MENTAL HEALTH COOPERATIVE, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

As of and for the Years Ended June 30, 2018 and 2017

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

MENTAL HEALTH COOPERATIVE, INC. AND AFFILIATES

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR 1-2

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Financial Position 3
Consolidated Statements of Activities 4-5
Consolidated Statements of Functional Expenses 6-7
Consolidated Statements of Cash Flows 8
Notes to Consolidated Financial Statements 9-17

SUPPLEMENTARY INFORMATION

Consolidating Statement of Financial Position 18
Consolidating Statement of Activities 19

COMPLIANCE SECTION

Report of Independent Auditor 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* 20-21

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

The Board of Directors
Mental Health Cooperative, Inc. and affiliates
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Mental Health Cooperative, Inc. and affiliates ("MHC") a nonprofit organization, which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated 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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 MHC'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 MHC'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 financial position of Mental Health Cooperative, Inc. and affiliates as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 18 and 19 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual organizations, and it 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 consolidating 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 consolidating 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 November 12, 2018 on our consideration of MHC'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 MHC'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 MHC's internal control over financial reporting and compliance.

Prior Period Financial Statements

The consolidated financial statements as of June 30, 2017, were audited by other auditors whose report dated November 3, 2017 expressed an unmodified opinion on those statements.

Cherry Bekaert LLP

Nashville, Tennessee
November 12, 2018

MENTAL HEALTH COOPERATIVE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 13,618,205	$ 8,125,967
Investments	34,411,051	30,175,574
Accounts receivable, net	9,630,612	5,485,104
Prepaid expenses and other	683,714	466,428
Inventory	1,811,089	1,256,547
Funds held for consumers	1,526,310	1,410,115
Total Current Assets	61,680,981	46,919,735
Property and Equipment:		
Land	1,008,721	441,612
Buildings and housing	1,265,830	1,265,830
Building improvements	3,300,682	1,787,305
Office equipment	4,716,909	3,306,044
Leasehold improvements	2,738,233	2,625,795
Furniture and fixtures	689,529	630,828
Construction in progress	809,740	50,469
	14,529,644	10,107,883
Less accumulated depreciation	(5,184,970)	(4,263,357)
Net Property and Equipment	9,344,674	5,844,526
Total Assets	$ 71,025,655	$ 52,764,261
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 621,923	$ 644,009
Accrued payroll and related costs	3,144,203	2,655,223
Payable to provider	8,844,978	-
Funds held for consumers	1,526,310	1,410,115
Total Liabilities	14,137,414	4,709,347
Net Assets:		
Unrestricted	56,054,174	47,984,047
Temporarily restricted	834,067	70,867
Total Net Assets	56,888,241	48,054,914
Total Liabilities and Net Assets	$ 71,025,655	$ 52,764,261

The accompanying notes to the consolidated financial statements are an integral part of these statements.

MENTAL HEALTH COOPERATIVE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Total
Revenue and Other Support:			
Care management revenue, net	$ 34,519,696	$ -	$ 34,519,696
Pharmacy revenue	10,837,160	-	10,837,160
Contract revenue - other	10,444,093	763,200	11,207,293
Grant revenue	5,009,641	-	5,009,641
Investment income, net	1,440,184	-	1,440,184
Supportive housing revenue	1,315,301	-	1,315,301
Other	355,224	14,577	369,801
Physical health revenue, net	198,154	-	198,154
Net assets released from restrictions	14,577	(14,577)	-
Total Revenue and Other Support	64,134,030	763,200	64,897,230
Expenses:			
Program Services:			
Mental health services	36,352,104	-	36,352,104
Pharmacy	10,390,203	-	10,390,203
Supportive housing	954,360	-	954,360
Physical health services	686,017	-	686,017
Total Program Services	48,382,684	-	48,382,684
General and administrative	7,681,219	-	7,681,219
Total Expenses	56,063,903	-	56,063,903
Change in net assets	8,070,127	763,200	8,833,327
Net assets, beginning of year	47,984,047	70,867	48,054,914
Net assets, end of year	$ 56,054,174	$ 834,067	$ 56,888,241

The accompanying notes to the consolidated financial statements are an integral part of these statements.

MENTAL HEALTH COOPERATIVE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue and Other Support:			
Care management revenue, net	$ 30,001,216	$ -	$ 30,001,216
Pharmacy revenue	11,125,615	-	11,125,615
Contract revenue - other	7,957,326	-	7,957,326
Grant revenue	4,582,047	-	4,582,047
Investment income, net	1,699,724	-	1,699,724
Supportive housing revenue	1,037,970	-	1,037,970
Other	683,026	18,279	701,305
Physical health revenue, net	247,180	-	247,180
Net assets released from restrictions	18,279	(18,279)	-
Total Revenue and Other Support	57,352,383	-	57,352,383
Expenses:			
Program Services:			
Mental health services	31,700,319	-	31,700,319
Pharmacy	10,646,505	-	10,646,505
Supportive housing	856,920	-	856,920
Physical health services	639,864	-	639,864
Total Program Services	43,843,608	-	43,843,608
General and administrative	7,781,159	-	7,781,159
Total Expenses	51,624,767	-	51,624,767
Change in net assets	5,727,616	-	5,727,616
Net assets, beginning of year	42,256,431	70,867	42,327,298
Net assets, end of year	$ 47,984,047	$ 70,867	$ 48,054,914

The accompanying notes to the consolidated financial statements are an integral part of these statements.

MENTAL HEALTH COOPERATIVE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	Program Services					
	Mental Health Services	Pharmacy	Supportive Housing	Physical Health Services	General and Administrative	Total
Salaries and benefits	$ 29,815,076	$ 678,610	$ -	$ 628,770	$ 5,142,547	$ 36,265,003
Cost of goods sold	-	9,605,468	-	-	-	9,605,468
Legal and professional	1,162,775	2,058	954,360	10,300	862,158	2,991,651
Facility rent	1,379,927	-	-	-	127,079	1,507,006
Purchased services	935,256	3,010	-	1,365	431,319	1,370,950
Motor vehicle operations	923,526	23,605	-	-	42,964	990,095
Depreciation	814,819	13,626	-	12,157	83,136	923,738
Communications and shipping	373,400	9,989	-	731	361,156	745,276
Insurance	2,075	-	-	-	606,981	609,056
Supplies	354,237	42,104	-	17,269	23,879	437,489
Other	398,721	11,733	-	15,425	-	425,879
Independent living and consumer needs	92,536	-	-	-	-	92,536
Respite expenses	99,756	-	-	-	-	99,756
	$ 36,352,104	$ 10,390,203	$ 954,360	$ 686,017	$ 7,681,219	$ 56,063,903

The accompanying notes to the consolidated financial statements are an integral part of these statements.

MENTAL HEALTH COOPERATIVE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017

	Program Services					
	Mental Health Services	Pharmacy	Supportive Housing	Physical Health Services	General and Administrative	Total
Salaries and benefits	$ 26,042,814	$ 608,069	$ -	$ 590,684	$ 5,054,919	$ 32,296,486
Cost of goods sold	-	9,936,125	-	-	-	9,936,125
Legal and professional	596,281	15,773	856,920	960	997,927	2,467,861
Facility rent	1,334,327	-	-	-	129,705	1,464,032
Purchased services	802,923	1,530	-	3,440	426,190	1,234,083
Motor vehicle operations	943,396	8,681	-	-	41,715	993,792
Depreciation	776,634	13,626	-	12,428	79,387	882,075
Communications and shipping	403,629	10,256	-	2,800	343,751	760,436
Insurance	6,163	-	-	-	577,949	584,112
Supplies	378,307	42,148	-	23,937	109,776	554,168
Other	203,629	10,297	-	5,615	-	219,541
Independent living and consumer needs	123,539	-	-	-	-	123,539
Respite expenses	88,677	-	-	-	-	88,677
Interest expense	-	-	-	-	19,840	19,840
	$ 31,700,319	$ 10,646,505	$ 856,920	$ 639,864	$ 7,781,159	$ 51,624,767

The accompanying notes to the consolidated financial statements are an integral part of these statements.

MENTAL HEALTH COOPERATIVE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 8,833,327	$ 5,727,616
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	923,738	882,075
Amortization of bond discount	(2,902)	14,041
Provision for uncollectible receivables	682,601	1,650,644
Net realized and unrealized gain on investments	(869,282)	(1,281,224)
Changes in operating assets and liabilities:		
Accounts receivable	(4,828,109)	(1,316,754)
Prepaid expenses and other	(217,286)	77,313
Inventory	(554,542)	(577,980)
Accounts payable and accrued expenses	92,747	(249,605)
Accrued payroll and related costs	488,980	(39,271)
Payable to provider	8,844,978	-
Net cash provided by operating activities	13,394,250	4,886,855
Cash flows from investing activities:		
Purchase of investments	(15,731,080)	(14,154,472)
Proceeds from sale of investments	12,367,787	9,698,766
Purchase of property and equipment	(4,423,886)	(699,810)
Net cash used in investing activities	(7,787,179)	(5,155,516)
Cash flow from financing activities:		
Payments on accounts payable to finance property and equipment purchases	(114,833)	-
Payments on long-term debt	-	(680,000)
Net cash used in financing activities	(114,833)	(680,000)
Net increase (decrease) in cash and cash equivalents	5,492,238	(948,661)
Cash and cash equivalents, beginning of year	8,125,967	9,074,628
Cash and cash equivalents, end of year	$ 13,618,205	$ 8,125,967
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ -	$ 19,840
Accounts payable for additions to property and equipment	$ -	$ 114,833

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Note 1—Nature of activities and significant accounting policies

General – Mental Health Cooperative, Inc. and affiliates ("MHC") is a not-for-profit organization that provides individuals with immediate access to mental health services through mobile crisis response, emergency psychiatric services, clinical evaluation, outreach services and care management. Mental Health Cooperative, Inc. also owns a membership interest in an on-site pharmacy and an on-site physical health services provider. The pharmacy operates as a single member limited liability company under the name NPS Pharmacy, LLC ("NPS"). The physical health services provider was formed in February 2013 as a single member limited liability company and operates under the name Integrated Health Cooperative, LLC ("IHC"). MHC serves adults with severe mental illness and children with serious emotional challenges with locations across Middle and East Tennessee.

Principles of Consolidation – The financial statements include the accounts of Mental Health Cooperative, Inc., NPS, and IHC. All significant inter-entity transactions and balances have been eliminated in consolidation.

Basis of Presentation – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC"). Accordingly, net assets of MHC and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of MHC and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by MHC. Generally, donors of these assets may permit MHC to use all or part of the income earned for general or specific purposes. MHC currently has no permanently restricted net assets.

Cash and Cash Equivalents – For purposes of the consolidated statements of cash flows, MHC considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents.

Promises to Give – Contributions are recognized when the donor makes a promise to give to MHC that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Accounts Receivable and Bad Debts – The majority of accounts receivable are due under fee-for-service contracts from third-party payers, such as insurance companies. Receivables are generally collected within industry norms for third-party payers. Collections from payers are continuously monitored and an allowance for doubtful accounts is maintained based upon specific payer collection issues that have been identified and historical experience. Accounts receivable considered uncollectible are charged against the allowance account in the year they are deemed uncollectible. The allowance for doubtful accounts is adjusted periodically, based upon a review of outstanding receivables.

Note 1—Nature of activities and significant accounting policies (continued)

Inventory – Inventory is stated at the lower of cost or market using the weighted average method. Inventory is primarily comprised of pharmacy medications and supplies.

Property and Equipment – Property and equipment are recorded at cost. Expenditures for ordinary maintenance and repairs are charged to expense. Renewals and betterments that materially extend the life of the assets are capitalized. Depreciation is provided over the estimated useful lives of the respective assets (ranging from 3 to 40 years) using the straight-line method.

Investments – Investments are reported at their fair values in the accompanying consolidated statements of financial position. See Note 3 for discussion on fair value measurements. Investment income and unrealized gains and losses are reported as changes in unrestricted net assets unless the use of income has been restricted by the donor.

Income Taxes – MHC is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Accordingly, no provision for income tax has been made in the accompanying consolidated financial statements.

Case Management – MHC provides services to adults with serious mental illness and adolescents and children with a mental illness and emotional disorders. Care management services for these individuals are primarily administered to covered persons enrolled in TennCare's Health Link Program (THL) through participating provider agreements with managed care organizations. MHC is compensated for its services in accordance with the agreed rates as included in the participating provider agreements. In addition, MHC also provides physical health services and pharmacy services primarily to these same individuals. Care management revenue, physical health revenue and pharmacy revenue are reported at established rates, net of contractual adjustments, charity assistance services, and provision for bad debts. Third party contractual revenue adjustments under government reimbursement programs are accrued on an estimated basis in the period the related services are rendered.

Contract Revenue – MHC provides crisis walk-in services and mobile crisis response services to adults, adolescents and children in Middle Tennessee. These crisis services are funded through the TennCare managed care organizations and are paid on a 'per member per month (PMPM)' basis based on the total TennCare enrollment in Davidson County. MHC also provides therapy services, compensated in accordance with agreed rates from participating providers. MHC has several contracts and agreements with Metro Davidson County agencies for services at either agreed monthly or per consumer rates, or on a cost reimbursement arrangement. Under the THL program, MHC also receives incentive payments through participating providers based on agreed upon quality and efficiency metrics.

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 consolidated financial statements. Estimates also affect the reported amounts of revenue and other support and expenses during the period. Actual results could differ from those estimates.

Subsequent Events – MHC evaluated subsequent events through November 12, 2018, when these consolidated financial statements were available to be issued.

Note 1—Nature of activities and significant accounting policies (continued)

Future Pronouncements – In May 2014, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under accounting standards generally accepted in the United States ("GAAP") under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will be effective for MHC on July 1, 2019. MHC is currently evaluating the effect of the implementation of this new standard.

In August 2016, FASB issued accounting standard, ASU 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements for Not-for-Profit Entities (Topic 958)*, intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the statements of activities. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU will be effective for MHC on July 1, 2018. Early adoption is permitted. MHC is currently evaluating the effect that the standard will have on its financial statements and related disclosures.

Note 2—Accounts receivable

Accounts receivable consisted of the following at June 30:

	2018	2017
Care management, supportive housing and other contract receivable	$ 10,511,021	$ 6,534,371
Grants receivable from Tennessee Department of Mental Health and Substance Abuse Services	1,166,828	430,609
Pharmacy receivable	454,544	386,930
Physical health receivable	43,884	23,044
Other	44,779	17,993
	12,221,056	7,392,947
Less allowance for doubtful accounts	(2,590,444)	(1,907,843)
	$ 9,630,612	$ 5,485,104

As of June 30, 2018 and 2017, MHC care management, supportive housing and other contract receivables consisted primarily of third-party payors under TennCare/Medicaid and Medicare contracts.

Mental health services bad debt expense, reported as a reduction to care management revenue on the consolidated statement of activities, totaled approximately $1,320,000 and $2,650,000 for the years ended June 30, 2018 and 2017, respectively. In addition, physical health services bad debt expense, reported as a reduction to physical health revenue on the consolidated statement of activities, totaled approximately $34,000 and $15,500 for the years ended June 30, 2018 and 2017, respectively. The increase in gross accounts receivable and the related allowance for doubtful accounts at June 30, 2018 as compared to June 30, 2017 is primarily due to May and June 2018 claims being submitted for approval and payment subsequent to June 30, 2018 as MHC implemented a new electronic medical records system. Implementation of the new electronic medical records system was effective May 1, 2018.

Note 3—Investments

MHC has adopted the provisions of the Fair Value Measurement Topic of the FASB ASC, which establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that MHC has the ability to access.

Level 2 Inputs to the valuation methodology include the following:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; and
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodology used at June 30, 2018 and 2017. A description of the valuation methodology used for assets measured at fair value is as follows:

Common Stocks, U.S. Government Securities, Corporate Bonds, Commercial Paper, Equity Securities, and Short Term Investments – Valued at the closing price reported on the active market on which the individual securities are traded.

Note 3—Investments (continued)

The following table sets forth by level, within the fair value hierarchy, MHC's investments at fair value as of June 30, 2018:

	Level 1	Level 2	Level 3	Total
U.S. Government Securities:				
Federal government agencies	$ 6,819,309	$ -	$ -	$ 6,819,309
U.S. Treasury	5,080,734	-	-	5,080,734
Total U.S. Government Securities	11,900,043	-	-	11,900,043
Corporate Bonds:				
Banking/financial industry	2,729,613	-	-	2,729,613
Oil and gas	395,325	-	-	395,325
Technology industry	402,952	-	-	402,952
Consumer goods	116,332	-	-	116,332
Railroad	178,672	-	-	178,672
Healthcare	124,376	-	-	124,376
Retail	70,556	-	-	70,556
Real estate	68,237	-	-	68,237
Total Corporate Bonds	4,086,063	-	-	4,086,063
Equity Securities:				
Large cap blend	11,186,927	-	-	11,186,927
Foreign large blend	4,631,860	-	-	4,631,860
Other	391,309	-	-	391,309
Total Equity Securities	16,210,096	-	-	16,210,096
Foreign bonds:				
Basic materials	137,931	-	-	137,931
Commercial paper	862,520	-	-	862,520
Negotiable certificate of deposit	499,437	-	-	499,437
Asset-backed securities and mortgage-backed securities	246,168	-	-	246,168
Short-term investments - money market funds	468,793	-	-	468,793
Total assets at fair value	$ 34,411,051	$ -	$ -	$ 34,411,051

Note 3—Investments (continued)

The following table sets forth by level, within the fair value hierarchy, MHC's investments at fair value as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
U.S. Government Securities:				
Federal government agencies	$ 7,522,090	$ -	$ -	$ 7,522,090
U.S. Treasury	4,835,820	-	-	4,835,820
Total U.S. Government Securities	12,357,910	-	-	12,357,910
Corporate Bonds:				
Banking/financial industry	3,067,488	-	-	3,067,488
Oil and gas	650,165	-	-	650,165
Technology industry	526,184	-	-	526,184
Consumer goods	344,659	-	-	344,659
Railroad	211,396	-	-	211,396
Healthcare	136,668	-	-	136,668
Retail	71,500	-	-	71,500
Total Corporate Bonds	5,008,060	-	-	5,008,060
Equity Securities:				
Large cap blend	7,317,605	-	-	7,317,605
Foreign large blend	3,173,203	-	-	3,173,203
Other	324,430	-	-	324,430
Technology	177,881	-	-	177,881
Healthcare	163,155	-	-	163,155
Industrials	147,118	-	-	147,118
Small growth	144,298	-	-	144,298
Consumer defensive	141,031	-	-	141,031
Diversified emerging markets	113,997	-	-	113,997
Mid cap blend	70,102	-	-	70,102
Total Equity Securities	11,772,820	-	-	11,772,820
Foreign bonds:				
Basic materials	69,142	-	-	69,142
Commercial paper	392,716	-	-	392,716
Asset-backed securities and mortgage-backed securities	309,168	-	-	309,168
Short-term investments - money market funds	265,758	-	-	265,758
Total assets at fair value	$ 30,175,574	$ -	$ -	$ 30,175,574

Note 3—Investments (continued)

The following schedule summarizes the total investment return for all investments in the consolidated statements of activities for the years ended June 30:

	2018	2017
Interest and dividend income, including bond amortization	$ 570,902	$ 418,500
Net realized and unrealized gain on investments	869,282	1,281,224
	$ 1,440,184	$ 1,699,724

Note 4—Payable to provider

During fiscal year 2018, one of MHC's providers made several insurance overpayments totaling $8,844,978. Subsequent to year end, the MHC repaid the overpayment total in full.

Note 5—Restrictions on net assets

Temporarily restricted net assets are available for the following purposes or periods at June 30:

	2018	2017
Pre-arrest diversion crisis center	$ 763,200	$ -
Consumer needs	70,867	70,867
	$ 834,067	$ 70,867

In September 2017, MHC entered into an agreement with the Tennessee Department of Mental Health and Substance Abuse Services, whereby funds were made available to MHC by the governmental agency to construct a pre-arrest diversion crisis center. Under the agreement, MHC is committed to operate the center program for twenty years or be liable for repaying the total amount of the original funds to the governmental agency which provided them. Management currently plans to operate the program for the specified terms of the agreement.

Note 6—Operating leases

MHC leases certain facilities, vehicles and office equipment under noncancelable lease agreements, all of which are considered operating leases. Future minimum payments for these lease commitments as of June 30, 2018 are as follows:

Years Ending June 30,	
2019	$ 1,228,202
2020	1,040,097
2021	909,976
2022	756,899
2023	741,072
Thereafter	689,187
	$ 5,365,433

Rental and lease expense under operating leases for the years ended June 30, 2018 and 2017, amounted to $1,611,683 and $1,555,859, respectively.

Note 7—Retirement plans

MHC maintains a 403(b) plan for eligible employees. Employees are eligible to participate in the plan upon hire. Under this plan, employees may elect to contribute a percentage of their earnings on a pretax basis to be invested in one of several alternatives. Additionally, MHC makes matching and other contributions on behalf of eligible employees. The maximum annual contribution is limited by existing IRS regulations. During 2018 and 2017, MHC contributed $1,090,512 and $1,095,747, respectively, to the plan. Plan liabilities of approximately $80,000 at June 30, 2018 and 2017, are included in accrued payroll and related costs.

In addition, MHC sponsors a nonqualified deferred compensation plan, The Executive 457(b) Retirement Plan of Mental Health Cooperative, Inc. (the "457(b) Plan"), was established to provide deferred compensation for a select group of management or highly compensated employees to accumulate retirement assets. The 457(b) Plan enables participants to defer income on a pre-tax basis. At June 30, 2018 and 2017, MHC held assets of approximately $391,000 and $324,000, respectively that are included in investments, which are designated by MHC to pay future 457(b) Plan liabilities of approximately $391,000 and $324,000, respectively, which are included in accrued payroll and related costs.

Note 8—Commitments and contingencies

MHC acts as representative payee of Social Security funds for the benefit of certain consumers. As representative payee, MHC makes disbursements of funds in accordance with Social Security guidelines for the benefit of the respective consumer. For the years ended June 30, 2018 and 2017, MHC held $1,526,310 and $1,410,115, respectively, for the benefit of its consumers.

Note 9—Charity care assistance

MHC provides certain mental health services to individuals who do not have insurance or other means to pay for their care. These services represent charity care and are not reported as revenue. The value of charity care provided by MHC during the years ended June 30, 2018 and 2017 was approximately $35,000 and $262,000, respectively.

Note 10—Risk of loss

MHC is exposed to various risks of loss including medical malpractice, general liability, errors and omissions, and other situations. MHC purchases commercial insurance for the significant risks of loss. There have been no significant claims during the years ended June 30, 2018 and 2017.

Note 11—Concentrations

MHC receives a substantial amount of its revenues from services provided to consumers covered by TennCare supported managed care organizations. Additionally, MHC receives a significant amount of support from government grants and contracts. A significant reduction in the level of these revenues, if this were to occur, may have an effect on MHC's programs and activities. In addition, the funding received by MHC from governmental agencies is subject to audit and retroactive adjustment.

During 2018 and 2017, MHC maintained deposit accounts with financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC"). At June 30, 2018 and 2017, accounts held at FDIC insured institutions were insured up to $250,000. Excess uninsured balances at MHC were approximately $13,822,000 and $9,396,000 at June 30, 2018 and 2017, respectively.

Note 11—Concentrations (continued)

At June 30, 2018 and 2017, investments were managed by three brokerage and investment companies with account balances totaling $34,411,051 and $30,175,574, respectively. Investments in the account are invested in various securities. Investments are generally not insured by FDIC or any other government agency and are subject to investment risk, including loss of principal. Investments are insured by the Securities and Investor Protection Corporation, which covers investor losses, in some cases, attributable to bankruptcy or fraudulent practices of brokerage firms.

Note 12—Related parties

MHC has contracts with members of its board of directors for consulting services. Additionally, a law firm affiliated with a member of the board of directors provides legal services to MHC. Total amounts remitted for legal services amounts to $45,649 and $35,887 for the years ended June 30, 2018 and 2017, respectively. Amounts paid under the consulting agreements amounts to $162,000 for both years ended June 30, 2018 and 2017. None of these transactions are considered to be individually significant to MHC's consolidated financial statements.

SUPPLEMENTARY INFORMATION

MENTAL HEALTH COOPERATIVE, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

	Mental Health Cooperative, Inc.	NPS Pharmacy, LLC	Integrated Health Cooperative, LLC	Eliminations	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 11,922,510	$ 1,649,397	$ 46,298	$ -	$ 13,618,205
Investments	34,411,051	-	-	-	34,411,051
Accounts receivable, net	9,144,344	454,544	31,724	-	9,630,612
Prepaid expenses and other	2,815,725	15,675	7,019	(2,154,705)	683,714
Inventory	-	1,811,089	-	-	1,811,089
Funds held for consumers	1,526,310	-	-	-	1,526,310
Total Current Assets	59,819,940	3,930,705	85,041	(2,154,705)	61,680,981
Property and Equipment:					
Land	1,008,721	-	-	-	1,008,721
Buildings and housing	1,265,830	-	-	-	1,265,830
Building improvements	3,300,682	-	-	-	3,300,682
Office equipment	4,621,144	67,647	28,118	-	4,716,909
Leasehold improvements	2,630,556	73,077	34,600	-	2,738,233
Furniture and fixtures	679,139	9,715	675	-	689,529
Construction in progress	809,740	-	-	-	809,740
	14,315,812	150,439	63,393	-	14,529,644
Less accumulated depreciation	(5,023,071)	(118,196)	(43,703)	-	(5,184,970)
Net Property and Equipment	9,292,741	32,243	19,690	-	9,344,674
Other Assets:					
Investment in affiliates	1,607,983	-	-	(1,607,983)	-
Total Assets	$ 70,720,664	$ 3,962,948	$ 104,731	$ (3,762,688)	$ 71,025,655
LIABILITIES AND NET ASSETS					
Liabilities:					
Accounts payable and accrued expenses	$ 453,919	$ 822,916	$ 1,499,793	$ (2,154,705)	$ 621,923
Accrued payroll and related costs	3,007,218	95,425	41,560	-	3,144,203
Payable to provider	8,844,978	-	-	-	8,844,978
Funds held for consumers	1,526,310	-	-	-	1,526,310
Total Liabilities	13,832,425	918,341	1,541,353	(2,154,705)	14,137,414
Net Assets (Member's Equity):					
Unrestricted	56,054,172	3,044,607	(1,436,622)	(1,607,983)	56,054,174
Temporarily restricted	834,067	-	-	-	834,067
Total Net Assets	56,888,239	3,044,607	(1,436,622)	(1,607,983)	56,888,241
Total Liabilities and Net Assets	$ 70,720,664	$ 3,962,948	$ 104,731	$ (3,762,688)	$ 71,025,655

MENTAL HEALTH COOPERATIVE, INC. AND AFFILIATES

CONSOLIDATING STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2018

	Mental Health Cooperative, Inc.	NPS Pharmacy, LLC	Integrated Health Cooperative, LLC	Eliminations	Consolidated
Revenue and Other Support:					
Care management revenue, net	$ 34,519,696	$ -	$ -	$ -	$ 34,519,696
Contract revenue - other	11,207,293	-	-	-	11,207,293
Pharmacy revenue, net	-	10,837,160	-	-	10,837,160
Grant revenue	5,009,641	-	-	-	5,009,641
Investment income, net	1,360,054	-	-	80,130	1,440,184
Supportive housing revenue	1,315,301	-	-	-	1,315,301
Other	369,801	-	-	-	369,801
Physical health revenue, net	-	-	198,154	-	198,154
Total Revenue and Other Support	53,781,786	10,837,160	198,154	80,130	64,897,230
Expenses:					
Mental health services	36,352,104	-	-	-	36,352,104
Pharmacy	-	10,390,203	-	-	10,390,203
Supportive housing	954,360	-	-	-	954,360
Physical health services	-	-	686,017	-	686,017
General and administrative	7,641,997	28,811	10,411	-	7,681,219
Total Expenses	44,948,461	10,419,014	696,428	-	56,063,903
Change in net assets	8,833,325	418,146	(498,274)	80,130	8,833,327
Net assets, beginning of year	48,054,914	2,626,461	(938,348)	(1,688,113)	48,054,914
Net assets, end of year	$ 56,888,239	$ 3,044,607	$ (1,436,622)	$ (1,607,983)	$ 56,888,241

COMPLIANCE SECTION

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor 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*

The Board of Directors
Mental Health Cooperative, Inc. and affiliates
Nashville, Tennessee

We have audited, in accordance with the 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 Mental Health Cooperative, Inc. and affiliates ('MHC") a nonprofit organization, which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 12, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Mental Health Cooperative, Inc. and affiliates' 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mental Health Cooperative, Inc. and affiliates' internal control. Accordingly, we do not express an opinion on the effectiveness of MHC's internal control.

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

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 Mental Health Cooperative, Inc. and affiliates' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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 MHC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MHC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Nashville, Tennessee
November 12, 2018