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December 31, 2009

Board of Directors
The Center for Mental Health, Inc.
1100 Broadway
Anderson, IN 46012

We have reviewed the audit report prepared by Bradley & Associates, Inc., 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 Center for Mental Health, 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.

We call your attention to the findings in the report. The management letter contains two comments.

STATE BOARD OF ACCOUNTS

THE CENTER FOR MENTAL HEALTH, INC.
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
YEARS ENDED JUNE 30, 2008 AND 2007
AND
INDEPENDENT AUDITORS' REPORT

THE CENTER FOR MENTAL HEALTH, INC.
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
YEARS ENDED JUNE 30, 2008 AND 2007

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Bradley & Associates, Inc.

Certified Public Accountants

Board of Directors of
The Center for Mental Health, Inc.

Independent Auditors' Report

We have audited the accompanying statements of financial position of The Center for Mental Health, Inc. (a nonprofit organization) as of June 30, 2008 and 2007 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 The Center for Mental Health, Inc. as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2008, on our consideration of The Center for Mental Health, Inc.'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 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 important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of The Center for Mental Health, Inc. taken as a whole. The accompanying schedules of expenditures of federal awards and expenditures of state and local awards are presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and *Indiana State Board of Accounts Guidelines for Examination of Entities receiving Financial Assistance from Governmental Sources*, respectively, and are 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.

Bradley & Associates, Inc.

August 29, 2008

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THE CENTER FOR MENTAL HEALTH, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

ASSETS

	2008	2007
Current assets:		
Cash and cash equivalents	\$ 3,677,893	\$ 2,552,996
Patient accounts receivable, less allowances for doubtful accounts of \$582,779 in 2008 and \$707,729 in 2007	822,187	1,050,160
Grant and other receivables	633,172	1,131,721
Prepaid expenses	204,281	181,225
Total current assets	5,337,533	4,916,102
Assets whose use is limited-investments:		
Internally designated funds	6,174,767	6,643,697
Property and equipment	8,843,860	8,631,079
Less accumulated depreciation	(5,563,773)	(5,295,836)
	3,280,087	3,335,243
Other assets:		
Due from affiliates	98,541	97,595
Total assets	\$14,890,928	\$14,992,637

The accompanying notes are an integral part
of these financial statements.

LIABILITIES AND NET ASSETS

	<u>2008</u>	<u>2007</u>
Current liabilities:		
Accounts payable	\$ 113,832	\$ 117,294
Salaries and related liabilities	1,036,983	987,070
Other liabilities	95,076	125,536
Estimated third-party payables	<u>783,527</u>	<u>863,307</u>
Total current liabilities	2,029,418	2,093,207
Net assets:		
Unrestricted	<u>12,861,510</u>	<u>12,899,430</u>
Total liabilities and net assets	<u>\$14,890,928</u>	<u>\$14,992,637</u>

THE CENTER FOR MENTAL HEALTH, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Changes in unrestricted net assets:		
Revenues and gains:		
Net patient service revenue	<u>\$ 5,797,538</u>	<u>\$ 6,282,398</u>
Public support:		
Federal funds	1,215,016	1,103,394
State funds	4,495,261	4,346,785
County funds	396,588	433,056
Other support	<u>110,707</u>	<u>119,957</u>
	<u>6,217,572</u>	<u>6,003,192</u>
Other revenue:		
Medicaid funds recovery	560,456	496,800
Supported employment revenue	588,388	618,637
Investment income	321,378	307,780
Gain on disposal of property	33,982	
Rental income	107,390	92,001
Other income	<u>230,432</u>	<u>240,449</u>
	<u>1,842,026</u>	<u>1,755,667</u>
Total unrestricted revenue, gains, and other support	<u>13,857,136</u>	<u>14,041,257</u>
Expenses:		
Salaries and related expenses	10,033,409	9,762,528
Building expense	527,952	531,850
Bad debt expense	109,672	105,714
Depreciation	381,051	366,440
Operating expenses	<u>2,180,598</u>	<u>2,277,885</u>
	<u>13,232,682</u>	<u>13,044,417</u>
Excess of revenues, gains and other support over expenses	624,454	996,840
Change in net unrealized gains on other than trading securities	<u>(662,374)</u>	<u>469,677</u>
Change in net assets	(37,920)	1,466,517
Net assets at beginning of year	<u>12,899,430</u>	<u>11,432,913</u>
Net assets at end of year	<u>\$12,861,510</u>	<u>\$12,899,430</u>

The accompanying notes are an integral part of these financial statements.

THE CENTER FOR MENTAL HEALTH, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Cash flows from operating activities:		
Cash received from patient fees	\$5,836,059	\$ 6,214,962
Cash received from public support	6,497,707	5,814,181
Other income	2,026,458	1,702,297
Cash paid to suppliers and employees	(12,749,024)	(12,528,006)
Net cash provided by operating activities	1,611,200	1,203,434
Cash flows from investing activities:		
Capital expenditures	(325,895)	(232,722)
Proceeds from sale of equipment	33,982	
Change in assets whose use is limited, net of unrealized gains	(193,444)	(194,582)
Change in due from affiliates	(946)	(8,920)
Net cash (used) by investing activities	(486,303)	(436,224)
Net increase in cash and cash equivalents	1,124,897	767,210
Cash and cash equivalents at beginning of year	2,552,996	1,785,786
Cash and cash equivalents at end of year	\$ 3,677,893	\$ 2,552,996

The accompanying notes are an integral part
of these financial statements

THE CENTER FOR MENTAL HEALTH, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2008 AND 2007

(Continued)

	<u>2008</u>	<u>2007</u>
Reconciliation of change in net assets to cash provided by operating activities:		
Change in net assets	\$ (37,920)	\$1,466,517
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	381,051	366,440
Bad debt expense	109,672	105,714
Unrealized loss (gain) on investments	662,374	(469,677)
Gain on disposal of property	(33,982)	
Decrease in patient accounts receivable	118,301	115,074
Decrease (increase) in grant and other receivables	498,549	(242,381)
(Increase) decrease in prepaid expenses	(23,056)	85,144
(Decrease) in accounts payable	(3,462)	(24,377)
Increase (decrease) in salaries and related liabilities	49,913	(36,076)
(Decrease) increase in other liabilities	(30,460)	19,566
(Decrease) in estimated third-party payables	(79,780)	(182,510)
Net cash provided by operating activities	<u>\$1,611,200</u>	<u>\$1,203,434</u>

The accompanying notes are an integral part of these financial statements.

THE CENTER FOR MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

1 - Summary of Significant Accounting Policies

Organization

The Center for Mental Health, Inc. (Center) is incorporated in accordance with the Indiana Not-For-Profit Corporation Act. The Center provides comprehensive services to the mentally ill and developmentally disabled.

Financial Statement Presentation

The Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Center has no temporarily or permanently restricted net assets.

Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued, if amounts can be reasonably estimated, in the period the related services are rendered and adjusted in future periods as final settlements are determined. No accrual is made for those retroactive adjustments that cannot be reasonably estimated.

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 Center. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on the Center's liquidity, financial condition, and results of operations.

Revenue from the Medicare and Medicaid programs accounted for approximately 2.3% and 70.4%, respectively, of the Center's gross patient service revenue for the year ended June 30, 2008. Revenue from the Medicare and Medicaid programs accounted for approximately 2.4% and 71.8%, respectively, of the Center's gross patient service revenue for the year ended June 30, 2007. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

THE CENTER FOR MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

1 - Summary of Significant Accounting Policies (Continued)

Public Support

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

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

The Center receives federal, state and other grants for providing services in specific program areas. These amounts are also recorded as net patient service revenue or public support.

Medicaid Funds Recovery

The Center participates in the Funds Recovery Program. Funding for the Mental Health Funds Recovery Program is available through the Title XIX of the Social Security Act (commonly referred to as the "Medicaid Program") for certain administrative activities. Subject to approval by the Center for Medicare & Medicaid Services (CMS), funding under the Mental Health Funds Recovery Program is available only to those providers who are certified as Managed Care Providers or Community Mental Health Centers (CMHCs) by the Division of Mental Health and Addiction.

Co-Pay Schedule (Charity Care)

The Center 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 Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net service revenue.

THE CENTER FOR MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

1 - Summary of Significant Accounting Policies (Continued)

Estimates

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

Contributions

The Center recognizes all contributions as income in the period received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Long-lived assets acquired with gifts of cash restricted for those acquisitions are reported as unrestricted or as temporarily restricted depending on whether there is an explicit, donor-imposed time requirement as to how long the assets must be maintained. Long-lived assets are reported as permanently restricted only if the Center must maintain the assets in perpetuity or if the donor explicitly restricted the proceeds from any future disposition of the assets to reinvestment in long-lived assets.

Cash and Cash Equivalents

Cash and cash equivalents include interest-bearing deposits. Cash and cash equivalents exclude amounts whose use is limited by board designation. The Center maintains these deposits with banks which, at times, may exceed federally insured limits. The Center believes it is not exposed to any significant credit risk on cash and cash equivalents.

Patient Accounts Receivable

Patient accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based upon management's assessment of the credit history with customers having outstanding balances and current relationships with them, management has concluded that realization losses on the balances outstanding at year-end will be immaterial.

THE CENTER FOR MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

1 - Summary of Significant Accounting Policies (Continued)

Assets Whose Use is Limited-Investments

Assets whose use is limited are internally designated for future capital acquisitions, other future projects, and as an employee contribution match, which may vest to the employees in future periods under its retirement plan.

Investments include cash and cash equivalents, fixed rate instruments, stocks, and mutual funds. Investments are carried at market value determined as of the Statements of Financial Position date.

Property and Equipment

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 and is computed using the straight-line method.

Retirement Plan

The Center has a tax sheltered annuity plan covering substantially all eligible employees.

Income Taxes

The Center is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Reclassification

Certain 2007 balances were reclassified to agree with the 2008 presentation.

THE CENTER FOR MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

2 - Co-Pay Schedule (Charity Care) and Contracted Adjustments

In accordance with its grant requirements and state regulations, the Center provides services to patients and charges them based on their ability to pay according to a co-pay schedule. The Center also adjusted charges based on contracted agreements with third-party payors. The Center maintains records to identify and monitor the level of charges foregone for services and supplies furnished under charity care policy and contracted adjustments, the estimated cost of those services and equivalent service statistics. The following information measures the level of charity care and contracted adjustments provided during the year ended June 30, 2008 and 2007.

	<u>2008</u>	<u>2007</u>
Charges foregone based on established rates	<u>\$7,468,124</u>	<u>\$8,798,794</u>
Equivalent percentage of patient to all patients served	<u>56%</u>	<u>58%</u>

3 - Net Patient Service Revenue

The Center 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 Center at amounts different from its established rates. The following is a schedule of gross service charges by category, charity care, and contractual adjustments.

	<u>2008</u>	<u>2007</u>
Service charges		
Inpatient	\$ 190,815	\$ 160,180
Outpatient	9,952,132	11,525,138
Residential	<u>3,122,715</u>	<u>3,395,874</u>
	13,265,662	15,081,192
Less: Charity care charges foregone and contractual adjustments	<u>(7,468,124)</u>	<u>(8,798,794)</u>
Net patient service revenue	<u>\$ 5,797,538</u>	<u>\$ 6,282,398</u>

THE CENTER FOR MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

4 - Marketable Securities

The cost and fair market value of assets whose use is limited, recorded as investments on the Statements of Financial Position at June 30, 2008 and 2007 are as follows:

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>June 30, 2008</u>				
Held to maturity:				
Cash and cash equivalents	\$ 727,041	\$	\$	\$ 727,041
Fixed rate instruments	1,349,796	15,602	(11,307)	1,354,091
Mutual funds and stocks	4,343,677	20,453	(270,495)	4,093,635
	<u>\$ 6,420,514</u>	<u>\$36,055</u>	<u>\$(281,802)</u>	<u>\$ 6,174,767</u>

Fixed rate instruments mature at various dates between 2008 and 2018.

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<u>June 30, 2007</u>				
Held to maturity:				
Cash and cash equivalents	\$ 77,282	\$	\$	\$ 77,282
Fixed rate instruments	1,810,000		(3,703)	1,806,297
Mutual funds and stocks	3,967,804	792,314		4,760,118
	<u>\$5,855,086</u>	<u>\$792,314</u>	<u>\$(3,703)</u>	<u>\$6,643,697</u>

Fixed rate instruments mature at various dates between 2007 and 2010.

THE CENTER FOR MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

5 - Property and Equipment

A summary of property and equipment at June 30, 2008 and 2007 follows:

	<u>2008</u>	<u>2007</u>
Land	\$ 79,580	\$ 79,580
Buildings and building improvements	5,695,106	5,540,208
Equipment	2,680,617	2,581,909
Vehicles	269,061	309,886
Parking lot	<u>119,496</u>	<u>119,496</u>
	8,843,860	8,631,079
Less: accumulated depreciation	<u>(5,563,773)</u>	<u>(5,295,836)</u>
Property and equipment net	<u><u>\$ 3,280,087</u></u>	<u><u>\$ 3,335,243</u></u>

6 - Estimated Third-Party Settlements

Estimated third-party settlements for the Medicare, Medicaid, and Medicaid Rehab Option (MRO), grants and other governmental programs reflect the difference between interim reimbursement and reimbursement as determined by contractual agreements and third-party audits. In addition, estimated third-party settlements reflect any difference owed to or by the Center after such reports have been audited.

Based upon reports previously submitted for Medicare and Medicaid and payments received on MRO, grants and other government programs, the Center has estimated and recorded a liability of \$783,527 and \$863,307 respectively, at June 30, 2008 and 2007.

The Center received \$7,001,556 and \$7,670,993 of MRO payments for the years ended June 30, 2008 and 2007, respectively. These claims are subject to periodic audit. The Center was audited by the MRO audit contractor during February 2003 and August 2007 for the periods March 1, 2001 through June 30, 2002 and January 1, 2005 through March 31, 2006, respectively. The audit results are currently under appeal by the Center. See Note 7 – Third Party Payor Audit. The Center's estimated settlement and required match has been recorded within the total third-party liability.

THE CENTER FOR MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

7 - Commitments & Contingencies

Lease Commitments

The Center leases space under long-term lease agreements. Such leases are classified as operating leases and expire in various years through 2009.

The following schedule of minimum operating lease payments for subsequent years ending June 30:

2009	<u>\$19,617</u>
Total	<u><u>\$19,617</u></u>

Rental expense totaled \$48,379 and \$46,968 for 2008 and 2007 respectively, and has been included in building expense in the Statements of Activities.

Third Party Payor Audit

As discussed in Note 6, the Center was audited by the MRO audit contractor for the periods March 1, 2001 through June 30, 2002 and January 1, 2005 through March 31, 2006 and was notified that the auditor determined the Center had been overpaid approximately \$199,329 and \$192,449 for each period, respectively. The Center filed timely appeals for the findings of both periods. The Center has recorded a liability for 100% of these amounts and an additional amount of \$268,222 for the any potential liability for subsequent periods (through June 30, 2008).

Due to uncertainties with the appeal and estimates, it is at least reasonably possible that management's estimates and opinion could change and the differences could be material. As of the issue date of this report, there has been no change from the prior year.

THE CENTER FOR MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

8 - Retirement Plan

The Center has a tax sheltered annuity plan. All full time employees of the Center are eligible to enter the matching plan after one year of employment. All other employees may enter the retirement plan at any time, with the understanding that their contribution will not be matched by the employer.

Employee contributions are vested immediately upon contribution to the plan. Matching payments made by the Center vest to the employee at various percentages over the first ten years of the employee's participation in the plan. Plan expense related to the Center's contribution for the years ended June 30, 2008 and 2007 amounted to \$206,761 and \$242,415, respectively, and has been included in salaries and related expenses in the Statements of Activities.

9 - Medical Malpractice Claims

The state of Indiana puts a judgment cap of \$1,250,000 on malpractice claims for those institutions and individual physicians willing to participate in the state funded insurance "pool". The "pool" requires that an institution/physician be responsible for the first \$250,000 of every claim, and the state will fund the remaining based on each claim.

In addition to the above, the state also requires that each individual physician carry a policy year aggregate limit of \$750,000.

The Center has eliminated its risk by purchasing an insurance policy that covers all claims for the required \$1,000,000 occurrence limit and the \$3,000,000 statutory aggregate limit for the institution and a \$250,000 occurrence and \$750,000 statutory aggregate limit for each scheduled physician.

In addition to the above limits, the insurance policy also provides an umbrella professional liability limit of \$1,000,000 that pays any claim over the initial \$250,000 for any instances in which the state funded insurance pool does not cover the claim.

No accrual for possible losses attributable to incidents that may have occurred but have not been identified has been made because the amount, if any, cannot be reasonably estimated. The current policy 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.

THE CENTER FOR MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

10 - Concentrations of Credit Risk

The Center's main office is located in Anderson, Indiana. The Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Accounts receivable from patients and third-party payors was composed as follows at June 30:

	<u>2008</u>	<u>2007</u>
Medicaid	62%	63%
Medicare	7	7
Other third party payors (none over 10%)	18	22
Patients	<u>13</u>	<u>8</u>
	<u>100%</u>	<u>100%</u>

11 - Related Parties

The Center sponsors, but does not control, three Indiana corporations in the development and management of apartment and supervised group living projects for the mentally ill: Apartment Living, Inc.; Group Living, Inc.; and Group Living II, Inc. The corporations were organized to develop apartment projects and supervised group homes for the mentally ill. Financing for each project has been obtained from the U.S. Department of Housing and Urban Development. These two loans and one grant totaled approximately \$813,305 and \$815,652, in aggregate, at June 30, 2008 and 2007, respectively.

THE CENTER FOR MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

11 - Related Parties (Continued)

The unaudited 2008 and audited 2007 financial position and operating results for the three corporations are summarized on a combined basis as follows at June 30:

	<u>2008</u>	<u>2007</u>
Current assets	\$ 11,203	\$ 19,737
Property and equipment, net	866,522	881,312
Other assets	<u>119,865</u>	<u>124,843</u>
	<u>\$ 997,590</u>	<u>\$1,025,892</u>
Liabilities and debt	\$1,012,203	\$1,005,489
Net assets	<u>(14,613)</u>	<u>20,403</u>
	<u>\$ 997,590</u>	<u>\$1,025,892</u>
Revenue	\$ 196,036	\$ 185,634
Expense	<u>231,052</u>	<u>205,454</u>
Net income (loss)	<u>\$ (35,016)</u>	<u>\$ (19,820)</u>

The Center advances amounts to the affiliates for organizational costs and working capital purposes when needed. Amounts due from affiliates were \$98,541 and \$97,595 at June 30, 2008 and 2007, respectively, and have been included in due from affiliates on the Statements of Financial Position.

12 - Self Insured Health Plan

The health plan is self-insured by the Center. A third-party claims administrator has been retained to process all benefit claims. Claims are processed and presented for payment on a weekly basis. The plan purchased individual excess risk insurance to cover individual health claims in excess of a predetermined amount. In addition, the plan has an aggregate stop-loss of a predetermined amount.

THE CENTER FOR MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

13 - Rental Income

During the fiscal year 2008 and 2007, the Center had various lease agreements that totaled \$107,390 and \$92,001 respectively.

Future minimum rental income under rental agreements which expire in 2009 is approximately:

2009	<u>\$33,480</u>
Total	<u><u>\$33,480</u></u>

14 - Functional Expenses

The Center provides comprehensive mental health services to residents within its geographic location. Expenses related to providing these services are as follows:

	<u>2008</u>	<u>2007</u>
Mental health services	\$ 9,990,494	\$ 9,765,049
General and administrative	<u>3,242,188</u>	<u>3,279,368</u>
	<u><u>\$13,232,682</u></u>	<u><u>\$13,044,417</u></u>

15 - Schedules of Expenditures of Federal, State and Local Awards

The accompanying schedules of expenditures of federal, state and local awards are presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

ACCOMPANYING INFORMATION

ACCOMPANYING INFORMATION
THE CENTER FOR MENTAL HEALTH, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2008

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Revenues	Expenditures
Community Mental Health Services Block Grant funds passed through the Indiana Division of Mental Health	93.958	48-08-HO-2680	\$ 97,861	\$ 97,861
Block Grant for Prevention & Treatment of Substance Abuse funds passed through the Indiana Division of Mental Health	93.959	48-08-HO-2680	649,179	649,179
Projects for Assistance in Transition from Homelessness passed through the Indiana Division of Mental Health	93.150	48-08-HO-2680	84,042	84,042
Social Services Block Grant passed through the Indiana Division of Mental Health	93.667	48-08-HO-2680	16,731	16,731
Social Services Block Grant passed through the Indiana Division of Mental Health	93.677	48-08-HO-2680	99,266	99,266
Work Incentives Planning and Assistance Project	96.008	14-W-50033-5-03	<u>267,937</u>	<u>267,937</u>
Total federal awards			<u><u>\$1,215,016</u></u>	<u><u>\$1,215,016</u></u>

THE CENTER FOR MENTAL HEALTH, INC.
SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS
YEAR ENDED JUNE 30, 2008

<u>Grantor</u>	<u>Revenues</u>	<u>Expenditures</u>
Department of Mental Health, net of dedicated State MRO match of \$2,434,704	\$3,808,210	\$3,808,210
Indiana State Department of Health	374,403	374,403
Indiana Housing Finance Authority	158,857	158,857
Indiana Housing and Community Development Authority	128,151	128,151
Indiana Department of Workforce Development	12,590	12,590
Indiana AIDS Fund	<u>13,050</u>	<u>13,050</u>
Total State Funds included in Public Support	<u>4,495,261</u>	<u>4,495,261</u>
Madison County	<u>396,588</u>	<u>396,588</u>
Total County Funds included in Public Support	<u>396,588</u>	<u>396,588</u>
United Way	8,200	8,200
City of Anderson	<u>102,507</u>	<u>102,507</u>
Total Other Support included in Public Support	<u>110,707</u>	<u>110,707</u>
Total State and Local Awards included in Public Support	<u><u>\$5,002,556</u></u>	<u><u>\$5,002,556</u></u>

REPORT 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 of
The Center for Mental Health, Inc.

We have audited the financial statements of The Center for Mental Health, Inc. as of and for the year ended June 30, 2008, and have issued our report thereon dated August 29, 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered The Center for Mental Health, 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 The Center for Mental Health, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

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

Our consideration of the 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.

Board of Directors of
The Center for Mental Health, Inc.
August 29, 2008
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Center for Mental Health, Inc.'s financial statements are free of 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 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*.

We noted certain other matters that we reported to management of The Center for Mental Health, Inc. in a separate letter dated August 29, 2008.

This report is intended solely for the information and use of management, the audit committee, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Randy : Associates, Inc.

Indianapolis, Indiana
August 29, 2008

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

Board of Directors of
The Center for Mental Health, Inc.

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Center for Mental Health, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of The Center for Mental Health, Inc.'s compliance with those requirements.

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

Board of Directors of
The Center for Mental Health, Inc.
August 29, 2008
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Internal Control Over Compliance

The management of The Center for Mental Health, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered The Center for Mental Health, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Center for Mental Health, Inc.'s internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant* deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

This report is intended solely for the information and use of management, the audit committee, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Indianapolis, Indiana
August 29, 2008

Bansley & Associates, Inc.

THE CENTER FOR MENTAL HEALTH, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008

A. Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of The Center for Mental Health, Inc.
2. No significant deficiencies related to the audit of the financial statements are reported in the financial statements of The Center for Mental Health, Inc.
3. No instances of noncompliance material to the financial statements of The Center for Mental Health, Inc., were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the financial statements of The Center for Mental Health, Inc.
5. The auditor's report on compliance for the major federal award programs for The Center for Mental Health, Inc. expresses an unqualified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 501(a) of OMB Circular A-133.
7. The programs tested as major programs included:

<u>Program</u>	<u>CFDA Number</u>
Prevention & Treatment of Substance Abuse Block Grant	93.959

8. The threshold used for distinguishing between Types A and B programs was \$300,000.
9. The Center for Mental Health, Inc. qualified as a low-risk auditee.

B. Findings – Financial Statement Audit

None

C. Findings and Questioned Costs – Major Federal Award Programs Audit

None

August 29, 2008

To the Board of Directors of
The Center for Mental Health, Inc.

We have audited the financial statements of The Center for Mental Health, Inc. for the year ended June 30, 2008, and have issued our report thereon dated August 29, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated April 25, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered The Center for Mental Health, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether The Center for Mental Health, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about The Center for Mental

Board of Directors
The Center for Mental Health, Inc.
August 29, 2008
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Health, Inc.'s compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on The Center for Mental Health, Inc.'s compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on The Center for Mental Health, Inc.'s compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated April 25, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The Center for Mental Health, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the allowances for doubtful accounts and third party settlements are based on historical rates paid, anticipated rates of payment, and an analysis of the audit reports prepared by third parties. We evaluated the key factors and assumptions used to develop the allowances in determining that it is reasonable in relation to the financial statements taken as a whole.

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The Center for Mental Health
August 29, 2008
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Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during that course of the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 29, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We would like to communicate the following findings noted during the audit:

1. Per our review of the internal controls within the Organization, we noted certain potential weaknesses in internal control with the current policies and procedures in place. These potential weaknesses have been periodically addressed by management and deemed to either be immaterial or to have compensating controls in place. While we determined that these potential weaknesses are not significant weaknesses in internal control, there are some areas that could be further strengthened to minimize any unnecessary risks.
2. In the wake of turbulence in the financial markets, companies are reviewing the legal protections available for assets held in banks and securities dealers. Below are just a few items that should be noted:

Generally, deposit accounts held at banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per depositor per bank and covers checking, savings, money market and certificates of deposit. Coverage cannot be increased simply by opening multiple accounts at the same bank.

The Organization maintains deposits at banks which, at times, may exceed federally insured limits. The Organization has not experienced any loss in these accounts and believes it is not exposed to any significant credit risk on cash.

An online calculator is available at www.fdic.gov/edie/ which can help estimate your FDIC coverage.

Other Audit Findings or Issues (continued)

Most brokerage accounts are protected by the Securities Investor Protection Corp. (SIPC), which unlike the FDIC is not a governmental agency but a nonprofit corporation funded by its membership.

If an SIPC member firm becomes insolvent, SIPC would request a court to appoint a trustee to supervise transfer of customer securities and cash.

The SIPC covers a maximum of \$500,000 per customer (including up to \$100,000 in cash) at a given brokerage house or clearing firm. It is important to remember that SIPC does not protect against market risk or price fluctuations. The value of securities at a failed institution is determined as of the date upon which a trustee is appointed. In general, SIPC covers notes, stocks, bonds, mutual funds, and other shares in investment companies. It does not cover investments that are not registered with the SEC.

This information is intended solely for the use of the Audit Committee, Board of Directors and management of The Center for Mental Health, Inc., and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to present these comments and would be pleased to discuss them with you further at any time. We would also like to express our thanks to the Organization's administration and staff for the cooperation and assistance during the audit. We have enjoyed working with The Center for Mental Health, Inc. and look forward to being of further assistance in the future.

Randall J. Associates, Inc.

Account #	Account Name / Description	Debits	Credits
06/30/2008	<u>PJE 1</u>		
7301.10	CSA Farm Suppli	9,743.00	
2603.01	Moveable Equipment	9,000.00	
5401.10	CSA Revenue		18,743.00
To record donations			
	Totals	<u>18,743.00</u>	<u>18,743.00</u>