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May 9, 2008

Board of Directors  
Southwestern Indiana Mental  
Health Foundation, Inc.  
415 Mulberry St.  
Evansville, IN 47713

We have reviewed the audit report prepared by Harding, Shymanski and Company, PSC, Independent Public Accountants, for the period July 1, 2006 to June 30, 2007. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Southwestern Indiana Mental Health Foundation, Inc., as of June 30, 2007, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS

***SOUTHWESTERN INDIANA MENTAL  
HEALTH FOUNDATION, INC.  
A Not-for-Profit Corporation***

***Financial Report***

***June 30, 2007***

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Southwestern Indiana Mental Health Foundation, Inc.  
415 Mulberry Street  
Evansville, Indiana 47713-1230

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HARDING SHYMANSKI  
AND COMPANY P.S.C.

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Certified Public Accountants  
and Consultants

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An Independently  
Owned Member of the  
RSM McGladrey Network

We have audited the accompanying balance sheet of Southwestern Indiana Mental Health Foundation, Inc., a Not-for-Profit Corporation, as of June 30, 2007, and the related statements of support, revenue, expenses, and changes in net assets and cash flows – total funds for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the Corporation's 2006 financial statements and, in our report dated August 17, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwestern Indiana Mental Health Foundation, Inc., a Not-for-Profit Corporation, as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***INDEPENDENT AUDITOR'S REPORT (CONTINUED)***

In accordance with *Government Auditing Standards*, we have also issued a report dated October 5, 2007 on our consideration of Southwestern Indiana Mental Health Foundation, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Evansville, Indiana  
October 5, 2007

**SOUTHWESTERN INDIANA MENTAL HEALTH FOUNDATION, INC.*****A Not-for-Profit Corporation***STATEMENTS OF SUPPORT, REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
Year Ended June 30, 2007 with Comparative Totals for 2006

	<u>Operating</u>	<u>Hillcrest Operating</u>	<u>Hillcrest Board Designated</u>	<u>Total</u>	
				<u>2007</u>	<u>2006</u>
Changes in unrestricted net assets					
Public support and revenue					
Public support					
Contributions	0	1,978	410,700	412,678	19,721
Program service -Vanderburgh County	0	1,618,726	0	1,618,726	1,574,725
	<u>0</u>	<u>1,620,704</u>	<u>410,700</u>	<u>2,031,404</u>	<u>1,594,446</u>
Residential service	0	20,592	0	20,592	14,628
Other revenue					
Interest income	29,673	15,916	8,427	54,016	35,834
Rental income	940,517	0	0	940,517	888,097
Vending income	0	1,836	0	1,836	2,539
Garnishment fee income	0	126	0	126	84
Other income	0	750	0	750	0
	<u>970,190</u>	<u>18,628</u>	<u>8,427</u>	<u>997,245</u>	<u>926,554</u>
Total unrestricted support and revenue	<u>970,190</u>	<u>1,659,924</u>	<u>419,127</u>	<u>3,049,241</u>	<u>2,535,628</u>
Expenses					
Program services					
Emergency shelter and residential care	0	1,334,699	0	1,334,699	1,421,945
Support services					
General administration	623,304	270,143	0	893,447	781,770
Leasing costs	289,171	0	0	289,171	210,939
	<u>912,475</u>	<u>270,143</u>	<u>0</u>	<u>1,182,618</u>	<u>992,709</u>
Total expenses	<u>912,475</u>	<u>1,604,842</u>	<u>0</u>	<u>2,517,317</u>	<u>2,414,654</u>
Increase in unrestricted net assets	57,715	55,082	419,127	531,924	120,974
Transfer of funds to operating fund	325,000	(325,000)	0	0	0
Unrestricted net assets at beginning of year, as originally stated	2,273,815	357,928	163,164	2,794,907	2,673,933
Effect of assets transferred between funds	49,369	(49,369)	0	0	0
Unrestricted net assets at beginning of year, as restated	<u>2,323,184</u>	<u>308,559</u>	<u>163,164</u>	<u>2,794,907</u>	<u>2,673,933</u>
Unrestricted net assets at end of year	<u>2,705,899</u>	<u>38,641</u>	<u>582,291</u>	<u>3,326,831</u>	<u>2,794,907</u>

See notes to financial statements.

**SOUTHWESTERN INDIANA MENTAL HEALTH FOUNDATION, INC.****A Not-for-Profit Corporation**

## BALANCE SHEETS

June 30, 2007 with Comparative Totals for 2006

ASSETS	Operating	Hillcrest	Hillcrest	Total	
		Operating	Board Designated	2007	2006
Current Assets					
Cash	1,046,572	378,186	282,291	1,707,049	1,042,261
Accounts receivable - placement agencies	0	117,711	0	117,711	98,808
Contributions receivable	0	0	300,000	300,000	0
Prepaid expenses	12,896	18,510	0	31,406	32,682
<b>Total current assets</b>	<b>1,059,468</b>	<b>514,407</b>	<b>582,291</b>	<b>2,156,166</b>	<b>1,173,751</b>
Bond Issue Costs, Net	68,181	0	0	68,181	73,635
Deferred Asset from Interest Rate Swap	6,918	0	0	6,918	13,900
	<b>75,099</b>	<b>0</b>	<b>0</b>	<b>75,099</b>	<b>87,535</b>
Property and Equipment	6,881,606	1,488,872	0	8,370,478	7,941,761
Less accumulated depreciation	(1,247,683)	(1,158,803)	0	(2,406,486)	(2,043,734)
	<b>5,633,923</b>	<b>330,069</b>	<b>0</b>	<b>5,963,992</b>	<b>5,898,027</b>
	<b>6,768,490</b>	<b>844,476</b>	<b>582,291</b>	<b>8,195,257</b>	<b>7,159,313</b>

See notes to financial statements.

	<u>Operating</u>	<u>Hillcrest Operating</u>	<u>Hillcrest Board Designated</u>	<u>Total</u>	
				2007	2006
<b>LIABILITIES AND NET ASSETS</b>					
Current Liabilities					
Current maturities of long-term debt	142,303	0	0	142,303	169,259
Accounts payable	21,706	319,569	0	341,275	309,026
Accrued expenses and taxes	0	78,961	0	78,961	87,335
Deferred county contract revenue	0	407,305	0	407,305	0
<b>Total current liabilities</b>	<b>164,009</b>	<b>805,835</b>	<b>0</b>	<b>969,844</b>	<b>565,620</b>
Deferred Rental Revenue	764,424	0	0	764,424	860,324
Long-Term Debt	3,134,158	0	0	3,134,158	2,938,462
<b>Total long-term liabilities</b>	<b>3,898,582</b>	<b>0</b>	<b>0</b>	<b>3,898,582</b>	<b>3,798,786</b>
Commitment					
Unrestricted Net Assets					
Board designated	0	0	582,291	582,291	163,164
Undesignated	2,705,899	38,641	0	2,744,540	2,631,743
	<b>2,705,899</b>	<b>38,641</b>	<b>582,291</b>	<b>3,326,831</b>	<b>2,794,907</b>
	<b>6,768,490</b>	<b>844,476</b>	<b>582,291</b>	<b>8,195,257</b>	<b>7,159,313</b>

**SOUTHWESTERN INDIANA MENTAL HEALTH FOUNDATION, INC.****A Not-for-Profit Corporation**STATEMENTS OF CASH FLOWS – TOTAL FUNDS  
Year Ended June 30, 2007 with Comparative Totals for 2006

	2007	2006
Cash Flows from Operating Activities		
Increase in unrestricted net assets	531,924	120,974
Adjustments to reconcile increase in unrestricted net assets to net cash provided by (used in) operating activities		
Depreciation	368,206	298,304
Deferred cost of interest rate swap	6,982	(61,650)
In kind donation of property received from related party	0	(11,310)
Changes in assets and liabilities:		
Decrease (increase)		
Accounts receivable - Placement agencies	(18,903)	28,244
Contributions receivable	(300,000)	0
Prepaid expenses	1,276	6,813
Increase (decrease)		
Accounts payable	32,249	(158,813)
Accrued expenses and taxes	(8,374)	(10,001)
Deferred county contract revenue	407,305	(385,305)
Deferred rent revenue	(95,900)	(98,702)
<b>Net cash provided by (used in) operating activities</b>	<u>924,765</u>	<u>(271,446)</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	<u>(428,717)</u>	<u>(698,166)</u>
Cash Flows from Financing Activities		
Principal payments on long-term borrowings	(147,454)	(199,996)
Proceeds from long-term borrowings	<u>316,194</u>	<u>792,989</u>
<b>Net cash provided by financing activities</b>	<u>168,740</u>	<u>592,993</u>
Net increase (decrease) in cash	664,788	(376,619)
Cash at beginning of year	<u>1,042,261</u>	<u>1,418,880</u>
Cash at end of year	<u><u>1,707,049</u></u>	<u><u>1,042,261</u></u>
Supplemental Disclosure of Cash Flow Information		
Cash payments for:		
Interest	<u>193,541</u>	<u>164,360</u>

# ***SOUTHWESTERN INDIANA MENTAL HEALTH FOUNDATION, INC.***

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

### NOTES TO FINANCIAL STATEMENTS

June 30, 2007 with Comparative Totals for 2006

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

##### ***Nature of Activities***

Southwestern Indiana Mental Health Foundation, Inc. provides short-term emergency shelter and long-term residential care for children and adolescents at the Hillcrest Washington Youth Home. The Corporation also leases real estate to various organizations.

##### ***Comparative Amounts***

The financial statements and notes include certain prior-year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended June 30, 2006, from which the summarized information was derived.

##### ***Financial Statement Presentation***

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

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

##### ***Operating Funds***

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

##### ***Hillcrest Operating Funds***

Funds presently available for use by the Hillcrest Washington Youth Home at the discretion of the Board of Directors.

##### ***Hillcrest Board Designated Funds***

Funds presently available for use for the Hillcrest Washington Youth Home as designated by the Board of Directors.

# ***SOUTHWESTERN INDIANA MENTAL HEALTH FOUNDATION, INC.***

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

### NOTES TO FINANCIAL STATEMENTS

June 30, 2007 with Comparative Totals for 2006

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

##### **Support and Revenue**

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

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

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of revenues, expenses, and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Revenue from county contracts is recognized in the period which the contracts specify and related expenses are incurred. Income earned from investments is accounted for under the accrual basis in the fund owning the assets.

##### **Concentration of Credit Risk**

Financial instruments, which potentially subject the Corporation to concentrations of credit risk, consist principally of cash. At times, such cash in banks is in excess of the FDIC insurance limit. Credit risk with respect to cash is minimized by using a high-credit quality financial institution.

##### **Uncollectible Accounts Receivable**

The direct charge-off method is used to account for losses in collection of accounts receivable. An allowance for uncollectible accounts receivable is considered unnecessary by management because all significant accounts expected to be uncollectible have been written-off.

***SOUTHWESTERN INDIANA MENTAL HEALTH FOUNDATION, INC.***

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 with Comparative Totals for 2006

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

***Property, Equipment, and Depreciation***

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

It is the Corporation's policy to classify property and equipment in the proper fund group according to use. During 2007, the Corporation transferred property and equipment in the amount of \$49,369 previously reported in the Hillcrest Operating Fund to the Operating Fund.

***Bond Issuance Costs***

Bond issuance costs are being amortized using the straight-line method over the life of the bond.

***Deferred County Contract Revenue***

Monies received in advance under the Vanderburgh County Commissioners Contract are considered deferred revenue. Revenue for these monies will be recognized in the fiscal year to which they apply.

***Deferred Rent Revenue***

Monies received in advance under operating lease contracts are considered deferred revenue. Revenue for these monies will be recognized straight-line over the life of the lease, beginning when the lease commences.

***Use of Estimates***

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

***SOUTHWESTERN INDIANA MENTAL HEALTH FOUNDATION, INC.***

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 with Comparative Totals for 2006

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***Note 2 – Vanderburgh County Commissioners Contract***

The Corporation operates under a contract with the Vanderburgh County Commissioners. The contract requires the Corporation to provide short-term emergency shelter and long-term residential care to qualified children and adolescents with funds that are provided by Vanderburgh County. Fees collected by the Corporation from placement agencies for the contracted services provided to the residents are reimbursed to Vanderburgh County based on the average number of residents per month. Any excess fees are retained by the Southwestern Indiana Mental Health Foundation, Inc. The contract provides for the Corporation to provide these services through December 31, 2007 with the contract automatically extended from year to year thereafter until December 31, 2009, unless terminated by either party by giving not less than six months written notice.

Accounts payable to Vanderburgh County consisted of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Fees collected but not remitted	186,347	175,450
Fees billed but not collected or remitted	<u>117,695</u>	<u>98,808</u>
	<u>304,042</u>	<u>274,258</u>

***Note 3 – Contribution Receivable***

The Corporation will receive a bequest gift from an estate for which \$300,000 is anticipated to be received within one year. The gift is to be used towards the Hillcrest Washington Youth Home's program and activities. The Corporation may receive additional gifts when the estate is settled. However, at June 30, 2007, that amount is not determinable.

***SOUTHWESTERN INDIANA MENTAL HEALTH FOUNDATION, INC.***  
***A Not-for-Profit Corporation***

NOTES TO FINANCIAL STATEMENTS  
 June 30, 2007 with Comparative Totals for 2006

***Note 4 – Property and Equipment***

Property and equipment at June 30, 2007 and 2006 consisted of the following:

	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Operating				
Land	1,355,413	0	1,215,098	0
Buildings and improvements	5,512,149	1,246,513	4,944,345	910,081
Construction-in-progress	0	0	255,427	0
Equipment	14,044	1,170	0	0
	<u>6,881,606</u>	<u>1,247,683</u>	<u>6,414,870</u>	<u>910,081</u>
Hillcrest Operating				
Buildings and improvements	1,135,804	841,961	1,196,383	827,520
Equipment	353,068	316,842	330,508	306,133
	<u>1,488,872</u>	<u>1,158,803</u>	<u>1,526,891</u>	<u>1,133,653</u>
	<u><u>8,370,478</u></u>	<u><u>2,406,486</u></u>	<u><u>7,941,761</u></u>	<u><u>2,043,734</u></u>

Depreciation expense for the years ended June 30, 2007 and 2006 was \$368,206 and \$298,304, respectively.

# ***SOUTHWESTERN INDIANA MENTAL HEALTH FOUNDATION, INC.***

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

### NOTES TO FINANCIAL STATEMENTS

June 30, 2007 with Comparative Totals for 2006

#### ***Note 5 – Long-Term Debt***

Long-term debt at June 30, 2007 and 2006 consisted of the following:

	2007		2006	
	<u>Current</u>	<u>Long-Term</u>	<u>Current</u>	<u>Long-Term</u>
Indiana Healthcare Facility Finance Authority Bond, Series 2004, interest rate based on LIBOR and TEFRA, \$24,852 monthly including interest, secured by real property, due July 2019	<u>142,303</u>	<u>3,134,158</u>	<u>169,259</u>	<u>2,938,462</u>

The bond provides for borrowings up to \$3,800,000 and was obtained to refinance existing debt and to fund capital improvements. The bond is collateralized by real property and assignments of rents and leases of the real property. The agreement is subject to certain restrictive financial and non-financial covenants and requires the Corporation to maintain a compensating cash balance equal to \$300,000.

The Corporation maintains an interest-rate risk-management strategy that uses derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest-rate volatility. The Corporation's specific goal is to secure a fixed interest rate in order to maintain consistent monthly payments. In June 2003, the Corporation entered into an interest rate swap agreement related to their tax-exempt bond. The swap is utilized to manage interest rate exposures. The differential to be paid or received on the swap agreement is accrued as interest rates change and is recognized in the statement of support, revenue and changes in net assets. The swap agreement expires in July 2014 and has a rate of 6.065 percent. The initial notional amount is \$1,500,000. As of June 30, 2007, the fair value of the swap agreement in the amount of \$6,918 is recognized as an asset and a reduction in operating expenses in the statement of support, revenue and changes in net assets.

Long-term debt maturities are as follows:

2008	142,303
2009	150,960
2010	160,398
2011	170,427
2012	181,083
Thereafter	<u>2,471,290</u>
	<u>3,276,461</u>

Total interest expense, including the effect of the interest rate swap, for the years ended June 30, 2007 and 2006 was \$200,523 and \$102,710, respectively.

# ***SOUTHWESTERN INDIANA MENTAL HEALTH FOUNDATION, INC.***

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

### NOTES TO FINANCIAL STATEMENTS

June 30, 2007 with Comparative Totals for 2006

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#### ***Note 6 – Commitment***

The Corporation along with two other related not-for-profit corporations participate in a self-funded health insurance plan for that portion of health care costs not covered by reinsurance. The Corporation is liable for claims up to \$50,000 plus administrative fees per employee, and aggregate claims up to \$1,502,899. Self-insurance costs are accrued as claims are incurred. Amounts charged to income for such losses for the years ended 2007 and 2006 were \$116,458 and \$206,183, respectively.

#### ***Note 7 – Income Taxes***

The Corporation is a publicly-supported, nonprofit, health agency exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

#### ***Note 8 – Retirement Plan***

The Corporation has a defined contribution retirement plan covering substantially all of its employees. The Corporation's policy is to fund pension costs accrued. Costs of pension benefits for the years ended June 30, 2007 and 2006 were \$36,809 and \$21,423, respectively.

#### ***Note 9 – Related Party Transactions***

The Corporation is related through common Board members to another not-for-profit corporation. Transactions with the related not-for-profit corporation for the years ended June 30, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Administrative support and consultation services	99,888	97,170
Rental income	487,732	446,700
Donation expense	84,000	72,000
Deferred rent	34,725	31,225
Contribution revenue	0	11,310

***SOUTHWESTERN INDIANA MENTAL HEALTH FOUNDATION, INC.***

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 with Comparative Totals for 2006

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***Note 10 – Leasing Arrangements as Lessor***

The Corporation leases real estate to Southwestern Indiana Mental Health Center, Inc. and Mulberry Center, Inc., related parties, and other organizations under noncancelable operating lease agreements, which expire on various dates through 2021. The lessee pays executory costs such as property taxes, maintenance, and insurance. The cost and accumulated depreciation of the land and buildings leased was \$6,867,562 and \$1,246,513 in 2007 and \$6,159,443 and \$910,081 in 2006, respectively. At June 30, 2007, aggregate future minimum rental payments to be received are as follows:

<u>Years Ending June 30,</u>	
2008	840,463
2009	845,089
2010	815,089
2011	735,189
2012	679,189
Thereafter	<u>3,569,073</u>
	<u>7,484,092</u>

**INDEPENDENT AUDITOR'S REPORT ON  
SUPPLEMENTARY INFORMATION**

Board of Directors  
Southwestern Indiana Mental Health Foundation, Inc.  
415 Mulberry Street  
Evansville, Indiana 47713-1230

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

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Certified Public Accountants  
and Consultants

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Fax (812) 465-7811

*An Independently  
Owned Member of the  
RSM McGladrey Network*

Our audit for the year ended June 30, 2007 was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The prior year's summarized comparative information has been derived from the Corporation's 2006 financial statements and, in our report dated October 5, 2007, we expressed an unqualified opinion on those financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Evansville, Indiana  
October 5, 2007

**SOUTHWESTERN INDIANA MENTAL HEALTH FOUNDATION, INC.*****A Not-for-Profit Corporation*****SCHEDULES OF OPERATING EXPENSES**

Year Ended June 30, 2007 with Comparative Totals for 2006

	<u>Operating</u>	<u>Hillcrest Operating</u>	<u>Total</u>	
			<u>2007</u>	<u>2006</u>
Payroll				
Administrative	24,455	173,339	197,794	197,155
Emergency shelter	0	33,727	33,727	27,862
Residential care	0	680,045	680,045	727,520
	<u>24,455</u>	<u>887,111</u>	<u>911,566</u>	<u>952,537</u>
Employee Benefits				
Insurance - group health	0	116,458	116,458	206,183
Insurance - group life	0	3,618	3,618	3,059
Long-term disability	0	7,447	7,447	8,889
Miscellaneous	0	304	304	747
Preemployment exam	0	3,532	3,532	1,866
Retirement plan	0	36,809	36,809	21,423
Taxes - social security	0	67,865	67,865	70,734
Taxes - unemployment	0	3,286	3,286	3,865
Vacation earned	0	1,675	1,675	(1,819)
Workmen's compensation	0	12,841	12,841	15,544
	<u>0</u>	<u>253,835</u>	<u>253,835</u>	<u>330,491</u>
Interest Expense	<u>200,523</u>	<u>0</u>	<u>200,523</u>	<u>102,710</u>
Program Supplies	<u>0</u>	<u>67,190</u>	<u>67,190</u>	<u>76,977</u>
Operating Expenses	<u>38,691</u>	<u>65,657</u>	<u>104,348</u>	<u>82,769</u>
Office Expenses	<u>0</u>	<u>1,038</u>	<u>1,038</u>	<u>945</u>
Travel and Transportation	<u>0</u>	<u>20,059</u>	<u>20,059</u>	<u>17,398</u>

See auditor's report on supplementary information.

**SOUTHWESTERN INDIANA MENTAL HEALTH FOUNDATION, INC.*****A Not-for-Profit Corporation***

## SCHEDULES OF OPERATING EXPENSES (CONTINUED)

Year Ended June 30, 2007 with Comparative Totals for 2006

	<u>Operating</u>	<u>Hillcrest Operating</u>	<u>Total</u>	
			<u>2007</u>	<u>2006</u>
Building Expenses				
Cleaning	58,354	0	58,354	60,304
Rent - equipment	0	949	949	780
Repairs and maintenance	61,960	55,225	117,185	96,221
Supplies	4,037	9,522	13,559	14,625
Utilities	151,284	65,183	216,467	211,173
	<u>275,635</u>	<u>130,879</u>	<u>406,514</u>	<u>383,103</u>
Donation	<u>84,000</u>	<u>0</u>	<u>84,000</u>	<u>72,000</u>
Depreciation	<u>289,171</u>	<u>79,035</u>	<u>368,206</u>	<u>298,304</u>
Purchased Services				
Administrative support and diagnostic treatment	0	99,888	99,888	97,170
Medical	0	150	150	250
	<u>0</u>	<u>100,038</u>	<u>100,038</u>	<u>97,420</u>
Total Expenses	<u>912,475</u>	<u>1,604,842</u>	<u>2,517,317</u>	<u>2,414,654</u>

See auditor's report on supplementary information.

**INDEPENDENT AUDITOR'S REPORT  
ON SCHEDULE OF COUNTY AWARDS**

Board of Directors  
Southwestern Indiana Mental Health Foundation, Inc.  
415 Mulberry Street  
Evansville, Indiana 47713-1230

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

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Certified Public Accountants  
and Consultants

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

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

*An Independently  
Owned Member of the  
RSM McGladrey Network*

We have audited the financial statements of Southwestern Indiana Mental Health Foundation, Inc., a Not-for-Profit Corporation, for the year ended June 30, 2007, and have issued our report thereon dated October 5, 2007. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Southwestern Indiana Mental Health Foundation, Inc. taken as a whole. The accompanying Schedule of County Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in the Schedule of County Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Evansville, Indiana  
October 5, 2007

***SOUTHWESTERN INDIANA MENTAL HEALTH FOUNDATION, INC.***  
***A Not-for-Profit Corporation***

SCHEDULE OF COUNTY AWARDS  
Year Ended June 30, 2007

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<u>Vanderburgh County Commissioners Evansville, Indiana</u>	<u>Expenditures</u>
Hillcrest Washington Children's Home (July 1, 2006 - December 31, 2006)	804,115
Hillcrest Washington Children's Home (January 1, 2007 - June 30, 2007)	<u>814,611</u>
Total Vanderburgh County Commissioners	<u><u>1,618,726</u></u>

See auditor's report on schedule of county awards.

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

Board of Directors  
Southwestern Indiana Mental Health Foundation, Inc.  
415 Mulberry Street  
Evansville, Indiana 47713-1230

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HARDING SHYMANSKI  
AND COMPANY P.S.C.

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Certified Public Accountants  
and Consultants

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P.O. Box 3677  
Evansville, IN 47735-3677

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

An Independently  
Owned Member of the  
RSM McGladrey Network

We have audited the financial statements of Southwestern Indiana Mental Health Foundation, Inc., a Not-for-Profit Corporation, as of and for the year ended June 30, 2007, and have issued our report thereon dated October 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America.

Compliance

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

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood that a misstatement of the Corporation's financial statements that is more than inconsequential will not be prevented or detected by the Corporation's internal control.

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

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

This report is intended for the information and use of the audit committee, management, and the Indiana State Board of Accounts. However, this report is a matter of public record and its distribution is not limited.

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

Evansville, Indiana  
October 5, 2007