WAUBONSIE MENTAL HEALTH CENTER

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION
COMMENTS AND RECOMMENDATIONS

YEARS ENDED JUNE 30, 2004 AND 2003

WAUBONSIE MENTAL HEALTH CENTER

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WAUBONSIE MENTAL HEALTH CENTER
Officials
June 30, 2004

Board of Directors:	Address	Term Expires
Keith Hickey, President	Tabor, Iowa	--
Robert Anderson, Vice-President	Clarinda, Iowa	--
Ruthellen Reed, Secretary/Treasurer	Clarinda, Iowa	2005
Glen Benskin	Red Oak, Iowa	--
Bernice Messer	Stanton, Iowa	2005
Thomas Clark	Tabor, Iowa	2005

As of the date of this report, the Board is looking for replacements to fill three open director positions. The open spots are from Fremont County and Page County.

Executive Director:

Mary Anne Gibson	Coin, Iowa

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Waubonsie Mental Health Center
Clarinda, Iowa

We have audited the accompanying balance sheets of Waubonsie Mental Health Center as of June 30, 2004 and 2003, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Center'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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Waubonsie Mental Health Center as of June 30, 2004 and 2003, and the 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information (shown on pages 11 through 13) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits 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.

In accordance with Government Auditing Standards, we have also issued our report dated August 10, 2004 on our consideration of Waubonsie Mental Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Gronewold, Bell, Kyhnn & Co. P.C.

Atlantic, Iowa
August 10, 2004

WAUBONSIE MENTAL HEALTH CENTER
Balance Sheets
June 30,

ASSETS

	2004	2003
Current Assets:		
Cash	$ 144,921	$ 211,166
Certificates of deposit	140,530	138,483
Client receivables, less allowances for doubtful accounts and contractual adjustments ($76,000 in 2004 and $64,000 in 2003)	79,985	53,308
Other receivables	83,550	71,785
Prepaid expense	4,048	4,801
Total current assets	453,034	479,543
Property and Equipment, Net	43,529	66,517
Total assets	$ 496,563	$ 546,060

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	$ 43,041	$ 2,365
Accrued employee compensation	29,867	26,372
Deferred county revenue	--	37,540
Total current liabilities	72,908	66,277
Net Assets:		
Unrestricted	423,655	479,783
Total liabilities and net assets	$ 496,563	$ 546,060

The accompanying notes are an integral part of these statements.

WAUBONSIE MENTAL HEALTH CENTER
Statements of Activities and Changes in Net Assets
Year ended June 30,

	2004	2003
Support and Revenue:		
Support:		
Fees from participating counties	$ 348,131	$ 330,050
Grants	34,004	35,579
Total support	382,135	365,629
Revenue:		
Client fees, net	341,855	409,671
Other revenue	15,211	16,821
Total revenue	357,066	426,492
Total Support and Revenue	739,201	792,121
Expenses:		
Operating expenses	766,489	759,012
Provision for depreciation	24,265	27,304
Provision for bad debts	7,242	12,037
Total expenses	797,996	798,353
Operating Loss	(58,795)	(6,232)
Other Support and Gains:		
Interest income	2,945	5,055
Contributions	--	200
Loss on disposal of assets	(278)	--
Total other support and gains	2,667	5,255
Decrease in Unrestricted Net Assets	(56,128)	(977)
Net Assets, Beginning of Year	479,783	480,760
Net Assets, End of Year	$ 423,655	$ 479,783

The accompanying notes are an integral part of these statements.

WAUBONSIE MENTAL HEALTH CENTER
Statements of Cash Flows
Year ended June 30,

	2004	2003
Cash flows from operating activities:		
Cash received from clients, third party payors, and contracting agencies	$ 345,925	$ 386,409
Cash paid to employees	(418,132)	(427,726)
Cash paid to suppliers	(341,422)	(328,251)
County funding received	326,671	315,712
Grants received	6,159	39,970
Interest income	2,945	5,055
Other operating revenue	15,211	16,821
Contributions received	--	200
Net cash provided by (used in) operating activities	(62,643)	8,190
Cash flows from investing activities:		
Capital expenditures	(1,555)	(8,005)
Additions to certificates of deposit	(2,047)	(3,217)
Net cash used in investing activities	(3,602)	(11,222)
Net decrease in cash	(66,245)	(3,032)
Cash beginning of year	211,166	214,198
Cash end of year	$ 144,921	$ 211,166

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WAUBONSIE MENTAL HEALTH CENTER
Statements of Cash Flows - Continued
Year ended June 30,

	2004	2003
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	$(56,128)	$(977)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Provision for depreciation	24,265	27,304
Provision for bad debts	7,242	12,037
Loss on disposal of assets	278	--
Change in assets and liabilities		
Accounts receivable	(45,684)	(37,284)
Prepaid expense	753	(1,801)
Accounts payable, trade	40,676	(142)
Accrued employee compensation	3,495	4,978
Deferred county revenue	(37,540)	4,075
Total adjustments	(6,515)	9,167
Net cash provided by (used in) operating activities	$(62,643)	$ 8,190

The accompanying notes are an integral part of these statements.

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Activities

The Waubonsie Mental Health Center is an Iowa not-for-profit corporation operating under Chapter 230A of the Code of Iowa and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Center is established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. The Board includes a representative from the County Board of Supervisors of each of the three counties in the service area (Fremont, Montgomery and Page counties). Each of these members serve an annual term. The six remaining members of the Board of Directors serve three year terms and are selected by the existing Board.

2. Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Client Receivables

Client receivables are shown at the amount expected to be collected from clients and other third-party payors. The allowance for doubtful accounts is based on an aging of all the individual client balances. The allowance for contractual adjustments is based on the difference between the Center's normal fees and expected government program and insurance payments.

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Unrestricted Revenues and Support

   a. Fees from clients are recorded at list price with adjustments based upon ability to pay and government program and insurance limitations deducted to arrive at net fees from clients. The Center does not record charges and the related write-off of Supported Community Living Services that are deemed uncollectible. If these charges were recorded, the revenues and the related adjustments would be higher. The amount of unrecorded revenues and related adjustments cannot be determined.

   b. Fees from participating counties are based on the Center's annual budget and are allocated among the counties based on their relative usages and populations.

   c. Grant revenues are for specific programs provided by the Center and are recognized as income when grant requirements have been satisfied.

6. Property and Equipment

Property and equipment is stated at cost. The Center computes depreciation on equipment and vehicles using the straight-line method. Lives range from five to ten years for equipment and leasehold improvements and five years for vehicles.

7. Capital Leases

Leases which meet certain criteria are classified as capital leases, and assets and liabilities are recorded at amounts equal to the lesser of the present value of the minimum lease payments or the fair value of the leased properties at the beginning of the respective lease terms. Such assets are amortized evenly over the related lease terms or their economic lives with the amortization expense being included in the provision for depreciation. Interest expense relating to the lease liabilities is recorded to effect constant rates of interest over the terms of the leases.

8. Charity Care

The Center provides care to clients who meet certain criteria under its charity care policy at amounts less than its regular rates. Revenue from services to these clients is recorded as indicated in 5. above. These reductions are recorded as adjustments to fees from clients.

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Center considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

NOTE B - PROPERTY AND EQUIPMENT

The cost and related accumulated depreciation by major category at June 30 are as follows:

	2004	2003
Automobiles	$ 60,402	$ 60,402
Office Equipment and Leasehold Improvements	119,001	121,556
	179,403	181,958
Less Accumulated Depreciation	135,874	115,441
	$ 43,529	$ 66,517

Rent expense for office space under cancelable operating leases totaled $22,815 for the year ended June 30, 2004 ($22,416 for June 30, 2003).

NOTE C - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

	2004	2003
Client Services	$ 689,292	$ 695,487
Management and General	108,704	102,866
	$ 797,996	$ 798,353

NOTE D - RETIREMENT PLAN

The Center offers a 403(b) retirement plan in which the Center contributes five percent of an eligible individual's gross wages, limited to $40,000, to the plan. All full-time staff with two months of employment and who are over eighteen years of age are included in the plan. Total contributions made by the Center for the year ended June 30, 2004 were $18,793 ($18,804 for 2003).

NOTE E - CONTINGENCIES

Risk Management

The Center is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Waubonsie Mental Health Center is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage for the past three years.

Off-Balance Sheet Risk

The Center maintains its deposits at several banks in the area. At June 30, 2004, the deposits in two banks exceeded the FDIC insured deposits limit for one entity (by approximately $29,000). Management of the Center has received no indication of any potential viability problems with those banks by the date of this report.

NOTE F - CONCENTRATION OF CREDIT RISK

The Center grants credit without collateral to its clients, most of whom are area residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2004 and 2003, was as follows:

	2004	2003
Medicaid	50%	49%
Other third-party payors and patients	50	51
	100%	100%

* * *

ACCOMPANYING INFORMATION

WAUBONSIE MENTAL HEALTH CENTER
Revenues and Support
Year ended June 30,

Client Fees	2004 Gross	2004 Adjustments	2004 Net	2003 Net
Self Pay and 3rd Party Insurance	$ 418,139	$ 321,726	$ 96,413	$ 64,924
Title XIX	325,907	112,478	213,429	244,419
ARO	32,013	--	32,013	100,328
	$ 776,059	$ 434,204	$ 341,855	$ 409,671

Fees from Participating Counties		
Fremont	$ 76,588	$ 74,263
Montgomery	110,779	117,444
Page	160,764	138,343
	$ 348,131	$ 330,050

See Independent Auditor's Report.

WAUBONSIE MENTAL HEALTH CENTER
Operating Expenses
Year ended June 30,

	2004	2003
Administrative salaries	$ 26,630	$ 25,917
Therapists salaries	267,884	285,373
Clerical salaries	106,937	100,758
Psychiatric consultation	71,260	67,363
Employee benefits	83,181	69,904
Payroll tax expense	34,979	34,503
Audit and accounting fees	9,059	8,131
Other professional fees	13,805	12,320
Office supplies	6,159	8,162
CSP program expenses	4,843	3,541
Telephone	9,976	10,385
Postage and shipping	5,573	5,173
Rent expense	22,815	22,416
Building repairs and maintenance	2,215	2,375
Insurance expense	10,849	12,357
Utilities	4,198	4,229
Outside printing	--	127
Travel expense	15,588	11,916
Agency vehicle expense	8,180	7,583
Staff development and training	2,682	4,662
Subscriptions	326	683
Organization dues	1,862	1,790
Equipment repairs and maintenance	1,236	1,655
Advertising	3,697	4,133
Medication expense	3,525	3,805
Housing grant expense	--	3,320
Miscellaneous	2,647	1,310
	720,106	713,891
Community Mental Health Services Grant Expenses -		
Adults:		
Salaries	9,525	10,041
Employee benefits	728	768
Travel expense	612	1,852
Other expense	4,787	3,443
	15,652	16,104

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WAUBONSIE MENTAL HEALTH CENTER
Operating Expenses - Continued
Year ended June 30,

	2004	2003
Community Mental Health Services Grant Expenses - Children & Adolescents:		
Salaries	$ 10,651	$ 10,615
Employee benefits	2,273	1,655
Travel expense	358	769
Other expense	3,547	2,735
	16,829	15,774
Transitional Living Program Expenses:		
Housing	10,948	11,000
Other expense	2,954	2,243
	13,902	13,243
	$ 766,489	$ 759,012

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors
Waubonsie Mental Health Center
Clarinda, Iowa

We have audited the financial statements of Waubonsie Mental Health Center as of and for the year ended June 30, 2004, and have issued our report thereon dated August 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Waubonsie Mental Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance 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 non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Center's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Waubonsie Mental Health Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Waubonsie Mental Health Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

To the Board of Directors
Waubonsie Mental Health Center

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the Schedule of Findings, we believe item 04-I-A is a material weakness. Prior year reportable conditions have been resolved except for item 04-I-A.

This report, a public record by law, is intended solely for the information and use of Waubonsie Mental Health Center and other parties to whom the Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Grunewald, Bell, Kyhnn & Co. P.C.

Atlantic, Iowa
August 10, 2004

WAUBONSIE MENTAL HEALTH CENTER
Schedule of Findings
Year ended June 30, 2004

PART I - REPORTABLE CONDITIONS

04-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Center.

Recommendation: We recognize that it may not be economically feasible for the Center to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Center to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *