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November 7, 2011

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

We have reviewed the audit report prepared by Bradley & Associates, LLP, Independent Public Accountants, for the period July 1, 2008 to June 30, 2009. 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, 2009, and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

STATE BOARD OF ACCOUNTS

THE CENTER FOR MENTAL HEALTH, INC.
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
YEARS ENDED JUNE 30, 2009 AND 2008
AND
INDEPENDENT AUDITORS' REPORT

THE CENTER FOR MENTAL HEALTH, INC.
FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION
YEARS ENDED JUNE 30, 2009 AND 2008

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To the Board of Directors of
BehaviorCorp, 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, 2009 and 2008 and the related statements of activities 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, 2009 and 2008, 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 December 17, 2009, 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 should be considered in assessing the results of our audits.

Our audits were 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.

December 17, 2009

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THE CENTER FOR MENTAL HEALTH, INC.
 STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2009 AND 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Current assets:		
Cash and cash equivalents	\$ 3,370,747	\$ 3,677,893
Patient accounts receivable, less allowances for doubtful accounts of \$617,137 in 2009 and \$582,779 in 2008	756,726	822,187
Grant and other receivables	1,566,552	633,172
Prepaid expenses	<u>246,024</u>	<u>204,281</u>
Total current assets	<u>5,940,049</u>	<u>5,337,533</u>
Assets whose use is limited-investments:		
Internally designated funds	<u>5,139,117</u>	<u>6,174,767</u>
Property and equipment	8,810,943	8,843,860
Less accumulated depreciation	<u>(5,488,992)</u>	<u>(5,563,773)</u>
	<u>3,321,951</u>	<u>3,280,087</u>
Other assets:		
Due from affiliates	<u>118,452</u>	<u>98,541</u>
Total assets	<u>\$14,519,569</u>	<u>\$14,890,928</u>

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

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
Current liabilities:		
Accounts payable	\$ 122,036	\$ 113,832
Salaries and related liabilities	1,125,489	1,036,983
Other liabilities	94,334	95,076
Estimated third-party payables	<u>771,579</u>	<u>783,527</u>
Total current liabilities	<u>2,113,438</u>	<u>2,029,418</u>
Net assets:		
Unrestricted	<u>12,406,131</u>	<u>12,861,510</u>
Total liabilities and net assets	<u><u>\$14,519,569</u></u>	<u><u>\$14,890,928</u></u>

THE CENTER FOR MENTAL HEALTH, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Changes in unrestricted net assets:		
Revenues and gains:		
Net patient service revenue	\$ 5,803,309	\$ 5,797,538
Public support:		
Federal funds	1,111,964	1,215,016
State funds	5,317,692	4,495,261
County funds	384,000	396,588
Other support	126,001	110,707
	<u>6,939,657</u>	<u>6,217,572</u>
Other revenue:		
Medicaid funds recovery	600,842	560,456
Supported employment revenue	640,996	588,388
Rental income	112,909	107,390
Other income	328,499	230,432
	<u>1,683,246</u>	<u>1,486,666</u>
Total unrestricted revenue, gains, and other support	<u>14,426,212</u>	<u>13,501,776</u>
Expenses:		
Salaries and related expenses	10,393,975	10,033,409
Operating expenses	2,525,642	2,180,598
Building expense	579,487	527,952
Bad debt expense	67,720	109,672
Depreciation expense	389,115	381,051
	<u>13,955,939</u>	<u>13,232,682</u>
Income from operations	470,273	269,094
Nonoperating gains/losses:		
Interest and dividends	199,682	321,378
Net realized gains/losses on investments	(875,834)	381,655
Gain on disposal of property		33,982
	<u>(676,152)</u>	<u>737,015</u>
Excess of revenues over expenses	(205,879)	1,006,109
Other changes in unrestricted net assets:		
Net change in unrealized gains/losses on investments	(249,500)	(1,044,029)
Change in net assets	(455,379)	(37,920)
Net assets at beginning of year	<u>12,861,510</u>	<u>12,899,430</u>
Net assets at end of year	<u>\$12,406,131</u>	<u>\$12,861,510</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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Cash received from patient fees	\$ 5,789,102	\$ 5,836,059
Cash received from public support	6,094,935	6,497,707
Other income	1,755,833	2,026,458
Cash paid to suppliers and employees	<u>(13,406,442)</u>	<u>(12,749,024)</u>
Net cash provided by operating activities	<u>233,428</u>	<u>1,611,200</u>
Cash flows from investing activities:		
Capital expenditures	(430,979)	(325,895)
Proceeds from sale of equipment		33,982
Change in investments in assets whose use is limited	(89,684)	(193,444)
Change in due from affiliates	<u>(19,911)</u>	<u>(946)</u>
Net cash (used) by investing activities	<u>(540,574)</u>	<u>(486,303)</u>
Net change in cash and cash equivalents	(307,146)	1,124,897
Cash and cash equivalents at beginning of year	<u>3,677,893</u>	<u>2,552,996</u>
Cash and cash equivalents at end of year	<u>\$ 3,370,747</u>	<u>\$ 3,677,893</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, 2009 AND 2008

(Continued)

	<u>2009</u>	<u>2008</u>
Reconciliation of change in net assets to cash provided by operating activities:		
Change in net assets	\$ (455,379)	\$ (37,920)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation expense	389,115	381,051
Bad debt expense	67,720	109,672
Net realized and change in unrealized gains/losses on investments	1,125,334	662,374
Gain on disposal of property		(33,982)
Change in patient accounts receivable	(2,259)	118,301
Change in grant and other receivables	(933,380)	498,549
Change in prepaid expenses	(41,743)	(23,056)
Change in accounts payable	8,204	(3,462)
Change in salaries and related liabilities	88,506	49,913
Change in other liabilities	(742)	(30,460)
Change in estimated third-party payables	(11,948)	(79,780)
Net cash provided by operating activities	<u>\$ 233,428</u>	<u>\$1,611,200</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 in Madison and Hamilton counties located in Indiana.

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 70.1%, respectively, of the Center's gross patient service revenue for the year ended June 30, 2009. 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. 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)

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.

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.

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 pledged. 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. The provision for bad debts is based upon management's assessment of historical and expected net collections considering economic conditions, trends in health care coverage, and other collection indicators.

THE CENTER FOR MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivable (Continued)

Periodically throughout the year, management assesses the adequacy of the allowance for doubtful accounts based upon historical write-off experience by payor category, including those amounts not covered by insurance. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for doubtful accounts. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the Center follows established guidelines for placing certain past due patient balances with collection agencies. Accounts receivable are written off after collection efforts have been followed in accordance with the Center's policies.

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 income securities, and equities. 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.

THE CENTER FOR MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

1 - Summary of Significant Accounting Policies (Continued)

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 2008 balances were reclassified to agree with the 2009 presentation.

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 adjusts 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, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Charges foregone based on established rates	<u>\$6,606,723</u>	<u>\$7,468,124</u>

THE CENTER FOR MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

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>2009</u>	<u>2008</u>
Service charges		
Inpatient	\$ 153,733	\$ 190,815
Outpatient	9,438,603	9,952,132
Residential	2,817,696	3,122,715
	<u>12,410,032</u>	<u>13,265,662</u>
Less: Charity care charges foregone and contractual adjustments	<u>(6,606,723)</u>	<u>(7,468,124)</u>
Net patient service revenue	<u>\$ 5,803,309</u>	<u>\$ 5,797,538</u>

4 - Fair Value Measurements

A new accounting pronouncement requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by the Center impacted by this pronouncement include the Center's investments included in cash and cash equivalents and assets whose use is limited, which are measured using quoted prices in active markets and other observable inputs.

This pronouncement establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Investments are comprised of certificates of deposit, government obligations, corporate obligations, fixed income securities and equities.

THE CENTER FOR MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

4 - Fair Value Measurements (Continued)

Level 2 inputs are observable inputs other than those in Level 1. These are investments where values are based on quoted prices in markets that are not active.

Level 3 inputs are unobservable inputs and have the lowest priority. The Center uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments.

No Level 2 or Level 3 inputs were used, as the Center was able to measure fair value using Level 1 inputs, which generally provide the most reliable evidence of fair value.

Based upon the levels as defined above, the Center's investments as of June 30, 2009 are classified as follows:

	June 30, 2009			
	Fair Value measurements at reporting date using:			
Carrying value on balance sheet	Quoted market prices for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Cash and cash equivalents:				
Certificates of deposit	\$1,254,085	\$1,254,085	\$	\$
Assets whose use is limited:				
Money market funds	\$ 230,228	\$ 230,228	\$	\$
U.S. government obligations	181,957	181,957		
Corporate obligations	24,955	24,955		
Fixed income securities	1,756,523	1,756,523		
Equities	2,945,454	2,945,454		
	\$5,139,117	\$5,139,117	\$	\$

This table excludes \$2,116,662 of cash held at banks.

THE CENTER FOR MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

5 - Property and Equipment

A summary of property and equipment at June 30, 2009 and 2008 follows:

	<u>2009</u>	<u>2008</u>
Land	\$ 79,580	\$ 79,580
Buildings and building improvements	5,744,401	5,695,106
Equipment	2,586,316	2,680,617
Vehicles	281,150	269,061
Parking lot	119,496	119,496
	<u>8,810,943</u>	<u>8,843,860</u>
Less: accumulated depreciation	<u>(5,488,992)</u>	<u>(5,563,773)</u>
Property and equipment, net	<u>\$ 3,321,951</u>	<u>\$ 3,280,087</u>

6 - Estimated Third-Party Settlements

Estimated third-party settlements for the Medicare, Medicaid, 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 \$771,579 and \$783,527 respectively, at June 30, 2009 and 2008.

The Center recorded \$6,967,729 and \$6,746,550 of MRO revenue for the years ended June 30, 2009 and 2008, 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 2012.

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

2010	\$13,826
2011	2,521
2012	<u>2,646</u>
Total	<u>\$18,993</u>

Rental expense totaled \$42,688 and \$48,379 for 2009 and 2008 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 \$194,696 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 \$265,975 for the any potential liability for subsequent periods through June 30, 2009.

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.

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, 2009 and 2008 amounted to \$250,442 and \$206,761, 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 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>2009</u>	<u>2008</u>
Medicaid	63%	62%
Medicare	4	7
Other third party payors (none over 10%)	17	18
Private patients	<u>16</u>	<u>13</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. 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 \$799,302 and \$813,550, in aggregate, at June 30, 2009 and 2008, respectively.

THE CENTER FOR MENTAL HEALTH, INC.

NOTES TO FINANCIAL STATEMENTS

11 - Related Parties (Continued)

The unaudited 2009 and audited 2008 financial position and operating results for the three corporations are summarized on a combined basis as follows at June 30:

	<u>2009</u>	<u>2008</u>
Current assets	\$ 17,733	\$ 17,276
Property and equipment, net	838,829	866,522
Other assets	<u>143,476</u>	<u>119,867</u>
	<u>\$ 1,000,038</u>	<u>\$ 1,003,665</u>
Liabilities and debt	\$ 1,055,909	\$ 1,025,463
Net assets	<u>(55,871)</u>	<u>(21,798)</u>
	<u>\$ 1,000,038</u>	<u>\$ 1,003,665</u>
Revenue	\$ 215,239	\$ 196,036
Expense	<u>249,312</u>	<u>238,237</u>
Net income (loss)	<u>\$ (34,073)</u>	<u>\$ (42,201)</u>

The Center advances amounts to the affiliates for organizational costs and working capital purposes when needed. Amounts due from affiliates were \$118,452 and \$98,541 at June 30, 2009 and 2008, 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 - 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>2009</u>	<u>2008</u>
Mental health services	\$10,396,507	\$ 9,990,494
General and administrative	<u>3,559,432</u>	<u>3,242,188</u>
	<u>\$13,955,939</u>	<u>\$13,232,682</u>

14 - Subsequent Events

Effective July 1, 2009, The Center for Mental Health, Inc. merged with BehaviorCorp based in Carmel, Indiana. Upon the effective date, operations of the merged entities continued under the name BehaviorCorp, Inc. (Merged BehaviorCorp) which continues its corporate existence under the laws of the State of Indiana.

A new nonprofit public benefit corporation was also formed named BehaviorCorp Affordable Housing, Inc., which was incorporated as an exempt organization under Section 501(c)(3) of the IRS Code. The purpose of BehaviorCorp Affordable Housing, Inc. is to own and operate four group homes for the benefit of Merged BehaviorCorp clients.

The primary objectives for the merger described above include improvement in the quality of mental and behavioral health services provided to consumers by reducing duplication of resources, improving efficiencies, offering a broader array of services and delivering more cost-effective care. Additionally, this merger was designed to enhance the ability of Merged BehaviorCorp to offer more specialized mental, behavioral and other related support services.

Management does not believe this merger will result in any significant adjustments made to conform the individual accounting policies of the merging entities.

Subsequent events have been evaluated through December 17, 2009, which is the date the financial statements were available to be issued. The Center has not evaluated subsequent events after December 17, 2009.

ACCOMPANYING INFORMATION

THE CENTER FOR MENTAL HEALTH, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009

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	48-09-HO-2680	\$ 87,327	\$ 87,327
Block Grant for Prevention & Treatment of Substance Abuse funds passed through the Indiana Division of Mental Health	93.959	48-09-HO-2680	613,777	613,777
Projects for Assistance in Transition from Homelessness passed through the Indiana Division of Mental Health	93.150	48-09-HO-2680	88,004	88,004
Social Services Block Grant passed through the Indiana Division of Mental Health	93.667	48-09-HO-2680	9,240	9,240
Social Services Block Grant passed through the Indiana Division of Mental Health	93.677	48-09-HO-2680	73,436	73,436
Work Incentives Planning and Assistance Project	96.008	14-W-50033-5-03	240,180	240,180
Total federal awards			<u>\$1,111,964</u>	<u>\$1,111,964</u>

THE CENTER FOR MENTAL HEALTH, INC.
SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS
YEAR ENDED JUNE 30, 2009

Grantor	Revenues	Expenditures
Department of Mental Health, net of dedicated State MRO match of \$2,520,394	\$4,462,934	\$4,462,934
Indiana State Department of Health	382,500	382,500
Indiana Housing Finance Authority	166,492	166,492
Indiana Housing and Community Development Authority	292,766	292,766
Indiana AIDS Fund	13,000	13,000
Total State Funds included in Public Support	<u>5,317,692</u>	<u>5,317,692</u>
Madison County	<u>384,000</u>	<u>384,000</u>
Total County Funds included in Public Support	<u>384,000</u>	<u>384,000</u>
United Way	9,100	9,100
City of Anderson	<u>116,901</u>	<u>116,901</u>
Total Other Support included in Public Support	<u>126,001</u>	<u>126,001</u>
Total State and Local Awards included in Public Support	<u><u>\$5,827,693</u></u>	<u><u>\$5,827,693</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
BehaviorCorp, Inc.

We have audited the financial statements of The Center for Mental Health, Inc. as of and for the year ended June 30, 2009, and have issued our report thereon dated December 17, 2009. 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
BehaviorCorp, Inc.
December 17, 2009
Page Two

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 BehaviorCorp, Inc. in a separate letter dated December 17, 2009.

This report is intended solely for the information and use of management, the board of directors, 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.

Ross & Associates, Inc.

Indianapolis, Indiana
December 17, 2009

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
BehaviorCorp, 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, 2009. 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, 2009.

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 board of directors, 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
December 17, 2009

Raymond J. Associates, Inc.

THE CENTER FOR MENTAL HEALTH, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009

Summary of Auditors' 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 Prevention & Treatment of Substance Abuse Block Grant expresses an unqualified opinion.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include:

<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.

Findings – Financial Statement Audit

None

Findings and Questioned Costs – Major Federal Award Programs Audit

None