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June 29, 2009

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

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

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

STATE BOARD OF ACCOUNTS

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

Financial Report

June 30, 2008

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INDEPENDENT AUDITOR'S REPORT

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

HARDING SHYMANSKI
AND COMPANY P.S.C.

Certified Public Accountants
and Consultants

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

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We have audited the accompanying balance sheet of Southwestern Indiana Mental Health Foundation, Inc., a Not-for-Profit Corporation, as of June 30, 2008, 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 2007 financial statements and, in our report dated October 5, 2007, 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, 2008, 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 September 24, 2008 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
September 24, 2008

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, 2008 with Comparative Totals for 2007

	<u>Operating</u>	<u>Hillcrest Operating</u>	<u>Hillcrest Board Designated</u>	<u>Total</u>	
				<u>2008</u>	<u>2007</u>
Changes in unrestricted net assets					
Public support and revenue					
Public support					
Contributions	700	1,180	217,900	219,780	412,678
Program service -Vanderburgh County	0	1,658,027	0	1,658,027	1,618,726
	<u>700</u>	<u>1,659,207</u>	<u>217,900</u>	<u>1,877,807</u>	<u>2,031,404</u>
Residential service	0	49,401	0	49,401	20,592
Other revenue					
Interest income	38,314	4,748	18,600	61,662	54,016
Rental income	952,000	0	0	952,000	940,517
Vending income	0	2,321	0	2,321	1,836
Garnishment fee income	0	130	0	130	126
Other income	561	8,175	0	8,736	750
Loss on sale of equipment	0	(1,473)	0	(1,473)	0
	<u>990,875</u>	<u>13,901</u>	<u>18,600</u>	<u>1,023,376</u>	<u>997,245</u>
Total unrestricted support and revenue	<u>991,575</u>	<u>1,722,509</u>	<u>236,500</u>	<u>2,950,584</u>	<u>3,049,241</u>
Expenses					
Program services					
Emergency shelter and residential care	0	1,312,667	0	1,312,667	1,334,699
Support services					
General administration	691,186	271,675	0	962,861	893,447
Leasing costs	299,991	0	0	299,991	289,171
	<u>991,177</u>	<u>271,675</u>	<u>0</u>	<u>1,262,852</u>	<u>1,182,618</u>
Total expenses	<u>991,177</u>	<u>1,584,342</u>	<u>0</u>	<u>2,575,519</u>	<u>2,517,317</u>
Increase in unrestricted net assets	398	138,167	236,500	375,065	531,924
Unrestricted net assets at beginning of year	2,705,899	38,641	582,291	3,326,831	2,794,907
Other changes in unrestricted net assets (deficit)					
Transfer of funds to operating fund	180,000	(180,000)	0	0	0
Unrestricted net assets (deficit) at end of year	<u>2,886,297</u>	<u>(3,192)</u>	<u>818,791</u>	<u>3,701,896</u>	<u>3,326,831</u>

See notes to financial statements.

	<u>Operating</u>	<u>Hillcrest Operating</u>	<u>Hillcrest Board Designated</u>	<u>Total</u>	
				2008	2007
LIABILITIES AND NET ASSETS					
Current Liabilities					
Current maturities of long-term debt	151,603	0	0	151,603	142,303
Accounts payable	20,879	334,077	0	354,956	341,275
Accrued expenses and taxes	2,112	88,255	0	90,367	78,961
Deferred county contract revenue	0	421,708	0	421,708	407,305
Total current liabilities	174,594	844,040	0	1,018,634	969,844
Deferred Liability of Interest Rate Swap	28,889	0	0	28,889	0
Deferred Rental Revenue	667,237	0	0	667,237	764,424
Long-Term Debt	2,975,947	0	0	2,975,947	3,134,158
Total long-term liabilities	3,672,073	0	0	3,672,073	3,898,582
Commitment					
Unrestricted Net Assets					
Board designated	0	0	818,791	818,791	582,291
Undesignated	2,886,297	(3,192)	0	2,883,105	2,744,540
	2,886,297	(3,192)	818,791	3,701,896	3,326,831
	6,732,964	840,848	818,791	8,392,603	8,195,257

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

BALANCE SHEETS

June 30, 2008 with Comparative Totals for 2007

ASSETS	Operating	Hillcrest	Hillcrest	Total	
		Operating	Board Designated	2008	2007
Current Assets					
Cash	1,312,379	400,600	818,791	2,531,770	1,707,049
Accounts receivable - placement agencies	0	155,655	0	155,655	117,711
Contributions receivable	0	0	0	0	300,000
Other receivables	0	600	0	600	0
Prepaid expenses	18,472	16,792	0	35,264	31,406
Total current assets	1,330,851	573,647	818,791	2,723,289	2,156,166
Bond Issue Costs, Net	62,726	0	0	62,726	68,181
Deferred Asset from Interest Rate Swap	0	0	0	0	6,918
	62,726	0	0	62,726	75,099
Property and Equipment	6,881,606	1,461,481	0	8,343,087	8,370,478
Less accumulated depreciation	(1,542,219)	(1,194,280)	0	(2,736,499)	(2,406,486)
	5,339,387	267,201	0	5,606,588	5,963,992
	6,732,964	840,848	818,791	8,392,603	8,195,257

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS – TOTAL FUNDS
Year Ended June 30, 2008 with Comparative Totals for 2007

	2008	2007
Cash Flows from Operating Activities		
Increase in unrestricted net assets	375,065	531,924
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities		
Depreciation	380,810	368,206
Loss on sale of property and equipment	1,473	0
Deferred cost of interest rate swap	35,807	6,982
Changes in assets and liabilities:		
Decrease (increase)		
Accounts receivable - placement agencies	(37,944)	(18,903)
Contributions receivable	300,000	(300,000)
Other receivables	(600)	0
Prepaid expenses	(3,858)	1,276
Increase (decrease)		
Accounts payable	13,681	32,249
Accrued expenses and taxes	11,406	(8,374)
Deferred county contract revenue	14,403	407,305
Deferred rent revenue	(97,187)	(95,900)
Net cash provided by operating activities	993,056	924,765
Cash Flows from Investing Activities		
Purchase of property and equipment	(19,424)	(428,717)
Cash Flows from Financing Activities		
Principal payments on long-term borrowings	(148,911)	(147,454)
Proceeds from long-term borrowings	0	316,194
Net cash provided by (used in) financing activities	(148,911)	168,740
Net increase in cash	824,721	664,788
Cash at beginning of year	1,707,049	1,042,261
Cash at end of year	2,531,770	1,707,049
Supplemental Disclosure of Cash Flow Information		
Cash payments for:		
Interest	189,156	193,541

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2008 with Comparative Totals for 2007

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, 2007, 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, 2008 with Comparative Totals for 2007

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 support, 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.

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.

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2008 with Comparative Totals for 2007

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

Bond Issuance Costs

Bond issuance costs are being amortized using the straight-line method over the life of the bond and have been included in depreciation expense.

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 using the 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, 2008 with Comparative Totals for 2007

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, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Fees collected but not remitted	143,786	186,347
Fees billed but not collected or remitted	<u>154,231</u>	<u>117,695</u>
	<u>298,017</u>	<u>304,042</u>

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

NOTES TO FINANCIAL STATEMENTS
 June 30, 2008 with Comparative Totals for 2007

Note 3 – Property and Equipment

Property and equipment at June 30, 2008 and 2007 consisted of the following:

	2008		2007	
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Operating				
Land	1,355,413	0	1,355,413	0
Buildings and improvements	5,512,149	1,536,367	5,512,149	1,246,513
Equipment	<u>14,044</u>	<u>5,852</u>	<u>14,044</u>	<u>1,170</u>
	<u>6,881,606</u>	<u>1,542,219</u>	<u>6,881,606</u>	<u>1,247,683</u>
Hillcrest Operating				
Buildings and improvements	1,105,363	873,054	1,135,804	841,961
Equipment	<u>356,118</u>	<u>321,226</u>	<u>353,068</u>	<u>316,842</u>
	<u>1,461,481</u>	<u>1,194,280</u>	<u>1,488,872</u>	<u>1,158,803</u>
	<u><u>8,343,087</u></u>	<u><u>2,736,499</u></u>	<u><u>8,370,478</u></u>	<u><u>2,406,486</u></u>

Depreciation expense for the years ended June 30, 2008 and 2007 was \$380,810 and \$368,206, respectively.

SOUTHWESTERN INDIANA MENTAL HEALTH FOUNDATION, INC.

A Not-for-Profit Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2008 with Comparative Totals for 2007

Note 4 – Long-Term Debt

Long-term debt at June 30, 2008 and 2007 consisted of the following:

	2008		2007	
	<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>151,603</u>	<u>2,975,947</u>	<u>142,303</u>	<u>3,134,158</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, expenses, 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, 2008, the fair value of the swap agreement has resulted in a liability of \$28,889 and a corresponding increase in operating expenses in the statement of support, revenue, expenses, and changes in net assets.

Long-term debt maturities are as follows:

2009	151,603
2010	160,851
2011	170,909
2012	181,595
2013	192,948
Thereafter	<u>2,269,644</u>
	<u>3,127,550</u>

Total interest expense, including the effect of the interest rate swap, for the years ended June 30, 2008 and 2007 was \$224,963 and \$200,523, respectively.

SOUTHWESTERN INDIANA MENTAL HEALTH FOUNDATION, INC.

A Not-for-Profit Corporation

NOTES TO FINANCIAL STATEMENTS

June 30, 2008 with Comparative Totals for 2007

Note 5 – 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 and the other two related organizations are liable for claims up to \$50,000 plus administrative fees per employee, and aggregate claims up to \$1,377,107 annually, of which the Corporation's portion is \$117,827. Self-insurance costs are accrued as claims are incurred. Amounts charged to income for such losses for the years ended 2008 and 2007 were \$147,532 and \$116,458, respectively.

Note 6 – 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 7 – Retirement Plan

The Corporation had a defined contribution retirement plan covering substantially all of its employees through June 30, 2008. The Corporation's policy is to fund pension costs accrued. Costs of pension benefits for the years ended June 30, 2008 and 2007 were \$26,965 and \$36,809, respectively.

Effective June 30, 2008, the Corporation terminated the defined contribution plan. Beginning, July 1, 2008, the Corporation will become an adopting employer of the Southwestern Indiana Mental Health Center, Inc. Retirement Plan. The plan is for all employees who are 21 years of age, have completed one year of service, and have worked 1,000 hours during the plan year. Employees may participate by contributing a percentage of their salary, of which 50 percent up to five percent is matched by the Corporation, and an additional three percent profit-sharing contribution is made by the Corporation. The Corporation made no contributions for the period ended June 30, 2008.

Note 8 – 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, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Administrative support and consultation services	102,312	99,888
Rental income	488,700	487,732
Donation expense	72,000	84,000
Deferred rent	34,725	34,725

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

NOTES TO FINANCIAL STATEMENTS
June 30, 2008 with Comparative Totals for 2007

Note 9 – 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 \$7,135,444 and \$1,690,106 in 2008 and \$7,135,444 and \$1,379,662 in 2007, respectively. At June 30, 2008, aggregate future minimum rental payments to be received are as follows:

<u>Years Ending June 30,</u>	
2009	824,846
2010	744,946
2011	688,946
2012	663,746
2013	663,746
Thereafter	<u>2,493,161</u>
	<u><u>6,079,391</u></u>

Note 10 – Subsequent Events

The Corporation and related entities are now in the process of reorganization. Completion of the reorganization will not take place until appropriate rulings regarding the tax exempt status of the corporations involved in the reorganization have been obtained. As a part of the reorganization, the Corporation will change its name from Southwestern Indiana Mental Health Foundation, Inc. to Hillcrest Washington Youth Home, Inc. and will transfer its Operating Fund to a new entity, Southwestern Healthcare, Inc. Southwestern Healthcare, Inc. will be the parent company that oversees and provides administrative services to its affiliates, as well as directs funds where needed. A minimum of five of the nine members of the Board of Southwestern Healthcare, Inc. must be members of the Board of the Corporation and two other supported affiliates.

On July 31, 2008, a block of land was sold to ECHO Community Healthcare, Inc. for a sales price of \$349,214. This transaction resulted in a loss of \$22,962.

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

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

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

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, 2008 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 2007 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
September 24, 2008

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

SCHEDULES OF OPERATING EXPENSES

Year Ended June 30, 2008 with Comparative Totals for 2007

	<u>Operating</u>	<u>Hillcrest Operating</u>	<u>Total</u>	
			<u>2008</u>	<u>2007</u>
Payroll				
Administrative	32,979	175,064	208,043	197,794
Emergency shelter	0	28,877	28,877	33,727
Residential care	0	647,431	647,431	680,045
	<u>32,979</u>	<u>851,372</u>	<u>884,351</u>	<u>911,566</u>
Employee Benefits				
Insurance - group health	0	147,532	147,532	116,458
Insurance - group life	0	1,775	1,775	3,618
Long-term disability	0	7,237	7,237	7,447
Miscellaneous	0	469	469	304
Pre-employment exam	0	2,501	2,501	3,532
Retirement plan	0	26,965	26,965	36,809
Taxes - social security	0	65,131	65,131	67,865
Taxes - unemployment	0	3,321	3,321	3,286
Vacation earned	0	1,994	1,994	1,675
Workmen's compensation	0	10,893	10,893	12,841
	<u>0</u>	<u>267,818</u>	<u>267,818</u>	<u>253,835</u>
Interest Expense	<u>224,963</u>	<u>0</u>	<u>224,963</u>	<u>200,523</u>
Program Supplies	<u>0</u>	<u>70,413</u>	<u>70,413</u>	<u>67,190</u>
Operating Expenses	<u>56,105</u>	<u>81,095</u>	<u>137,200</u>	<u>104,348</u>
Office Expenses	<u>0</u>	<u>744</u>	<u>744</u>	<u>1,038</u>
Travel and Transportation	<u>95</u>	<u>16,144</u>	<u>16,239</u>	<u>20,059</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, 2008 with Comparative Totals for 2007

	<u>Operating</u>	<u>Hillcrest Operating</u>	<u>Total</u>	
			<u>2008</u>	<u>2007</u>
Building Expenses				
Cleaning	63,824	0	63,824	58,354
Rent - equipment	0	869	869	949
Repairs and maintenance	55,123	37,387	92,510	117,185
Supplies	3,587	9,012	12,599	13,559
Utilities	182,510	65,832	248,342	216,467
	<u>305,044</u>	<u>113,100</u>	<u>418,144</u>	<u>406,514</u>
Donation	<u>72,000</u>	<u>0</u>	<u>72,000</u>	<u>84,000</u>
Depreciation	<u>299,991</u>	<u>80,819</u>	<u>380,810</u>	<u>368,206</u>
Purchased Services				
Administrative support and diagnostic treatment	0	102,312	102,312	99,888
Medical	0	525	525	150
	<u>0</u>	<u>102,837</u>	<u>102,837</u>	<u>100,038</u>
Total Expenses	<u>991,177</u>	<u>1,584,342</u>	<u>2,575,519</u>	<u>2,517,317</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

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

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, 2008, and have issued our report thereon dated September 24, 2008. 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
September 24, 2008

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

SCHEDULE OF COUNTY AWARDS
Year Ended June 30, 2008

Vanderburgh County Commissioners Evansville, Indiana	<u>Expenditures</u>
Hillcrest Washington Children's Home (July 1, 2007 - December 31, 2007)	814,611
Hillcrest Washington Children's Home (January 1, 2008 - June 30, 2008)	<u>843,416</u>
Total Vanderburgh County Commissioners	<u><u>1,658,027</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

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

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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, 2008, and have issued our report thereon dated September 24, 2008. 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
September 24, 2008