



**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2022 AND 2021**

**AND**

**SUPPLEMENTARY INFORMATION**

**JUNE 30, 2022**

*CPAs / ADVISORS*



**ADULT & CHILD MENTAL HEALTH CENTER, INC  
D/B/A ADULT & CHILD HEALTH**

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JUNE 30, 2022 AND 2021

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## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
Adult & Child Mental Health Center, Inc.  
d/b/a Adult & Child Health  
Indianapolis, Indiana

### Report on the Audit of Financial Statements

#### *Opinion*

We have audited the accompanying consolidated financial statements of Adult & Child Mental Health Center, Inc. d/b/a Adult & Child Health, a nonprofit corporation, and its subsidiary (the Corporation), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and *Uniform Compliance Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources*, issued by the Indiana State Board of Accounts. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Responsibilities of Management for the Consolidated Financial Statements*

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

Adult & Child Mental Health Center, Inc.  
d/b/a Adult & Child Health  
Indianapolis, Indiana

- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### *Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the accompanying schedule of expenditures of state and local awards are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

#### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated, February 27, 2023, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

**Blue & Co., LLC**

Indianapolis, Indiana  
February 27, 2023

**ADULT & CHILD MENTAL HEALTH CENTER, INC.**  
**D/B/A ADULT & CHILD HEALTH**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2022 AND 2021

<b>ASSETS</b>		
	2022	2021
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,463,305	\$ 5,560,232
Investments	-0-	368,544
Patient accounts receivable, net	6,254,332	2,405,890
340B Program receivables	280,208	409,490
Mental health funds recovery receivable	1,415,127	1,459,028
Other receivables	2,636,187	1,281,120
Prepaid expenses	460,835	409,824
Total current assets	12,509,994	11,894,128
<b>Property and equipment, net</b>	14,230,801	15,693,335
<b>Deferred compensation</b>	107,767	106,699
<b>Notes receivable and other assets</b>	1,945,859	1,666,000
Total assets	<u>\$ 28,794,421</u>	<u>\$ 29,360,162</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 861,971	\$ 1,036,294
Accrued salaries, benefits, and related withholdings	2,672,732	2,899,471
Estimated third party settlements	654,746	827,229
Refundable advance	600,000	-0-
Current portion of long-term debt	298,831	482,474
Total current liabilities	5,088,280	5,245,468
<b>Long-term liabilities</b>		
Long-term debt, net of current portion	5,205,062	6,293,334
Derivative liability	-0-	146,431
Deferred compensation	107,767	106,699
Total long-term liabilities	5,312,829	6,546,464
Total liabilities	10,401,109	11,791,932
<b>Net assets without donor restrictions</b>	18,393,312	17,568,230
Total liabilities and net assets	<u>\$ 28,794,421</u>	<u>\$ 29,360,162</u>

See accompanying Notes to Consolidated Financial Statements.

**ADULT & CHILD MENTAL HEALTH CENTER, INC.**  
**D/B/A ADULT & CHILD HEALTH**

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
<b>Revenue</b>		
Patient service revenue	\$ 26,755,418	\$ 27,232,092
Public support		
Federal and state funds	10,290,455	7,556,146
County funds	3,266,574	2,774,524
Total public support	13,557,029	10,330,670
Mental health funds recovery	3,166,979	2,987,687
Contract revenue	3,155,736	1,779,157
Rent revenue	555,622	704,983
340B Program	2,038,215	2,330,124
Total revenue	49,228,999	45,364,713
<b>Expenses</b>		
Salaries and wages	29,032,765	26,503,398
Employee benefits	8,852,291	7,671,433
Purchased services	1,386,663	1,513,663
Rental	534,232	582,248
Mileage	260,019	122,702
Repairs and maintenance	774,167	697,681
Professional fees	3,518,375	2,824,075
Supplies	431,869	579,859
Utilities	871,538	813,945
Depreciation	1,143,623	1,237,222
Insurance	630,568	482,683
Interest	214,887	179,401
Other	1,993,581	1,811,968
Total expenses	49,644,578	45,020,278
Operating income/(loss)	(415,579)	344,435
<b>Nonoperating gain/(loss)</b>		
Gain on sale of property and equipment	1,016,690	-0-
Unrealized gain on derivatives, net	-0-	138,033
Investment return and other, net	223,971	5,390
Total nonoperating gain/(loss)	1,240,661	143,423
Excess of revenue over expenses / change in net assets	825,082	487,858
<b>Net assets without donor restrictions</b>		
Beginning of year	17,568,230	17,080,372
End of year	\$ 18,393,312	\$ 17,568,230

See accompanying Notes to Consolidated Financial Statements.

**ADULT & CHILD MENTAL HEALTH CENTER, INC.**  
**D/B/A ADULT & CHILD HEALTH**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2022

	Program Services			
	Behavioral Healthcare & Other	Primary Healthcare	General and Administrative	Total Expenses
Salaries and wages	\$ 17,922,158	\$ 6,048,092	\$ 5,062,515	\$ 29,032,765
Employee benefits	5,168,299	1,606,479	2,077,513	8,852,291
Purchased services	1,386,663	-0-	-0-	1,386,663
Rental	355,671	79,667	98,894	534,232
Mileage	249,018	6,765	4,236	260,019
Repairs and maintenance	521,191	127,731	125,245	774,167
Professional fees	819,672	1,236,803	1,898,603	3,955,078
Supplies	87,391	1,597,519	102,839	1,787,749
Utilities	531,228	190,368	149,942	871,538
Depreciation	639,620	374,463	129,540	1,143,623
Insurance	352,672	206,470	71,425	630,568
Interest	146,638	36,286	31,963	214,887
Other	1,268,877	136,709	587,995	1,993,581
	29,449,098	11,647,352	10,340,710	51,437,161
Less expense included with revenues on the consolidated statement of activities:				
340D Drug Program costs	-0-	1,792,583	-0-	1,792,583
Total expenses included in the expense section on the consolidated statement of activities	\$ 29,449,098	\$ 9,854,769	\$ 10,340,710	\$ 49,644,578

See accompanying Notes to Consolidated Financial Statements.



**ADULT & CHILD MENTAL HEALTH CENTER, INC.**  
**D/B/A ADULT & CHILD HEALTH**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2021

	Program Services		General and Administrative	Total Expenses
	Behavioral Healthcare & Other	Primary Healthcare		
Salaries and wages	\$ 15,823,988	\$ 6,299,286	\$ 4,380,124	\$ 26,503,398
Employee benefits	4,666,902	1,580,018	1,424,513	7,671,433
Purchased services	1,513,663	-0-	-0-	1,513,663
Rental	348,996	78,579	154,673	582,248
Mileage	115,047	5,503	2,152	122,702
Repairs and maintenance	394,416	101,041	202,224	697,681
Professional fees	587,345	1,301,135	1,233,350	3,121,830
Supplies	40,960	2,212,479	305,735	2,559,174
Utilities	460,743	155,610	197,592	813,945
Depreciation	600,468	414,780	221,974	1,237,222
Insurance	234,263	161,820	86,600	482,683
Interest	110,966	27,745	40,690	179,401
Other	1,271,030	157,797	383,141	1,811,968
	<u>26,168,787</u>	<u>12,495,793</u>	<u>8,632,768</u>	<u>47,297,348</u>
Less expense included with revenues on the consolidated statement of activities:				
340B Drug Program costs	<u>-0-</u>	<u>2,277,070</u>	<u>-0-</u>	<u>2,277,070</u>
Total expenses included in the expense section on the consolidated statement of activities	<u>\$ 26,168,787</u>	<u>\$ 10,218,723</u>	<u>\$ 8,632,768</u>	<u>\$ 45,020,278</u>

See accompanying Notes to Consolidated Financial Statements.

**ADULT & CHILD MENTAL HEALTH CENTER, INC.**  
**D/B/A ADULT & CHILD HEALTH**

CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
<b>Operating activities</b>		
Changes in net assets	\$ 825,082	\$ 487,858
Adjustments to reconcile changes in net assets to net cash flows from operating activities		
Depreciation	1,143,623	1,237,222
Net unrealized and realized loss on investments	37,755	1,087
Gain on equity in joint venture	(257,212)	-0-
Gain on disposal of property and equipment	(1,016,690)	-0-
Gain on derivatives	-0-	(138,033)
Changes in operating assets and liabilities		
Patient accounts receivable	(3,848,442)	431,886
340B Program receivables	129,282	152,498
Mental health funds recovery receivable	43,901	58,224
Other assets and receivables	(1,377,714)	275,765
Prepaid expenses	(51,011)	95,149
Accounts payable and accrued expenses	(174,323)	(106,895)
Accrued salaries, benefits, and related withholdings	(226,739)	871,771
Estimated third party settlements	(172,483)	239,412
Refunable advance	600,000	-0-
Net cash flows from operating activities	(4,344,971)	3,605,944
<b>Investing activities</b>		
Proceeds from sale of investments	330,789	61,989
Purchases of investments	-0-	(133,115)
Proceeds from sale of property and equipment	3,100,000	-0-
Purchase of property and equipment	(1,764,399)	(1,923,293)
Net cash flows from investing activities	1,666,390	(1,994,419)
<b>Financing activities</b>		
Payments on long-term debt	(6,610,155)	(1,699,056)
Proceeds from the issuance of long-term debt	5,338,240	1,207,515
Settlement of derivative liability	(146,431)	-0-
Net cash flows from financing activities	(1,418,346)	(491,541)
Net change in cash and cash equivalents	(4,096,927)	1,119,984
<b>Cash and cash equivalents</b>		
Beginning of year	5,560,232	4,440,248
End of year	\$ 1,463,305	\$ 5,560,232
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for interest	\$ 214,887	\$ 179,401
<b>Noncash investing activities</b>		
Property additions included in accounts payable	\$ - 0 -	\$ 103,857

See accompanying Notes to Consolidated Financial Statements.

**ADULT & CHILD MENTAL HEALTH CENTER, INC.**  
**D/B/A ADULT & CHILD HEALTH**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

Adult & Child Mental Health Center, Inc. d/b/a Adult & Child Health (the Corporation) was incorporated in accordance with the Indiana Not-For-Profit Act of 1971. The Corporation's primary objective is to provide a comprehensive network of preventative, diagnostic, therapeutic and rehabilitative mental health services.

Adult & Child Residential Properties, LLC (Adult & Child Residential) is a wholly owned subsidiary of Adult & Child Health incorporated on November 13, 2015. Adult & Child Residential provides residential housing services.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and Adult & Child Residential. Any intercompany balances and activity have been eliminated in consolidation as of and for the years ended June 30, 2022 and 2021. These consolidated entities are collectively referred to as the Corporation.

Adult & Child Residential is the .0075% general partner of Ellis Apartments, L.P. and Helen Louise Apartments, L.P., and the .5% general partner of Priscilla Apartments, L.P. (collectively referred to as "the L.P.s"). The L.P.s were formed to construct and operate housing unit complexes to provide rental housing for low-income individuals. The limited partners, with ownership ranging from 99% to 99.99% in each L.P., maintain substantive participation rights in the L.P.s. Therefore, the activities of the L.P.s are not consolidated with Adult & Child Residential and ultimately not consolidated with the Corporation.

Use of Estimates

The preparation of consolidated 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 disclosures of contingent assets and liabilities at the date of the consolidated 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 consolidated financial statements include allowance for uncollectible accounts, derivative asset/liability, estimated third party settlements and contractual adjustments, and self-funded medical claims incurred but unpaid. Actual results could differ from those estimates.

**ADULT & CHILD MENTAL HEALTH CENTER, INC.**  
**D/B/A ADULT & CHILD HEALTH**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

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Cash and Cash Equivalents

The Corporation considers highly liquid investments available for operating purposes with an original maturity of 90 days or less to be cash and cash equivalents. The Corporation maintains its cash in bank deposit accounts, which, at times may exceed federally insured limits. The Corporation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments and Investment Income

Investments consist of cash and mutual funds. Investments are generally reported at fair value.

Investment return, net includes interest, dividends, investment expenses, and realized gains (losses) and is reported as non-operating gains in the consolidated statements of activities and changes in net assets. Dividends are recorded in the ex-dividend date. Investment return, net is recorded on the accrual basis. Changes in the fair value of investments are reported as a separate line item below the operating indicator in the consolidated statements of activities and changes in net assets.

Patient Accounts Receivable

Patient accounts receivable are recorded at the net realizable value based on certain assumptions determined by each payor. For third-party payors including Medicare, Medicaid, commercial and managed care, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. For self-pay accounts receivable, which includes patients who are uninsured and the patient responsibility portion for patients with insurance, the net realizable value is determined using estimates of historical collection experience without regard to aging category. These estimates are adjusted for estimated conversions of patient responsibility portions, expected recoveries and any anticipated changes in trends.

Patient accounts receivable can be impacted by the effectiveness of Corporation's collection efforts. Additionally, significant changes in payor mix, business office operations, economic conditions, or trends in federal and state governmental healthcare coverage could affect the net realizable value of accounts receivable. The Corporation also continually reviews the net realizable value of accounts receivable by monitoring historical cash collections as a percentage of trailing net operating revenues, as well as by analyzing current period net revenue and admissions by payor classification, aged accounts receivable by payor, days revenue outstanding, the composition of self-pay receivables between pure self-pay patients and the patient responsibility portion of third-party insured receivables. Revenue under third-party agreements is subject to audit and retroactive adjustment. The ultimate legal and financial liability of Corporation with respect to future audits by third-party payors cannot be estimated with any certainty. The net patient accounts receivable as of July 1, 2020 approximated \$2,875,000.

**ADULT & CHILD MENTAL HEALTH CENTER, INC.**  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

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Given the current regulatory and reimbursement environment, there can be no assurances that adequate reimbursement levels will continue to be available for the services provided by the Corporation. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on the Corporation's liquidity, financial position, results of operations and cash flows.

Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government payors), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation bills the patients and third-party payors several days after the services are performed. Revenue is recognized as the performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Corporation. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving services in outpatient centers or other locations. The Corporation measures the performance obligation from the commencement of an outpatient service to the point when it is no longer required to provide services to that patient, which is generally at the time completion of the outpatient services. The method of reimbursement for the Corporation is fee for service. The timing of revenue and recognition for healthcare services is transferred over time.

The Corporation determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Corporation's policy, or implied price concessions provided to uninsured patients. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Corporation determines its estimate of implied price concessions based on its historical collection experience with this class of patients.

**ADULT & CHILD MENTAL HEALTH CENTER, INC.**  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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Agreements with third-party payors provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- Medicare - Certain services are paid based on cost reimbursement methodologies subject to certain limits. Outpatient services are paid using prospectively determined rates.
- Medicaid and Medicaid Rehabilitation Option (MRO) - Reimbursements for Medicaid services are generally paid at prospectively determined rates per occasion of service or per covered member.
- Other - Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discounts from established charges and prospectively determined daily rates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result of investigations by governmental agencies, various health care entities have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in providers entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Corporation. In addition, the contracts the Corporation has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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Consistent with the Corporation's mission, care is provided to patients regardless of their ability to pay. Therefore, the Corporation has determined it has provided implied price concessions to uninsured patients and other uninsured balances (for example, copays and deductibles). The implied price concessions included in estimating the transaction price represents the difference between amounts billed to patients and the amounts the Corporation expects to collect based on its collection history with those patients. Patients who meet the Corporation's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implied price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

The Corporation has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care, or other insurance, patient) have different reimbursement and payment methodologies
- Length of patient's service or episode of care
- Geography of the service location
- Method of reimbursement (fee for service or capitation)
- The Corporation's line of business that provided the service (for example, crisis intervention, outpatient counseling, substance abuse programs, consultative services, and so on)

For 2022 and 2021, all of the Corporation's revenues were from goods and services that transfer to the patient over time.

Public Support

The Corporation receives revenue from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses regarding the service programs mentioned above. The Corporation considers these revenues as non-exchange transactions. Receipt of these funds is subject to the fulfillment of certain obligations by the Corporation as prescribed by these programs and funds may be subject to repayment upon a determination of noncompliance made by a funding agency.

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**ADULT & CHILD MENTAL HEALTH CENTER, INC.**  
**D/B/A ADULT & CHILD HEALTH**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

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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 Department of Local Government Finance. Tax receipts are designated to be remitted to the centers by June and December of each year. The Corporation recognizes the county tax receipts as income in the period the funds are due from the counties. Accordingly, amounts are recorded as county property tax receivable or deferred revenue in the consolidated statements of financial position based upon the timing of the actual receipts.

The Corporation has a contract with the State of Indiana Division of Mental Health and Addiction (the Division) to provide community mental health services. The Division has a case rate reimbursement system. Under this program, the Corporation 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 Corporation derives a significant portion of its revenue from third-party payors and federal and state funding programs. The receipt of future revenues by the Corporation 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.

Under Indiana State law, the Corporation received approximately \$2,491,000 and \$2,226,000 for the years ended June 30, 2022 and 2021, respectively, as designated amounts per the assessed value of taxable property from Marion and Johnson counties. Approximately \$484,000 and \$77,000 of such amounts are recorded within other receivables as of June 30, 2022 and 2021, respectively.

Other Receivables

Other receivables consist of public support receivables, which includes federal, state, and local funding programs. The receivables are stated at net realizable value and are classified as current as they are expected to be realized during the next fiscal year. Receipt of these funds is subject to the fulfillment of certain obligations by the Corporation as prescribed by these programs and funds may be subject to repayment upon determination of noncompliance made by a funding agency. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statement of financial position.

Charity Care

The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts deemed to be charity care, they are not reported as revenue. Amounts recognized as charity care as of June 30, 2022 and 2021 are approximately \$97,000 and \$139,000, respectively.



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Of the Corporation's total operating expense reported, an estimated cost of \$99,000 and \$133,000 arose from providing services to charity patients during the years ended June 30, 2022 and 2021, respectively.

The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Corporation's total expenses divided by gross patient service revenue.

Property and Equipment and Depreciation

Property and equipment are stated at cost, or if donated, at fair market value at the date of donation, and include expenditures for new additions and repairs which substantially increase the useful lives of existing property and equipment. Maintenance, repairs, and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss for the period is recognized.

Depreciation is provided over the estimated useful life of each class of depreciable asset ranging from 3 to 30 years and is computed using the straight-line method. The Corporation has a capitalization policy that states that all purchased property, buildings, and equipment in excess of \$2,500 are to be capitalized and depreciated.

Deferred Compensation

The Corporation has a 457(b) eligible deferred compensation plan eligible for a select group of management. Contributions to this plan are made up of elected employee payroll withholdings. Withholdings are automatically fully vested.

Estimated Third Party Settlements

Estimated third party settlements for Medicare, Medicaid, MRO, grants, and other programs reflect the difference between interim reimbursement and reimbursement as determined by contractual agreements and third-party audits. Estimated third party liabilities for these programs reflect any estimated year-end contract settlements.

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Medicaid Funds Recovery

The Corporation participates in the Medicaid Funds Recovery Program. Funding for the Medicaid Funds Recovery Program is available through the Medicaid Program for certain administrative activities. Funding under the Medicaid Funds Recovery Program is available only to those providers who are certified as Managed Care Providers or Community Mental Health Centers by the Division of Mental Health and Addiction as it relates to mental health services in the State of Indiana. Revenues are reported as mental health funds recovery in the consolidated statements of activities and changes in net assets.

Contributions

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, with donor restricted net assets are reclassified as without donor restricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are included in nonoperating gains (losses) in the accompanying consolidated financial statements. The Corporation also evaluates whether a contribution is unconditional or conditional based on the absence or presence of barriers and any right of return provisions.

Contract Revenue

The Corporation recognizes revenue for services provided to other companies who desire to either lease certified behavioral health professionals employed by the Corporation or contract with the Corporation to oversee its behavioral health program.

Performance obligations are determined based on the nature of the services provided by the Corporation. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The Corporation measures the performance obligation from the commencement of the contracted service to the point when it is no longer required to provide services to the companies, which is generally at the time completion of the underlying contracted service. The method of reimbursement for the Corporation is fee for service. The timing of revenue and recognition for healthcare services is transferred over time.

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Because all of its performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption provided in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

The Corporation determines the transaction price based on standard charges for goods and services provided.

340B Pharmacy Revenue

The Corporation is a participant in the 340B Drug Discount Program (the Program) which enables qualifying health care providers to purchase drugs from pharmaceutical suppliers at a substantial discount. The Program is managed by the Health Resource and Services Administration Office of Pharmacy Affairs. The Corporation earns revenue under the Program through a network of participating pharmacies that dispense the pharmaceuticals to its patients under a contractual arrangement with the Corporation. As the Corporation is considered an agent in the Program, the expenses related to the Program including drug costs, dispensing and other administrative fees are netted in revenue for financial reporting. During 2022 and 2021, the Corporation recognized net revenue related to the Program of approximately \$2,038,000 and \$2,330,000, respectively, reflected in the consolidated statements of activities and changes in net assets, which included related expenses of approximately \$1,793,000 and \$2,277,000, respectively.

In-Kind Revenue

In-kind revenue represents donated property, equipment, classroom space and donated services which are recognized at fair market value at the time of donation. In-kind revenue was immaterial to the financial statements during 2022 and 2021.

Operating Indicator and Performance Indicator

The consolidated statements of activities and changes in net assets include a performance indicator, excess of revenues over expenses. Consistent with industry practice, the performance indicator does not include certain changes in net assets without donor restrictions such as unrealized gains (losses) on investments on other than trading securities, contributions of long-lived assets, and certain other items. The consolidated statements of activities and changes in net assets also include an operating indicator, operating income, which excludes investment return, net, gains (losses) on disposals of property and equipment, and unrealized gain (loss) on derivatives, net.

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Functional Allocation of Expenses

The Corporation provides a full range of services to individuals with behavioral and primary healthcare needs. The costs of providing various programs and support activities have been summarized on functional basis in the consolidated statement of functional expenses. Salaries and wages and employee benefits are allocated based upon time spent by the Corporation's personnel. Other expenses including depreciation, insurance, rental, repairs and maintenance, utilities, interest, and other expenses have been allocated among program services and general and administrative expenses based on estimates of square footage utilized. Purchased services, mileage, supplies, and professional fees are allocated based on actual direct expenditures and cost allocations. Allocations have been applied to all functional categories for the consolidated statement of functional expenses for the year ended June 30, 2022 and 2021. Although the methods used were appropriate, alternative methods may provide different results.

Income Taxes

The Corporation is organized as a not-for-profit corporation under Section 501(c) (3) of the United States Internal Revenue Code. As such, the Corporation is generally exempt from income taxes. However, the Corporation is required to file Federal Form 990 – Return of Organization Exempt from Income Tax which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Corporation and recognize a tax liability if the Corporation has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Corporation, and has concluded that as of June 30, 2022 and 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Corporation filed its federal and state income tax returns for periods through June 30, 2021. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Adult & Child Residential is a limited liability company with the Corporation serving as the sole member and is regarded as a pass-through entity.

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Going Concern Evaluation

Management evaluates whether there are conditions or events that raise substantial doubt about the Corporation's ability to continue as a going concern for a period of one year from the date the consolidated financial statements were available to be issued.

Reclassification

Certain balances were reclassified to conform to the current year presentation. The reclassifications have no impact on previously reported net assets or changes in net assets.

Subsequent Events

The Corporation has evaluated events or transactions occurring subsequent to the financial position date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements were available to be issued, which is February 27, 2023.

Recently Issued Accounting Standard

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. The Corporation is not required to adopt this ASU until its fiscal year ending June 30, 2023. The ASU is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their balance sheet the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's balance sheet.

The Corporation is presently evaluating the effects that this ASU will have on its future financial statements, including related disclosures.

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**2. INVESTMENTS**

The fair value of investments are as follows:

	2022	2021
	<hr/>	<hr/>
Cash	\$ -0-	\$ 8,085
Mutual funds	-0-	360,459
Total investments	<hr/> <u>\$ -0-</u>	<hr/> <u>\$ 368,544</u>

**3. FAIR VALUE MEASUREMENTS**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2022 and 2021.

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- *Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Corporation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value and transact at that price. The mutual funds held by the Corporation are deemed to be actively traded.
- *Interest accumulation fund:* Valued at fair value by the insurance company by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer. Since the funds transact at contract value, fair value is determined annually for financial statement reporting purposes only.

Certain unobservable inputs are assessed through review of contract terms (for example, duration or payout date) while others are substantiated utilizing available market data (for example, swap curve rate).

- *Interest rate swap agreement:* Valued using bid and ask prices that can be observed. Bid prices reflect the highest price that a party is willing to pay for an asset or liability. Ask prices represent the lowest price that a party is willing to accept for an asset or liability. For interest rate swap whose input is based on a bid-ask range, the Corporation's accounting policy allows for the use of the price within the bid-ask spread as the most representative of fair value, or the mid-market pricing as an alternative practical expedient for fair value measurements within a bid-ask spread.

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The Corporation holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying consolidated financial statements.

**4. PROPERTY AND EQUIPMENT**

A summary of property and equipment as of June 30, 2022 and 2021 follows:

	2022	2021
Land	\$ 2,771,492	\$ 3,021,492
Land improvements	165,016	165,016
Buildings and improvements	15,284,479	19,611,903
Equipment	11,571,078	9,485,655
Construction in progress	14,121	1,648,443
	<u>29,806,186</u>	<u>33,932,509</u>
Less accumulated depreciation	15,575,385	18,239,174
Property and equipment, net	<u>\$ 14,230,801</u>	<u>\$ 15,693,335</u>

**5. NOTES RECEIVABLE AND OTHER ASSETS**

The Corporation received an Affordable Housing Program (AHP) grant from the Federal Home Loan Bank in the original amount of \$400,000 and recorded a note payable. At the end of a 15-year compliance period and upon the satisfaction of the grant regulations, this amount will be reclassified to grant revenue on the consolidated statements of activities and changes in net assets of the Corporation. See Note 6 for the related long-term debt.

The AHP grant funds were subsequently transferred to Ellis Apartments, L.P. as a note receivable, in order to fund a portion of the low-income housing project construction costs. No interest accrues during this period. Interest for the other receivables (approximately .5%) is accrued with payments of accrued interest and the balloon payment of the entire principal balance due at the end of the established term of the loans. The loan is due 25 years from issue, maturing in 2043.

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Included in notes receivable and other assets are two additional notes receivable initiated for continuity of the L.P.'s residential facility service line. These notes exist as a result of the Corporation selling land and buildings to the L.P.s at net book value during 2018. Interest for the notes receivable (approximately 5%) is accrued with payments of accrued interest and the balloon payment of the entire principal balance due at the end of the established term of the loans. The loans are due 25 years from issue maturing in 2043. Although the Corporation anticipates repayment of the notes once the L.P.s obtain permanent financing, the timing is unknown and the notes are classified as long-term in the consolidated statements of financial position.

Also included in notes receivable and other assets is the Corporation's investment in Red Oak. The Corporation is a 1/2 member in a not-for-profit organization that provides cleaning services. As such, the Corporation accounts for their investment in Red Oak using the Equity Method, as the governance structure is such that the Corporation cannot exercise control. The balance of the investment in Red Oak was approximately \$317,000 and \$60,000 as of June 30, 2022 and 2021, respectively. The Corporation recognized a gain of approximately \$257,000 and \$-0-, related to its investment in Red Oak for June 30, 2022 and 2021, respectively. The gain is recognized within Investment return and other, net, within the statements of activities and changes in net assets.

As of June 30, 2022 and 2021, notes receivable and other assets consisted of the following:

	Ellis Apartments, L.P.	Helen Louise Apartments, L.P.	The Corporation	Totals
AHP	\$ 400,000	\$ -0-	\$ -0-	\$ 400,000
Notes receivable	386,000	760,000	-0-	1,146,000
Other assets	-0-	-0-	399,859	399,859
Total	<u>\$ 786,000</u>	<u>\$ 760,000</u>	<u>\$ 399,859</u>	<u>\$ 1,945,859</u>

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**6. LONG-TERM DEBT**

The following is a summary of long-term debt for the Corporation as of June 30, 2022 and 2021:

	2022	2021
Note payable to bank dated August 25, 2020 due August 25, 2025, with monthly payments of \$12,037 including principal and variable interest of 3.64% as of June 30, 2021. Interest was determined by 3.28% + Treasury Rate Index of .36% at June 30, 2021. Secured by real property with a net book value of approximately \$1,393,000 as of June 30, 2021. Note was refinanced as of August 2021, and paid in full.	\$ - 0 -	\$ 1,122,840
Note payable to bank dated August 25, 2021 due August 25, 2026, with monthly payments of \$36,743 including principal and variable interest of 2.910%, determined by 2.14% + Treasury Rate Index. Secured by property with a net book value of approximately \$5,952,000 and \$6,061,000 as of June 30, 2022 and 2021, respectively.	5,099,379	-0-
Note payable to Federal Home Loan Bank Affordable Housing Program (AHP) for \$400,000. Due in full in 2043; noninterest bearing.	400,000	400,000
Indiana Finance Authority Health Facilities Revenue Bonds Series 2016 dated February 25, 2016, maturing to mandatory redemption through September 2036, with monthly principal payments of \$28,479 and effective interest rate of 2.61% as of June 30, 2021. Secured by real property with a net book value of approximately \$6,061,000 as of June 30, 2021. Bonds were paid off via refinancing which occurred during August 2021.	-0-	5,211,687
Capital lease obligation due through September 2023	4,514	41,281
Total long-term debt	5,503,893	6,775,808
Less current portion	298,831	482,474
Long-term debt, net of current portion	<u>\$ 5,205,062</u>	<u>\$ 6,293,334</u>

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The AHP notes are expected to be forgiven as long as the property remains in compliance with the guideline of Internal Revenue Code Section 42 for the entire fifteen year compliance period. However, the Corporation shall repay that portion of the notes that as a result of the Corporation's actions or omissions, is not used in compliance with the terms of the application or the requirements of the AHP regulations, unless such non-compliance is cured by the Corporation within a reasonable period of time or the circumstances of such non-compliance are eliminated through a modification of the application, as approved in writing by the Federal Home Loan Bank of Indianapolis, pursuant to AHP regulations.

The Corporation had entered into an interest swap agreement related to the 2016 Series bonds, which was settled for \$169,000 in conjunction with the August 2021 refinancing.

Aggregate future maturities of long-term debt for the years ending June 30 are listed below. As noted in Note 17, subsequent to the year ended June 30, 2022, the Corporation sold the underlying property and equipment used as collateral for the 2021 note payable and paid the remaining balance of approximately \$5,104,000. The future maturity for 2023 includes this payoff amount.

Year Ending June 30,	
2023	\$ 5,103,893
2024	-0-
2025	-0-
2026	-0-
2027	-0-
Thereafter	400,000
	<u>\$ 5,503,893</u>

Cost and accumulated depreciation of the assets under capital lease as of June 30, 2022 and 2021, are as follows:

	2022	2021
Cost	\$ 388,397	\$ 388,397
Less accumulated depreciation	284,132	267,867
	<u>\$ 104,265</u>	<u>\$ 120,530</u>

The Corporation expects to pay approximately \$4,500 in remaining non-cancelable lease payments during 2023.

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**7. DERIVATIVE INSTRUMENTS – INTEREST RATE SWAP**

Objectives and Strategies for Using Derivatives

The Corporation makes limited use of derivative financial instruments for the purpose of managing interest rate risk. In particular, a forward interest rate swap (which are designated as cash flow hedges) is used to manage the risk associated with interest rates on variable rate borrowing and to lower its overall borrowing costs. At June 30, 2021, the Corporation had an outstanding interest rate swap agreement with a commercial bank, with a notional amount of approximately \$5,212,000.

This swap agreement was associated with the Series 2016 Bonds. As of June 30, 2022 and 2021, the derivative liability was approximately \$-0- and \$146,400, respectively.

The agreement effectively changed the Corporation's interest rate exposure on \$5,553,000 (aggregate principal amount) of the variable rate revenue bonds to a fixed 2.61%.

The derivative was not designated as a hedging instrument and is marked-to-market on the consolidated statements of financial position using mid-market value at the end of each period. The related gains and losses are included in excess expenses over revenues, the performance indicator, for the reporting period. Cash flows from the interest rate swap contract is classified as an operating activity on the consolidated statements of cash flows.

During August 2021, the Corporation settled the swap agreement during refinancing for approximately \$169,000.

**8. NET PATIENT SERVICE REVENUE**

The Corporation has agreements with third-party payors including Medicare, Medicaid and the State of Indiana and other commercial insurance carriers that provide for payments to the Corporation at amounts different from its established rates.

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The following is a schedule of gross service charges by category, charity care, and contractual adjustments.

	2022	2021
Outpatient service revenue	\$ 35,397,729	\$ 36,791,870
Less deductions		
Charity care	96,775	138,941
Contractual adjustments	8,110,383	9,420,075
Implicit price concessions	435,153	762
Total deductions	<u>8,642,311</u>	<u>9,559,778</u>
Patient service revenue	<u>\$ 26,755,418</u>	<u>\$ 27,232,092</u>

**9. PROPERTY LEASED TO TENANTS**

The Corporation has purchased land and buildings to be used for housing. A portion of the property is used for programs provided by the Corporation and the remaining portion is leased to tenants. Rental revenue derived from cancelable and non-cancelable leases for property leased to tenants totaled approximately \$556,000 and \$705,000 for 2022 and 2021, respectively.

The following is a summary of the property and equipment being leased as of June 30, 2022 and 2021:

	2022	2021
Land	\$ 2,645,533	\$ 2,895,533
Buildings and improvements	7,985,295	13,453,042
Equipment	2,081,939	1,406,502
	<u>12,712,767</u>	<u>17,755,077</u>
Less accumulated depreciation	<u>3,998,059</u>	<u>8,735,604</u>
Property and equipment, net	<u>\$ 8,714,708</u>	<u>\$ 9,019,473</u>

The majority of the underlying property and equipment that generated the rent revenue above was sold during May 2022 and subsequent to year-end during September 2022. Future rental revenue will be approximately \$23,000 on a yearly basis.

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**10. COMMITMENTS AND CONTINGENCIES**

Operating Leases

The Corporation leases office space under various long-term lease agreements. These leases expire in various years through 2033. The Corporation also leases apartments for its semi-independent living services under short-term lease agreements. The following is a schedule of minimum non-cancelable operating lease payments for subsequent years ending June 30:

Year Ending June 30,	
2023	\$ 775,686
2024	911,617
2025	1,027,880
2026	948,835
2027	898,706
Thereafter	4,440,309
	<u>\$ 9,003,033</u>

Rental expense totaled approximately \$534,000 and \$582,000 for 2022 and 2021, respectively, and has been reported in the consolidated statements of activities and changes in net assets. Rent expense is anticipated to increase in the forthcoming years due to the Corporation selling previously owned property and equipment with the intention of moving into a larger leased space that is under construction as of June 30, 2022.

Medical Malpractice Claims

The Indiana Medical Malpractice Act, IC 34-18 (the Act) provides a maximum recovery of \$1,650,000 for an occurrence of malpractice until June 30, 2019, and \$1,800,000 thereafter. The Act requires the Corporation to maintain medical malpractice liability insurance in the amount of at least \$400,000 per occurrence (\$8,000,000 in the annual aggregate) until June 30, 2019. Starting July 1, 2019, the Act will require the Corporation to maintain medical malpractice liability insurance in the amount of at least \$500,000 per occurrence (\$10,000,000 in the annual aggregate). The Act also requires the Corporation to pay a surcharge to the State Patient's Compensation Fund (the Fund). The Fund is used to pay medical malpractice claims in excess of per occurrence and the annual aggregate amounts as noted above, under certain terms and conditions. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified has been made because the amount, if any, is not reasonably estimable. The Fund is on a claims-made basis and as long as this coverage is continuous or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be insured.

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Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Corporation's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Litigation

The Corporation is involved in certain litigation arising in the ordinary course of business. After consultation with legal counsel, it is management's opinion that these matters will be resolved without material adverse effect on the Corporation's consolidated financial position, results of operation and cash flows.

**11. COVID-19**

During March 2020, the World Health Organization declared COVID-19 a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may continue to adversely impact the local, regional, national, and global economies. The extent to which COVID-19 continues to impact the Corporation's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Impacts include, but are not limited to, additional costs for responding to COVID-19, potential shortages of personnel, potential shortages of supplies, loss of, or reduction to, revenue, and investment portfolio declines. Management believes the Corporation is taking appropriate actions to respond to the pandemic. However, the full impact is unknown and cannot be reasonably estimated at the date the financial statements were available to be issued.

Provider Relief Fund (PRF) and Coronavirus Relief Fund (CRF) grants authorized under the Coronavirus Aids, Relief, and Economic Security (CARES) Act were distributed to healthcare providers impacted by the outbreak of the COVID-19 pandemic under Catalog of Federal Domestic Assistance (CFDA) #93.498 and #21.019, respectively. The Corporation received approximately \$639,000 and \$641,000 of PRF grants and \$1,900,000 and \$437,000 of CRF grants from the CARES Act during 2022 and 2021, respectively. The CRF received in 2022 were from the Department of Treasury and passed through the State of Indiana Family and Social Services Administration (FSSA) for sustainability of the Corporation's home and community-based programs. FSSA considers the Corporation a beneficiary of these grant funds rather than a sub-recipient. As a beneficiary, these funds are excluded from the Corporation's determination of federal expenditures under the Uniform Guidance requirements. Approximately \$600,000 and \$-0- of CRF received was recognized as a refundable advance within the balance sheet as of June 30, 2022 and 2021, respectively.



**ADULT & CHILD MENTAL HEALTH CENTER, INC.**  
**D/B/A ADULT & CHILD HEALTH**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

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PRF and CRF grants are recognized to the extent the Corporation meets the terms and conditions of the grants and to the extent of expenses incurred specific to responding to the COVID-19 pandemic. Eligible expenses must not be reimbursed from another source and not obligated to be reimbursed from another source. PRF grants that are not fully expended on eligible expenses can then be applied to lost revenues as defined by the guidance issued by the grantor.

The Corporation recognized approximately \$639,000 and \$641,000 of PRF amounts as Federal and state funds within the consolidated statements of activities and changes in net assets during 2022 and 2021, respectively.

Compliance with the terms and conditions as set forth related to qualifying COVID-19 expenses and lost revenues may also be subject to future government review and interpretation as they are emerging and uncertain at the time the financial statements were available to be issued. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with the terms and conditions as set forth related to qualifying COVID-19 expenses and lost revenues, and it is not possible to determine the impact (if any) such claims would have upon the Corporation's financial position.

## **12. CONCENTRATIONS OF CREDIT RISK**

The Corporation is primarily located in Indianapolis, Indiana. The Corporation grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements.

Accounts receivable and gross patient service revenue from patients and third-party payors were comprised of the following as of and for the years ended June 30:

	Receivable		Revenue	
	2022	2021	2022	2021
Medicaid	41%	45%	81%	80%
Medicare	4%	4%	3%	3%
Other third party payors	54%	49%	15%	16%
Self pay	1%	2%	1%	1%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

**ADULT & CHILD MENTAL HEALTH CENTER, INC.**  
**D/B/A ADULT & CHILD HEALTH**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

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**13. RELATED ORGANIZATIONS**

InteCare, Inc.

The Corporation is a 1/4 member of InteCare, Inc. This Indiana nonprofit corporation was formed to coordinate and manage an integrated behavioral health system. InteCare, Inc. primarily remits public support funds to the Corporation. As of June 30, 2022 and 2021, the Corporation recorded a receivable from InteCare, Inc. for these funds in the approximate amount of \$2,067,000 and \$1,547,000, respectively, which is included in other receivables in the consolidated statements of financial position. Revenue recognized as mental health funds recovery received from InteCare totaled approximately \$3,167,000 and \$2,988,000 for the years ended June 30, 2022 and 2021, respectively. The Corporation records its investment in this entity under the cost method after its initial, immaterial contribution.

Red Oak Industries (Red Oak)

The Corporation is a 1/2 member in a not-for-profit organization that provides cleaning services. Certain members of management serve on the board of directors for Red Oak and as such it is a related party to the Corporation. It is not consolidated within the accompanying consolidated financial statements. As of June 30, 2022 and 2021, the Corporation recorded a promissory note receivable from Red Oak in the approximate amount of \$60,000, which is included in other receivables in the consolidated statements of financial position. For the years ended June 30, 2022 and 2021, the Corporation recognized cleaning services expense recorded within repairs and maintenance on the consolidated statements of activities and changes in net assets of approximately \$286,000 and \$166,000, respectively. The Corporation records its investment in this entity under the equity method.

Limited Partnerships (L.P.s)

As discussed in Notes 1 and 6, the Corporation sold certain property and executed notes receivable with the L.P.s in which it acts as the general partner. There were no gains or losses recognized in these sales.

**ADULT & CHILD MENTAL HEALTH CENTER, INC.**  
**D/B/A ADULT & CHILD HEALTH**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

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**14. PARTIALLY SELF-INSURED HEALTH PLAN**

The Corporation's health plan (the Plan) is self-insured by the Corporation. A third-party claims administrator has been retained to process all benefit claims. Claims are processed and presented for payment to the Corporation. The Plan purchased individual excess risk insurance to cover the individual health claims in excess of \$125,000. The Plan also has an annual aggregate stop loss of approximately \$6,923,000. Health insurance expense (including the additional fees and commissions below) totaled approximately \$5,645,000 and \$4,062,000 for 2022 and 2021, respectively, and recorded in employee benefits within the consolidated statements of activities and changes in net assets. Health insurance expense includes administration fees, broker commissions, and stop loss fees totaling approximately \$1,095,000 and \$955,000, for 2022 and 2021, respectively.

**15. RETIREMENT PLANS**

The Corporation maintains a 401(k) profit sharing plan which covers substantially all employees. The Corporation provides a matching contribution equal to 100% of the elected salary reduction amount up to 3%, plus 50% of the salary reduction contributions that exceed 3% but not 5% of annual compensation. The Corporation recognized 401(k) match expense of approximately \$883,000 and \$806,000 for 2022 and 2021, respectively, and recorded in employee benefits within the consolidated statements of activities and changes in net assets.

The Corporation maintains a 403(b) tax-deferred annuity plan where employees defer contributions through a salary reduction agreement. The Corporation does not provide any matching or discretionary contributions to the plan.

**ADULT & CHILD MENTAL HEALTH CENTER, INC.**  
**D/B/A ADULT & CHILD HEALTH**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2022 AND 2021

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**16. LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES**

The Corporation has disclosed the following financial assets for the years ended June 30, 2022 and 2021 available within one year of the consolidated statements of financial position date to meet cash needs for general expenditure. Patient accounts receivable and other receivables are subject to implied time restrictions but are expected to be collected within one year. As part of the Corporation's liquidity management, it has a policy to structure financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Corporation is working towards having 90 days' worth of operating expenses within cash reserves, which approximates \$12,040,000.

Financial Assets	2022	2021
Cash and cash equivalents	\$ 1,463,000	\$ 5,560,000
Patient accounts receivable, net	6,254,000	2,406,000
340B Program receivables	280,000	409,000
Mental health funds recovery receivable	1,415,000	1,459,000
Other receivables	2,636,000	1,281,000
Investments	-0-	369,000
Total financial assets	<u>\$ 12,048,000</u>	<u>\$11,484,000</u>

**17. SUBSEQUENT EVENT**

During September 2022, the Corporation sold its building and property located on East Washington Street, and the approximate proceeds of \$8,200,000 were used to pay the associated note payable in full in the approximate amount of \$5,160,000.

## **SUPPLEMENTARY INFORMATION**

**ADULT & CHILD MENTAL HEALTH CENTER, INC.**  
**D/B/A ADULT & CHILD HEALTH**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2022**

<b>Grantor/Pass-through Grantor/Program Title</b>	<b>Grant ID #</b>	<b>CFDA #</b>	<b>Expenditures</b>
<b>Major Program</b>			
Department of Health and Human Services			
Pass-through Substance Abuse and Mental Health Services Administration			
Certified Community Behavioral Health Clinic System Improvements	1H79SM083319-01	93.829	\$ 1,596,871
COVID-19 Provider Relief Fund	N/A	93.498	640,727
Total major programs			2,237,598
<b>Non-Major Programs</b>			
Department of Health and Human Services			
Pass-through Indiana Family and Social Services Administration			
Substance Abuse Prevention and Treatment Block Grant	53906	93.959	118,641
Pass-through Indiana Family and Social Services Administration			
Block Grant for Community Mental Health Services	53906	93.958	271,872
Block Grant for Community Mental Health Services	21332	93.958	150,000
Total 93.958			421,872
Pass-through Indiana Family and Social Services Administration			
Social Services Block Grant	53906	93.667	184,061
Pass-through Indiana Family and Social Services Administration			
Projects for Assistance in Transition from Homelessness	21735	93.150	153,234
Pass-through Health Care Education and Training, Inc.			
Personal Responsibility Education Program	90AK0005-01-00	93.092	53,171
Passed through Substance Abuse Mental Health Services Administration			
Assertive Community Treatment	H79SM080909	93.243	647,383
Pass-through Indiana Family and Social Services Administration			
Promoting Integrated Primary Behavioral Healthcare	56546	93.243	151,220
Total 93.243			798,603
Pass-through Indiana Family and Social Services Administration			
TANF - Integrated Care Entity	34615	93.558	16,935
Pass-through Indiana State Department of Health			
Optimally Changing the Map of Teen Pregnancy in Indiana	49399	93.297	220,533
HCET InCast - Indiana Connected and Supported Teams	N/A	93.297	146,508
Total 93.297			367,041
Pass-through Indiana State Department of Health			
Improving the Health of Americans through Prevention	49628, 49399	93.426	119,595
Health Centers Cluster			
Affordable Care Act (ACA) Grants for New and Expanded Services Under the Health Center Program	L2C42375	93.527	532,293
Department of Housing and Urban Development			
Pass-through Department of Metropolitan Development of the City of Indianapolis			
Continuum of Care Programs			
Continuum of Care	IN0075L5H031912	14.267	260,230
Continuum of Care	IN0073L5H031912	14.267	79,350
Continuum of Care	13FG-N04400021	14.267	168,859
Total 14.267			508,439
Pass-through Department of Metropolitan Development of the City of Indianapolis			
Youth Homelessness Demonstration Program	IN0226Y5H031800	14.276	105,743
Total non-major programs			3,379,628
Total federal expenditures			\$ 5,617,226

See Report of Independent Auditors on Pages 1 – 3.

**ADULT & CHILD MENTAL HEALTH CENTER, INC.**  
**D/B/A ADULT & CHILD HEALTH**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2022

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Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) for the year ended June 30, 2022 includes the federal grant activity of Adult & Child Mental Health Center, Inc. d/b/a Adult & Child Health (the Corporation). The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Because the Schedule presents only a selected portion of the operations of the Corporation, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of the Corporation.

Note B – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Corporation has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note C – Other

During the year ended June 30, 2022, the Corporation did not provide any federal awards to subrecipients. In addition, there were no federal awards expended in the form of non-cash assistance and there were no loans or loan guarantees extended during 2022.

Note D – Provider Relief Funds

Under terms and conditions of the Provider Relief Funds (PRF) under the Coronavirus Aids, Relief, and Economic Security (CARES) Act, the Corporation is required to report COVID-19 related expenses and lost revenue to the U.S. Department of Health and Human Services (HHS). Guidance from HHS has required the reporting of the COVID-19 related expenses and lost revenue in certain reporting periods based on when the funds were received.

The 2022 Schedule includes PRF of approximately \$641,000 which was received and recognized by the Corporation prior to June 30, 2021. HHS required these PRF amounts be reported on the 2022 Schedule rather than the 2021 Schedule.

**ADULT & CHILD MENTAL HEALTH CENTER, INC.**  
**D/B/A ADULT & CHILD HEALTH**

SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS  
YEAR ENDED JUNE 30, 2022

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<b>Grantor</b>	<b>Expenditures</b>
<b>State</b>	
Indiana Family and Social Services Administration	
Managed Care Provider Agreement	\$ 3,777,029
Learning Loss Grant	897,634
Total state funds	<u>4,674,663</u>
<b>Local</b>	
Eli Lily fund for youth progrms impacted by COVID-19	79,217
Kendrick Foundation	470,338
Marion county tax levy	1,693,595
Johnson county tax levy	948,841
Johnson County Memorial Hospital Foundation	74,583
Total local funds	<u>3,266,574</u>
Total state and local awards	<u><u>\$ 7,941,237</u></u>

Basis of Presentation

The accompanying schedule of state and local awards for the year ended June 30, 2022 includes the state and county awards activity of Adult & Child Mental Health Center, Inc. d/b/a Adult & Child Health and is presented on the accrual basis of accounting. The consolidated 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 consolidated financial statements.





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

Board of Directors  
Adult & Child Mental Health Center, Inc.  
d/b/a Adult & Child Health  
Indianapolis, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Adult & Child Mental Health Center, Inc. d/b/a Adult & Child Health (the Corporation), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 27, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

Board of Directors  
Adult & Child Mental Health Center, Inc.  
d/b/a Adult & Child Health  
Indianapolis, Indiana

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002 that we consider to be material weaknesses.

#### Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. 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*.

#### Adult & Child Health's Response to Findings

*Government Auditing Standards* requires the auditor to perform limited procedures on the Corporation's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Corporation's response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

#### Purpose of This Report

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

**Blue & Co., LLC**

Indianapolis, Indiana  
February 27, 2023



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**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE *UNIFORM GUIDANCE***

Board of Directors  
Adult & Child Mental Health Center, Inc.  
d/b/a Adult & Child Health  
Indianapolis, Indiana

Report on Compliance for Each Major Federal Program

*Opinion on Each Major Federal Program*

We have audited Adult & Child Mental Health Center, Inc. d/b/a Adult & Child Health's (the Corporation) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2022. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Corporation complied, in all material respects, with the compliance requirements referred to above is that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

*Basis for Opinion on Each Major Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the Corporation's compliance with the compliance requirements referred to above.

Board of Directors  
Adult & Child Mental Health Center, Inc.  
d/b/a Adult & Child Health  
Indianapolis, Indiana

### *Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Corporation's federal programs.

### *Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Corporation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Corporation's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Corporation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Corporation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Board of Directors  
Adult & Child Mental Health Center, Inc.  
d/b/a Adult & Child Health  
Indianapolis, Indiana

### Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**Blue & Co., LLC**

Indianapolis, Indiana  
February 27, 2023

**ADULT & CHILD MENTAL HEALTH CENTER, INC.  
D/B/A ADULT & CHILD HEALTH**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2022

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**Section I - Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☒ yes ☐ none reported

Significant deficiency(s) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ none reported

*Federal Awards*

Internal controls over major programs:

Material weakness(es) identified? ☐ yes ☒ none reported

Significant deficiency(s) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported as defined by Uniform Guidance [2 CFR 200.516(a)]? ☐ yes ☒ no

Identification of major programs:

CFDA Number  
93.829  
93.498

Name of Federal Program or Cluster  
Certified Community Behavioral Health Center  
COVID-19 Provider Relief Fund

Dollar threshold used to distinguish between type A and B programs: \$750,000

Auditee qualified as low-risk auditee? ☒ yes ☐ no

**Section II - Findings related to financial statements reported in accordance with Government Auditing Standards:**

2022-001 Material Weakness Related to Patient Accounts Receivable Allowance Model

Condition: Due to a recent implementation of a new electronic health record, an adequate and appropriate patient accounts receivable allowance model is not maintained for proper valuation of underlying balances.

**ADULT & CHILD MENTAL HEALTH CENTER, INC.**  
**D/B/A ADULT & CHILD HEALTH**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2022

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Criteria: Control activities should be in place to ensure an aged accounts receivable report by payor is maintained with historical collection and contractual percentages applied to develop a reasonable model for determining net realizable value of underlying balances.

Cause: The Corporation implemented a new electronic health record with new reporting parameters. In addition, the Corporation lost their director of revenue cycle during the current fiscal year.

Effect: Because of the new implementation and turnover in staffing, the Corporation focused their efforts on billing and collection of revenue and not on the development of a patient accounts receivable model.

Recommendation: Procedures should be implemented to apply historical collection and contractual experience to an accounts receivable aging by payor to develop a patient accounts receivable model that management can use to adjust to net realizable value.

Views of Responsible Officials and Planned Corrective Actions: The Corporation agrees with the finding and anticipates incorporating a model with reporting generated from the new electronic health record.

2022-002 – Material Weakness Related to Financial Reporting Close and Reconciliation Process

*Criteria* – Management is responsible for establishing and maintaining effective internal controls over financial reporting.

*Condition* – Certain accounts did not reconcile to initially provided supporting documentation and/or lacked sufficient supporting documentation, specifically i.) property and equipment, ii.) joint ventures within other assets, and iii.) accrued payroll.

*Context* – A strong internal control environment requires oversight to ensure financial transactions are properly recorded and reported in the financial statements.

*Effect* – There were delays in producing closing entries, schedules, reconciliations, and other financial reports needed by management and the auditors.

*Cause* – Due to turnover of accounting and finance personnel and unique transactions occurring during fiscal year 2022, management experienced difficulties in obtaining or assimilating information related to various reconciliations and journal entries. As a result, certain accounts were not fully reconciled for the close of the year ended June 30, 2022.

*Recommendation* – The auditor recommends that procedures be developed to strengthen internal controls over financial reporting by verifying that all reconciliations are complete and accurate and agree to amounts recorded on the general ledger.

*Views of Responsible Officials* – Management concurs with the recommendations and is in the process of reviewing, revising and formally documenting processes surrounding the financial close to verify all reconciliations are complete and accurate and amounts reconcile to the general ledger.

**ADULT & CHILD MENTAL HEALTH CENTER, INC.  
D/B/A ADULT & CHILD HEALTH**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2022**

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**Section III - Findings and questioned costs relating to Federal awards:**

None reported

**Section IV - Summary schedule of prior audit findings:**

None reported