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October 12, 2011

Board of Directors  
Southwestern Behavioral  
Healthcare, Inc.  
415 Mulberry St.  
Evansville, IN 47713

We have reviewed the audit report prepared by Harding, Shymanski & Company, PSC, Independent Public Accountants, for the period July 1, 2008 to June 30, 2009. 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 Southwestern Behavioral Healthcare, Inc., as of June 30, 2009, 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

***SOUTHWESTERN BEHAVIORAL  
HEALTHCARE, INC.  
A Not-for-Profit Corporation***

***Financial Report***

***June 30, 2009***

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Southwestern Behavioral Healthcare, Inc.  
415 Mulberry Street  
Evansville, Indiana 47713-1230

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**HARDING, SHYMANSKI  
AND COMPANY, P.S.C.**

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Certified Public Accountants  
and Consultants

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An Independently  
Owned Member of the  
RSM McGladrey Network

We have audited the accompanying balance sheet of Southwestern Behavioral Healthcare, Inc., a Not-for-Profit Corporation, as of June 30, 2009, and the related statements of support, revenue, and expenses and changes in net assets, cash flows – total funds, and functional expenses for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Corporation's 2008 financial statements and, in our report dated September 9, 2008, we expressed an unqualified opinion on those financial statements.

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 and Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources issued by the Indiana State Board of Accounts. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwestern Behavioral Healthcare, Inc., a Not-for-Profit Corporation, as of June 30, 2009 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated, December 17, 2009 on our consideration of Southwestern Behavioral Healthcare, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 read in conjunction with this report in considering the results of our audit.

*INDEPENDENT AUDITOR'S REPORT (CONTINUED)*

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Southwestern Behavioral Healthcare, Inc. taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and state 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 not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Harding, Shymanski & Company, P.S.C.*

Evansville, Indiana  
December 17, 2009

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***

***A Not-for-Profit Corporation***

STATEMENTS OF SUPPORT, REVENUE, AND EXPENSES AND CHANGES IN NET ASSETS  
Year Ended June 30, 2009 with Comparative Totals for 2008

	2009			TOTAL ALL FUNDS	
	Current Fund	Replacement and Expansion Fund	Board Designated Fund	2009	2008
Changes in unrestricted net assets					
Support and revenue					
Public support					
Contributions	1,622	0	2,280	3,902	27,963
County funds					
Gibson	184,198	0	0	184,198	177,365
Posey	254,385	0	0	254,385	244,948
Vanderburgh	800,556	0	0	800,556	770,857
Warrick	336,430	0	0	336,430	323,950
State funds					
Mental health	4,790,374	0	0	4,790,374	3,831,045
Substance abuse	125,457	0	0	125,457	345,773
Federal funds					
Mental health	352,286	0	0	352,286	917,957
Substance abuse	1,246,173	0	0	1,246,173	1,263,520
	<u>8,091,481</u>	<u>0</u>	<u>2,280</u>	<u>8,093,761</u>	<u>7,903,378</u>
Net service revenue	<u>5,768,478</u>	<u>0</u>	<u>0</u>	<u>5,768,478</u>	<u>5,947,321</u>
Other revenue (expense)					
Interest income	15,527	7,361	26,525	49,413	242,184
Miscellaneous income	512,159	0	15,310	527,469	668,206
Loss on sale of property and equipment	0	0	0	0	(106)
Mental Health Funds Recovery Program income	627,921	0	0	627,921	1,032,125
Provision for uncollectible accounts	(914,845)	0	0	(914,845)	(814,884)
	<u>240,762</u>	<u>7,361</u>	<u>41,835</u>	<u>289,958</u>	<u>1,127,525</u>
Total unrestricted support and revenue	<u>14,100,721</u>	<u>7,361</u>	<u>44,115</u>	<u>14,152,197</u>	<u>14,978,224</u>
Expenses	<u>13,793,177</u>	<u>0</u>	<u>0</u>	<u>13,793,177</u>	<u>14,212,959</u>
Increase in unrestricted net assets	<u>307,544</u>	<u>7,361</u>	<u>44,115</u>	<u>359,020</u>	<u>765,265</u>
Unrestricted net assets at beginning of year	5,632,013	385,904	4,688,430		
Transfer of property and funds to affiliated entity	(2,777,393)	(110,918)	(4,632,987)		
Other changes in unrestricted net assets					
Property and equipment acquisition	57,255	(55,925)	(1,330)		
Transfer of funds - depreciation	(174,616)	142,601	32,015		
Unrestricted net assets at end of year	<u>3,044,803</u>	<u>369,023</u>	<u>130,243</u>		

See notes to financial statements.

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***  
***A Not-for-Profit Corporation***

BALANCE SHEETS

June 30, 2009 with Comparative Totals for 2008

	2009			TOTAL ALL FUNDS	
	Current Fund	Replacement and Expansion Fund	Board Designated Fund	2009	2008
<b>ASSETS</b>					
Current Assets					
Cash	2,026,089	417,592	0	2,443,681	6,754,428
Accounts receivable					
Patients, less allowance for doubtful accounts					
2009 \$743,027; 2008 \$1,073,248	1,184,411	0	0	1,184,411	1,411,123
County funds	580,085	0	0	580,085	389,159
Net fund receivable (payable)	48,569	(48,569)	0	0	0
Other	514,077	0	0	514,077	91,939
Prepaid expenses	212,854	0	0	212,854	235,568
<b>Total current assets</b>	<b>4,566,085</b>	<b>369,023</b>	<b>0</b>	<b>4,935,108</b>	<b>8,882,217</b>
Other Assets					
Note receivable from related party	0	0	0	0	450,000
Cash surrender value of life insurance	0	0	130,243	130,243	342,272
Other assets	39,791	0	0	39,791	22,151
	39,791	0	130,243	170,034	814,423
Property and Equipment	1,888,878	0	0	1,888,878	7,798,472
Less accumulated depreciation	(1,631,257)	0	0	(1,631,257)	(5,357,438)
	257,621	0	0	257,621	2,441,034
	<u>4,863,497</u>	<u>369,023</u>	<u>130,243</u>	<u>5,362,763</u>	<u>12,137,674</u>

See notes to financial statements.

	2009			TOTAL ALL FUNDS	
	Current Fund	Replacement and Expansion Fund	Board Designated Fund	2009	2008
<b>LIABILITIES AND NET ASSETS</b>					
Current Liabilities					
Accounts payable	734,904	0	0	734,904	214,056
Accrued expenses	649,133	0	0	649,133	823,208
Deferred revenue	408,306	0	0	408,306	394,063
<b>Total current liabilities</b>	<b>1,792,343</b>	<b>0</b>	<b>0</b>	<b>1,792,343</b>	<b>1,431,327</b>
Deferred Compensation	26,351	0	0	26,351	0
<b>Total liabilities</b>	<b>1,818,694</b>	<b>0</b>	<b>0</b>	<b>1,818,694</b>	<b>1,431,327</b>
Unrestricted Net Assets	3,044,803	369,023	130,243	3,544,069	10,706,347
	<u>4,863,497</u>	<u>369,023</u>	<u>130,243</u>	<u>5,362,763</u>	<u>12,137,674</u>

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***  
***A Not-for-Profit Corporation***

STATEMENTS OF CASH FLOWS - TOTAL FUNDS  
Year Ended June 30, 2009 with Comparative Totals for 2008

	2009	2008
Cash Flows from Operating Activities		
Increase in unrestricted net assets	359,020	765,265
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities		
Depreciation	174,616	389,991
Provision for uncollectible accounts	914,845	814,884
Loss on sale of property and equipment	0	106
Changes in assets and liabilities:		
Decrease (increase)		
Accounts receivable		
Patients	(688,133)	(946,983)
County funds	(190,926)	(22,805)
Other	(422,138)	9,391
Prepaid expenses	22,714	53,102
Increase (decrease)		
Accounts payable	520,848	(17,043)
Accrued expenses	191,515	85,484
Deferred revenue	14,243	14,499
Deferred compensation	26,351	0
<u>Net cash provided by operating activities</u>	<u>922,955</u>	<u>1,145,891</u>
Cash Flows from Investing Activities		
Increase in cash surrender value of life insurance	(15,310)	(41,484)
Purchase of property and equipment	(57,255)	(136,752)
Purchase of other assets	(17,640)	(406)
<u>Net cash used in investing activities</u>	<u>(90,205)</u>	<u>(178,642)</u>
Cash Flows from Financing Activities		
Transfer of cash to affiliated entity	(5,143,497)	0
Net increase (decrease) in cash	(4,310,747)	967,249
Cash at beginning of year	6,754,428	5,787,179
Cash at end of year	<u>2,443,681</u>	<u>6,754,428</u>
Supplemental Disclosures of Non-Cash Investing and Financing Activities		
Property and equipment transferred to affiliated entity	<u>2,066,052</u>	<u>0</u>
Other assets transferred to affiliated entity, net of liabilities	<u>311,749</u>	<u>0</u>

See notes to financial statements.

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***  
***A Not-for-Profit Corporation***

STATEMENTS OF FUNCTIONAL EXPENSES  
Year Ended June 30, 2009 with Comparative Totals for 2008

	PROGRAMS					
	MENTAL HEALTH					
	Inpatient	Residential	Partial Hospi- talization	Outpatient	Consultation and Education	Inpatient
Payroll	244,485	791,883	504,050	3,439,852	159,096	4,203
Employee benefits	61,078	197,831	125,924	859,356	39,746	1,050
Operating supplies	0	68,475	17,906	5,973	0	0
Operating expenses	7,244	76,364	26,021	203,131	9,809	127
Office expenses	1,790	28,009	12,801	58,580	3,577	35
Travel and transportation	748	16,381	9,247	33,401	1,690	13
Building expenses	1,296	194,089	173,659	430,265	55,474	20
Purchased services	250,512	4,699	3,675	51,815	46,428	37,184
Total costs before depreciation	567,153	1,377,731	873,283	5,082,373	315,820	42,632
Depreciation of property and equipment	886	10,496	13,501	41,708	2,959	17
Total costs	<u>568,039</u>	<u>1,388,227</u>	<u>886,784</u>	<u>5,124,081</u>	<u>318,779</u>	<u>42,649</u>

See notes to financial statements.

PROGRAMS						SUPPORTIVE SERVICE	TOTAL PROGRAMS AND SUPPORTIVE SERVICE	
ADDICTION SERVICES							2009	2008
Residential	Partial Hospitalization	Outpatient	Consultation and Education	Detoxification	Total Program Services	Management and General		
504,933	93,902	431,467	17,711	161,348	6,352,930	698,853	7,051,783	8,572,076
126,144	23,459	107,791	4,425	40,309	1,587,113	174,590	1,761,703	2,227,703
7,297	4,263	0	0	1,095	105,009	0	105,009	122,446
27,298	9,594	36,172	1,653	8,012	405,425	380,484	785,909	839,262
12,700	2,164	8,321	333	4,347	132,657	27,061	159,718	175,155
7,711	830	3,223	115	2,290	75,649	9,896	85,545	108,609
72,551	10,410	84,553	4,958	25,726	1,053,001	173,708	1,226,709	923,514
239,976	0	55,042	10,274	47,123	746,728	1,695,456	2,442,184	851,298
998,610	144,622	726,569	39,469	290,250	10,458,512	3,160,048	13,618,560	13,820,063
22,286	3,204	13,577	446	7,901	116,981	57,636	174,617	389,991
<u>1,020,896</u>	<u>147,826</u>	<u>740,146</u>	<u>39,915</u>	<u>298,151</u>	<u>10,575,493</u>	<u>3,217,684</u>	<u>13,793,177</u>	<u>14,210,054</u>

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***  
***A Not-for-Profit Corporation***

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 with Comparative Totals for 2008

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***Note 1 – Nature of Activities and Significant Accounting Policies***

***Nature of Activities***

Southwestern Behavioral Healthcare, Inc. (formerly Southwestern Indiana Mental Health Center, Inc.) is a nonprofit health care provider of psychiatric services to the residents of Gibson, Posey, Vanderburgh, and Warrick Counties.

***Reorganization***

On October 1, 2008, Southwestern Indiana Mental Health Center, Inc. and affiliated entities reorganized its operations. As a part of the reorganization, Southwestern Indiana Mental Health Center, Inc. transferred land and buildings and substantially all of its Board restricted assets to a newly formed affiliated entity, Southwestern Healthcare, Inc. The transfer of assets has been recorded based on the book value of the assets at the date of the transfer. In addition, Southwestern Indiana Mental Health Center, Inc. changed its name to Southwestern Behavioral Healthcare, Inc.

***Comparative Amounts***

The financial statements and notes include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***  
***A Not-for-Profit Corporation***

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 with Comparative Totals for 2008

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***Note 1 – Nature of Activities and Significant Accounting Policies (Continued)***

***Financial Statement Presentation***

The Corporation presents its financial statements in conformance with the disclosure and display requirements of the Financial Accounting Standards Board as set forth in Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-For-Profit Organizations"(SFAS 117). SFAS 117 establishes standards for external financial reporting by not-for-profit organizations. It requires that information regarding financial position and activities be reported into three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. These classes of net assets are based on the existence or absence of externally (donor) imposed restrictions on contributions.

For internal purposes, the assets, liabilities, and net assets of the Corporation are reported in fund groups as follows:

***Current Unrestricted Fund***

Funds presently available for use by the Corporation at the discretion of the Board of Directors.

***Replacement and Expansion Fund***

Funds represent resources designated by the Board of Directors for the acquisition of property and equipment and the corresponding depreciation. Uses of current funds for property and equipment acquisitions, principal debt payments, and depreciation are accounted for as transfers between funds.

***Board Designated Fund***

Designated funds have been stipulated to be used at the discretion of the Board of Directors.

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***  
***A Not-for-Profit Corporation***

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 with Comparative Totals for 2008

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***Note 1 – Nature of Activities and Significant Accounting Policies (Continued)***

**Support and Expenses**

The Corporation reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. Revenue from contracts is recognized in the period which the contracts specify and related expenses are incurred. Income earned from investments is accounted for in the fund owning the assets under the accrual basis.

**Concentration of Credit Risk**

Financial instruments, which potentially subject the Corporation to concentrations of credit risk, consist principally of cash and accounts receivable. At times, such cash in banks is in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. The Corporation maintains cash balances in one financial institution. The balances are insured by the FDIC up to \$250,000. At June 30, 2009, the Corporation's uninsured cash balances were \$167,942. The Corporation attempts to minimize accounts receivable credit risk by monitoring customers' credit exposure on a continuing basis.

**Accounts Receivable**

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Corporation provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of the patients to meet their obligations. It is the Corporation's policy to charge off uncollectible accounts receivable when management determines that the receivable will not be collected.

**Property, Equipment, and Depreciation**

Additions and betterments are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed correctly. Property and equipment are stated at cost, with the exception of donations to the Corporation which are stated at fair market value at the date of the gift if a value can be measured on an objective basis. Provisions for depreciation of property and equipment have been computed on the straight-line method beginning with the year following acquisition.

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***  
***A Not-for-Profit Corporation***

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 with Comparative Totals for 2008

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***Note 1 – Nature of Activities and Significant Accounting Policies (Continued)***

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

***Recently Issued Accounting Standards***

***Recently Adopted Accounting Pronouncements***

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No.157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements, but does not require any new fair value measurements. In February 2008, FASB Staff Position (FSP) 157-2 delayed the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually). The FSP deferred the effective date of SFAS 157 for financial statements issued for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The adoption of the remaining components of SFAS 157 is not expected to be material to the Corporation's financial statements.

***Pending Accounting Pronouncements Not Yet Adopted***

In July 2006, FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" (FIN 48), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. This interpretation, as amended, is effective for fiscal years beginning after December 15, 2007. Management has elected to defer the application of FIN 48 in accordance with FSP FIN 48-3 until its fiscal year beginning after December 15, 2008. The Corporation will continue to follow FAS 5, Accounting for Contingencies, until it adopts FIN 48. Management has not yet determined the impact of the adoption of FIN 48 on the Corporation's financial statements.

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***  
***A Not-for-Profit Corporation***

NOTES TO FINANCIAL STATEMENTS  
 June 30, 2009 with Comparative Totals for 2008

***Note 2 – Property and Equipment***

Property and equipment at June 30, 2009 and 2008 consisted of the following:

	<u>2009</u>		<u>2008</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Land	0	0	617,732	0
Buildings	0	0	4,383,169	3,330,290
Furniture, fixtures, and equipment	<u>1,888,878</u>	<u>1,631,257</u>	<u>2,797,571</u>	<u>2,027,148</u>
	<u>1,888,878</u>	<u>1,631,257</u>	<u>7,798,472</u>	<u>5,357,438</u>

Depreciation expense for the years ended June 30, 2009 and 2008 was \$174,616 and \$389,991, respectively.

***Note 3 – Note Receivable from Related Party***

At June 30, 2008, the Corporation had a note receivable from a related party of \$450,000. The note provided for interest only to be paid monthly at 5.96 percent, was unsecured, and was due February 21, 2012. On October 1, 2008, the note receivable was transferred to Southwestern Healthcare, Inc.

***Note 4 – Operating Line of Credit***

The Corporation has an operating line of credit with a bank, which is unsecured with an interest rate at Wall Street prime, and is due December 31, 2009. There were no outstanding borrowings as of both years ended June 30, 2009 and 2008. Maximum borrowings available under this line of credit are \$2,000,000.

**SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.**  
**A Not-for-Profit Corporation**

NOTES TO FINANCIAL STATEMENTS  
 June 30, 2009 with Comparative Totals for 2008

**Note 5 – Commitment and Contingency**

The Corporation, along with three other related not-for-profit organizations, participates in the affiliate's self-funded health insurance plan which covers substantially all of its employees. The Corporation's portion of group health insurance expense for the years ended June 30, 2009 and 2008 was \$808,454 and \$951,953, respectively.

The Corporation has been reviewed by the Health Care Excel Surveillance and Utilization Review team. As a result of their review, it was determined that Medicaid had overpaid. Management believes that the claims are overstated; however, management has accrued \$61,250 to cover any estimated claims. The accrued amount is included in accounts payable. This is currently being appealed by the Corporation's counsel.

**Note 6 – Patient Trust Fund**

The Corporation is the fiduciary for a patient trust fund. As fiduciary, the Corporation deposits benefit checks received on behalf of patients of the Community Support Services and then disburses these funds to outside parties in the community on behalf of patients for their living expenses. Cash on hand for the years ended June 30, 2009 and 2008 was \$110,461 and \$82,261, respectively.

**Note 7 – Net Service Revenue**

The service allowance represents an adjustment made to standard billings for services rendered based on each individual's ability to pay. This adjustment is a function of household income and family size.

	2009	2008		
	Gross Service Revenue	Service Allowance	Net Service Revenue	Net Service Revenue
Total Service Revenue	12,955,768	7,187,290	5,768,478	5,947,320

**Note 8 – Tax Status**

The Corporation is a nonprofit health agency exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. The Corporation has been classified as an organization that is not a private foundation and has been designated as a "publicly-supported" organization.

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***

***A Not-for-Profit Corporation***

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 with Comparative Totals for 2008

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***Note 9 – Employee Benefits***

The Corporation has a 401(k) (defined contribution) plan. The plan is available for all employees. Employees may participate by contributing a percentage of their salary, a portion up to 100 percent in 2009. For employees who are 21 years of age, have completed one year of service, and have worked 1,000 hours during the plan year, a 50 percent matching contribution of employees' deferrals, and an additional three percent contribution of employees' wages is made by the Corporation. Contributions made by the Corporation for the years ended June 30, 2009 and 2008 were \$248,094 and \$17,835, respectively.

Prior to May 1, 2008, the Corporation had a defined contribution retirement plan with a target benefit covering substantially all of its employees. The Corporation's policy was to fund pension costs accrued. Pension costs for the year ended June 30, 2008 were \$433,955.

***Note 10 – Deferred Compensation Plans***

Effective November 1, 2008, the Corporation entered into a 457(b) Plan deferred compensation agreement. The Plan allows for highly compensated employees to defer an additional amount of compensation to the Plan. Employees are immediately 100 percent vested in the Plan. The ultimate payment of the deferred compensation is subject to conditions specified within the Plan. Under certain circumstances, benefits are payable to a beneficiary.

Effective November 1, 2008, the Corporation entered into a 457(f) Plan deferred compensation agreement with certain executives, and is funded by employer contributions. The ultimate payment of the deferred compensation is subject to the employees meeting certain conditions contained in the agreements. Under certain circumstances, benefits are payable to a beneficiary. The Corporation's policy is to annually accrue deferred compensation as earned. Deferred compensation expense related to this Plan was \$9,000 for the year ended June 30, 2009. There was no deferred compensation expense for the year ended June 30, 2008.

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***  
***A Not-for-Profit Corporation***

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 with Comparative Totals for 2008

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***Note 11 – Related Party Transactions***

The Corporation is related through common Board members to other not-for-profit corporations. On October 1, 2008, the Corporation transferred \$7,521,298 of net assets at book value to an affiliated entity as a result of the reorganization. Other transactions with the related not-for-profit corporations for the years ended June 30, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Service contracts - management services	60,222	120,312
Management fees expense	1,685,357	0
Rental expense	752,013	416,700
Consulting expense	39,843	52,750
Donation expense	4,500	27,000
Employee benefit expense	1,850	2,050

The accompanying balance sheets include the following related party amounts:

Notes receivable - Mulberry Center, Inc.	0	450,000
Accounts receivable - other	22,454	9,865
Prepaid expenses	59,563	0
Accounts payable	537,977	34,725

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***  
***A Not-for-Profit Corporation***

NOTES TO FINANCIAL STATEMENTS  
June 30, 2009 with Comparative Totals for 2008

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***Note 12 – Leases***

The Corporation is obligated under operating leases for offices throughout the counties it serves. Generally, the Corporation is required to pay executory costs such as maintenance and insurance. At June 30, 2009, aggregate future minimum rental payments required under these leases, which expire July 31, 2021, are as follows:

<u>Years Ending June 30,</u>	<u>Other</u>	<u>Related Parties</u>	<u>Total</u>
2010	53,674	863,784	917,458
2011	55,104	347,900	403,004
2012	24,224	297,600	321,824
2013	7,500	297,600	305,100
2014	0	297,600	297,600
Thereafter	<u>0</u>	<u>1,844,900</u>	<u>1,844,900</u>
	<u>140,502</u>	<u>3,949,384</u>	<u>4,089,886</u>

Total rental expense under all operating leases for the years ended June 30, 2009 and 2008 was \$817,093 and \$480,626, respectively.

***Note 13 – Third Party Payer***

The Corporation participates in the Medicaid program. Revenue derived from this program as a percentage of public support and net service revenue for the years ended June 30, 2009 and 2008 was 26.1 and 26 percent, respectively.

*--- SUPPLEMENTARY INFORMATION ---*

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***  
***A Not-for-Profit Corporation***

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
Year Ended June 30, 2009

Schedule prepared on the Accrual Basis of Accounting  
in Accordance with Accounting Principals Generally Accepted in the United States of America

<u>U.S. Department of Health and Human Services</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Expenditures</u>
<b>Federal Awards</b>		
Passed through Indiana Division of Mental Health and Addiction:		
Major Program:		
Substance Abuse Prevention and Treatment Block Grant (July 1, 2008 - June 30, 2009)	93.959	1,246,173
Nonmajor Program:		
Mental Health Services Homeless Grant (July 1, 2008 - June 30, 2009)	93.150	74,908
Seriously Emotionally Disturbed (July 1, 2008 - June 30, 2009)	93.958	77,297
Community Mental Health Block Grant (July 1, 2008 - June 30, 2009)	93.958	<u>200,081</u>
Total Department of Health and Human Services		1,598,459
<b>State Awards</b>		
Indiana Division of Mental Health and Addiction:		
Community Mental Health Services and Substance Abuse Prevention and Treatment (July 1, 2008 - June 30, 2009)	N/A	<u>4,915,831</u>
Total Indiana Family and Social Service Administration		<u><u>6,514,290</u></u>

See auditor's report.

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***  
***A Not-for-Profit Corporation***

SCHEDULES OF EXPENSES – CURRENT FUND  
Year Ended June 30, 2009 with Comparative Totals for 2008

	2009	2008
Payroll		
Addiction services	1,048,014	1,105,564
Administration	698,853	1,803,934
Consultation and education - mental health	159,096	191,491
Deferred compensation	26,351	0
Detoxification	161,348	187,324
Inpatient services	248,688	244,956
Outpatient - mental health	3,413,501	3,562,835
Partial hospitalization	504,050	565,723
Residential - mental health	791,883	910,249
	<u>7,051,784</u>	<u>8,572,076</u>
Employee Benefits		
Flexible benefit plan	4,123	6,072
Insurance - group health	808,454	951,953
Insurance - group life	20,469	25,711
Long-term disability	75,902	86,899
Miscellaneous	26,471	25,975
Paid time off	5,858	7,529
Retirement plan	248,094	451,790
Taxes - social security and Medicare	513,235	587,278
Taxes - unemployment compensation	15,860	21,534
Workmen's compensation	43,236	62,962
	<u>1,761,702</u>	<u>2,227,703</u>
Operating Supplies	<u>105,009</u>	<u>122,446</u>
Operating Expenses	<u>785,910</u>	<u>839,262</u>
Office Expenses	<u>159,719</u>	<u>175,155</u>
Travel and Transportation	<u>85,545</u>	<u>108,609</u>

See auditor's report.

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***  
***A Not-for-Profit Corporation***

SCHEDULES OF EXPENSES -- CURRENT FUND (CONTINUED)  
Year Ended June 30, 2009 with Comparative Totals for 2008

	2009	2008
Building Expenses		
Rent - buildings	803,190	464,980
Rent - equipment	13,903	15,646
Repairs and maintenance	180,131	201,340
Supplies	32,615	38,591
Utilities	196,873	202,957
	<u>1,226,712</u>	<u>923,514</u>
Purchased Services		
Consultants	75,239	140,007
Emergency service	112,895	67,903
Family care	4,698	10,497
Food service	261,898	261,458
Inpatient	287,696	353,791
Management fees	1,685,357	0
Other	14,397	17,642
	<u>2,442,180</u>	<u>851,298</u>
Depreciation	<u>174,616</u>	<u>389,991</u>
Total Expenses	<u><u>13,793,177</u></u>	<u><u>14,210,054</u></u>

See auditor's report.

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

Board of Directors  
Southwestern Behavioral Healthcare, Inc.  
415 Mulberry Street  
Evansville, Indiana 47713-1230

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**HARDING, SHYMANSKI  
AND COMPANY, P.S.C.**

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Certified Public Accountants  
and Consultants

21 S.E. Third Street, Suite 500  
P.O. Box 3677  
Evansville, IN 47735-3677

(812) 464-9161  
Fax (812) 465-7811

An Independently  
Owned Member of the  
RSM McGladrey Network

We have audited the financial statements of Southwestern Behavioral Healthcare, Inc., a Not-for-Profit Corporation, as of and for the year ended June 30, 2009, and have issued our report thereon dated December 17, 2009. 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 of America.

Compliance

As part of obtaining reasonable assurance about whether Southwestern Behavioral Healthcare, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Southwestern Behavioral Healthcare, Inc.'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 Southwestern Behavioral Healthcare, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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

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

A material weakness is a significant deficiency, or a 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 Corporation'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.

This report is intended for the information and use of the audit committee, management, the Indiana State Board of Accounts, the Indiana State Division of Mental Health, and the U.S. Department of Health and Human Services. However, this report is a matter of public record and its distribution is not limited.

*Harding, Shymanski & Company, P.S.C.*

Evansville, Indiana  
December 17, 2009

**INDEPENDENT AUDITOR'S REPORT 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  
Southwestern Behavioral Healthcare, Inc.  
415 Mulberry Street  
Evansville, Indiana 47713-1230

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**HARDING, SHYMANSKI  
AND COMPANY, P.S.C.**

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Certified Public Accountants  
and Consultants

21 S.E. Third Street, Suite 500  
P.O. Box 3677  
Evansville, IN 47735-3677

(812) 464-9161  
Fax (812) 465-7811

An Independently  
Owned Member of the  
RSM McGladrey Network

Compliance

We have audited the compliance of Southwestern Behavioral Healthcare, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources issued by the Indiana State Board of Accounts that are applicable to each of its major federal programs for the year ended June 30, 2009. Southwestern Behavioral Healthcare, Inc.'s major federal programs are identified in the summary of auditor's 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 Southwestern Behavioral Healthcare, Inc.'s management. Our responsibility is to express an opinion on Southwestern Behavioral Healthcare, Inc.'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 of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources issued by the Indiana State Board of Accounts. 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 Southwestern Behavioral Healthcare, Inc.'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 on Southwestern Behavioral Healthcare, Inc.'s compliance with those requirements.

In our opinion, Southwestern Behavioral Healthcare, Inc. 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, 2009.

*INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)*

*Internal Control Over Compliance*

The management of Southwestern Behavioral Healthcare, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Southwestern Behavioral Healthcare, Inc.'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 Southwestern Behavioral Healthcare, Inc.'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 a combination of control deficiencies, that adversely affects the Corporation'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 Corporation's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance of a federal program will not be prevented or detected by the Corporation'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 for the information of the audit committee, management, the Indiana State Board of Accounts, the Indiana State Division of Mental Health, and the U.S. Department of Health and Human Services. However, this report is a matter of public record and its distribution is not limited.

*Harding, Shymanski & Company, P.S.C.*

Evansville, Indiana  
December 17, 2009

***SOUTHWESTERN BEHAVIORAL HEALTHCARE, INC.***  
***A Not-for-Profit Corporation***

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2009

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Summary of Auditor's Results

1. An unqualified report was issued on the financial statements of Southwestern Behavioral Healthcare, Inc. for the year ended June 30, 2009.
2. No significant deficiencies or material weaknesses in internal control over financial reporting were disclosed.
3. No material noncompliance was disclosed.
4. No significant deficiencies or material weaknesses in internal control over compliance were disclosed.
5. An unqualified report was issued on compliance for major programs.
6. There were no audit findings for the year ended June 30, 2009.
7. The major programs are identified in the Schedule of Expenditures of Federal and State Awards.
8. Type A programs are federal programs with federal awards expended during the audit period of \$300,000 or more – Substance Abuse Prevention and Treatment Program.  
Type B programs are federal programs with federal awards expended during the audit period of less than \$300,000 – Community Mental Health Block Grant, Mental Health Services Homeless Program, and Seriously Emotionally Disturbed.
9. Southwestern Behavioral Healthcare, Inc. qualified as a low-risk auditee under applicable provisions of OMB Circular A-133 for the year ended June 30, 2009.

Findings Related to the Financial Statements Required to be Reported in Accordance with *Government Auditing Standards*

There were no audit findings for the year ended June 30, 2009.

Findings and Questioned Costs for Federal Awards

There were no audit findings or questioned costs for the year ended June 30, 2009.