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February 10, 2010

Board of Directors
Southlake Community Mental Health
Center, Inc. and Affiliates
8555 Taft Street
Merrillville, IN 46410

We have reviewed the audit report prepared by Blue & Co., LLC, Independent Public Accountants, for the period July 1, 2007 to June 30, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Southlake Community Mental Health Center, Inc. and Affiliates, as of June 30, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Southlake Community Mental
Health Center, Inc. and Affiliates
Merrillville, Indiana

We have audited the accompanying combined statements of financial position of Southlake Community Mental Health Center, Inc. and Affiliates as of June 30, 2008 and 2007 and the related combined statements of activities, functional expenses, changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of the Southlake Community Mental Health Center, Inc. and Affiliates' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits 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 Guidelines for Examinations of Entities Receiving Financial Assistance from the Governmental Sources, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly in all material respects, the combined financial position of Southlake Community Mental Health Center, Inc. and Affiliates as of June 30, 2008 and 2007 and the combined results of its operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated September 9, 2008, on our consideration of Southlake Community Mental Health Center, Inc. and Affiliates' 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were performed for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic combined financial statements of Southlake Community Mental Health Center, Inc. and Affiliates. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic combined financial statements of Southlake Community Mental Health Center, Inc. and Affiliates. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

Blue & Co., LLC

September 9, 2008

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

COMBINED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

ASSETS		
	2008	2007
Current assets		
Cash and cash equivalents	\$ 891,384	\$ 1,053,949
Short-term investments	7,188,880	7,834,985
Client accounts receivable, net of allowance for uncollectible accounts of \$822,000 in 2008 and \$698,000 in 2007	2,498,540	2,279,244
Accounts receivable - Lake County	-0-	946,680
Other receivables	163,894	549,836
Estimated third party settlements	160,691	-0-
Prepaid expenses and other assets	132,078	491,406
Total current assets	11,035,467	13,156,100
Property and equipment		
Land and improvements	1,535,102	1,238,122
Buildings and improvements	13,865,521	12,956,206
Moveable equipment	5,655,476	5,397,788
Leasehold improvements	163,823	158,853
	21,219,922	19,750,969
Accumulated depreciation	11,175,732	10,208,415
Property and equipment, net	10,044,190	9,542,554
Investments and other assets		
Investments held for capital improvements	5,350,142	5,826,440
HUD Residential - cash and investments	117,240	76,610
Equity in joint ventures	4,055,970	3,529,288
Total investments and other assets	9,523,352	9,432,338
Total assets	\$ 30,603,009	\$ 32,130,992

See accompanying notes to combined financial statements.

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

COMBINED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

LIABILITIES AND NET ASSETS

	2008	2007
Current liabilities		
Current portion of long-term debt	\$ 157,936	\$ 150,623
Accounts payable	147,540	478,542
Accounts payable - Geminus	550,125	260,362
Accrued wages and related liabilities	1,017,051	1,072,906
Other accrued expenses	184,001	196,910
Estimated third party settlements	-0-	226,694
Total current liabilities	2,056,653	2,386,037
 Long-term debt	 833,107	 991,043
Total liabilities	2,889,760	3,377,080
 Unrestricted net assets		
General	14,706,857	17,459,902
Board designated for capital improvements	7,146,143	6,357,438
Southlake Center Residential, Inc.	324,448	365,028
Watertower Residential, Inc.	1,711,099	1,744,792
Watertower West, Inc.	1,695,211	1,738,077
Bell Tower, Inc.	2,129,491	1,088,675
Total net assets	27,713,249	28,753,912
 Total liabilities and net assets	 \$ 30,603,009	 \$ 32,130,992

See accompanying notes to combined financial statements.

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

COMBINED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Net client service revenue	\$ 9,609,314	\$ 9,528,327
Public support and other revenue		
Seriously mentally ill adults	2,989,106	2,549,696
Disproportionate share	537,417	132,726
Addictions	964,483	910,632
Seriously emotionally disturbed children	354,176	291,662
County tax levies	1,015,384	835,437
Forensic contracts	-0-	1,622,880
Indiana Funds Recovery Program	575,000	875,000
ACT	197,210	197,210
Miscellaneous	1,158,962	603,149
Total public support and other revenue	7,791,738	8,018,392
Total revenue	17,401,052	17,546,719
Operating expenses		
Program services		
Inpatient	3,059,242	3,109,513
Residential	2,820,832	2,499,113
Partial day care	2,230,325	2,071,182
Outpatient	4,550,448	4,287,471
Community support	1,908,662	1,865,310
Consultation and education	34,774	1,568,243
Total program services	14,604,283	15,400,832
Support services		
General and administrative	3,265,054	2,709,399
Total operating expenses	17,869,337	18,110,231
Operating loss	(468,285)	(563,512)
Nonoperating revenue		
Investment income	(1,099,060)	2,055,588
Gain from joint ventures	526,682	650,759
Section 811 grants	-0-	1,089,357
Total nonoperating revenue	(572,378)	3,795,704
Change in unrestricted net assets	\$ (1,040,663)	\$ 3,232,192

See accompanying notes to combined financial statements.

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2008
(with comparative totals for June 30, 2007)**

Expenses	Inpatient	Residential	Partial Day Care	Outpatient	Community Support	Consultation and Education	Total Program Services	General and Administrative	2008 Total Expenses	2007 Total Expenses
Program services										
Salaries and wages	\$ 1,442,315	\$ 1,327,214	\$ 1,038,592	\$ 2,970,022	\$ 1,193,626	\$ 28,075	\$ 7,999,844	\$ 428,402	\$ 8,428,246	\$ 9,108,404
Employee benefits	315,427	284,134	233,848	635,988	261,559	4,058	1,735,014	101,806	1,836,819	2,120,687
Building expenses	91,016	209,219	235,275	127,269	64,010	145	726,933	164,644	891,576	847,458
Purchased services	81,953	87,810	10,110	67,724	20,926	155	268,679	2,021,353	2,290,031	1,819,728
Bad debts	358,738	233,335	198,346	323,162	101,957	1,220	1,216,758	-	1,216,758	1,192,388
Administrative supplies	71,377	219,557	238,342	78,805	68,009	166	676,255	276,055	952,310	859,828
Other operating expense	569,134	161,890	132,997	183,536	62,154	86	1,109,796	9,885	1,119,681	1,114,865
Travel and staff development	5,675	14,236	12,569	51,886	50,424	793	135,583	13,422	149,005	160,638
Total program expenses	2,935,634	2,537,394	2,100,080	4,438,393	1,822,664	34,696	13,868,861	3,015,565	16,884,427	17,223,996
Depreciation and amortization	123,608	283,438	130,245	112,055	85,998	77	735,422	249,489	984,911	886,235
Total expenses	\$ 3,059,242	\$ 2,820,832	\$ 2,230,325	\$ 4,550,448	\$ 1,908,662	\$ 34,774	\$ 14,604,283	\$ 3,265,054	\$ 17,869,337	\$ 18,110,231

See accompanying notes to combined financial statements.

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2007**

Expenses	Inpatient	Residential	Partial Day Care	Outpatient	Community Support	Consultation and Education	Total Program Services	General and Administrative	2007 Total Expenses
Program services									
Salaries and wages	\$ 1,414,259	\$ 1,235,456	\$ 978,453	\$ 2,734,536	\$ 1,140,645	\$ 1,053,050	\$ 8,556,399	\$ 552,005	\$ 9,108,404
Employee benefits	328,623	298,097	240,507	637,987	268,158	220,117	1,993,489	127,198	2,120,687
Building expenses	90,223	154,322	239,249	131,500	59,746	4,430	679,470	167,988	847,458
Purchased services	116,863	74,775	10,068	70,308	28,725	226,245	526,984	1,292,744	1,819,728
Bad debts	408,870	216,252	177,470	282,519	106,887	390	1,192,388	-0-	1,192,388
Administrative supplies	62,353	128,867	180,766	93,562	64,128	32,850	562,526	297,302	859,828
Other operating expense	562,761	150,990	114,966	171,156	70,040	25,285	1,095,198	19,667	1,114,865
Travel and staff development	6,594	14,468	17,983	56,437	46,809	1,437	143,728	16,910	160,638
Total program expenses	2,990,546	2,273,227	1,959,462	4,178,005	1,785,138	1,563,804	14,750,182	2,473,814	17,223,996
Depreciation and amortization	118,967	225,886	111,720	109,466	80,172	4,439	650,650	235,585	886,235
Total expenses	\$ 3,109,513	\$ 2,499,113	\$ 2,071,182	\$ 4,287,471	\$ 1,865,310	\$ 1,568,243	\$ 15,400,832	\$ 2,709,399	\$ 18,110,231

See accompanying notes to combined financial statements.

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

**COMBINED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2008 AND 2007**

	General	Board Designated For Capital Improvements	Southlake Center Residential, Inc.	Watertown Residential, Inc.	Watertown West, Inc.	Bell Tower, Inc.	Total
Balances, June 30, 2006	\$ 16,300,245	\$ 5,269,529	\$ 385,495	\$ 1,789,882	\$ 1,776,569	\$ -0-	\$ 25,521,720
Change in unrestricted net assets	2,247,566	-0-	(20,467)	(45,090)	(38,492)	1,088,675	3,232,192
Transfer related to capital improvements	664,993	(664,993)	-0-	-0-	-0-	-0-	-0-
Transfer of investment income, net	(866,529)	866,529	-0-	-0-	-0-	-0-	-0-
Transfer to provide funding for capital improvements	(886,373)	886,373	-0-	-0-	-0-	-0-	-0-
Change in net assets	1,159,657	1,087,909	(20,467)	(45,090)	(38,492)	1,088,675	3,232,192
Balances, June 30, 2007	17,459,902	6,357,438	365,028	1,744,792	1,738,077	1,088,675	28,753,912
Change in unrestricted net assets	(1,359,170)	-0-	(40,580)	(51,801)	(42,866)	453,754	(1,040,663)
Transfer related to capital improvements	668,427	(668,427)	-0-	-0-	-0-	-0-	-0-
Transfer related to HUD funding	(605,170)	-0-	-0-	18,108	-0-	587,062	-0-
Transfer of investment income, net	(472,074)	472,074	-0-	-0-	-0-	-0-	-0-
Transfer to provide funding for capital improvements	(985,058)	985,058	-0-	-0-	-0-	-0-	-0-
Change in net assets	(2,753,045)	788,705	(40,580)	(33,693)	(42,866)	1,040,816	(1,040,663)
Balances, June 30, 2008	\$ 14,706,857	\$ 7,146,143	\$ 324,448	\$ 1,711,099	\$ 1,695,211	\$ 2,129,491	\$ 27,713,249

See accompanying notes to combined financial statements.

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

**COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007**

	2008	2007
Operating activities		
Change in net assets	\$ (1,040,663)	\$ 3,232,192
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	984,911	886,235
Realized and unrealized (gains) losses	1,669,156	(1,598,703)
Gain on joint ventures	(526,682)	(650,759)
Bad debts	1,216,758	1,192,388
Changes in operating assets and liabilities		
Client accounts receivable	(1,436,054)	(2,172,005)
Accounts receivable - Lake County	946,680	(401,912)
Other receivables	385,942	(102,718)
Due to/from Geminus	289,763	284,109
Prepaid expenses and other assets	359,328	(214,361)
Accounts payable	(331,002)	181,014
Accrued wages and related liabilities	(55,855)	134,656
Other accrued expenses	(12,909)	32,816
Estimated third party liabilities	(387,385)	(327,086)
Net cash flows from operating activities	2,061,987	475,866
Investing activities		
Purchase of property and equipment	(1,486,547)	(2,129,244)
Capital contributions to joint venture	-0-	(275,000)
Change in investments, net	(587,383)	1,322,238
Net cash flows from investing activities	(2,073,930)	(1,082,006)
Financing activities		
Payments on long-term debt	(150,623)	(143,666)
Net change in cash and cash equivalents	(162,565)	(749,806)
Cash and cash equivalents		
Beginning of year	1,053,949	1,803,755
End of year	\$ 891,384	\$ 1,053,949
Supplemental disclosure of cash flows information		
Cash paid for interest	\$ 42,685	\$ 57,934

See accompanying notes to combined financial statements.

SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Nature of Business

Southlake Community Mental Health Center, Inc. (the Center) is a not-for-profit corporation organized under the laws of the State of Indiana for providing mental health care to the Lake County community. Southlake Center Residential, Inc., Watertower Residential, Inc., Watertower West, Inc. and Bell Tower, Inc. (Affiliates) were created through HUD Capital Advance Programs for purpose of providing housing for low-income eligible mental health clients.

Basis of Reporting

The statements of financial position, statements of activities, statements of functional expenses, statements of changes in net assets, and statements of cash flows combine Southlake Community Mental Health Center, Inc. with its affiliates, Southlake Center Residential, Inc. Watertower Residential, Inc., Watertower West, Inc. and Bell Tower, Inc. Accounts between the affiliates have been eliminated for combined reporting purposes. These organizations have common directors, officers and management.

Revenue Recognition

Client service revenue and client accounts receivable are recorded at the net realizable amounts based on established charges when the client service is rendered. The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges and per diem payments. Charges for services to clients are primarily based on the clients' ability to pay. The allowances offset against client accounts receivable represents management's estimate of the expected losses to be realized, and is based on historical experience, current economic conditions, and other relevant factors.

Charity Care

The Center provides care to clients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, those amounts are not reported as net client service revenue. Charity care provided in 2008 and 2007 was \$1,979,521 and \$2,412,059, respectively.

SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

Income Taxes

The Center and its affiliates are not-for-profit corporations, as described under Code Section 501(c)(3) of the Internal Revenue Code. As such, the Center and its affiliates are exempt from federal and state income taxes and federal excise tax on investment income. However, the Center and its affiliates are subject to income taxes on unrelated business activities.

Public Support

The Center receives federal and state grants for providing services in specific program areas. Receipt of these funds is subject to the fulfillment of certain obligations by the Center as prescribed by these programs and funds may be subject to repayment upon a determination of noncompliance made by a funding agency.

Indiana state law stipulates that the counties served by comprehensive community mental health centers provide the centers a minimum designated amount per the county assessed value growth quotient determined by the Department of Local Government Finance. Tax receipts are designated to be remitted to the centers by June and December of each year. The Center recognizes the county tax receipts as income in the period the funds are due from the counties. Accordingly, amounts are recorded as other receivables or deferred revenue based upon the timing of the actual receipts.

The Center has a contract with the State of Indiana Division of Mental Health to provide community mental health services. The State has a case rate reimbursement system. Under this program, the Center is paid a specific dollar amount for each client enrolled up to a fixed number of eligible clients not already enrolled in another state program.

The Center derives a significant portion of its revenue from third-party payors and federal and state funding programs. The receipt of future revenues by the Center is subject to among other factors, federal and state policies affecting the health care industry, economic conditions that may include an inability to control expenses in periods of inflation, increased competition, market pressures on premium rates and other conditions which are impossible to predict.

Financial Statement Presentation

Under SFAS No. 117, *Financial Statements of Not-For-Profit Organizations*, the Center is required to report information regarding its financial position and activities according to three classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor imposed restrictions.

SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC. AND AFFILIATES

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2008 AND 2007

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Center has not received any contributions with donor-imposed restrictions that would result in temporarily or permanently restricted net assets.

Operating Indicator

The combined statements of activities include an operating indicator. Changes in unrestricted net assets that are excluded from the operating indicator include investment income, gain and loss from joint ventures and Section 811 grants as identified in the combined statements of activities.

Investment Securities

Under SFAS No. 124, Accounting for Certain Investment Held by Not-for-Profit Organizations, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Short-term investments include investments available for general operating purposes. Investments held for capital improvements are board designated for property and equipment replacement and expansion.

Use of Estimates

The preparation of combined 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 combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Areas where significant estimates that are sensitive to change in the near term are used in the accompanying combined financial statements include allowance for doubtful accounts, estimated third party contractual allowances and contractual adjustments and self-funded medical claims incurred but unpaid. Actual results could differ from those estimates.

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Concentration of Credit Risk

As of June 30, 2008 and 2007, the Center had deposits in excess of insurable limits at financial institutions. The Center has not experienced any losses in such accounts. The Center believes it is not exposed to any significant credit risk related to cash and cash equivalents.

Cash Equivalents

Cash equivalents are carried at cost, which approximates market value. The Center considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost. Provisions for depreciation and amortization are computed principally using the straight-line method over the estimated useful lives of the assets. The Center annually transfers to the replacement and expansion fund amounts approximately equivalent to its depreciation expense for the future purchase and replacement of property and equipment.

Reclassification

Certain amounts in the 2007 financial statements have been reclassified herein to conform to the current year presentation

2. JOINT VENTURES

The Center is an equal owner in a joint venture with Tri-City Comprehensive Community Mental Health Center, Inc. (Tri-City) in Geminus Corporation (Geminus). Geminus provides certain clerical, administrative, and other services to the Center and Tri-City. The Center incurred approximately \$1,873,349 and \$1,181,147 for these services for 2008 and 2007, respectively. In addition, the Center was a subrecipient, of substance abuse, seriously emotionally disturbed children and seriously mentally ill adults contracts from Geminus for \$2,350,180 and \$2,308,111 for 2008 and 2007, respectively. As of June 30, 2008, the Center recorded a payable to Geminus of \$550,125. As of June 30, 2007, the Center recorded a receivable from Geminus of \$260,362.

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

A condensed summary of the audited operational results and financial position of Geminus is as follows:

	2008	2007
Total revenue	\$ 32,453,678	\$ 29,294,006
Total expenses	(31,491,031)	(28,135,263)
Change in net assets	\$ 962,647	\$ 1,158,743
Current assets	\$ 5,560,924	\$ 4,496,597
Property and equipment	6,135,264	5,647,225
Investments	177,236	385,056
Total assets	\$ 11,873,424	\$ 10,528,878
Current liabilities	\$ 3,173,929	\$ 2,518,545
Long-term debt	1,381,884	1,655,369
Unrestricted net assets	7,317,611	6,354,964
Total liabilities and net assets	\$ 11,873,424	\$ 10,528,878

A summary of the Center's equity in the Geminus joint venture follows:

	2008	2007
Equity in Geminus joint venture		
Beginning of year	\$ 3,182,898	2,603,529
Income allocated to Southlake	475,908	579,369
End of year	\$ 3,658,806	\$ 3,182,898

In 2007, the Center became an equal owner with Tri-City Comprehensive Community Mental Health Center, Inc. (Tri-City) in a joint venture, Southlake/Tri-City RBA, Inc. (RBA). RBA was formed to acquire and operate a residential care facility for certain or low-income disabled individuals.

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

A condensed summary of the audited operational results and financial position of RBA is as follows:

	2008	2007
Total revenue	\$ 1,899,112	\$ 1,629,881
Total expenses	(1,797,667)	(1,487,099)
Change in net assets	\$ 101,445	\$ 142,782
Current assets	\$ 1,336,213	\$ 880,239
Property and equipment	2,037,638	2,009,496
Other assets	116,452	128,712
Total assets	\$ 3,490,303	\$ 3,018,447
Current liabilities	\$ 191,160	\$ 286,091
Long-term debt	2,504,816	2,039,474
Unrestricted net assets	794,327	692,882
Total liabilities and net assets	\$ 3,490,303	\$ 3,018,447

A summary of the Center's equity in the RBA joint venture follows:

	2008	2007
Equity in RBA joint venture		
Beginning of year	\$ 346,390	\$ -0-
Capital contributions	-0-	275,000
Income allocated to Southlake	50,774	71,390
End of year	\$ 397,164	\$ 346,390

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

3. INVESTMENTS

Investments are summarized as follows:

	2008	2007
Unrestricted		
General		
Cash and money market	\$ 1,032,690	\$ 298,522
Taxable bonds	950,860	1,565,987
Mutual funds	4,348,875	4,972,905
Equities	742,205	887,546
Certificates of deposit	114,250	110,025
	\$ 7,188,880	\$ 7,834,985
Board designated		
Cash and money market	\$ 147,353	\$ 355,088
Taxable bonds	293,203	312,465
Mutual funds	4,125,413	4,589,505
Equities	784,173	569,382
	\$ 5,350,142	\$ 5,826,440

The fair values of investments are based on quoted market prices for these investments. Investment income (loss) amounted to \$(1,099,060) and \$2,055,588 for 2008 and 2007, respectively. Investment income includes realized and unrealized gains (losses) of \$(1,669,156) and \$1,598,703 for 2008 and 2007, respectively.

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

4. LONG-TERM DEBT

Long-term debt consists of the following as of June 30:

	2008	2007
Indiana Health Facility Financing Authority fixed rate (4.75%) demand series revenue bonds series 2004, payable in annual amounts of principal and interest through 2014, secured by real estate.	\$ 991,043	\$ 1,141,666
Less current portion	157,936	150,623
	\$ 833,107	\$ 991,043

The Indiana Health Facility Financing Authority loan agreement requires the Center to comply with certain restrictive covenants. The Center believes it was in compliance with these covenants as of June 30, 2008 and 2007.

Interest expense incurred in 2008 and 2007 was \$42,685 and \$57,934, respectively.

Maturities of long-term debt are as follows:

Year Ending June 30,		
2009	\$	157,936
2010		165,603
2011		173,643
2012		182,073
2013		190,912
Thereafter		120,876
	\$	991,043

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

5. RESIDENTIAL PROPERTIES

In 1993, Southlake Center Residential, Inc. was awarded a grant of \$495,000 under a HUD section 811 Capital Advance program. According to the regulatory agreement, this capital advance will bear no interest and is not required to be repaid so long as the residential unit remains available for low income eligible mental health clients for a period of forty years. It is management's intention to comply with the requirements of this program. Management considers the contingent repayment of these grant proceeds to be remote.

In 2004, Watertower Residential, Inc. was awarded a grant of \$1,178,500 under a HUD section 811 Capital Advance program. According to the regulatory agreement, this capital advance will bear no interest and is not required to be repaid so long as the residential unit remains available for low income eligible mental health clients for a period of forty years. It is management's intention to comply with the requirements of this program. Management considers the contingent repayment of these grant proceeds to be remote.

In 2004, Watertower West, Inc. was awarded a grant of \$1,182,100 under a HUD section 811 Capital Advance program. According to the regulatory agreement, this capital advance will bear no interest and is not required to be repaid so long as the residential unit remains available for low income eligible mental health clients for a period of forty years. It is management's intention to comply with the requirements of this program. Management considers the contingent repayment of these grant proceeds to be remote.

In 2007, Bell Tower, Inc. was awarded a grant of \$1,089,000 under a HUD section 811 Capital Advance program. According to the regulatory agreement, this capital advance will bear no interest and is not required to be repaid so long as the residential unit remains available for low income eligible mental health clients for a period of forty years. It is management's intention to comply with the requirements of this program. Management considers the contingent repayment of these grant proceeds to be remote.

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

6. CLIENT SERVICE REVENUE

The components of client service revenue are as follows:

	<u>2008</u>	<u>2007</u>
Client service revenue		
Inpatient	\$ 3,469,225	\$ 3,405,572
Residential	3,327,292	3,063,207
Partial day care	2,708,952	2,286,771
Outpatient	5,722,719	5,249,416
Community support	3,021,088	2,955,912
Consultation and education	14,716	399,239
	<u>18,263,992</u>	<u>17,360,117</u>
Service fee and contractual allowances	(6,650,278)	(5,954,796)
MRO match	<u>(2,004,400)</u>	<u>(1,876,994)</u>
Net client service revenue	<u>\$ 9,609,314</u>	<u>\$ 9,528,327</u>

The Center provides care to clients under reimbursement agreements with Medicare, Medicaid, and other third-party payors. These agreements provide for payment for covered services at prospectively determined rates that are different from established rates. Provision has been made in the financial statements for the estimated contractual adjustments, representing the difference between charges for services and estimated reimbursable cost.

7. PROGRAM REVENUE AND COUNTY TAX SUPPORT

The Center receives program revenue from both federal and state agencies. Receipt of these funds is subject to the fulfillment of certain obligations by the Center, as prescribed by these programs. The Center also receives tax support from Lake County, Indiana. Such tax support is designated by resolution of the County Council for general operations or is restricted for specified purposes.

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

8. PENSION PLAN

Substantially all full-time employees of the Center who have one year of service and are age 21 or older are covered under a noncontributory defined-contribution pension plan. For each eligible employee, the Center contributes 7% of the employee's total compensation, as defined, plus 5.7% of such compensation in excess of the Social Security Taxable Wage Base. Effective January 1, 2007, the plan was amended and restated into a 401(k) plan. The new plan covers substantially all full-time employees of the Center. The amount of employer matching contributions is determined each year by the Center up to a maximum of one percent of an eligible employee's annual compensation. In addition to the Center's contributions, which are made to the participants' accounts, each participant's account is credited annually with a share of the investments earning or losses. Pension expense charged to operations amounted to \$436,725 and \$447,400 for 2008 and 2007, respectively.

9. LEASES

The Center leases office space under various operating leases and other space and equipment on a month-to-month basis in 2008 and 2007. Certain leases require the payment of all or a portion of maintenance and insurance costs. Rent expense was \$165,973 and \$164,583 for 2008 and 2007, respectively.

10. EMPLOYEE HEALTH COSTS

The Center entered into a self-insurance plan with Mennonite Mutual Aid (MMA), whereby MMA provides certain administrative services and SAFECO provides specific and aggregate stop loss coverage. The Center pays a reduced monthly premium. However, it is responsible for the funding of all claims up to \$50,000 per individual per policy year and up to approximately \$1,128,000 per year on the group as a whole. A liability of \$176,534 and \$191,409 has been recorded as of June 30, 2008 and 2007, respectively, to estimate payment of claims pending on the date. Group health insurance expense for 2008 and 2007 totaled \$513,419 and \$783,976, respectively.

11. DISPROPORTIONATE SHARE OF MEDICAID REVENUE

The Center along with other mental health centers which have inpatient units is eligible to receive a Disproportionate Share of Medicaid Revenue for current and prior years. For 2008 and 2007, revenue related to this program was \$537,417 and \$132,726, respectively.

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

12. INDIANA FUNDS RECOVERY PROGRAM

The Center participates in a program with the State of Indiana whereby administrative actions performed by the Center that support the proper and efficient operation of the Indiana State Medicaid plan are reimbursed by the federal government, subject to the Center providing matching funds. In 2008 and 2007, the Center recorded revenue of \$575,000 and \$875,000, respectively.

13. ESTIMATED THIRD PARTY LIABILITIES

Estimated third party liabilities for Medicare, Medicaid, Medicaid Rehabilitation Option (MRO), grants and other programs reflect the difference between interim reimbursement and reimbursement as determined by contractual agreements and third-party audits.

Based upon payments received from Medicare, Medicaid, MRO, grants and other programs, the Center has estimated and recorded an asset in the amount of \$160,691 and a liability of \$226,694, respectively, as of June 30, 2008 and 2007.

14. COMMITMENTS AND CONTINGENCIES

The Center is involved in various legal proceedings and litigation arising in the ordinary course of business. Although the eventual outcome of these matters is not presently determinable, in the opinion of the Center's management, the resolution of such proceedings and litigation will not have a material adverse effect on the financial position of the Center.

15. MEDICAL MALPRACTICE CLAIMS

The Center purchases professional and general liability insurance to cover medical malpractice claims. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to clients. The State of Indiana puts a judgment cap of \$1,250,000 on malpractice claims for those institutions and individual physicians willing to participate in the state funded insurance "pool." The "pool" requires that an institution/physician be responsible for the first \$250,000 of every claim and the State will fund the remaining balance of each claim.

SUPPLEMENTARY INFORMATION

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

COMBINING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2008

(with comparative totals as of June 30, 2007)

ASSETS	Southlake	HUD Projects	Eliminations	2008 Combined	2007 Combined
Current assets					
Cash and cash equivalents	\$ 868,314	23,070	\$ -0-	\$ 891,384	\$ 1,053,949
Short-term investments	7,188,880	-0-	-0-	7,188,880	7,834,985
Client accounts receivable, net	2,498,540	-0-	-0-	2,498,540	2,279,244
Accounts receivable - Lake County	-0-	-0-	-0-	-0-	946,680
Other receivables	163,894	-0-	-0-	163,894	549,836
Estimated third party settlement	160,691	-0-	-0-	160,691	-0-
Prepaid expenses and other assets	114,028	18,050	-0-	132,078	491,406
Due from affiliates and other funds	1,074,948	-0-	(1,074,948)	-0-	-0-
Total current assets	<u>12,069,295</u>	<u>41,120</u>	<u>(1,074,948)</u>	<u>11,035,467</u>	<u>13,156,100</u>
Property and equipment					
Land and improvements	856,477	678,625	-0-	1,535,102	1,238,122
Buildings and improvements	7,953,838	5,911,683	-0-	13,865,521	12,956,206
Moveable equipment	5,620,621	34,855	-0-	5,655,476	5,397,788
Leasehold improvements	163,823	-0-	-0-	163,823	158,853
Accumulated depreciation	14,594,759	6,625,163	-0-	21,219,922	19,750,969
Property and equipment, net	10,595,263	580,469	-0-	11,175,732	10,208,415
	<u>3,999,496</u>	<u>6,044,694</u>	<u>-0-</u>	<u>10,044,190</u>	<u>9,542,554</u>
Investments and other assets					
Investments held for capital improvements	5,350,142	-0-	-0-	5,350,142	5,826,440
HUD Residential - cash and investments	-0-	117,240	-0-	117,240	76,610
Equity in joint venture	4,055,970	-0-	-0-	4,055,970	3,529,288
Total investments and other assets	<u>9,406,112</u>	<u>117,240</u>	<u>-0-</u>	<u>9,523,352</u>	<u>9,432,338</u>
Total assets	<u>\$ 25,474,903</u>	<u>\$ 6,203,054</u>	<u>\$ (1,074,948)</u>	<u>\$ 30,603,009</u>	<u>\$ 32,130,992</u>

See report of independent auditors on pages 1 and 2.

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

COMBINING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2008

(with comparative totals as of June 30, 2007)

	Southlake	HUD Projects	Eliminations	2008 Combined	2007 Combined
LIABILITIES AND NET ASSETS					
Current liabilities					
Current portion of long-term debt	\$ 157,936	\$ -0-	\$ -0-	\$ 157,936	\$ 150,623
Accounts payable	138,161	9,379	-0-	147,540	478,542
Accounts payable - Geminus	550,125	-0-	-0-	550,125	260,362
Accrued wages and related liabilities	1,017,051	-0-	-0-	1,017,051	1,072,906
Other accrued expenses	184,001	-0-	-0-	184,001	196,910
Estimated third party liabilities	-0-	-0-	-0-	-0-	226,694
Due to affiliates and other funds	741,522	333,426	(1,074,948)	-0-	-0-
Total current liabilities	<u>2,788,796</u>	<u>342,805</u>	<u>(1,074,948)</u>	<u>2,056,653</u>	<u>2,386,037</u>
Long-term debt	<u>833,107</u>	<u>-0-</u>	<u>-0-</u>	<u>833,107</u>	<u>991,043</u>
Total liabilities	3,621,903	342,805	(1,074,948)	2,889,760	3,377,080
Unrestricted net assets					
General	14,706,857	-0-	-0-	14,706,857	17,459,902
Board designated for capital improvements	7,146,143	-0-	-0-	7,146,143	6,357,438
Southlake Center Residential, Inc.	-0-	324,448	-0-	324,448	365,028
Watertown Residential, Inc.	-0-	1,711,099	-0-	1,711,099	1,744,792
Watertown West, Inc.	-0-	1,695,211	-0-	1,695,211	1,738,077
Bell Tower, Inc.	-0-	2,129,491	-0-	2,129,491	1,088,675
Total net assets	<u>21,853,000</u>	<u>5,860,249</u>	<u>-0-</u>	<u>27,713,249</u>	<u>28,753,912</u>
Total liabilities and net assets	<u>\$ 25,474,903</u>	<u>\$ 6,203,054</u>	<u>\$ (1,074,948)</u>	<u>\$ 30,603,009</u>	<u>\$ 32,130,992</u>

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

**COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008
(with comparative totals for 2007)**

	<u>Southlake</u>	<u>HUD Projects</u>	<u>2008 Combined</u>	<u>2007 Combined</u>
	\$ 9,609,314	\$ -0-	\$ 9,609,314	\$ 9,528,327
Net client service revenue				
Public support and other revenue				
Seriously mentally ill adults	2,989,106	-0-	2,989,106	2,549,696
Disproportionate share	537,417	-0-	537,417	132,726
Additions	964,483	-0-	964,483	910,632
Seriously emotionally disturbed children	354,176	-0-	354,176	291,662
County tax levies	1,015,384	-0-	1,015,384	835,437
Forensic contracts	-0-	-0-	-0-	1,622,880
Indiana Funds Recovery Program	575,000	-0-	575,000	875,000
ACT	197,210	-0-	197,210	197,210
Miscellaneous	425,060	733,902	1,158,962	603,149
Total public support and other revenue	<u>7,057,836</u>	<u>733,902</u>	<u>7,791,738</u>	<u>8,018,392</u>
Total revenue	<u>16,667,150</u>	<u>733,902</u>	<u>17,401,052</u>	<u>17,546,719</u>
Operating expenses				
Program services				
Inpatient	3,059,242	-0-	3,059,242	3,109,513
Residential	2,405,437	415,395	2,820,832	2,499,113
Partial day care	2,230,325	-0-	2,230,325	2,071,182
Outpatient	4,550,448	-0-	4,550,448	4,287,471
Community support	1,908,662	-0-	1,908,662	1,865,310
Consultation and education	34,774	-0-	34,774	1,568,243
Total program services	<u>14,188,888</u>	<u>415,395</u>	<u>14,604,283</u>	<u>15,400,832</u>
Support services				
General and administrative	3,265,054	-0-	3,265,054	2,709,399
Total operating expenses	<u>17,453,942</u>	<u>415,395</u>	<u>17,869,337</u>	<u>18,110,231</u>
Operating income (loss)	<u>(786,792)</u>	<u>318,507</u>	<u>(468,285)</u>	<u>(563,512)</u>
Nonoperating revenue				
Investment income	(1,099,060)	-0-	(1,099,060)	2,055,588
Gain from joint ventures	526,682	-0-	526,682	650,759
Section 811 grants	-0-	-0-	-0-	1,089,357
Total nonoperating revenue	<u>(572,378)</u>	<u>-0-</u>	<u>(572,378)</u>	<u>3,795,704</u>
Change in unrestricted net assets	<u>\$ (1,359,170)</u>	<u>\$ 318,507</u>	<u>\$ (1,040,663)</u>	<u>\$ 3,232,192</u>

See report of independent auditors on pages 1 and 2.

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

<u>Program</u>	<u>Grant ID #</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Major program			
Substance Abuse Prevention and Treatment (SAPT) Block			
Grant - DHHS - Indiana Division of Mental Health -			
Geminus	45-08-HO-0541	93.959	\$ 746,413
Nonmajor programs			
Social Services Block Grant - DHHS - Indiana Division of			
Mental Health - Geminus	45-08-HO-0541	93.667	173,159
Block Grant for Community Mental Health Services -			
DHHS - Indiana Division of Mental Health - Geminus	45-08-HO-0541	93.958	104,431
Vocational Rehabilitation - Education Department - Indiana			
Division of Disability, Aging and Rehabilitative Services	45-08-0X-0541	84.126	<u>43,548</u>
Total non-major programs			<u>321,138</u>
Total federal expenditures			<u>\$ 1,067,551</u>

Note - The accompanying schedule of expenditures of federal awards for the year ended June 30, 2008 includes the federal grant activity of the Center and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**SOUTHLAKE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATES**

SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS
YEAR ENDED JUNE 30, 2008

<u>Grantor</u>	<u>Expenditures</u>
State	
Indiana Division of Mental Health and Addiction Managed Care Provider Agreement 7/1/07 - 6/30/08	\$ 1,839,882
 Local	
Lake County Tax Levy	1,015,384
Total state and local awards	<u>\$ 2,855,266</u>

Note - The accompanying schedule of expenditures of state and local awards for the year ended June 30, 2008 includes the state and local award activity of the Center and is presented on the accrual basis of accounting. The basic combined financial statements classifications may include other financial activity for reporting purposes. Therefore, some of the amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic combined financial statements.

Board of Directors
Southlake Community Mental Health Center, Inc.
Merrillville, Indiana

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain matters that we reported to management of the Center in a separate letter dated September 9, 2008.

This report is intended solely for the information of the board of directors, management, the cognizant audit agencies, the Indiana Division of Mental Health and Addiction and other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blue & Co., LLC

September 9, 2008



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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Southlake Community Mental Health Center, Inc.
Merrillville, Indiana

Compliance

We have audited the compliance of Southlake Community Mental Health Center, Inc. (the Center) with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Center's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center'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. Our audit does not provide a legal determination of the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Board of Directors
Southlake Community Mental Health Center, Inc.
Merrillville, Indiana

Internal Control Over Compliance

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the Center's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, the cognizant audit agencies, the Indiana Division of Mental Health and Addiction and other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blue & Co., LLC

September 9, 2008

