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February 17, 2010

Board of Directors
Tri-City Comprehensive Community Mental
Health Center, Inc. and Affiliate
3903 Indianapolis Blvd.
East Chicago, IN 46312

We have reviewed the audit report prepared by Blue & Co., LLC, 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 Tri-City Comprehensive Mental Health Center, Inc. and Affiliate, 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 three current comments and the status of ten prior comments.

STATE BOARD OF ACCOUNTS

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Tri-City Comprehensive Community
Mental Health Center, Inc. and Affiliate
East Chicago, Indiana

We have audited the accompanying combined statements of financial position of Tri-City Comprehensive Community Mental Health Center, Inc. and Affiliate as of June 30, 2008 and 2007 and the related combined statements of activities, functional expenses, changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of the Tri-City Comprehensive Community Mental Health Center, Inc. and Affiliate's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits 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 Guidelines for Examinations of Entities Receiving Financial Assistance from the Governmental Sources, issued by the Indiana State Board of Accounts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly in all material respects, the combined financial position of Tri-City Comprehensive Community Mental Health Center, Inc. and Affiliate as of June 30, 2008 and 2007 and the combined results of its operations, changes in net assets and 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 issued our report dated September 8, 2008, on our consideration of Tri-City Comprehensive Community Mental Health Center, Inc. and Affiliate'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 should be considered in assessing the results of our audits.

Our audits were performed for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic combined financial statements of Tri-City Comprehensive Community Mental Health Center, Inc. and Affiliate. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic combined financial statements of Tri-City Comprehensive Community Mental Health Center, Inc. and Affiliate. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

Blue & Co., LLC

September 8, 2008

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

**COMBINED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007**

ASSETS		
	2008	2007
Current assets		
Cash and cash equivalents	\$ 955,710	\$ 1,029,199
Short-term investments	614,460	488,866
Client accounts receivable, net of allowances of uncollectible accounts of \$219,000 in 2008 and \$265,000 in 2007	1,181,684	1,244,045
Other receivables	415,477	600,864
Prepaid expenses and other assets	255,947	641,273
Estimated third party settlements	274,909	-0-
Total current assets	3,698,187	4,004,247
Property and equipment		
Land and buildings	8,177,434	7,831,081
Moveable equipment	3,904,417	3,819,986
Leasehold improvements	33,023	63,939
	12,114,874	11,715,006
Less accumulated depreciation	9,594,543	9,241,806
Property and equipment, net	2,520,331	2,473,200
Investments and other assets		
Investments held for capital improvements	5,774,132	6,570,353
HUD Residential - cash and investments	16,662	18,416
Equity in joint ventures	4,055,970	3,518,551
Total investments and other assets	9,846,764	10,107,320
Total assets	\$ 16,065,282	\$ 16,584,767

See accompanying notes to combined financial statements.

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

**COMBINED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007**

LIABILITIES AND NET ASSETS

	2008	2007
Current liabilities		
Current portion of long-term debt	\$ 61,079	\$ 53,303
Accounts payable	194,060	176,050
Accounts payable - Geminus	541,193	171,658
Accrued wages and related liabilities	955,735	1,299,276
Other accrued expenses	405,302	428,023
Estimated third party settlements	-0-	389,919
Total current liabilities	2,157,369	2,518,229
Long-term debt	988,996	1,054,353
Total liabilities	3,146,365	3,572,582
Unrestricted net assets		
General	6,490,369	6,878,294
Board designated for capital improvements	6,081,697	5,774,003
Tri-City Housing Corporation	346,851	359,888
Total net assets	12,918,917	13,012,185
Total liabilities and net assets	\$ 16,065,282	\$ 16,584,767

See accompanying notes to combined financial statements.

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

COMBINED STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Net client service revenue	\$ 6,960,255	\$ 6,694,699
Public support and other revenue		
Seriously mentally ill adults	3,336,269	3,044,286
Bed allocation funds	167,400	167,400
Addictions	956,314	1,050,025
Seriously emotionally disturbed children	585,793	733,607
County tax levies	827,668	664,115
ACT	197,210	197,210
Indiana Funds Recovery Program	850,000	1,100,000
Other	418,424	506,672
Total public support and other revenue	7,339,078	7,463,315
Total revenue	14,299,333	14,158,014
Operating expenses		
Program services		
Inpatient	378,961	443,848
Residential	2,065,805	2,132,342
Partial day care	1,472,408	1,429,286
Outpatient	4,664,210	4,690,829
Community support	3,318,898	2,990,217
Consultation and education	258,686	358,507
Total program services	12,158,967	12,045,029
Support services		
General and administrative	2,559,643	2,619,636
Total operating expenses	14,718,611	14,664,665
Operating loss	(419,278)	(506,651)
Nonoperating revenue		
Investment income (loss)	(211,458)	929,241
Gain from joint ventures	537,468	650,759
Total nonoperating revenue	326,010	1,580,000
Change in unrestricted net assets	\$ (93,268)	\$ 1,073,349

See accompanying notes to combined financial statements.

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2008
(with comparative totals for 2007)**

Expenses	Inpatient	Residential	Partial Day Care	Outpatient	Community Support	Consultation and Education	Total Program Services	General and Administrative	2008 Total Expenses	2007 Total Expenses
Program services										
Salaries and wages	\$ 215,538	\$ 1,070,002	\$ 840,140	\$ 2,958,083	\$ 2,093,653	\$ 156,874	\$ 7,334,289	\$ 459,181	\$ 7,793,470	\$ 8,036,466
Employee benefits	58,605	272,397	214,914	794,517	542,748	36,663	1,919,844	140,609	2,060,452	2,001,777
Building expenses	86	242,408	133,877	188,957	208,235	1,032	774,597	182,362	956,959	947,016
Purchased services	65,215	31,383	72,355	199,042	55,276	309	423,580	1,382,633	1,806,213	1,329,237
Bad debts	14,757	52,482	30,557	191,202	79,497	613	369,109	-	369,109	432,819
Administrative supplies	1,891	111,940	49,932	81,476	101,710	21,166	368,114	284,105	652,220	858,487
Travel and staff development	1,329	14,088	8,440	43,805	69,414	9,662	146,736	13,553	160,290	142,880
Other operating expense	20,730	142,574	80,401	130,177	124,678	30,859	529,419	14,883	544,302	546,330
Total program expenses	<u>378,151</u>	<u>1,937,274</u>	<u>1,430,616</u>	<u>4,587,259</u>	<u>3,275,211</u>	<u>257,178</u>	<u>11,865,688</u>	<u>2,477,326</u>	<u>14,343,015</u>	<u>14,295,012</u>
Depreciation and amortization	810	128,531	41,792	76,951	43,687	1,508	293,279	82,317	375,596	369,653
Total expenses	<u>\$ 378,961</u>	<u>\$ 2,065,805</u>	<u>\$ 1,472,408</u>	<u>\$ 4,664,210</u>	<u>\$ 3,318,898</u>	<u>\$ 258,686</u>	<u>\$ 12,158,967</u>	<u>\$ 2,559,643</u>	<u>\$ 14,718,611</u>	<u>\$ 14,664,665</u>

See accompanying notes to combined financial statements.

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2007**

Expenses	Inpatient	Residential	Partial Day Care	Outpatient	Community Support	Consultation and Education	Total Program Services	General and Administrative	2007 Total Expenses
Program services									
Salaries and wages	\$ 256,245	\$ 1,098,006	\$ 828,085	\$ 2,986,378	\$ 1,872,906	\$ 234,869	\$ 7,276,489	\$ 759,977	\$ 8,036,466
Employee benefits	64,285	268,210	202,017	752,009	467,725	49,748	1,803,994	197,783	2,001,777
Building expenses	922	242,788	126,692	216,265	206,827	1,021	794,515	152,501	947,016
Purchased services	77,345	28,070	42,938	189,547	24,591	544	363,035	966,202	1,329,237
Bad debts	14,186	74,258	41,551	211,211	89,254	2,359	432,819	-	432,819
Administrative supplies	2,781	150,840	54,205	97,029	110,419	18,818	434,092	424,395	858,487
Travel and staff development	2,768	12,283	5,752	37,592	58,250	10,588	127,233	15,647	142,880
Other operating expense	24,230	133,565	84,147	123,209	125,249	38,798	529,198	17,132	546,330
Total program expenses	<u>442,762</u>	<u>2,008,020</u>	<u>1,385,387</u>	<u>4,613,240</u>	<u>2,955,221</u>	<u>356,745</u>	<u>11,761,375</u>	<u>2,533,637</u>	<u>14,295,012</u>
Depreciation and amortization	1,086	124,322	43,899	77,589	34,996	1,762	283,654	85,999	369,653
Total expenses	<u>\$ 443,848</u>	<u>\$ 2,132,342</u>	<u>\$ 1,429,286</u>	<u>\$ 4,690,829</u>	<u>\$ 2,990,217</u>	<u>\$ 358,507</u>	<u>\$ 12,045,029</u>	<u>\$ 2,619,636</u>	<u>\$ 14,664,665</u>

See accompanying notes to combined financial statements.

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

**COMBINED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2008 AND 2007**

	General	Board Designated For Capital Improvements	Tri-City Housing Corporation	Total
Balances, June 30, 2006	\$ 6,757,255	\$ 4,804,859	\$ 376,722	\$ 11,938,836
Change in unrestricted net assets	1,090,183	-0-	(16,834)	1,073,349
Transfer related to capital improvements	158,864	(158,864)	-0-	-0-
Transfer of investment income, net	(758,179)	758,179	-0-	-0-
Transfer to provide funding for capital improvements	(369,829)	369,829	-0-	-0-
Change in net assets	121,039	969,144	(16,834)	1,073,349
Balances, June 30, 2007	6,878,294	5,774,003	359,888	13,012,185
Change in unrestricted net assets	(94,280)	-0-	1,012	(93,268)
Transfer related to capital improvements	361,547	(347,498)	(14,049)	-0-
Transfer of investment income, net	(203,587)	203,587	-0-	-0-
Transfer to provide funding for capital improvements	(451,605)	451,605	-0-	-0-
Change in net assets	(387,925)	307,694	(13,037)	(93,268)
Balances, June 30, 2008	\$ 6,490,369	\$ 6,081,697	\$ 346,851	\$ 12,918,917

See accompanying notes to combined financial statements.

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

**COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007**

	2008	2007
Operating activities		
Change in net assets	\$ (93,268)	\$ 1,073,349
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	375,596	369,653
Loss on sale of property and equipment	89,788	-0-
Realized and unrealized (gains) losses	647,309	(698,521)
Gain from joint ventures	(537,468)	(650,759)
Bad debts	369,109	432,819
Changes in operating assets and liabilities		
Client accounts receivable	(306,748)	(419,668)
Accounts receivable - Lake County	-0-	325,546
Other receivables	185,387	(150,864)
Prepaid expenses and other assets	385,326	(167,578)
Accounts payable	18,010	(41,071)
Accounts payable - Geminus	369,535	59,193
Accrued wages and related liabilities	(343,541)	70,421
Other accrued expenses	(22,721)	18,754
Estimated third party settlements	(664,828)	(506,237)
Net cash flows from operating activities	471,486	(284,963)
Investing activities		
Purchase of property and equipment	(512,466)	(168,620)
Investment in joint ventures	-0-	(275,100)
Change in investments, net	25,072	1,018,742
Net cash flows from investing activities	(487,394)	575,022
Financing activities		
Proceeds from long-term debt	-0-	1,180,000
Payments on long-term debt	(57,581)	(1,304,646)
Net cash flows from financing activities	(57,581)	(124,646)
Net change in cash and cash equivalents	(73,489)	165,413
Cash and cash equivalents		
Beginning of year	1,029,199	863,786
End of year	\$ 955,710	\$ 1,029,199
Supplemental disclosure of cash flows information		
Cash paid for interest	\$ 53,292	\$ 67,452

See accompanying notes to combined financial statements.

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Nature of Business

Tri-City Comprehensive Community Mental Health Center, Inc. (the Center) is a not-for-profit corporation organized under the laws of the State of Indiana for providing mental health care to the Lake County community. Tri-City Housing Corporation (Affiliate) was created through the HUD Capital Advance Program for the purpose of providing housing for low income eligible mental health clients.

Basis of Reporting

The statements of financial position, statements of activities, statements of functional expenses, statements of changes in net assets, and statements of cash flows combine Tri-City Comprehensive Community Mental Health Center, Inc. with its Affiliate, Tri-City Housing Corporation. Accounts between the Center and Affiliate have been eliminated for combined reporting purposes. These organizations have common directors, officers and management.

Revenue Recognition

Client service revenue and client accounts receivable are recorded at the net realizable amounts based on established charges when the client service is rendered. The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges and per diem payments. Charges for services to clients are primarily based on the clients' ability to pay. The allowances offset against client accounts receivable represent management's estimate of the expected losses to be realized, and is based on historical experience, current economic conditions, and other relevant factors.

Charity Care

The Center provides care to clients 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, those amounts are not reported as net client service revenue. Charity care for 2008 and 2007 was \$1,817,977 and \$1,650,750, respectively.

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Income Taxes

The Center and its Affiliate are not-for-profit corporations, as described under Code Section 501(c)(3) of the Internal Revenue Code. As such, the Center and its Affiliate are exempt from federal and state income taxes and federal excise tax on investment income. However, the Center and its Affiliate are subject to income taxes on unrelated business activities.

Public Support

The Center receives federal and state grants for providing services in specific program areas. Receipt of these funds is subject to the fulfillment of certain obligations by the Center as prescribed by these programs and funds may be subject to repayment upon a determination of noncompliance made by a funding agency.

Indiana state law stipulates that the counties served by comprehensive community mental health centers provide the centers a minimum designated amount per the county assessed value growth quotient determined by the Department of Local Government Finance. Tax receipts are designated to be remitted to the centers by June and December of 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 other receivables or deferred revenue based upon the timing of the actual receipts.

The Center has a contract with the State of Indiana Division of Mental Health to provide community mental health services. The State has 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 program.

The Center derives a significant portion of its revenue from third-party payors and federal and state funding programs. The receipt of future revenues by the Center is subject to among other factors, federal and state policies affecting the health care industry, economic conditions that may include an inability to control expenses in periods of inflation, increased competition, market pressures on premium rates and other conditions which are impossible to predict.

Financial Statement Presentation

Under SFAS No. 117, *Financial Statements of Not-For-Profit Organizations*, 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) based upon the existence or absence of donor imposed restrictions.

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Contributions

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.

Operating Indicator

The combined statements of activities include an operating indicator. Changes in unrestricted net assets that are excluded from the operating indicator include investment income and gain from joint ventures as identified in the combined statements of activities.

Investment Securities

Under SFAS No. 124, Accounting for Certain Investment Held by Not-for-Profit Organizations, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Short-term investments include investments available for general operating purposes. Investments held for capital improvements are board designated for property and equipment replacement and expansion.

Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Areas where significant estimates that are sensitive to change in the near term are used in the accompanying combined financial statements include allowance for doubtful accounts, estimated third party contractual allowances and contractual adjustments and self-funded medical claims incurred but unpaid. Actual results could differ from those estimates.

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

Concentration of Credit Risk

As of June 30, 2008 and 2007, the Center had deposits in excess of insurable limits at financial institutions. The Center has not experienced any losses in such accounts. The Center believes it is not exposed to any significant credit risk related to cash and cash equivalents.

Cash Equivalents

Cash equivalents are carried at cost, which approximates market value. The Center considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost. Provisions for depreciation and amortization are computed principally using the straight-line method over the estimated useful lives of the assets. The Center annually transfers to the replacement and expansion fund amounts approximately equivalent to its depreciation expense for the future purchase and replacement of property and equipment.

Reclassification

Certain amounts in the 2007 financial statements have been reclassified herein to conform to the current year presentation

2. JOINT VENTURES

The Center is an equal owner in a joint venture with Southlake Community Mental Health Center, Inc. (Southlake) in Geminus Corporation (Geminus). Geminus provides certain clerical, administrative, and other services to the Center and Southlake. The Center incurred \$1,239,530 and \$828,382 for these services for 2008 and 2007, respectively. In addition, the Center was a subrecipient, of substance abuse, seriously emotionally disturbed children and seriously mentally ill adults contracts from Geminus for \$2,132,885 and \$2,066,902 for 2008 and 2007, respectively. As of June 30, 2008 and 2007, the Center owed Geminus \$541,193 and \$171,658, respectively for management fees.

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

A condensed summary of the audited operation results and financial position of Geminus is as follows:

	2008	2007
Total revenues	\$ 32,453,678	\$ 29,294,006
Total expenses	(31,491,031)	(28,135,263)
Change in net assets	\$ 962,647	\$ 1,158,743
Current assets	\$ 5,560,924	\$ 4,496,597
Property and equipment	6,135,264	5,647,225
Investments	177,236	385,056
Total assets	\$ 11,873,424	\$ 10,528,878
Current liabilities	\$ 3,173,929	\$ 2,518,545
Long-term debt	1,381,884	1,655,369
Unrestricted net assets	7,317,611	6,354,964
Total liabilities and net assets	\$ 11,873,424	\$ 10,528,878

A summary of the Center's equity in the Geminus joint venture follows:

	2008	2007
Equity in Geminus joint venture		
Beginning of year	\$ 3,172,061	\$ 2,592,692
Income allocated to Tri-City	486,745	579,369
End of year	\$ 3,658,806	\$ 3,172,061

In 2007, the Center became an equal owner with Southlake Community Health Center, Inc. in a joint venture, Southlake/Tri-City RBA, Inc. (RBA). RBA was formed to acquire and operate a residential care facility for certain or low-income disabled individuals. The Center recorded revenue related to providing services to RBA of \$26,341 and \$11,586 in 2008 and 2007, respectively. The Center incurred rental expense of \$28,044 and \$26,235 related to RBA in 2008 and 2007, respectively.

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

A condensed summary of the audited operation results and financial position of RBA is as follows:

	2008	2007
Total revenues	\$ 1,899,112	\$ 1,629,881
Total expenses	(1,797,667)	(1,487,099)
Change in net assets	\$ 101,445	\$ 142,782
Current assets	\$ 1,336,213	\$ 880,239
Property and equipment	2,037,638	2,009,496
Investments	116,452	128,712
Total assets	\$ 3,490,303	\$ 3,018,447
Current liabilities	\$ 191,160	\$ 286,091
Long-term debt	2,504,816	2,039,474
Unrestricted net assets	794,327	692,882
Total liabilities and net assets	\$ 3,490,303	\$ 3,018,447

A summary of the Center's equity in the RBA joint venture follows:

	2008	2007
Equity in RBA joint venture		
Beginning of year	\$ 346,490	\$ -0-
Capital contribution	-0-	275,100
Income allocated to Tri-City	50,723	71,390
End of year	\$ 397,213	\$ 346,490

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

3. INVESTMENTS

Investments are summarized as follows:

	2008	2007
Unrestricted		
General		
Cash and money market	\$ 336,057	\$ 16,676
Taxable bonds	-0-	192,516
Mutual funds	163,196	169,712
Certificates of deposit	115,207	109,962
Total unrestricted investments	\$ 614,460	\$ 488,866
Board designated		
Cash and money market	\$ 46,999	\$ 1,060,045
Equities	194,696	-0-
Taxable bonds	560,754	367,076
Mutual funds	4,871,683	5,043,232
Certificates of deposit	100,000	100,000
Total board designated investments	\$ 5,774,132	\$ 6,570,353

The fair values of investments are based on quoted market prices for these investments.

Investment income (loss) amounted to (\$211,572) and \$929,110 for 2008 and 2007, respectively. Investment income includes realized and unrealized gains (losses) of (\$647,309) and \$698,521 for 2008 and 2007, respectively.

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

4. LONG-TERM DEBT

Long-term debt consists of the following as of June 30:

	2008	2007
Indiana Health and Educational Facility Financing Authority Health Care Facilities Revenue Bonds Series 2007; fixed rate (4.85%), payable in monthly amounts of principal and interest through 2022, secured by real estate.	\$ 1,050,075	\$ 1,107,656
Less current portion	61,079	53,303
	\$ 988,996	\$ 1,054,353

Interest expense for 2008 and 2007 was \$53,292 and \$67,452, respectively.

Maturities of long-term debt are as follows:

Year Ending June 30,		
2009	\$	61,079
2010		64,109
2011		67,285
2012		70,623
2013		74,125
Thereafter		712,854
	\$	1,050,075

5. RESIDENTIAL PROPERTIES

Tri-City Housing Corporation was awarded a grant of approximately \$400,000 under a HUD section 811 Capital Advance program. According to the regulatory agreement, this capital advance will bear no interest and is not required to be repaid so long as the residential unit remains available for low income eligible mental health clients for a period of forty years. It is management's intention to comply with the requirements of this program. Management considers the contingent repayment of these grant proceeds to be remote.

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

6. CLIENT SERVICE REVENUE

The components of client service revenue are as follows:

	2008	2007
Client service revenue		
Inpatient	\$ 179,788	\$ 204,482
Residential	2,476,895	2,475,346
Partial day care	2,297,513	2,192,743
Outpatient	4,034,219	4,071,511
Community support	4,508,668	3,912,636
Consultation and education	154,399	253,638
	13,651,482	13,110,356
Service fee and contractual allowances	(4,341,637)	(4,050,329)
MRO match	(2,349,590)	(2,365,328)
	\$ 6,960,255	\$ 6,694,699

The Center provides care to clients under reimbursement agreements with Medicare, Medicaid, and other third-party payors. These agreements provide for payment for covered services at prospectively determined rates that are different from established rates. Provision has been made in the financial statements for the estimated contractual adjustments, representing the difference between charges for services and estimated reimbursable cost.

7. PROGRAM REVENUE AND COUNTY TAX SUPPORT

The Center receives program revenue from both federal and state agencies. Receipt of these funds is subject to the fulfillment of certain obligations by the Center, as prescribed by these programs. The Center also receives tax support from Lake County, Indiana. Such tax support is designated by resolution of the County Council for general operations or is restricted for specified purposes.

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

8. PENSION PLAN

Substantially all full-time employees of the Center who have one year of service and are age 21 or older are covered under a noncontributory defined-contribution pension plan. For each eligible employee, the Center contributes 5% of the employee's total compensation. Employee contributions are not permitted under the terms of the plan. Certain bargained employees have made a one time election to continue participation in a Simplified Employee Pension under prior arrangements. This election continued through June 30, 2003. Pension expense charged to operations amounted to \$279,722 and \$292,632 for 2008 and 2007, respectively.

The Center sponsors defined contribution profit sharing and 401(k) plans for all qualified, full-time employees. The Center contributed \$107,329 and \$93,679 to the plans in 2008 and 2007, respectively. The plans (one each for bargained and non-bargained) cover employees who are at least 21 years of age and who have completed one year of service. Participants may make voluntary contributions of a percentage of their salary, not to exceed the maximum allowed under the Internal Revenue Code. The Center contributes matching amounts up to 3% for the bargained plan and 4% for the non-bargained plan based on length of service and level of participation in the plan.

9. LEASES

The Center leases office space under various operating leases and other space and equipment on a month-to-month basis in 2008 and 2007. Certain leases require the payment of all or a portion of maintenance and insurance costs. Rent expense was \$245,134 and \$296,424 for 2008 and 2007, respectively.

10. EMPLOYEE HEALTH COSTS

The Center entered into a self-insurance plan with Mennonite Mutual Aid (MMA), whereby MMA provides certain administrative services and SAFECO provides specific and aggregate stop loss coverage. The Center pays a reduced monthly premium. However, it is responsible for the funding of all claims up to \$50,000 per individual per policy year and up to approximately \$1,128,000 per year on the group as a whole. A liability of \$197,773 and \$173,825 has been recorded as of June 30, 2008 and 2007, respectively, to estimate payment of claims pending on the date. Group health insurance expense for 2008 and 2007 totaled \$1,001,129 and \$938,396, respectively.

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

**NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

11. INDIANA FUNDS RECOVERY PROGRAM

The Center participates in a program with the State of Indiana whereby administrative actions performed by the Center that support the proper and efficient operation of the Indiana State Medicaid plan are reimbursed by the federal government, subject to the Center providing matching funds. In 2008 and 2007, the Center recorded revenue of \$850,000 and \$1,100,000, respectively.

12. ESTIMATED THIRD PARTY LIABILITIES

Estimated third party liabilities for Medicare, Medicaid, Medicaid Rehabilitation Option (MRO), grants and other programs reflect the difference between interim reimbursement and reimbursement as determined by contractual agreements and third-party audits.

Based upon payments received from Medicare, Medicaid, MRO, grants and other programs, the Center has estimated and recorded an asset of \$274,909 and a liability of \$389,919, respectively, as of June 30, 2008 and 2007.

13. COMMITMENTS AND CONTINGENCIES

The Center is involved in various legal proceedings and litigation arising in the ordinary course of business. Although the eventual outcome of these matters is not presently determinable, in the opinion of the Center's management, the resolution of such proceedings and litigation will not have a material adverse effect on the financial position of the Center.

14. MEDICAL MALPRACTICE CLAIMS

The Center purchases professional and general liability insurance to cover medical malpractice claims. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to clients. 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 balance of each claim.

SUPPLEMENTARY INFORMATION

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

COMBINING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2008

(with comparative totals as of June 30, 2007)

	Tri-City Community Mental Health Center, Inc.	Tri-City Housing Corporation	Eliminations	2008 Combined	2007 Combined
ASSETS	\$	\$	\$	\$	\$
Current assets					
Cash and cash equivalents	952,909	2,801	-	955,710	1,029,199
Short-term investments	614,460	-	-	614,460	488,866
Client accounts receivable, net	1,181,684	-	-	1,181,684	1,244,045
Other receivables	415,477	-	-	415,477	600,864
Prepaid expenses and other assets	251,863	4,084	-	255,947	641,273
Estimated third party settlements	274,909	-	-	274,909	-
Due from affiliates and other funds	780,631	-	(780,631)	-	-
Total current assets	<u>4,471,933</u>	<u>6,885</u>	<u>(780,631)</u>	<u>3,698,187</u>	<u>4,004,247</u>
Property and equipment					
Land and buildings	7,692,941	484,493	-	8,177,434	7,831,081
Moveable equipment	3,904,417	-	-	3,904,417	3,819,986
Leasehold improvements	33,023	-	-	33,023	63,939
Less accumulated depreciation	<u>11,630,381</u>	<u>484,493</u>	<u>-</u>	<u>12,114,874</u>	<u>11,715,006</u>
Property and equipment, net	9,460,039	134,504	-	9,594,543	9,241,806
	<u>2,170,342</u>	<u>349,989</u>	<u>-</u>	<u>2,520,331</u>	<u>2,473,200</u>
Investments and other assets					
Investments held for capital improvements	5,774,132	-	-	5,774,132	6,570,353
HUD Residential - cash and investments	-	16,662	-	16,662	18,416
Equity in joint venture	4,055,970	-	-	4,055,970	3,518,551
Total investments and other assets	<u>9,830,102</u>	<u>16,662</u>	<u>-</u>	<u>9,846,764</u>	<u>10,107,320</u>
Total assets	<u>\$ 16,472,377</u>	<u>\$ 373,536</u>	<u>\$ (780,631)</u>	<u>\$ 16,065,282</u>	<u>\$ 16,584,767</u>

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

COMBINING STATEMENT OF FINANCIAL POSITION

JUNE 30, 2008

(with comparative totals as of June 30, 2007)

	Tri-City Community Mental Health Center, Inc.	Tri-City Housing Corporation	Eliminations	2008 Combined	2007 Combined
LIABILITIES AND NET ASSETS					
Current liabilities					
Current portion of long-term debt	\$ 61,079	\$ -0-	\$ -0-	\$ 61,079	\$ 53,303
Accounts payable	192,514	1,546	-0-	194,060	176,050
Accounts payable - Geminus	541,193	-0-	-0-	541,193	171,658
Accrued wages and related liabilities	955,735	-0-	-0-	955,735	1,299,276
Other accrued expenses	405,302	-0-	-0-	405,302	428,023
Estimated third party settlements	-0-	-0-	-0-	-0-	389,919
Due to affiliates and other funds	755,492	25,139	(780,631)	-0-	-0-
Total current liabilities	<u>2,911,315</u>	<u>26,685</u>	<u>(780,631)</u>	<u>2,157,369</u>	<u>2,518,229</u>
Long-term debt					
Total liabilities	<u>3,900,311</u>	<u>26,685</u>	<u>(780,631)</u>	<u>3,146,365</u>	<u>3,572,582</u>
Unrestricted net assets					
General	6,490,369	-0-	-0-	6,490,369	6,878,294
Board designated for capital improvements	6,081,697	-0-	-0-	6,081,697	5,774,003
Tri-City Housing Corporation	-0-	346,851	-0-	346,851	359,888
Total net assets	<u>12,572,066</u>	<u>346,851</u>	<u>-0-</u>	<u>12,918,917</u>	<u>13,012,185</u>
Total liabilities and net assets	<u>\$ 16,472,377</u>	<u>\$ 373,536</u>	<u>\$ (780,631)</u>	<u>\$ 16,065,282</u>	<u>\$ 16,584,767</u>

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

**COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008
(with comparative totals for 2007)**

	<u>Tri-City Community Mental Health Center, Inc.</u>	<u>Tri-City Housing Corporation</u>	<u>2008 Combined</u>	<u>2007 Combined</u>
Net client service revenue	\$ 6,960,255	\$ -0-	\$ 6,960,255	\$ 6,694,699
Public support and other revenue				
Seriously mentally ill adults	3,336,269	-0-	3,336,269	3,044,286
Bed allocation funds	167,400	-0-	167,400	167,400
Addictions	956,314	-0-	956,314	1,050,025
Seriously emotionally disturbed children	585,793	-0-	585,793	733,607
County tax levies	827,668	-0-	827,668	664,115
ACT	197,210	-0-	197,210	197,210
Indiana Funds Recovery Program	850,000	-0-	850,000	1,100,000
Other	399,742	18,682	418,424	506,672
Total public support and other revenue	<u>7,320,396</u>	<u>18,682</u>	<u>7,339,078</u>	<u>7,463,315</u>
Total revenue	14,280,651	18,682	14,299,333	14,158,014
Operating expenses				
Program services				
Inpatient	378,961	-0-	378,961	443,848
Residential	2,048,021	17,784	2,065,805	2,132,342
Partial day care	1,472,408	-0-	1,472,408	1,429,286
Outpatient	4,664,210	-0-	4,664,210	4,690,829
Community support	3,318,898	-0-	3,318,898	2,990,217
Consultation and education	258,686	-0-	258,686	358,507
Total program services	<u>12,141,183</u>	<u>17,784</u>	<u>12,158,967</u>	<u>12,045,029</u>
Support services				
General and administrative	2,559,643	-0-	2,559,643	2,619,636
Total operating expenses	<u>14,700,827</u>	<u>17,784</u>	<u>14,718,611</u>	<u>14,664,665</u>
Operating income (loss)	(420,176)	898	(419,278)	(506,651)
Nonoperating revenue				
Investment income	(211,572)	114	(211,458)	929,241
Gain from joint ventures	537,468	-0-	537,468	650,759
Total nonoperating revenue	<u>325,896</u>	<u>114</u>	<u>326,010</u>	<u>1,580,000</u>
Change in unrestricted net assets	<u>\$ (94,280)</u>	<u>\$ 1,012</u>	<u>\$ (93,268)</u>	<u>\$ 1,073,349</u>

See report of independent auditors on pages 1 and 2.

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2008**

Program	Grant ID #	CFDA Number	Federal Expenditures
Major program			
Substance Abuse Prevention and Treatment (SAPT) Block			
Grant - DHHS - Indiana Division of Mental Health -			
Geminus	45-08-HO-2706	93.959	\$ 740,091
Nonmajor programs			
Social Services Block Grant - DHHS - Indiana Division of			
Mental Health - Geminus	45-08-HO-2706	93.667	160,242
Block Grant for Community Mental Health Services -			
DHHS - Indiana Division of Mental Health - Geminus	45-08-HO-2706	93.958	171,862
Shelter Plus - DHHS - Indiana Division of Mental Health			
	NA	14.238	93,957
Vocational Rehabilitation - Education Department - Indiana			
Division of Disability, Aging and Rehabilitative Services	45-08-0X-2706	84.126	35,389
Projects for Assistance in Transition from Homeless -			
DHHS - Indiana Division of Mental Health	45-08-HO-2706	93.150	76,550
Total non-major programs			<u>538,000</u>
Total federal expenditures			<u>\$ 1,278,091</u>

Note - The accompanying schedule of expenditures of federal awards for the year ended June 30, 2008 includes the federal grant activity of the Center and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic combined financial statements.

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

**SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS
YEAR ENDED JUNE 30, 2008**

<u>Grantor</u>	<u>Expenditures</u>
State	
Indiana Division of Mental Health and Addiction Managed Care Provider Agreement 7/1/07 - 6/30/08	\$ 1,700,284
Local	
Lake County Tax Levy	<u>827,668</u>
Total state and local awards	<u><u>\$ 2,527,952</u></u>

Note - The accompanying schedule of expenditures of state and local awards for the year ended June 30, 2008 includes the state and local award activity of the Center and is presented on the accrual basis of accounting. The basic combined financial statements classifications may include other financial activity for reporting purposes. Therefore, some of the amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic combined financial statements.



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

Board of Directors
Tri-City Comprehensive Community
Mental Health Center, Inc.
East Chicago, Indiana

We have audited the financial statements of Tri-City Comprehensive Community Mental Health Center, Inc. (the Center) as of and for the year ended June 30, 2008, and have issued our report thereon dated September 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources issued by the Indiana State Board of Accounts.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center'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 that are required to be reported under *Government Auditing Standards*.

Board of Directors
Tri-City Comprehensive Community
Mental Health Center, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center'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's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center'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 entity'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 entity's financial statements 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 a material misstatement of the financial statements will not be prevented or detected by the entity'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.

We noted certain matters that we reported to management of the Center in a separate letter dated September 8, 2008.

This report is intended solely for the information of the board of directors, management, the cognizant audit agencies, the Indiana Division of Mental Health and Addiction and other 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.

Blue & Co., LLC

September 8, 2008



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REPORT OF INDEPENDENT AUDITORS 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
Tri-City Comprehensive Community
Mental Health Center, Inc.
East Chicago, Indiana

Compliance

We have audited the compliance of Tri-City Comprehensive Community Mental Health Center, Inc. (the Center) 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's major federal programs are identified in the summary of audit 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's management. Our responsibility is to express an opinion on the Center'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'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's compliance with those requirements.

In our opinion, the Center 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
Tri-City Comprehensive Community
Mental Health Center, Inc.

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or 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 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 the Board of Directors, management, the cognizant audit agencies, the Indiana Division of Mental Health and Addiction and other 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.

Blue & Co., LLC

September 8, 2008

**TRI-CITY COMPREHENSIVE COMMUNITY MENTAL HEALTH CENTER, INC.
AND AFFILIATE**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2008**

Summary of Audit Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none noted

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal controls over major programs:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none noted

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major program:

CFDA Number
93.959

Name of Federal Program or Cluster
Substance Abuse Prevention and Treatment (SAPT) Block Grant

Dollar threshold used to distinguish between type A and B programs: \$300,000

Auditee qualified as low-risk auditee? yes no



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September 8, 2008

Board of Directors
Tri-City Comprehensive Community Mental Health Center, Inc.
East Chicago, Indiana

We have audited the financial statements of Tri-City Comprehensive Community Mental Health Center, Inc. (Tri-City) for the year ended June 30, 2008, and have issued our report thereon dated as of the date of this letter. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS

As stated in our engagement letter, 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.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Tri-City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Tri-City 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. We noted no transactions entered into by Tri-City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions 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 estimates affecting the financial statements were:

- Contractual allowances
- Allowance for doubtful accounts
- Estimated third-party settlements

You should determine that those charged with governance are informed about the process used by management to formulate particularly sensitive accounting estimates and about the basis for your conclusions regarding the reasonableness of the estimates. Management's estimates are based on payer history and aging of the accounts receivable. We evaluated the key factors and assumptions used by management to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were:

- Patient Accounts Receivable and Patient Services Revenues

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no 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. There were no known or likely misstatements identified during the audit.

DISAGREEMENTS WITH MANAGEMENT

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

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated as of the date of this letter.

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 Tri-City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

INTERNAL CONTROL MATTERS

In planning and performing our audit of the financial statements of Tri-City as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Tri-City's internal control over financial reporting (internal control) 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 Tri-City's internal control. Accordingly, we do not express an opinion on the effectiveness of Tri-City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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 entity'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 entity's financial statements 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 a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

* * * * *

FOLLOW-UP TO RECOMMENDATIONS MADE DURING THE 2007 AUDIT

We would like to briefly follow-up on certain recommendations that were included in our management letter to you for the year ended June 30, 2007. Current year update is included in *italics*.

Tommy Todd Accounting

Currently, the financial information for Tommy Todd Apartments is maintained by a management company. We recommend the Center obtain the bank reconciliations and check registers on a periodic basis to review and approve the activity timely. This will ensure the accounting is current and the oversight controls are consistently applied.

Current year status – Tri-City obtains bank statements and check registers from the management company on a quarterly basis. These records are reviewed and the activity is booked to the Tri-City accounts quarterly.

Consideration of Additional Internal Controls

As in many accounting departments, a lack of segregation of duties can exist due to limited staffing and availability. Compensating controls can be considered to reduce the exposure for accounting errors and/or fraud. We noted no such errors or fraud during our procedures.

The following detail notations are risks that exist and management should consider these risks and whether based upon on a cost/benefit analysis a control should be established.

Information Technology

Tri-City does not have well-defined, written disaster recovery procedures. The time to make contingency plans is before disaster strikes, so that all personnel will be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing IT facilities. We recommend that management develop a disaster recovery plan that includes, but is not limited to, the following matters:

- Location of, and access to, off-site storage.

Current year status - Tape backups are stored IBM TSM managed tapes. A disk copy is also made to a server connected via fiber in a remote building.

- A listing of all data files that would have to be obtained from the off-site storage location.

Current year status - TSM maintains a list of all files as part of its backup routine. This list is stored off-site.

- Identification of a backup location (name and telephone number) with similar or compatible equipment for emergency processing. (Management should make arrangements for such backup with another organization, a computer vendor, or a service center. The agreement should be in writing.)

Current year status - Tri-City does not currently have a hot or cold site identified. Internal elimination of single points of failure has reduced exposure to catastrophic emergencies.

- Responsibilities of various personnel in an emergency.

Current year status - All staff are aware of their assignments in the event an emergency situation.

- Priority of critical applications and reporting requirements during the emergency period.

Current year status - Tri-City identified one critical application, the Netsmart system. Other end user computing services and the Data Warehouse are secondary recovery efforts.

- Periodic testing of backup files to ensure they are usable.

Current year status - The CMHC System Manager and the Data Warehouse DBA regularly recover data from backup tapes based on request from users. A complete system recovery from tape is completed when creating new systems for new clients.

Other comments related to IT include:

- Departments that initiate master file changes are not given a report showing the changes that were made.

Current year status - CMHC is a realtime system. Master file changes are reported to the appropriate areas.

- The duties of the IT personnel are not rotated. IT personnel are not required to take annual vacations of at least one continuous week.

Current year status - Tri-City established a policy requiring a week's vacation and rotating key staff to highlight any irregularities.

- Programmers are not restricted from access to applications in live operation, job control language, and live data files.

Current year status - The departmental programmer does not have access to production. The Director of Application Development does as part of assigned duties. A Business Analyst also has access to production to assist clinicians with application problems. Both staff in Application Support have access to production applications. They are responsible for the stability and integrity of the system.

CURRENT YEAR RECOMMENDATIONS

During the course of an audit, we frequently become aware of matters which are opportunities to strengthen internal controls or improve operating efficiency or effectiveness. The following current year recommendations are not considered to be significant deficiencies or material weaknesses as defined by U.S. generally accepted auditing standards.

CMHC Vendor Creation

During our procedures we noted that accounts payable clerks can set up vendors within the CMHC system without proper approval. The lack of approval could lead to payments to fictitious companies or other fraudulent activities. We recommend that an individual independent of the payables and cash process initiate and update and changes to the approved vendors within CMHC.

Bank Reconciliations

During our internal control assessment for the cash cycle, we noted there is no formal documentation for review and approval of cash reconciliations by responsible personnel. We suggest that the documentation for review and approval of reconciliations be performed and maintained on a monthly basis.

Bank Transfers and Online Disbursements

Currently, the Business Office Manager has the ability to transfer funds and initiate disbursement transactions through online banking without formal approval from management. The individual also opens the monthly bank statements and reviews it for reasonableness. The integrity of this individual is highly valued. However, we recommend that a listing of such disbursements and transfers be reviewed and approved on a monthly basis.

CURRENT ISSUES AFFECTING NOT-FOR-PROFIT ORGANIZATIONS

This section of the letter is not required by professional standards. However, we want to inform you about issues of importance to the not-for-profit community in order to assist you in continuing to plan proactively for the future. The purpose of this section of this letter is to inform you as to the status of certain emerging developments which will affect not-for-profit organizations. We believe Tri-City can benefit from being aware of these developments and taking action where deemed necessary.

FAS 157 Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 157, Fair Value Measurements, to define fair value, establish a framework for measuring fair value in accordance with generally accepted accounting principles (GAAP), to provide for increased consistency and comparability in fair value measurements, and to expand disclosures about fair value measurements. This standard applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, it does not require any new fair value measurements.

The primary changes resulting from FAS 157 are summarized below:

- The definition of fair value has been clarified as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date (an exit price), not the price that would be paid to acquire the asset or received to assume the liability (an entry price), which was previously the definition.

- A fair value measurement framework has been established and defines three levels of inputs or assumptions that should be considered when using one of the three acceptable valuation techniques.
 - **Level 1 Inputs** are quoted prices in active markets for identical assets that are accessible as of the measurement date. If Level 1 Inputs are available, they must be used to value investments.
 - **Level 2 Inputs** are inputs other than quoted prices that are observable for the asset, either directly or indirectly. Observable inputs are market participant assumptions developed based on market data obtained from sources independent of the reporting entity (for example – matrix pricing and yield curves).
 - **Level 3 Inputs** are unobservable inputs for an asset. Unobservable inputs are the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (for example – investment manager pricing for private equities and hedge funds).
- Financial statement disclosures must include the extent to which fair value is used to measure recognized assets and liabilities, the inputs used to develop the measurements, and for level 3 inputs, the effect of certain measurements on the changes in net assets for the period and a reconciliation of the beginning and ending balances, separately presenting changes during the period.

FASB Statement 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years.

Governance and Policy Decisions Emphasized in the New Form 990

On December 20, 2007, the IRS released the 2008 Form 990, *Return of Organization Exempt from Income Tax*, the informational form filed by public charities and other tax-exempt organizations. Organizations will begin using the new Form 990 for tax years beginning in 2008 (returns filed in 2009).

Areas of added emphasis include questions related to governance, management, and financial reporting. Examples of some new questions that will have to be answered on the 2008 Form 990 include:

- Does the Organization have a written conflict of interest policy? If so, are officers, directors or trustees, and key employees required to disclose annually interests that

Definition of Key Employee Expanded for IRS Reporting Purposes

Along with redesigning the Form 990, Return of Organization Exempt from Income Tax, the IRS is redesigning the definition of the term "key employee" for purposes of compensation reporting therein. The IRS decided to change the definition of a "key employee" to increase tax compliance with respect to 501(c)(3) and (c)(4) organizations subject to the excess benefit transaction rules of Section 4958. However, the new definition will apply to all filing organizations, not just those listed above.

The hesitation in identifying someone as a "key employee" is that for those individuals identified, all compensation paid or awarded to them must be disclosed on the Form 990 (and such compensation must be reported on a calendar year basis). Obviously, the preferred position is to opt out of the key employee definition and not disclose the related salary information.

On prior Form 990 instructions, a key employee was described only as someone who had the responsibilities and authority of an officer but who wasn't designated as such. The new definition is much broader. It states that a key employee is an employee of the organization (other than an officer, director, or trustee) who:

1. has responsibilities, powers or influence over the organization as a whole that is similar to those of officers, directors, or trustees;
2. manages a discrete segment or activity of the organization that represents 5% or more of the activities, assets, income, or expenses of the organization, as compared to the organization as a whole; or
3. has or shares authority to control or determine 5% or more of the organization's capital expenditures, operating budget, or compensation for employees.

Excluded from the above definition of a key employee is any person whose reportable compensation from the organization and related organizations does not exceed \$150,000. Also excluded are management companies and similar entities that are independent contractors.

In preparation for the filing of the new form 990 for your organization for your fiscal year that begins in 2008, we suggest that you review the above definition of a key employee and determine who fits the definition of a key employee and begin discussions with them as to the information that will be disclosed on the organization's annual filing of the Form 990.

Final Regulations Released on Excess Benefit Transactions

The Internal Revenue Service released the final regulations on excess benefit transactions on March 27, 2008. An excess benefit transaction is a transaction in which a not-for-profit organization is deemed to have overcompensated CEO's, board members and other "disqualified" persons. The final regulations under Section 4958 make it clear that tax-exempt organizations involved in excess benefit transactions with disqualified persons should not wait for the IRS to get involved to take corrective action. Also emphasized was the need for exempt organizations to implement preventative safeguards. Safeguards mentioned include implementing a corporate compliance plan as well as making sure that the rebuttable presumption of reasonableness is satisfied whenever possible.

Being aware of the situation and not taking action to correct any excess benefit transactions could lead to excise taxes and/or revocation of an organization's exempt status. Factors identified as those that the IRS considers when deciding whether to assert excise taxes or the revocation of exempt status include:

- the size and scope of the organization's regular and ongoing activities that advance the exempt purposes both before and after the excess benefit transaction took place
- the size and scope of the excess benefit transaction compared to the size and scope of the regular and ongoing activities that further the organization's exempt purpose
- whether the organization has been involved in multiple excess benefit transactions with one or more persons
- whether the organization has implemented safeguards to prevent future excess benefit transactions
- whether the organization has corrected the problem or tried to recover money from the disqualified persons who benefited from the transaction

There are several examples actually detailed out in the final regulations. The examples are designed to help exempt organization leaders understand and apply the new regulations to their organizations and their specific situations. It is evident from reading the final regulations regarding excess benefit transactions that the IRS expects an organization's board to not only be aware of the risk involving excess benefit transactions, but to take preventative safeguarding measures to ensure against the risk.

New Final 403(b) Regulations

The wait is over. Final regulations have been published and as a result, many 403(b) plan sponsors will need to make significant changes to their plans - as well as how they manage those plans - in order to comply.

While most of the changes are not effective until 2009, some were effective as early as September 24, 2007, and the changes are numerous. Failure to comply with the new regulations can also result in additional taxable income to participants which would result in employers being charged with failure to withhold and pay income and Federal Insurance Contributions Act (FICA) taxes. Both carry costly penalties.

So what are the changes to 403(b) plans as a result of the new regulations? The biggest change is that the IRS now requires plan sponsors to put the plan in writing. Previously, plans not subject to the Employee Retirement Income Security Act (ERISA), faced no such requirement. Making the plan document a requirement is a clear demonstration by the IRS of its resolve in bringing the operation of 403(b) plans more in line with that of 401(k) plans.

Included in the plan should be all the material terms and conditions regarding:

1. Eligibility
2. Contributions
3. Applicable limitations
4. Contracts available
5. Time and form of distributions
6. A detail listing of all optional provisions including those for loans, hardship distributions, plan-to-plan or annuity contract transfers or exchange provisions, acceptance of rollovers
7. Delegation of responsibilities for administrative functions.

The second provision of particular interest to 403(b) plan sponsors is the one regarding rules for transfers. The new regulations state that transfers cannot be made to or from a 403(b) plan to any different plan type such as a 401(a) or 457 plan. The transfers that are allowed by the regulations involve exchanges of 403(b) contracts within a 403(b) plan and transfers between 403(b) plans. Worth noting is the fact that the old transfer rules ceased to be in effect after September 24, 2007 with the new rules taking effect on January 1, 2009. That leaves a gap in time prior to the new transfer rules taking effect. Consensus seems to be that the new transfer rules should be early implemented.

The third provision of interest is that 403(b) plans will be subject to the same Form 5500 reporting and audit requirements as 401(k) plans effective with their 2009 plan year Form 5500 filings.

In summary, 501(c)(3) organizations will need to evaluate current 403(b) plan provisions in light of the new regulations. It may be necessary for plan sponsors to hire consultants and legal counsel to help sort through the pros and cons of the various options available. Finally, initial speculation points to a substantial consolidation of vendors under the plans. This consolidation will accelerate the trend toward actively sponsored 403(b) plans with a single service provider.

Because of the number of changes and the impending deadlines, it is important not to delay implementation.

* * * * *

If there are any questions on matters covered in this letter or any other matters relating to our audit, we would be glad to meet with you at your convenience to discuss your concerns.

This communication is intended solely for the information and use by management and the Board of Directors and should not be used by anyone other than these specified parties.

These recommendations are presented for your review and consideration only. Like all other significant business judgments, they must be considered in light of existing procedures and controls present in Tri-City and should be subjected to the usual cost-benefit tests.

Once again, we thank you for the cooperation and hospitality we received during our audit.

Sincerely,

Blue & Co., LLC