

**The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services**

Independent Auditor's Report and Financial Statements

June 30, 2018 and 2017



**The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services**

June 30, 2018 and 2017

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Independent Auditor's Report

Board of Directors
The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services
Oklahoma City, Oklahoma

We have audited the accompanying financial statements of The Oklahoma Mental Health Council d/b/a Red Rock Behavioral Health Services (Red Rock), which comprise the balance sheets as of June 30, 2018 and 2017, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Red Rock as of June 30, 2018 and 2017, and the results of its operations and changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements of Red Rock as a whole. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Tulsa, Oklahoma
December 21, 2018

The Oklahoma Mental Health Council d/b/a Red Rock Behavioral Health Services

Balance Sheets June 30, 2018 and 2017

Assets

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 4,885,860	\$ 1,419,131
Patient accounts and other receivables, net of contractual adjustments; 2018 – \$1,635,069, 2017 – \$978,230	7,240,293	7,242,574
Government contracts receivable	1,023,062	776,133
Short-term investments	17,000,000	15,000,000
Prepaid expenses and other	<u>977,537</u>	<u>859,868</u>
Total current assets	<u>31,126,752</u>	<u>25,297,706</u>
Investments		
Investments in equity investees	<u>975,847</u>	<u>763,394</u>
Property and Equipment, at Cost		
Land and land improvements	1,646,778	1,392,362
Buildings and leasehold improvements	19,075,458	18,696,962
Equipment	9,609,207	8,516,334
Construction in progress	<u>663,770</u>	<u>188,416</u>
	30,995,213	28,794,074
Less accumulated depreciation	<u>10,802,759</u>	<u>9,682,479</u>
	<u>20,192,454</u>	<u>19,111,595</u>
Total assets	<u><u>\$ 52,295,053</u></u>	<u><u>\$ 45,172,695</u></u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 637,675	\$ 699,959
Accrued expenses	3,320,255	3,055,935
Estimated amounts due to third-party payers	1,086,000	600,000
Deferred revenue	<u>80,867</u>	<u>59,202</u>
Total current liabilities	5,124,797	4,415,096
Unrestricted Net Assets	<u>47,170,256</u>	<u>40,757,599</u>
Total liabilities and net assets	<u><u>\$ 52,295,053</u></u>	<u><u>\$ 45,172,695</u></u>

**The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services**

**Statements of Operations and Changes in Net Assets
Years Ended June 30, 2018 and 2017**

	2018	2017
Unrestricted Net Assets		
Revenues, gains and other support		
Net patient service revenue	\$ 48,694,773	\$ 39,112,481
Other	84,381	101,273
	<u>48,779,154</u>	<u>39,213,754</u>
Total revenues, gains and other support		
	<u>48,779,154</u>	<u>39,213,754</u>
Expenses		
Salaries, wages and contract labor	24,397,744	20,380,866
Employee benefits	5,439,478	4,946,172
Program expense	3,935,253	2,811,606
Administrative and general	1,399,786	1,324,364
Utilities	806,842	657,108
Travel	589,126	529,214
Purchased services and professional fees	1,712,261	1,163,049
Rent	420,606	418,244
Repairs and maintenance	417,224	435,568
Depreciation	1,387,829	1,261,489
Provision for uncollectible accounts	2,441,488	1,873,729
	<u>42,947,637</u>	<u>35,801,409</u>
Total expenses		
	<u>42,947,637</u>	<u>35,801,409</u>
Operating Income	<u>5,831,517</u>	<u>3,412,345</u>
Other Income (Expense)		
Investment return	240,038	83,773
Gain on investments in equity investees	312,453	145,350
Net rental income (expense)	17,256	(2,066)
Contributions	11,393	15,615
	<u>581,140</u>	<u>242,672</u>
Total other income (expense)		
	<u>581,140</u>	<u>242,672</u>
Excess of Revenues over Expenses	6,412,657	3,655,017
Contribution of property and equipment	-	179,686
	<u>-</u>	<u>179,686</u>
Change in Unrestricted Net Assets	6,412,657	3,834,703
Unrestricted Net Assets, Beginning of Year	<u>40,757,599</u>	<u>36,922,896</u>
Unrestricted Net Assets, End of Year	<u><u>\$ 47,170,256</u></u>	<u><u>\$ 40,757,599</u></u>

**The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services**

**Statements of Cash Flows
Years Ended June 30, 2018 and 2017**

	2018	2017
Operating Activities		
Change in unrestricted net assets	\$ 6,412,657	\$ 3,834,703
Items not requiring (providing) cash		
Depreciation	1,387,829	1,261,489
Gain on disposal of property and equipment	(41,000)	(11,822)
Gain on investments in equity investees	(312,453)	(145,350)
Contribution of property and equipment	-	(179,686)
Provision for uncollectible accounts	2,441,488	1,873,729
Changes in		
Patient and other accounts receivable, net	(2,439,207)	(6,893,866)
Estimated amounts due to third-party payers	486,000	-
Government contracts receivable	(246,929)	324,344
Accounts payable and accrued expenses	213,238	186,769
Deferred revenue	21,665	(52,780)
Prepaid expenses and other assets	(117,669)	179,238
Net cash provided by operating activities	<u>7,805,619</u>	<u>376,768</u>
Investing Activities		
Purchase of investments	(17,000,000)	(15,000,000)
Proceeds from sales and maturities of investments	15,000,000	15,000,000
Proceeds from insurance claim	348,374	-
Distributions received from equity investees	100,000	75,000
Purchase of property and equipment	(2,828,264)	(2,526,989)
Proceeds from sale of equipment	41,000	21,500
Net cash used in investing activities	<u>(4,338,890)</u>	<u>(2,430,489)</u>
Increase (Decrease) in Cash and Cash Equivalents	3,466,729	(2,053,721)
Cash and Cash Equivalents, Beginning of Year	<u>1,419,131</u>	<u>3,472,852</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 4,885,860</u></u>	<u><u>\$ 1,419,131</u></u>
Supplemental Cash Flows Information		
Purchase of equipment in accounts payable	\$ 77,734	\$ 88,936

The Oklahoma Mental Health Council d/b/a Red Rock Behavioral Health Services

Notes to Financial Statements

June 30, 2018 and 2017

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

Nature of Operations

The Oklahoma Mental Health Council d/b/a Red Rock Behavioral Health Services (Red Rock) is a not-for-profit organization whose purpose is to provide mental and behavioral health services to individuals of all ages and severity of illness. Red Rock primarily earns revenue from providing outpatient mental and behavioral health services at various locations throughout the state of Oklahoma.

Use of Estimates

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

Cash and Cash Equivalents

Red Rock 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 of a money market mutual fund.

At June 30, 2018, Red Rock's cash accounts exceeded federally insured limits by approximately \$4,243,000.

At June 30, 2018 and 2017, Red Rock's sweep account balance of approximately \$754,000 and \$1,051,000, respectively, was not covered by FDIC insurance. The sweep account is invested in the Cavanal Hill U.S. Treasury Money Market Fund.

Investments

At June 30, 2018 and 2017, short-term investments consisted of certificates of deposit. The investments in equity investees are reported on the equity method of accounting (cost plus equity in the investee's undistributed net income since acquisition).

Accounts Receivable

Red Rock reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. Red Rock provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, Red Rock bills third-party payers directly and bills the patient when the patient's liability is determined. Accounts are considered delinquent and

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Notes to Financial Statements

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subsequently written off as uncollectible accounts based on individual credit evaluation and specific circumstances of the account.

Contract revenue and related receivables are recognized in the period in which the related contract services are performed. Accounts are written off as contractual adjustments when Red Rock exceeds the contractual amount in a given year.

Net Patient Service Revenue

Red Rock has agreements with third-party payers that provide for payments to Red Rock 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.

Red Rock has contracts with the Oklahoma Department of Mental Health and Substance Abuse Services, Oklahoma Health Care Authority, U.S. Department of Housing and Urban Development and U.S. Department of Veterans Affairs to provide specified services to certain mentally ill and other patients. Contract revenue and related receivables are recognized in the period in which the related contract services are performed.

Property and Equipment

Red Rock capitalizes all property and equipment with lives greater than one year and a cost of \$5,000 or greater. Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

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

Land improvements	3–30 years
Buildings and improvements	7–30 years
Leasehold improvements	7–30 years
Equipment	3–15 years

Long-Lived Asset Impairment

Red Rock 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

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amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2018 and 2017.

Charity Care

Red Rock provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because Red Rock does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Professional Liability Coverage and Claims

Red Rock 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. Professional liability claims are described more fully in *Note 9*.

Income Taxes

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

Red Rock files tax returns in the U.S. federal jurisdiction.

Self-Insurance

Red Rock has elected to self-insure certain costs related to employee health. Costs resulting from noninsured losses are charged to income when incurred. Red Rock has purchased insurance that limits its exposure for individual claims to \$85,000 per policy year and that limits its aggregate exposure per policy year. At June 30, 2018 and 2017, Red Rock had accrued a liability for approximately \$191,000 and \$287,000, respectively.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period beginning date.

The Oklahoma Mental Health Council d/b/a Red Rock Behavioral Health Services

Notes to Financial Statements

June 30, 2018 and 2017

Note 2: Net Patient Service Revenue

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

- **Medicare** – Substantially all outpatient services are paid based on predetermined rates based on services provided to patients.
- **Medicaid and Government-Sponsored Contracts** – Outpatient services rendered to the Medicaid program and government-sponsored contract beneficiaries are reimbursed on a prospectively determined fee schedule.

Approximately 94% and 93% of net patient service revenue is from participation in Medicare, Medicaid and government-sponsored contracts for the years ended June 30, 2018 and 2017, respectively. 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.

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

Note 3: Concentration of Credit Risk

Red Rock grants credit without collateral to its patients, most of whom are residents within an area where Red Rock has a location. At June 30, 2018 and 2017, the mix of net patient accounts and government contracts receivable was:

	2018	2017
Medicare, Medicaid and government-sponsored contracts	99%	99%
Patients and other third-party payers	1%	1%
	<u>100%</u>	<u>100%</u>

Note 4: Investments and Investment Return

Short-term investments consisted of certificates of deposit of \$17,000,000 and \$15,000,000 at June 30, 2018 and 2017, respectively.

Investment return is reflected in other income in the accompanying statements of operations and changes in net assets. Investment return of \$240,038 and \$83,773 for the years ended June 30, 2018 and 2017, respectively, is comprised primarily of interest income.

The Oklahoma Mental Health Council d/b/a Red Rock Behavioral Health Services

Notes to Financial Statements

June 30, 2018 and 2017

Note 5: Investments in Equity Investees

Oklahoma Behavioral Health Pharmacy, L.L.C.

Red Rock has a 33% interest in Oklahoma Behavioral Health Pharmacy, L.L.C. (OBHP). The audited financial position and results of operations of OBHP for its most recent year-ends are summarized below:

	December 31, 2017	December 31, 2016
Total assets	\$ 2,083,305	\$ 2,199,052
Total liabilities	<u>488,522</u>	<u>627,302</u>
Members' equity	<u><u>\$ 1,594,783</u></u>	<u><u>\$ 1,571,750</u></u>
Revenues	\$ 12,224,770	\$ 11,518,009
Expenses	<u>11,901,737</u>	<u>10,627,351</u>
Net income	<u><u>\$ 323,033</u></u>	<u><u>\$ 890,658</u></u>

Certain members of Red Rock's management participate as members of management and the Board of Directors of OBHP.

Red Rock purchased medications for its patients from OBHP and provided certain administrative services to OBHP during 2018 and 2017. Red Rock purchased approximately \$1,189,000 and \$1,152,000 in medications from OBHP in 2018 and 2017, respectively. Red Rock recorded approximately \$2,000 and \$5,000 as revenue for administrative services provided to OBHP for 2018 and 2017, respectively. OBHP paid Red Rock approximately \$17,000 for rent in 2018 and 2017. Additionally, all full-time employees of OBHP and their related benefits are paid by Red Rock. OBHP reimbursed Red Rock approximately \$1,073,000 and \$934,000 in 2018 and 2017, respectively, for all employment expenses. Red Rock had approximately \$127,000 and \$82,000 in payables to OBHP at June 30, 2018 and 2017, respectively. Red Rock had approximately \$138,000 and \$118,000 in receivables from OBHP at June 30, 2018 and 2017, respectively.

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Notes to Financial Statements

June 30, 2018 and 2017

North Rock II, LLC

Red Rock has a 33% interest in North Rock II, LLC, which began operations in 2014. During 2014, Red Rock contributed \$125,000 in capital to North Rock II, LLC. Red Rock contributed an additional \$67,000 during 2016. North Rock II, LLC's primary activity is ownership interest in Hope Pharmacy and Integrated Healthcare Pharmacy. The unaudited financial position and results of operations of North Rock II, LLC for its most recent year-ends are summarized below:

	June 30, 2018	June 30, 2017
Total assets	\$ 891,831	\$ 647,032
Total liabilities	-	1,624
Members' equity	<u>\$ 891,831</u>	<u>\$ 645,408</u>
Revenues	\$ 459,558	\$ 67,713
Expenses	<u>138,135</u>	<u>72,592</u>
Net income (loss)	<u>\$ 321,423</u>	<u>\$ (4,879)</u>

Certain members of Red Rock's management participate as members of management and the Board of Directors of North Rock II, LLC.

Red Rock provided certain leased employees and administrative services to Hope Pharmacy during 2018 and 2017. Hope Pharmacy reimbursed Red Rock approximately \$317,000 and \$285,000 in 2018 and 2017, respectively, for leased employees and other administrative services.

Note 6: Functional Expenses

Red Rock provides mental and behavioral health services to residents within its geographic location, which is the state of Oklahoma. Expenses related to providing these services are summarized as health care services. General and administrative expenses include the provision for uncollectible accounts.

	2018	2017
Health care services	\$ 31,801,251	\$ 26,497,251
General and administrative	<u>11,146,386</u>	<u>9,304,158</u>
	<u>\$ 42,947,637</u>	<u>\$ 35,801,409</u>

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Notes to Financial Statements

June 30, 2018 and 2017

Note 7: Related-Party Transactions

Red Rock has contracted with an architectural firm, approved by the Board of Directors, to provide architectural and engineering services related to construction, design and remodeling projects. A partner of the architectural firm is a member of Red Rock's Board of Directors. Red Rock incurred expenses from the architectural firm for architectural and subcontracted engineering services of approximately \$191,000 and \$19,000 for the years ended June 30, 2018 and 2017, respectively.

Note 8: Retirement Plans

Red Rock has a defined contribution pension plan. The plan covers substantially all full-time employees who have completed 18 months of service and allows part-time employees with 18 months of service who work more than 1,000 hours per calendar year to be eligible to participate in the plan. Red Rock contributes 5% of each participant's annual salary to the plan. Red Rock also has a 457 deferred compensation plan for members of management. Retirement plan expense for both plans was approximately \$728,000 and \$657,000 for the years ended June 30, 2018 and 2017, respectively.

Note 9: 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*.

Professional Liability Claims

Red Rock purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Under such a policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered.

Based upon Red Rock's claims experience, an accrual had been made for Red Rock's estimated medical malpractice costs, including costs associated with litigating or settling claims, under its malpractice insurance policy, amounting to approximately \$237,000 and \$265,000 as of June 30, 2018 and 2017, respectively. Professional liability reserve estimates represent the estimated ultimate cost of all reported and unreported losses incurred through the respective balance sheet dates. It is reasonably possible that this estimate could change materially in the near term.

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Red Rock's professional liability risks are insured through unrelated commercial insurance carriers. The amounts receivable under these insurance contracts of approximately \$237,000 and \$265,000 are included in prepaid and other assets at June 30, 2018 and 2017, respectively.

Government Contracts

Red Rock receives a significant portion of its revenue each year through annual contracts with various governmental agencies (see *Notes 1* and *2*). Should the annual contracts be terminated or not renewed by the various governmental agencies, the operations of Red Rock could be adversely impacted.

These contracts are generally subject to audits by the respective grantor agency and those audits may result in disallowed costs and/or other noncompliance findings, which could result in repayment of amounts by Red Rock. As of June 30, 2018 and 2017, management has accrued \$1,086,000 and \$600,000, respectively, based on past audit results related to this potential liability. It is reasonably possible that the recorded estimate will change materially in the near term.

Patient Assistance Programs

Patient Assistance Programs (PAP) are programs offered by most pharmaceutical companies to provide medication to individuals who meet certain eligibility requirements, generally, those individuals who would not otherwise be able to afford purchasing medication on their own. As a service to its patients, Red Rock assists individuals in enrolling in certain PAPs. Because Red Rock does not have the power to direct the usage of the donated medication nor does it actually receive the donated medication, these amounts are not reported as in-kind contribution revenue. During the years ended June 30, 2018 and 2017, the total value of the medication that individuals received through PAPs was approximately \$8,564,000 and \$5,750,000, respectively.

Litigation

In the normal course of business, Red Rock 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 performance of contracts. Red Rock 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. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits, if any, will not have a material adverse effect on the financial position, changes in net assets and cash flows of Red Rock. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Self-Insurance

Self-insurance related to employee health is described in *Note 1*.

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Notes to Financial Statements

June 30, 2018 and 2017

Note 10: Line of Credit

During 2016 and through June 2017, Red Rock had a \$500,000 line of credit loan agreement with a bank, which is secured by real estate. The loan agreement was scheduled to mature on June 30, 2018, with any outstanding amounts bearing interest at 5%. In June 2017, Red Rock renewed this promissory note for \$1,000,000 with a maturity date of June 26, 2019, with any outstanding amounts bearing interest at prime rate, but limited to no more than 8% and no less than 5%. At June 30, 2018 and 2017, no amounts were borrowed or outstanding related to the line of credit loan agreement.

Note 11: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset 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
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets, 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
- Level 3** Unobservable inputs supported by little or no market activity and significant to the fair value of the assets

Recurring Measurements

The fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis consisted of a money market mutual fund of \$753,912 and \$1,050,962 at June 30, 2018 and 2017, respectively.

Money Market Mutual Fund

Where quoted market prices are available in an active market, assets are classified within Level 1 of the valuation hierarchy. At June 30, 2018 and 2017, Level 1 investments consisted of a money market mutual fund, which was valued at cost, which approximates fair value. There were no Level 2 or Level 3 investments.

Note 12: Subsequent Events

Subsequent events have been evaluated through December 21, 2018, which is the date the financial statements were available to be issued.

**The Oklahoma Mental Health Council
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June 30, 2018 and 2017

After year-end, Red Rock approved the construction of a new building in western Oklahoma with an estimated budget of approximately \$6,850,000 and an anticipated completion date of October 2019.

Supplementary Information

**The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services**

Schedule of Expenditures of State Awards

Year Ended June 30, 2018

	Total Award Amount	Award Received	Award Expended	Award Not Received and Unspent
State of Oklahoma				
Adult/Child Flex – State	\$ 24,445	\$ 24,445	\$ 24,445	\$ -
SQE – MH Children (Trauma) – State	35,267	35,267	35,267	-
Medications – State	759,937	759,937	759,937	-
Basic Meds (Children) – State	4,223	4,223	4,223	-
Enhanced Tier Payment Systems (ETPS) – State	4,891,860	4,891,860	4,891,860	-
Jail Diversion Administration – Midwest City – State	14,583	14,583	14,583	-
Jail Diversion Administration – Midwest City – Revolving	14,583	14,583	14,583	-
Nicotine Replacement Therapy Project – Revolving	2,992	2,992	2,992	-
SPF/CPF – State	40,000	40,000	40,000	-
Offender Screenings – State	717	717	717	-
Strategic Prevention Framework Partnership for Success (SPF-PFS) – State	31,412	31,412	31,412	-
Community-based planning and implementation of evidence-based alcohol and other drug prevention – Regional 12 RPC – State	16,608	16,608	16,608	-
Community-based planning and implementation of evidence-based alcohol and other drug prevention – Regional 13 RPC – State	18,099	18,099	18,099	-
	<u>5,854,726</u>	<u>5,854,726</u>	<u>5,854,726</u>	<u>-</u>

**The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services**

Schedule of Expenditures of State Awards

Year Ended June 30, 2018

	Total Award Amount	Award Received	Award Expended	Award Not Received and Unspent
State HIV Outreach	\$ 10,150	\$ 10,150	\$ 10,150	\$ -
Drug Court Team 3	1,628	1,628	1,628	-
Drug Court Team 3	142,874	142,874	142,874	-
Halfway House Residential 23AG	74,345	74,345	74,345	-
Smart on Crime Residential 23AJ	260,680	260,680	260,680	-
Smart on Crime Residential 23AJ	482,125	482,125	482,125	-
Systems of Care 39AA	408	408	408	-
Systems of Care 39AA	19,591	19,591	19,591	-
Systems of Care 39AA	10,897	10,897	10,897	-
Community Living	715,485	715,485	715,485	-
Competency Evals OFC	35,176	35,176	35,176	-
Certified Community Behavioral Health Clinics	3,880,150	3,880,150	3,880,150	-
Certified Community Behavioral Health Clinics	1,286,755	1,286,755	1,286,755	-
Adult Crisis Stabilization 53AA	83,461	83,461	83,461	-
Adult Crisis Stabilization 53AA	2,051,274	2,051,274	2,051,274	-
Adult Crisis Stabilization 53AA	494,993	494,993	494,993	-
Adult Crisis Stabilization 53AA	1,316,517	1,316,517	1,316,517	-
Adult Crisis Stabilization Site 2	891,877	891,877	891,877	-
Regional Crisis Services for Children	384,001	384,001	384,001	-
Temporary Assistance for Needy Families	28,164	28,164	28,164	-
	<u>12,170,551</u>	<u>12,170,551</u>	<u>12,170,551</u>	<u>-</u>
	<u>\$ 18,025,277</u>	<u>\$ 18,025,277</u>	<u>\$ 18,025,277</u>	<u>\$ -</u>

Note to Schedule

This schedule includes the state award activity of Red Rock Behavioral Health Services and is presented on the accrual basis of accounting.

**The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services**

Single Audit Reports

June 30, 2018



**The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services**

June 30, 2018

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**The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services**
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 Housing and Urban Development				
City of Oklahoma City/Emergency Solutions Grant Program	14.231	N/A	\$ -	\$ 8,582
City of Oklahoma City/Supportive Housing Program	14.235	N/A	-	221,855
Total U.S. Department of Housing and Urban Development			-	230,437
U.S. Department of Justice				
Oklahoma Department of Mental Health and Substance Abuse Services/Drug Court Discretionary Grant Program	16.585	4529050970 4529057972	- -	3,988 3,323
<i>Subtotal CFDA 16.585</i>			-	7,311
Oklahoma Department of Mental Health and Substance Abuse Services/Justice Reinvestment Initiative	16.827	4529055443 4529055443 4529055443	- - -	117 10,177 5,363
<i>Subtotal CFDA 16.827</i>			-	15,657
Total U.S. Department of Justice			-	22,968
U.S. Department of Veterans Affairs				
VA Homeless Providers Grant and Per Diem Program	64.024	N/A	-	205,592
Total U.S. Department of Veterans Affairs			-	205,592
U.S. Department of Education				
<i>Special Education Cluster (IDEA)</i>				
Oklahoma Department of Mental Health and Substance Abuse Services/Special Education – Grants to States (IDEA, Part B)	84.027	4529050970 4529050970	- -	70,000 2,069
<i>Subtotal Special Education Cluster (IDEA)</i>			-	72,069
Total U.S. Department of Education			-	72,069
U.S. Department of Health and Human Services				
Oklahoma Department of Mental Health and Substance Abuse Services/Enhance Safety for Children Affected by Substance Abuse	93.087	4529050970	-	46,454
Oklahoma Department of Mental Health and Substance Abuse Services/Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243	4529050970 4529050970 4529050970 4529050970 4529050970 4529050970 4529054832 4529054832 4529049841	- - - - - - - - -	6,760 6,420 12,000 12,000 13,255 95,570 44,540 14,484 9,207
<i>Subtotal CFDA 93.243</i>			-	214,236

**The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services
Schedule of Expenditures of Federal Awards, continued
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
Oklahoma Department of Health/HIV Prevention Activities Health Department-Based	93.940	3409022083	\$ -	\$ 99,558
Oklahoma Department of Mental Health and Substance Abuse Services/Block Grants for Community Mental Health Services	93.958	4529054832	-	1,196,796
Oklahoma Department of Mental Health and Substance Abuse Services/Block Grants for Prevention and Treatment of Substance Abuse	93.959	4529054832 4529050217 4529050218	- - -	1,682,500 112,208 115,045
<i>Subtotal CFDA 93.959</i>			-	<u>1,909,753</u>
Oklahoma Department of Mental Health and Substance Abuse Services/Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	4529050970 4529050970 4529050970 4529050970	- - - -	5,137 59,250 28,500 48,700
<i>Subtotal CFDA 93.104</i>			-	<u>141,587</u>
Oklahoma Department of Mental Health and Substance Abuse Services/Assisted Outpatient Treatment	93.997	4529050970 4529050970	- -	50,000 221,000
<i>Subtotal CFDA 93.997</i>			-	<u>271,000</u>
Oklahoma Department of Mental Health and Substance Abuse Services/Opioid STR	93.788	4529050217 4529049841 4529050970 4529050970 4529054832 4529050970	- - - - - -	4,581 4,716 17,105 234,343 133,049 53,220
<i>Subtotal CFDA 93.788</i>			-	<u>447,014</u>
Total U.S. Department of Health and Human Services			-	<u>4,326,398</u>
Total Schedule of Expenditures of Federal Awards			<u>\$ -</u>	<u>\$ 4,857,464</u>

**The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services
Notes to 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 awards activity of The Oklahoma Mental Health Council d/b/a Red Rock Behavioral Health Services (Red Rock) 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 Red Rock, it is not intended to and does not present the financial position, changes in net assets or cash flows of Red Rock.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in U.S. Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Red Rock has elected not to use the 10 percent de minimis indirect costs rate allowed under the Uniform Guidance.

**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**

Independent Auditor's Report

Board of Directors
The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services
Oklahoma City, Oklahoma

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 The Oklahoma Mental Health Council d/b/a Red Rock Behavioral Health Services (Red Rock), which comprise the balance sheet as of June 30, 2018, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 21, 2018.

Internal Control over Financial Reporting

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

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

Board of Directors
The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services

Compliance and Other Matters

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

We noted certain matters that we reported to Red Rock's management in a separate letter dated December 21, 2018.

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 Red Rock's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Tulsa, Oklahoma
December 21, 2018

**Report on Compliance for Each Major Federal Program; Report on
Internal Control over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

Independent Auditor's Report

Board of Directors
The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services
Oklahoma City, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited The Oklahoma Mental Health Council d/b/a Red Rock Behavioral Health Services' (Red Rock) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Red Rock's major federal programs for the year ended June 30, 2018. Red Rock's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contracts 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 Red Rock'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 Red Rock's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Board of Directors
The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services

Opinion on Each Major Federal Program

In our opinion, Red Rock complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of Red Rock 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 Red Rock's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Red Rock'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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Red Rock as of and for the year ended June 30, 2018, and have issued our report thereon dated December 21, 2018, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required

Board of Directors
The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services

part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Tulsa, Oklahoma
December 21, 2018

**The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services
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 deficiencies? ☐ Yes ☒ None reported
 Material weaknesses? ☐ 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 award programs disclosed:
 Significant deficiencies? ☐ Yes ☒ None reported
 Material weaknesses? ☐ Yes ☒ No
5. The opinions expressed in the independent auditor's report on compliance for major federal award programs were:
☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer
6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? ☐ Yes ☒ No
7. Red Rock's major programs were:

Cluster/Program	CFDA Number
Block Grants for Community Mental Health Services	93.958
Block Grants for Prevention and Treatment of Substance Abuse	93.959

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.
9. Red Rock qualified as a low-risk auditee? ☐ Yes ☒ No

**The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services**
Schedule of Findings and Questioned Costs, continued
Year Ended June 30, 2018

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.	

**The Oklahoma Mental Health Council
d/b/a Red Rock Behavioral Health Services
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018**

Reference Number	Summary of Finding	Status
	No matters are reportable.	