	$ (49,151)

Northeast Arkansas Community Mental Health Center, Inc.
d/b/a Mid-South Health Systems, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture				
U.S. Department of Agriculture/Arkansas Department of Human Services/ Child and Adult Care Food Program	10.558	U79	$ -	$ 301,410
		Total U.S. Department of Agriculture	-	301,410
U.S. Department of Justice				
U.S. Department of Justice/ Arkansas Department of Finance and Administration/ Crime Victim Assistance	16.575	15179-15V	-	61,405
U.S. Department of Justice/Arkansas Department of Finance and Administration/Court Appointed Special Advocates	16.756	MSHS-001	-	101,387
		Total U.S. Department of Justice	-	162,792
U.S. Department of Health and Human Services				
U.S. Department of Health and Human Services/ Arkansas Department of Human Services/ Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	4600034705	-	3,149
U.S. Department of Health and Human Services/ Arkansas Department of Human Services/ Project for Assistance in Transition from Homelessness (PATH)	93.150	4600034447	-	98,460
U.S. Department of Health and Human Services/ Arkansas Department of Human Services/ Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	4600036252	-	1,111,493
U.S. Department of Health and Human Services/Arkansas Department of Human Services/Foster Care Title IV-E	93.658	4600034247	-	628,100
U.S. Department of Health and Human Services/ Arkansas Department of Human Services/Social Services Block Grant	93.667	4600034447	-	254,867
U.S. Department of Health and Human Services/ Arkansas Department of Human Services/Children's Health Insurance Program	93.767	4600036788 Area 4 4600036799 Area 7	-	301,000
U.S. Department of Health and Human Services/Arkansas Department of Human Services/ Block Grants for Community Mental Health Services	93.958	4600034447	-	532,116
U.S. Department of Health and Human Services/Arkansas Department of Human Services/ Block Grants for Prevention and Treatment of Substance Abuse	93.959	4600036871	757,352	1,125,420
		Total U.S. Department of Health and Human Services	757,352	4,054,605
		Total Expenditures of Federal Awards	$ 757,352	$ 4,518,807

Northeast Arkansas Community Mental Health Center, Inc. d/b/a Mid-South Health Systems, Inc.

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Northeast Arkansas Community Mental Health Center, Inc. d/b/a Mid-South Health Systems, Inc. (the Organization) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2. 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 allowable or are limited as to reimbursement. The Organization has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Northeast Arkansas Community Mental Health Center, Inc.
d/b/a Mid-South Health Systems, Inc.
Schedule of Expenditures of State Awards
Year Ended June 30, 2018

Grantor		Program Revenue/ Expenditures
Arkansas Department of Human Services		
Community Support Program Part A and B	$	1,550,463
Child and Adolescent Service System Program		156,590
Child and Adolescent Service System Program - RFA		295,014
Therapeutic Foster Care		914,901
Therapeutic Foster Care – Room and Board		6,842
State Per Capita		957,226
State Forensic		66,000
Family Youth Support		258,036
Drug and Alcohol Safety Education Program		443,725
Local Acute Inpatient Care		826,436
Block Grants for Prevention and Treatment of Substance Abuse		343,898
DYS		255,983
Accountability Grants		35,032
		6,110,146
University of Arkansas Medical School		
Project Play		189,400
Trauma Focused Cognit Behavior		6,045
		195,445
Arkansas Commission on Child Abuse, Rape, and Domestic Violence		
ACCRDV - Forrest City		110,000
Total Schedule of Expenditures of State Awards	$	6,415,591
Medicaid - Arkansas Department of Human Services	$	5,385,883 (1)

(1) Revenue recognized from the Medicaid program is included in the total of net patient revenue in the accompanying statements of operations and changes in net assets. Medicaid revenue above represents 27% (the percentage the State of Arkansas contributed) of total Medicaid revenue recognized during fiscal year ended June 30, 2018.

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed In Accordance with *Government Auditing Standards*

Independent Auditor's Report

Board of Directors
Northeast Arkansas Community Mental Health Center, Inc.
Jonesboro, Arkansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Northeast Arkansas Community Mental Health Center, Inc. d/b/a Mid-South Health Systems, Inc. (the Organization), which comprise the consolidated balance sheet as of June 30, 2018, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 31, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness is a deficiency*, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in 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 Organization's consolidated 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Little Rock, Arkansas
October 31, 2018

BKD
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Report on Compliance for the Major Federal Program and Report on Internal Control over Compliance

Independent Auditor's Report

Board of Directors
Northeast Arkansas Community Mental Health Center, Inc.
Jonesboro, Arkansas

Report on Compliance for the Major Federal Program

We have audited Northeast Arkansas Community Mental Health Center, Inc. d/b/a Mid-South Health Systems, Inc. (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2018. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on the Major Federal Program

In our opinion, the Northeast Arkansas Community Mental Health Center, Inc. d/b/a Mid-South Health Systems, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

BKD, LLP

Little Rock, Arkansas
October 31, 2018

Northeast Arkansas Community Mental Health Center, Inc.
d/b/a Mid-South Health Systems, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

   Significant deficiency(ies)? ☐ Yes ☒ None reported

   Material weakness(es)? ☐ Yes ☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

   Significant deficiency(ies)? ☐ Yes ☒ None reported

   Material weakness(es)? ☐ Yes ☒ No

5. The opinion expressed in the independent auditor's report on compliance for major federal awards was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? ☐ Yes ☒ No

Northeast Arkansas Community Mental Health Center, Inc.
d/b/a Mid-South Health Systems, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2018

7. The Organization's major program was:

Cluster/Program	CFDA Number
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243

8. The threshold used to distinguish between Type A and Type B programs was $750,000.

9. The Organization qualified as a low-risk auditee? ☒ Yes ☐ No

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
	No matters are reportable.

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
	No matters are reportable.

Northeast Arkansas Community Mental Health Center, Inc.
d/b/a Mid-South Health Systems, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

Reference Number	Summary of Finding	Status
	No matters are reportable.	

Section II

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Independent Accountant's Report

Board of Directors
Northeast Arkansas Community Mental Health Center, Inc.
Jonesboro, Arkansas

We have examined management of Northeast Arkansas Community Mental Health Center, Inc. d/b/a Mid-South Health Systems, Inc. (the Organization)'s assertion that it maintained effective internal control over the statistical information system for documenting and appropriately reporting data regarding units of service and recipients of services as of June 30, 2018, based on criteria outlined in a following paragraph as promulgated by Arkansas Department of Human Services. The Organization's management is responsible for its assertion. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about management's assertion. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Because of inherent limitations, internal control over the statistical information may not prevent or detect and correct misstatements. Also, projections of any evaluation of the suitability of the design or effectiveness of the Organization's internal control over the statistical information to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

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

In our opinion, management's assertion that it maintained effective internal control over the statistical information system for documenting and appropriately reporting data regarding units of service and recipients of services as of June 30, 2018, based on the criteria stated in the preceding paragraph, is fairly stated, in all material respects.

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

BKD, LLP

Little Rock, Arkansas
October 31, 2018

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Independent Accountant's Report on Schedule of Unit Costs and Units of Service

Board of Directors
Northeast Arkansas Community Mental Health Center, Inc.
Jonesboro, Arkansas

We have examined the accompanying schedule of unit costs and units of service of Northeast Arkansas Community Mental Health Center, Inc. d/b/a Mid-South Health Systems, Inc. (the Organization) for the year ended June 30, 2018, as required by Arkansas Department of Human Services. The Organization's management is responsible for the fair presentation of the schedule. Our responsibility is to express an opinion on the schedule of unit costs and units of service of the Organization for the year ended June 30, 2018, based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the schedule of unit costs and units of service is in accordance with the criteria, in all material respects. An examination involves performing procedures to obtain evidence about the schedule of unit costs and units of service. The nature, timing, and extent of procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the schedule of unit costs and units of service, whether due to error or fraud. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the schedule of unit costs and units of service of Northeast Arkansas Community Mental Health Center, Inc. d/b/a Mid-South Health Systems, Inc. for the year ended June 30, 2018, is fairly stated, in all material respects

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

BKD, LLP

Little Rock, Arkansas
October 31, 2018

Northeast Arkansas Community Mental Health Center, Inc.
d/b/a Mid-South Health Systems, Inc.
Schedule of Unit Costs and Units of Service
Year Ended June 30, 2018

Day Treatment

Total cost of services	$ 7,034,575	=	$2.83	per unit
Units of service (1/4 hour)	2,482,900			

Outpatient Services

Total cost of services	$ 10,629,863	=	$9.75	per unit
Units of service (1/4 hour)	1,090,175			

The number of contracted units of services provied for certain clients were:

Contract	Units Provided
Child and Adult Care Food Program	
Breakfast	36,532
Lunch	26,719
Dinner	63,698