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STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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June 5, 2014

Board of Directors
InteCare, Inc.
8604 Allisonville Road
Suite 325
Indianapolis, IN 46250

We have reviewed the audit report prepared by Bradley Associates, for the period July 1, 2011 to June 30, 2012. 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 InteCare, Inc., as of June 30, 2012, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the finding in the report. Page 20 contains one current audit finding. Management's response is on page 20.

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

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

INTECARE, INC.

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

YEARS ENDED JUNE 30, 2012 AND 2011

AND

INDEPENDENT AUDITORS' REPORT

INTECARE, INC.

FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION

YEARS ENDED JUNE 30, 2012 AND 2011

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Board of Directors
InteCare, Inc.
Indianapolis, Indiana

Independent Auditors' Report

We have audited the accompanying statement of financial position of InteCare, Inc. (a nonprofit organization) as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of InteCare, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 InteCare, Inc. as of June 30, 2012 and 2011, 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 February 26, 2013, on our consideration of InteCare, Inc.'s internal control over financial reporting and 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 audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements 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 financial statements. Such information is the responsibility of management and was derived from and relates directly from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bradley Associates

Indianapolis, IN
February 26, 2013

INTECARE, INC.

STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30, 2012 AND 2011

ASSETS

	2012	2011
Current assets:		
Cash and cash equivalents	$ 4,381,215	$ 4,416,064
Medicaid funds recovery receivable	20,389,627	18,469,804
Due from InteCare Housing		56,237
Due from DMH	325,607	565,604
Other receivables	23,816	21,821
Prepaid expenses	7,532	7,129
Total current assets	25,127,797	23,536,659
Property and equipment	418,339	360,885
Less: Accumulated depreciation	(358,964)	(332,954)
	59,375	27,931
Total assets	$25,187,172	$23,564,590

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

LIABILITIES AND NET ASSETS

	2012	2011
Current liabilities:		
Accounts payable	$ 32,250	$ 16,957
Accrued salaries and related liabilities	91,569	73,214
Due to affiliates	347,859	529,832
Medicaid funds recovery payable	20,320,918	18,402,481
Medicaid funds recovery withhold	1,181,388	1,181,388
Total current liabilities	21,973,984	20,203,872
Net assets:		
Unrestricted	3,213,188	3,360,718
	$25,187,172	$23,564,590

INTECARE, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Changes in unrestricted net assets:		
Revenues and gains:		
Net service revenue	$ 347,956	$ 509,301
Public support:		
Federal funds	2,936,338	2,950,110
State funds	8,229,885	9,760,745
	11,166,223	12,710,855
Other gains/(losses):		
Interest income	6,600	8,874
Medicaid funds recovery	41,565,602	41,563,861
ARNI administration fee	17,400	26,100
Forgiveness of related party receivable	(56,237)	
	41,533,365	41,598,835
Total unrestricted revenue and gains	53,047,544	54,818,991
Expenses		
Sub-grantee expense	11,018,386	12,618,165
Funds recovery expense	40,674,364	40,672,623
Funds recovery consultant fees	70,000	70,000
Salaries and employee benefits	845,195	767,484
Purchased services	256,292	259,934
Professional fees	53,990	41,455
Depreciation	26,010	12,959
Rental	72,977	84,434
Other expense	177,860	259,225
Total expenses	53,195,074	54,786,279
(Decrease) increase in unrestricted net assets	(147,530)	32,712
Net assets beginning of year	3,360,718	3,328,006
Net assets end of year	$ 3,213,188	$ 3,360,718

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

INTECARE, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Cash received from contractors	$ 347,956	$ 509,301
Cash received from public support	51,067,404	52,364,757
Interest received	6,600	8,874
Cash paid to suppliers and employees	(51,399,355)	(52,806,374)
Net cash flows from operating activities	22,605	76,558
Cash flows from investing activities:		
Capital expenditures	(57,454)	(13,592)
Net cash flows from investing activities	(57,454)	(13,592)
Net (decrease) increase in cash and cash equivalents	(34,849)	62,966
Cash and cash equivalents at beginning of year	4,416,064	4,353,098
Cash and cash equivalents at end of year	$ 4,381,215	$ 4,416,064

The accompanying notes are an integral part of these financial statements

INTECARE, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2012 AND 2011

(Continued)

	2012	2011
Reconciliation of change in net assets to cash provided by operating activities:		
Change in net assets	$ (147,530)	$ 32,712
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	26,010	12,959
Loss on related party receivable	56,237	
(Increase) in receivables	(1,682,224)	(1,936,059)
Increase (decrease) in accounts payable	15,293	(28,600)
Increase in accrued salaries and related liabilities	18,355	14,345
(Decrease) increase in payable to affiliates	(181,973)	272,185
Increase in funds recovery payables	1,918,437	1,709,016
Net cash flows from operating activities	$ 22,605	$ 76,558

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

1 - Summary of Significant Accounting Policies

Organization

InteCare, Inc. ("Organization") was incorporated in September 1998 in accordance with the Indiana Not-for-Profit Act. The Organization's primary objective is to coordinate and manage an integrated behavioral health system composed of organizations devoted to community-based behavioral healthcare.

Financial Statement Presentation

The Organization 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. In addition, the Organization is required to present a statement of cash flows. The Organization had no temporarily restricted or permanently restricted net assets.

Revenue and Funding

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

Public Support

The Organization contracts 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 Organization 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. Substantially all of the Federal and State funds are paid to subgrantees.

Medicaid Funds Recovery

The Organization administers the Funds Recovery Program. Funding for the Mental Health Funds Recovery Program is available through Title XIX of the Social Security Act (commonly referred to as the "Medicaid Program") for certain administrative activities. Subject to approval by the Centers 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. Funds Recovery are paid as follows:

Providers	7/1/11 – 6/30/12	7/1/10 – 6/30/11
Consulting Firm	$ 70,000	$ 70,000
Organization retains	$ 891,239	$ 891,238

1 - Summary of Significant Accounting Policies (Continued)

Other Support

The Organization receives other grants for providing services in specific program areas. These amounts are recorded as net patient service revenue or public support.

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.

Cash and Cash Equivalents

Cash and cash equivalents include an interest-bearing sweep account, money market account, and certificates of deposit. The Organization maintains these deposits with banks which, at times, may exceed federally insured limits. The Organization believes it may be exposed to credit risk on cash and cash equivalents given the current economic environment and volatility of financial markets. As such, the Organization continually reviews its banking relationships to limit the Organizations' risk exposure.

Trade Accounts Receivables

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

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 is recognized.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method.

Fair Value of Financial Instruments

The Organization's statements of net assets include the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and long-term liabilities. The Organization considers the

1 - Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments (Continued)

carrying amounts of current assets and liabilities in the statements of net assets to approximate the fair value of these financial instruments and their expected realization. The carrying amounts of notes receivable and long-term debt approximated their fair value, based on current market rates of instruments of the same risks and maturities.

Income Taxes

The Organization 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.

The Organization has evaluated its tax position for all open tax years. Currently, the tax years open and subject to examination by the Internal Revenue Service are the 2009, 2010, 2011, and 2012 tax years. However, the Organization is not currently under audit nor has the Organization been contacted by any jurisdictions. Based on the evaluations of the Organization's tax positions, management believes the tax positions taken would be upheld under examination. Therefore, no provision for the effects of uncertain tax positions have been recorded for the years ended June 30, 2012 and 2011.

2 - Property and Equipment

A summary of property and equipment at June 30, 2012 and 2011 follows:

	2012	2011
Leasehold improvements	$ 25,362	$ 25,362
Equipment	392,977	335,523
	418,339	360,885
Less: Accumulated depreciation	(358,964)	(332,954)
Property and equipment, net	$ 59,375	$ 27,931

3 - Estimated Third Party Settlements

Estimated third-party settlements for Federal and State programs and the Medicaid Funds Recovery Program reflect the differences between interim reimbursement and reimbursement as determined by contracted agreements and third-party audits.

The Organization received $11,166,223 and $12,710,855 of Federal and State Funding during the year ended June 30, 2012 and 2011, respectively.

The Organization also received $41,565,602 and $41,563,861 of Medicaid Funds Recovery during the year ended June 20, 2012 and 2011, respectively.

No estimated settlements have been recorded for periods not audited as such adjustments, if any, cannot reasonably be determined.

3 - Estimated Third Party Settlements (Continued)

Pursuant to the Organization's contract with the Medicaid providers, an amount of the Medicaid Funds Recovery was previously withheld for purposes of defending third-party payor audit-related expenses, responding to payor and intermediary repayment claims, and other reasonable requirements. The withholdings, from the provider's portion of the funds, at June 30, 2012 and 2011 totaled $1,181,388. While the initial withholding was established at 5% of the gross Medicaid Fund Recovery revenues, June 30, 2012 and 2011 percentages are 3%. During the life of the program, there has only been one occurrence of utilization of this withhold. Therefore, the Organization has determined the risk to be such that it has not increased the withholding balance.

Again, the ultimate effect of a Medicaid Funds Recovery audit, if any, cannot presently be determined. Accordingly, the sufficiency of the amount withheld from each provider is merely based on a contracted agreement between the Organization and the providers.

4 - Commitments

The Organization leases office space under a long-term lease agreement. The lease expires in February 2016.

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

2013	$ 64,437
2014	65,394
2015	67,176
2016	44,872
	$241,879

5 - Related Parties

The Organization is a managed care provider. Agencies that are members of the managed care network have representatives on the Board of Directors. Total expense of $20,366,808 and $21,475,870 was paid by the Organization to these related Agencies during the years ended June 30, 2012 and 2011, respectively for Federal and State funds, Medicaid Funds Recovery and other contracts.

The Organization leases employees from Adult & Child Mental Health Center, Inc. who is a member agency of the Organization. For the years ended June 30, 2012 and 2011, $8,979 and $11,427 was paid to that Agency for leased employees.

The Organization also subcontracts clinical services from two member agencies of the Organization. For the years ended June 30, 2012 and 2011, $35,597 and $63,847 was paid to these agencies for clinical services.

5 - Related Parties (Continued)

A for-profit subsidiary, Hoosier Behavioral Care, Inc., was formed to provide managed behavioral care to commercial organizations. InteCare, Inc. is a 100% owner of the subsidiary. Hoosier Behavioral Care, Inc. has not yet commenced operations.

InteCare Housing, Inc. and InteCare Housing II, Inc., both 501(c)(3) organizations, were formed to provide housing and services for handicapped individuals. Three of InteCare's members are the founding members of the new corporations. However, InteCare, Inc. advanced funds to InteCare Housing, Inc. and InteCare Housing II, Inc. to purchase land and pay other expenses. The balance was forgiven during Fiscal Year 2012. Therefore, the balance due InteCare, Inc. is $0 and $56,237 at June 30, 2012 and 2011.

6 - Health Care Industry

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, quality of resident care and Medicaid fraud and abuse.

There can be no assurance that, in the future, the Organization will be able to maintain such licenses and certifications for its facilities or that the Organization will not be required to expend significant sums in order to comply with regulatory requirements.

7 - Healthcare Reform

During March 2010, the federal government enacted various laws including the Patient Protection and Affordable Care Act and the Healthcare Education and Reconciliation Act. These laws and their related regulations will lead to significant changes in how health care companies are regulated and reimbursed for the services they provide. In addition, these laws may have a significant impact on the health insurance programs that the company offers to its employees which will have an impact on the cost of these programs. The Organization cannot currently predict with certainty the ultimate impact of any of the above laws on the Organization's financial condition, cash flows or results of operations.

8 - Functional Expenses

The Organization manages a behavioral healthcare system devoted to community-based behavioral healthcare. Expenses related to providing these services are as follows:

	2012	2011
Behavioral health services	$51,762,750	$53,360,788
General and administrative	1,432,324	1,425,491
	$53,195,074	$54,786,279

9 - Subsequent Events

Subsequent events have been evaluated through February 26, 2013 which is the date the financial statements were available to be issued. The Organization has not evaluated subsequent events after February 26, 2013.

ACCOMPANYING INFORMATION

INTECARE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Revenue	Expenses
Social Services Block Grant funds passed through the Indiana Division of Mental Health and Addiction	93.667	A55-2-49-12-HO-1439	$767,890	$767,890
Community Mental Health Services Block Grant funds passed through the Indiana Division of Mental Health and Addiction	93.958	A55-2-49-12-HO-1439	$320,492	$320,492
Community Mental Health Services Block Grant funds passed through the Indiana Division of Mental Health and Addiction Olmstead Initiative	93.958		$ 20,000	$ 20,000
Block Grant for Prevention & Treatment of Substance Abuse funds passed through the Indiana Division of Mental Health and Addiction	93.959	A55-2-49-12-HO-1439	$1,827,956	$1,827,956
Total Federal Awards			$2,936,338	$2,936,338

The accompanying notes following this schedule are an integral part of this financial statement.

INTECARE, INC.

SCHEDULE OF EXPENDITURES OF STATE AND LOCAL AWARDS

YEAR ENDED JUNE 30, 2012

Grantor	State Expenditures
Division of Mental Health and Addiction	$8,229,885
Total State and Local Awards	$8,229,885

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

INTECARE, INC.

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS AND EXPENDITURES OF STATE AND LOCAL AWARDS

YEAR ENDED JUNE 30, 2012

1 - Basis of Presentation

The accompanying schedules of expenditures of federal awards and expenditures of state and local awards (the Schedules) include the federal and state grant activity of InteCare, Inc. under programs of the federal, state, and local governments for the year ended June 30, 2012. The information in the Schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Because the Schedules present only a selected portion of the operations of InteCare, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of InteCare, Inc.

2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedules are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

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

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
InteCare, Inc.
Indianapolis, Indiana

We have audited the financial statements of InteCare, Inc. (a nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated February 26, 2013. 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

Management of InteCare, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered InteCare, 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 InteCare, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of InteCare's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 previously. However, we identified a certain deficiency in internal control over financial reporting described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting, referenced at 2012-1. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether InteCare, 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 matters that we reported to management of InteCare, Inc. in a separate letter dated February 26, 2013.

This report is intended solely for the information and use of management, the audit committee, Board of Trustees 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.

Bradley Associates

Certified Public Accountants

Indianapolis, Indiana
February 26, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
InteCare, Inc.
Indianapolis, Indiana

Compliance

We have audited InteCare, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of InteCare, Inc.'s major federal programs for the year ended June 30, 2012. InteCare, 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 InteCare, Inc.'s management. Our responsibility is to express an opinion on InteCare, 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 InteCare, 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 InteCare, Inc.'s compliance with those requirements.

In our opinion, InteCare, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of InteCare, Inc. 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 InteCare, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 InteCare's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

Bradley Associates

Certified Public Accountants

Indianapolis, Indiana
February 26, 2013

INTECARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

A. Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of InteCare, Inc.

2. A significant deficiency disclosed during the audit of the financial statements is reported on page 20 of this report.

3. No instances of noncompliance material to the financial statements of InteCare, Inc. which would be required to be reported in accordance with Government Auditing Standards were disclosed during the audit.

4. No reportable conditions in internal control over major programs were disclosed during the audit.

5. The auditor's report on compliance for the major federal award programs for InteCare, Inc. expresses an unqualified opinion on all major federal programs.

6. There are no audit findings relative to major federal award programs reported.

7. The programs tested as major programs included:

Program	CFDA Number
Community Mental Health Services Block Grant Funds	93.958
Prevention & Treatment of Substance Abuse	93.959
Social Service Block Grant Funds	93.667

8. The threshold used for distinguishing between Types A and B programs was $300,000.

9. InteCare, Inc. qualified as a low-risk auditee.

INTECARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2012

B. Findings – Financial Statements Audit

2012-1 CASH DISBURSEMENTS

Condition: Accounting software allows for cash disbursements to be backdated, either by error or intentionally, and the controls in place to prevent or detect improperly backdated cash disbursements were not adhered to by the persons responsible for the review of such records.

Criteria: Internal controls should be in place and these controls should be adhered to at all times to provide reasonable assurance that cash disbursements are properly dated and recorded.

Cause: The controls and procedures in place to prevent or detect improperly backdated cash disbursements were not adhered to by the persons responsible.

Effect: The failure to prevent or detect backdated cash disbursements affects the assertions that cash balances reflect a proper cutoff and are complete.

Recommendation: Internal control procedures should be implemented and adhered to which prevents improper backdating of checks, and procedures should be implemented and adhered to requiring monthly cash disbursement reconciliations with more attentive check signing guidelines.

Views of Responsible Officials and Planned Corrective Actions: The deficiency in internal control was caused by a lack of adherence to procedures over the disbursement of funds, not by a lack of procedures in place. Management is responsible for ensuring the disbursement of funds is properly supported by appropriate documentation. All disbursements are to be reviewed and signed by management, and the amount of the disbursement, as well as the date of service or receipt of goods, should be reviewed. Management failed to review those elements in accordance with the established procedures for review of the disbursement of funds and signed-off on checks without completing the approved procedures. Management will take steps to timely follow and adhere to control procedures in place at all times.

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

None