

STARLIGHT BEHAVIORAL HEALTH SERVICES, INC.

**FINANCIAL STATEMENTS WITH
ACCOMPANYING INFORMATION**

DECEMBER 31, 2014 AND 2013

DHHR - Finance

JAN 4 2015

Date Received

DHHR - Finance

JAN - 4 2016

Date Received

**STARLIGHT BEHAVIORAL HEALTH SERVICES, INC.
FINANCIAL STATEMENTS WITH
ACCOMPANYING INFORMATION
YEAR ENDED DECEMBER 31, 2014 AND 2013**

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SULLIVAN WEBB, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
422 KINETIC DRIVE - P.O. BOX 2745
HUNTINGTON, WEST VIRGINIA 25727-2745
TELEPHONE: (304) 697-0565
FACSIMILE: (304) 697-0567
WWW.SULLIVANWEBB.COM

BRUCE I. SULLIVAN, CPA
CHARLES D. WEBB, MBA, CPA

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS
WV SOCIETY OF CERTIFIED PUBLIC
ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Starlight Behavioral Health Services, Inc.
Huntington, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Starlight Behavioral Health Services, Inc. which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of income, shareholder's equity 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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

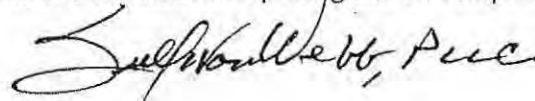
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Starlight Behavioral Health Services, Inc. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of state grants on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Additionally, the accompanying schedule of property and equipment purchased with Bureau for Behavioral Health and Health Facilities Funding on page 13 is required by the West Virginia Department of Health and Human Resources and 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 2015, on our consideration of Starlight Behavioral Health Services, Inc.'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Starlight Behavioral Health Services, Inc.'s internal control over financial reporting and on compliance.



September 15, 2015

STARLIGHT BEHAVIORAL HEALTH SERVICES, INC.
BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

ASSETS	<u>2014</u>	<u>2013</u>
CURRENT ASSETS:		
Cash	\$ 909,243	580,796
Accounts receivable	635,297	575,332
Client and employee advances	8,509	6,702
Prepaid expenses	92,070	82,050
Security Deposit	<u>5,751</u>	<u>5,751</u>
TOTAL CURRENT ASSETS	<u>1,650,870</u>	<u>1,250,631</u>
PROPERTY, FURNITURE, AND EQUIPMENT:		
Buildings	-	75,000
Furniture and fixtures	91,687	78,407
Computer equipment and software	224,304	205,609
Machinery and equipment	89,206	73,171
Automobiles	174,760	133,201
Capital improvements	-	18,181
Lease hold improvements	<u>7,623</u>	<u>-</u>
	587,580	583,569
Less: accumulated depreciation	<u>(368,267)</u>	<u>(322,284)</u>
NET PROPERTY, FURNITURE, AND EQUIPMENT	<u>219,313</u>	<u>261,285</u>
TOTAL ASSETS	<u>\$ 1,870,183</u>	<u>\$ 1,511,916</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Credit cards	\$ 7,559	\$ 3,878
Accounts payable and accrued expenses	11,604	18,587
Current portion of long-term debt	57,546	53,099
Accrued salaries and wages and payroll taxes	275,514	226,264
Accrued provider tax	26,788	27,829
Accrued interest payable	<u>686</u>	<u>970</u>
TOTAL CURRENT LIABILITIES	<u>379,697</u>	<u>330,627</u>
LONG-TERM LIABILITIES:		
Long-term debt	<u>46,932</u>	<u>67,901</u>
TOTAL LIABILITIES	<u>426,629</u>	<u>398,528</u>
SHAREHOLDERS' EQUITY:		
Common stock, par value \$.01 per share; 100 shares authorized and issued; 95 shares outstanding	1	1
Additional paid-in capital	6,000	6,000
Less: treasury stock (5 shares) at cost	(21,842)	(21,842)
Retained earnings, as restated	<u>1,459,395</u>	<u>1,129,229</u>
TOTAL SHAREHOLDERS' EQUITY	<u>1,443,554</u>	<u>1,113,388</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,870,183</u>	<u>\$ 1,511,916</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

STARLIGHT BEHAVIORAL HEALTH SERVICES, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
PATIENT SERVICE REVENUE		
ACT	\$ 664,494	710,458
Care coordination	33,070	30,974
Clinical services	304,676	96,991
Title XIX Waiver	7,519,222	7,334,397
Less: Write-offs	(7,675)	(3,324)
Refund	(4,558)	-
TOTAL REVENUES	8,509,229	8,169,496
EXPENSES		
Advertising	8,563	47,425
Automobile	9,224	10,310
Bank service charges	3,306	2,026
Charitable contributions	2,465	4,517
Contract labor	14,828	12,459
Depreciation expense	61,584	88,473
Dues and subscriptions	22,031	16,418
Employee benefit programs	-	1,212
Health insurance	40,937	39,240
Insurance	304,617	267,243
Interest expense	3,402	15,846
Licenses and permits	5,211	9,660
Meals and entertainment	3,450	3,129
Medical supplies	55	-
Office supplies	47,807	25,662
Postage and delivery	5,809	4,923
Printing and reproduction	644	953
Professional development	28,439	21,672
Professional fees	32,669	54,256
Professional resources	4,539	5,889
Rent	174,297	110,961
Maintenance and repairs	51,163	33,387
Salaries and wages	5,546,886	5,133,944
Staffing expense	17,990	20,795
Taxes:		
Payroll taxes	499,713	484,045
Property taxes	3,926	7,146
State provider tax	360,101	361,687
Travel	151,673	150,730

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

STARLIGHT BEHAVIORAL HEALTH SERVICES, INC.
STATEMENTS OF INCOME (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
EXPENSES (CONTINUED)		
Utilities:		
Gas and electricity	\$ 21,188	16,761
Telephone	19,348	21,347
Water and sewer	3,839	1,710
Refuse	1,976	1,647
Answering service	1,273	900
Cable	8,242	4,684
Alarm system	788	191
Environmental accessibility	<u>1,401</u>	<u>2,545</u>
TOTAL EXPENSES	<u>7,463,384</u>	<u>6,983,793</u>
OPERATING INCOME	<u>1,045,845</u>	<u>1,185,703</u>
OTHER INCOME		
Interest income	327	704
Miscellaneous income	<u>2,421</u>	<u>2,514</u>
	<u>2,748</u>	<u>3,218</u>
OTHER EXPENSE AND LOSSES		
Miscellaneous expense	5,479	627
Loss on disposal of equipment	<u>529</u>	<u>644</u>
	<u>6,008</u>	<u>1,271</u>
NET INCOME	<u>\$ 1,042,585</u>	<u>\$ 1,187,650</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

STARLIGHT BEHAVIORAL HEALTH SERVICES, INC.
STATEMENTS OF SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Total Equity</u>
Balance - December 31, 2013	\$ 1	\$ 6,000	\$ 1,129,229	\$ (21,842)	\$ 1,113,388
Net Income	-	-	1,042,585	-	1,042,585
Shareholders' Distributions	-	-	(712,419)	-	(712,419)
Balance - December 31, 2014	<u>\$ 1</u>	<u>\$ 6,000</u>	<u>\$ 1,459,395</u>	<u>\$ (21,842)</u>	<u>\$ 1,443,554</u>

	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Total Equity</u>
Balance - December 31, 2012	\$ 1	\$ 6,000	\$ 1,345,738	(21,842)	\$ 1,329,897
Net Income	-	-	1,187,650	-	1,187,650
Shareholders' Distributions	-	-	(1,404,159)	-	(1,404,159)
Balance - December 31, 2013	<u>\$ 1</u>	<u>\$ 6,000</u>	<u>\$ 1,129,229</u>	<u>\$ (21,842)</u>	<u>\$ 1,113,388</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

STARLIGHT BEHAVIORAL HEALTH SERVICES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,042,585	\$ 1,187,650
Adjustments to reconcile net income to net cash provided by operations:		
Loss on disposal of equipment	2,595	644
Depreciation	61,584	88,473
(Increase) in accounts receivable	(59,965)	(48,018)
Decrease (Increase) in client and employee advances	(1,807)	1,629
(Increase) in prepaid expenses	(10,020)	(17,130)
(Increase) in security deposit	-	(2,301)
Increase (Decrease) in credit cards payable	3,681	1,975
Increase in accounts payable and accrued expenses	(6,983)	10,948
Increase accrued payroll liabilities	49,250	22,605
(Decrease) in accrued provider tax	(1,041)	(16,849)
(Decrease) in notes payable - shareholder	-	(11,100)
(Decrease) in accrued interest payable	(284)	(1,917)
TOTAL ADJUSTMENT	<u>37,010</u>	<u>28,959</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,079,595</u>	<u>1,216,609</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(99,887)	(74,326)
Shareholders distributions	(634,739)	(546,080)
NET CASH (USED) BY INVESTING ACTIVITIES	<u>(734,626)</u>	<u>(620,406)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from loan	37,552	148,775
Payments on loans	(54,074)	(735,211)
NET CASH (USED) BY FINANCING ACTIVITIES	<u>(16,522)</u>	<u>(586,436)</u>
NET INCREASE IN CASH	328,447	9,767
CASH BEGINNING OF YEAR	<u>580,796</u>	<u>571,029</u>
CASH END OF YEAR	<u>\$ 909,243</u>	<u>\$ 580,796</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 3,686</u>	<u>\$ 17,763</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Distributions of land and buildings to shareholders	<u>\$ 77,680</u>	<u>858,078</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

STARLIGHT BEHAVIORAL HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

This summary of significant accounting policies of Starlight Behavioral Health Services, Inc. is presented to assist in understanding the Company's financial statements. The financial statements and notes are representations of the Company's management who is responsible for the integrity and objectivity of the financial statements. The accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Nature of Operations

Starlight Behavioral Health Services, Inc. is a behavioral healthcare agency licensed by OHFLAC. The Company provides home healthcare and waiver services, as well as applied behavior analysis and mental health services.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable and Net Patient Service Revenue

Accounts receivable are recorded at the amount the Company expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and writes off those amounts that are considered uncollectible. Net patient service revenues are reported at the estimated net realizable amounts from residents, third-party payors, and others for services rendered.

Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Write Offs

The Company utilizes the direct write-off method of recognizing bad debts of which the results are substantially the same as the allowance method.

Advertising Costs

The Company uses advertising to promote its programs among the audience it serves. Advertising costs are charged to operations when the advertising first takes place. During 2014 and 2013 advertising costs totaled \$8,563 and \$47,425, respectively.

Depreciation

The cost of property and equipment is depreciated over the estimated useful lives of the related assets. The cost of leasehold improvements is depreciated over the lesser of the length of the related leases or the estimated useful lives of the assets.

Income Taxes

Starlight Behavioral Health Services, Inc. has elected to be taxed under the S corporation provision of the Internal Revenue Code. Income or loss is passed through to the shareholders according to their ownership percentages. Tax returns are subject to examination by the IRS generally for three years after they were filed.

STARLIGHT BEHAVIORAL HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Broad-Based Health Care Provider Tax

West Virginia Code §11-27-11, imposes a tax on the gross receipts, received and receivable, derived by the taxpayer from furnishing nursing facility services in the state. Taxpayers are required to file monthly estimates and annual returns of broad-based health care related taxes. Generally, these returns are subject to audit, investigation, and assessments by the West Virginia State Tax Department. Starlight Behavioral Health Services, Inc.'s accrued provider tax liability as of December 31, 2014 and 2013 of \$26,788 of and \$27,829, respectively, is the result of accrued provider tax payment for the months then ended.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

NOTE 2 – PROPERTY, FURNITURE, AND EQUIPMENT

Property, furniture, and equipment at December 31, 2014 and 2013 consist of:

	2014	2013
Land	\$ -	\$ -
Buildings	-	75,000
Accumulated depreciation	-	(9,705)
Book Value	<u>-</u>	<u>65,295</u>
Furniture	91,687	78,407
Accumulated depreciation	(54,107)	(42,958)
Book value	<u>37,580</u>	<u>35,449</u>
Computer equipment and software	224,304	205,609
Accumulated depreciation	(162,271)	(139,238)
Book value	<u>62,033</u>	<u>66,371</u>
Machinery and equipment	89,206	73,171
Accumulated depreciation	(40,291)	(30,106)
Book value	<u>48,915</u>	<u>43,065</u>
Automobiles	174,760	133,201
Accumulated depreciation	(111,337)	(94,472)
Book value	<u>63,423</u>	<u>38,729</u>
Capital improvements	-	18,181
Accumulated depreciation	-	(5,805)
Book value	<u>-</u>	<u>12,376</u>
Leasehold improvements	7,623	-
Accumulated depreciation	(261)	-
Book value	<u>7,362</u>	<u>-</u>
PROPERTY, FURNITURE AND EQUIPMENT NET	<u>\$ 219,313</u>	<u>261,285</u>

Depreciation expense charged to operations in 2014 and 2013 totaled \$61,584 and \$88,473, respectively.

STARLIGHT BEHAVIORAL HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – LONG-TERM DEBT

Long-term debt at December 31, 2014 and 2013 is as follows:

	2014	2013
Loan payable to a bank in monthly installments of \$4,346.15 including interest at 3.25% due April 29, 2016.	\$ 66,926	\$ 121,000
Financing agreement payable to a bank in monthly installments of \$657.07 including interest at 1.9% due December 24, 2019.	37,552	-
	104,478	121,000
Less: Current maturities included in current liabilities.	\$ (57,546)	\$ (53,099)
Total long-term debt, net of current portion	\$ 46,932	\$ 67,901

Following are maturities of long-term debt for each of the next 5 years:

	Principal	Interest
2015	\$ 57,546	\$ 2,088
2016	23,987	622
2017	7,514	371
2018	7,658	226
2019	7,773	80
Total	\$ 104,478	\$ 3,387

Loan Covenant

During 2013, Starlight Behavioral Health Services, Inc., entered into a loan agreement with a bank. The agreement includes provisions pertaining to cash flow coverage ratio. The Company is required to maintain a cash flow coverage ratio of at least 1.50 times debt service. At December 31, 2014, the Company's cash flow coverage ratio was 18.7 times debt service.

NOTE 4 – CONCENTRATIONS

Revenue Concentration

Starlight Behavioral Health Services, Inc. conducts a major portion of its operation under Title XIX Services. The majority of Patient Service Revenue is derived from these services. These programs are subject to audit by the granting authority, the purpose of which is to ensure compliance with conditions precedent to providing funds. In the opinion of management, any liabilities for reimbursement which may arise as result of these audits is not believed to be material to the financial statements.

Concentration of Credit Risk

The Company, at various times throughout the year, maintained deposits in excess of federally insured limits. Accounting Standards Codification Topic 825-10-50 identifies these items as a concentration of credit risk requiring disclosure regardless of the degree of risk. The risk is managed by maintaining deposits in high quality institutions.

STARLIGHT BEHAVIORAL HEALTH SERVICES, INC.
NOTES TO THE FINANCIAL STATEMENTS

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NOTE 5 – CONTINGENCIES

In the normal course of operations, the Company is exposed to various risks of loss related to torts, theft, or damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. Management of Starlight Behavioral Health Services, Inc. does not believe any such claims materially affect the accompanying financial statements and the Company maintains insurance to cover potential liabilities.

NOTE 6 – RELATED PARTY TRANSACTIONS AND COMMITMENTS

The Company leases an office building from a shareholder. The lease is classified as an operating lease and provides for minimum annual rentals of \$78,000 through July 1, 2018.

Minimum future rental payments under cancelable operating leases having remaining terms in excess of 1 year as of December 31, 2014 for each of the next 5 years and in the aggregate are:

Year Ended	Amount
2015	\$ 78,000
2016	78,000
2017	78,000
2018	39,000
Total minimum future rental payments	<u>\$ 273,000</u>

NOTE 7 – RESTATEMENTS

The accompanying financial statements for 2013 have been restated to correct for inaccurate recording of accounts receivables from billings. The effect of the restatement was to decrease net income for 2013 by \$2,587. Retained earnings have been increased by \$74,736 as of the beginning of 2013 for the effect of this correction on 2012.

Additionally, during 2014, the company changed accounting for depreciation from an accelerated method to the straight-line method, which the company believes more accurately reflects periodic results of operations. The accompanying financial statements for 2013 have been restated for such change by decreasing depreciation expense and accumulated depreciation by \$1,893 and \$114,183, respectively. Accordingly, retained earnings have been increased in the amount of \$112,290 as of the beginning of 2013.

NOTE 8 – RECLASSIFICATIONS

Certain amounts originally reported in the 2013 financial statements have been reclassified for comparative purposes to the 2014 amounts.

NOTE 9 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 15, 2015, which is the date that these financial statements were available to be issued.

ACCOMPANYING INFORMATION

**STARLIGHT BEHAVIORAL HEALTH SERVICES, INC.
SCHEDULE OF STATE GRANTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

Grantor	Grant ID	Term of Award	Total Awards	Amount Expended Year Ended December 31, 2014
West Virginia Department of Health and Human Resources	G140052	7/1/13 – 10/31/14	\$ 321,399 \$	179,749
West Virginia Department of Health and Human Resources	G150322	7/1/14 – 6/30/15	482,468	<u>159,978</u>
Total Expenditures of State Grants			\$	<u>339,727</u>

Grantor	Grant ID	Term of Award	Total Awards	Amount Expended Year Ended December 31, 2013
West Virginia Department of Health and Human Resources	G130406	7/1/12 – 6/30/13	\$ 157,623 \$	119,297
West Virginia Department of Health and Human Resources	G140052	7/1/13 – 6/30/14	522,897	<u>141,650</u>
Total Expenditures of State Grants			\$	<u>260,947</u>

STARLIGHT BEHAVIORAL HEALTH SERVICES, INC.
 SCHEDULE OF PROPERTY AND EQUIPMENT PURCHASED
 WITH BUREAU FOR BEHAVIORAL HEALTH FACILITIES FUNDING
 AS OF DECEMBER 31, 2014

<u>Asset Number</u>	<u>Vendor Name</u>	<u>Description</u>	<u>Date of Acquisition</u>	<u>Cost</u>	<u>State Account Number of Funds Used</u>
132	Office Depot	Computer Desks	5/19/11	\$ 190.78	G110061
135	Office Depot	Computer Desks	5/19/11	95.39	G110061
130	Best Buy	Computer	5/5/11	370.99	G110061
231	All A-Board, Inc.	Forensic Home Furniture	6/6/13	7,715.00	G130406
		Total		\$ <u>8,372.16</u>	
Accumulated depreciation 12/31/13				\$ 935.66	
Depreciation expense				<u>1,217.22</u>	
Accumulated depreciation 12/31/14				\$ <u>2,152.88</u>	

**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS**

SULLIVAN WEBB, PLLC

CERTIFIED PUBLIC ACCOUNTANTS
422 KINETIC DRIVE - P.O. BOX 2745
HUNTINGTON, WEST VIRGINIA 25727-2745
TELEPHONE: (304) 697-0565
FACSIMILE: (304) 697-0567
WWW.SULLIVANWEBB.COM

BRUCE L. SULLIVAN, CPA
CHARLES D. WEBB, MBA, CPA

MEMBERS
AMERICAN INSTITUTE OF CERTIFIED
PUBLIC ACCOUNTANTS
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ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Starlight Behavioral Health Services, Inc.
Huntington, West Virginia

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 Starlight Behavioral Health Services, Inc. which comprise the balance sheet as of December 31, 2014, and the related statements of income, shareholder's equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 15, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Starlight Behavioral Health Services, Inc.'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 Starlight Behavioral Health Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weaknesses.

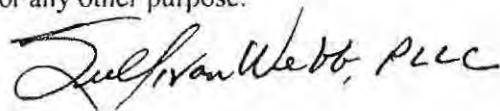
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Company's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (2014-001).

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



September 15, 2015

SCHEDULE OF FINDINGS AND RESPONSES

STARLIGHT BEHAVIORAL HEALTH SERVICES, INC.
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2014

No. 2014-001 **Restatement of Prior Year Accounts Receivable**

CONDITION: We noted several billings for services performed before year end with payment received after year end that were not included in the accrual of accounts receivable for the years ended December 31, 2014, 2013, and 2012.

CRITERIA: An objective of an internal control system is to allow management or employees, in the normal course of performing their assigned functions to prevent or detect and correct mistakes on a timely basis. Additionally, the internal controls should provide management with reasonable assurance that account balances are accurately recorded to permit the preparation of financial statements in accordance with generally accepted accounting principles.

CONTEXT: The Company's cut off procedures for accruing accounts receivable were not adequate to allow all receivables from billings to be considered at the year end. This resulted in an additional accrual of \$81,639 for the year ended December 31, 2014 and restatements to prior year amounts of (\$2,587) and \$74,736 for years ended December 31, 2013 and 2012, respectively.

CAUSE: The Company failed to exercise adequate controls over the year end procedures for accruing accounts receivables from billings during preparation of financial statements.

EFFECT: The Company has increased the risk of materially misstating their financial statements at the year end.

RECOMMENDATION: The Company should establish procedures that capture all material receivables to be incorporated on the financial statements at the year end.

AUDITED AGENCY'S RESPONSE: Starlight Behavioral Health Services has revised billing procedures to improve internal control and adequately accrue accounts receivables. The company has modified the setting within the billing software to post entries according to service date in lieu of billing date. The change in procedure will allow the system to properly match the revenue and accounts receivable to the accounting period the services were performed. Management takes the position that the above change will reduce the risk of materially misstating financial statements at year end.