

NORTHEAST IOWA MENTAL HEALTH CENTER

FINANCIAL STATEMENTS

JUNE 30, 2004

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NORTHEAST IOWA MENTAL HEALTH CENTER

BOARD OF DIRECTORS AND STAFF MEMBERS

June 30, 2004

President: Dale Fenske (Howard)
Vice President: Deb Chensvold (Gundersen Lutheran)
Secretary: Ben Wyatt (Winneshiek)
Treasurer: Ben Wyatt (Winneshiek)

Mike Bergan, Winneshiek Sallee A. Scarff-Muehlbauer, Clayton
Bill Clark, Allamakee Kathy Strike, Howard
Larry Gibbs, Clayton Nadine West, Fayette
Mike Kennedy, Fayette Emory Westcott, Howard
Rev. Ginny Olson, Winneshiek Cathy Zahn, Allamakee

STAFF MEMBERS

Administration

Patrick Smith, Executive Director
Elaine Nicola, M.D., Medical Director
Marcia Oltrogge, MA, CADC, Administrative Program Director
Marlene Pins, MIS Director
Jan Jauert, Administrative Assistant

Medical Staff

B.J. Dave, M.D.
Vithalji Modha, M.D.
Terri Ledesma, ARNP*

Counseling Staff

Susan Doll, ACADC
Lynda Elgers, MA
Cindy Farmer, MSSW*
Carol Hagen, LISW, CADC
Alice Harberts, LISW*
Kimberly Havens, BA, CADC
Larry Heckert, BA, CADC
Arlene LaGary, MA*
Jamie Lanus, MSW
Kathrine Martin, CADC
Darla Nave, MA
Ginger O'Connell, ACADC
Cynthia Peterson, MA
Jennifer Shaw, MSW
Barbara Smed, MSW
Michael Tallman, MA, LMFT
Mary Witherall, MSW*
Lee Zook, PhD, LISW

Support Staff

Diane Decker
Kathy Holtey
Linda Kime
Dawn Levenhagen
Sharla Lieder
Susan Looney
Angela Luther
Karen Mathis
Joy Sim
Marlys Sowers
Jaynece Tekippe
Kathy Villa

Intensive Services Staff

Connie Aalderks, MAE*
Diane Engen, BA
Cherlyn Glann, BS*
Jeff Hendricks, BS*
Cheryl Hermansen, BA
Jeannine Hisel, BS*
Sara Juve, BA*
Susan Lake*
Michelle Lindquist, BA*
Melissa Mendenhall, MSW*
Roberta O'Loughlin, RN*
Mark Oltrogge, BA*
Jennelle Schroeder, RN*
Sharon Trewin, BSN, LMSW
Hope Trainor, BA
Linda Turnure, MSW

Community Support Staff

Wendy Buenzow, BA
Virginia Leidahl, BA
Ann Pahlas, BA

Wellness Recovery Staff

Brenda Burke, BSW, RN

*Terminated prior to or on June 30, 2004

INDEPENDENT AUDITOR'S REPORT ON THE
FINANCIAL STATEMENTS

To the Board of Directors
Northeast Iowa Mental Health Center
Decorah, Iowa

We have audited the accompanying statements of financial position of Northeast Iowa Mental Health Center (a nonprofit corporation) as of June 30, 2004 and 2003 and the related statements of activities, functional expenses 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 U.S. generally accepted auditing standards 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 Northeast Iowa Mental Health Center as of June 30, 2004 and 2003 and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2004 on our consideration of Northeast Iowa Mental Health Center'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 audit.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
August 18, 2004

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENTS OF FINANCIAL POSITION

June 30, 2004 and 2003

ASSETS

| | <u>2004</u> | <u>2003</u> |
|--|---------------------|---------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 463,010 | \$ 484,519 |
| Accounts receivable, less allowance for adjustments of 2004 \$35,880; 2003 \$67,204 | 197,075 | 216,921 |
| Prepaid expenses | <u>39,408</u> | <u>32,056</u> |
| Total current assets | <u>699,493</u> | <u>733,496</u> |
| PROPERTY AND EQUIPMENT, net | <u>1,045,241</u> | <u>1,100,841</u> |
| ASSETS WHOSE USE IS LIMITED | | |
| Cash and cash equivalents | 105,910 | 104,476 |
| Investments, at fair market value | 205,011 | 200,099 |
| Accrued interest receivable | <u>2,609</u> | <u>2,000</u> |
| Noncurrent assets whose use is limited | <u>313,530</u> | <u>306,575</u> |
| | <u>\$ 2,058,264</u> | <u>\$ 2,140,912</u> |

LIABILITIES AND NET ASSETS

| | | |
|-----------------------------------|---------------------|---------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 15,734 | \$ 62,258 |
| Due to others | | 10,098 |
| Accrued salary and vacation pay | <u>51,836</u> | <u>51,095</u> |
| Total current liabilities | <u>67,570</u> | <u>123,451</u> |
| NET ASSETS | | |
| Unrestricted net assets | | |
| Designated for specified purposes | 468,309 | 446,942 |
| Undesignated | <u>1,522,385</u> | <u>1,570,519</u> |
| Total net assets | <u>1,990,694</u> | <u>2,017,461</u> |
| | <u>\$ 2,058,264</u> | <u>\$ 2,140,912</u> |

See Notes to Financial Statements.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENTS OF ACTIVITIES
 Years Ended June 30, 2004 and 2003

| | 2004 | 2003 |
|---------------------------------------|--------------|--------------|
| SUPPORT AND REVENUE | | |
| Support | | |
| Grants and contracts | \$ 724,750 | \$ 756,183 |
| | | |
| Revenue and gains | | |
| County fees | 161,162 | 189,139 |
| Other | | |
| Fees | 1,013,791 | 959,496 |
| Other services | 6,931 | 70,827 |
| Interest | 14,799 | 15,510 |
| Dividends | 518 | 802 |
| Gifts | 1,849 | 1,195 |
| Unrealized gain (loss) on investments | (737) | 726 |
| Gain on disposition on assets | | 16,550 |
| In-kind contributions | 3,080 | |
| Miscellaneous | 9,145 | 8,364 |
| | 1,210,538 | 1,262,609 |
| Total revenue and gains | | |
| | 1,935,288 | 2,018,792 |
| | | |
| EXPENSES | | |
| Program services | | |
| Mental Health program | 1,243,274 | 1,427,676 |
| Alcohol and Related Problems program | 403,982 | 331,541 |
| | 1,647,256 | 1,759,217 |
| Total program services | | |
| Support services | | |
| General and administrative | 314,799 | 323,002 |
| | 1,962,055 | 2,082,219 |
| Total expenses | | |
| | (26,767) | (63,427) |
| Change in net assets | | |
| NET ASSETS, beginning | 2,017,461 | 2,080,888 |
| NET ASSETS, ending | \$ 1,990,694 | \$ 2,017,461 |

See Notes to Financial Statements.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2004 and 2003

| | 2004 | 2003 |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ (26,767) | \$ (63,427) |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities | | |
| Depreciation | 64,206 | 68,639 |
| Provision for adjustments | (31,323) | (58,103) |
| Unrealized (gain) loss on investments | 737 | (726) |
| Gain on sale of assets | - | (16,550) |
| Changes in: | | |
| Accounts receivable | 51,170 | 202,728 |
| Accrued interest | (609) | 1,372 |
| Prepaid expenses | (7,352) | (5,826) |
| Accounts payable and accrued expenses | (46,524) | 35,433 |
| Due to others | (10,098) | 10,098 |
| Accrued salaries and benefits | 740 | (22,445) |
| Net cash (used in) provided by operating activities | <u>(5,820)</u> | <u>151,193</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of equipment, furniture and fixtures | (8,606) | (8,018) |
| Purchase of investments | (5,649) | (165,147) |
| Proceeds from sale of investments | - | 124,831 |
| Proceeds from sale of assets | - | 57,639 |
| Net cash (used in) provided by investing activities | <u>(14,255)</u> | <u>9,305</u> |
| Net (decrease) increase in cash | (20,075) | 160,498 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | 588,995 | 428,497 |
| End of year | <u>\$ 568,920</u> | <u>\$ 588,995</u> |
| STATEMENT OF FINANCIAL POSITION RECONCILIATION | | |
| Current assets | \$ 463,010 | \$ 484,519 |
| Assets whose use is limited | 105,910 | 104,476 |
| | <u>\$ 568,920</u> | <u>\$ 588,995</u> |

See Notes to Financial Statements.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2004 and 2003

| | 2004 | | | | 2003 | | | |
|----------------------------------|-----------------------|--------------------------------------|----------------------------|---------------------|-----------------------|--------------------------------------|----------------------------|---------------------|
| | Program Services | | Supporting Services | Total | Program Services | | Supporting Services | Total |
| | Mental Health Program | Alcohol and Related Problems Program | General and Administrative | | Mental Health Program | Alcohol and Related Problems Program | General and Administrative | |
| Salaries | \$ 699,341 | \$ 261,795 | \$ 206,528 | \$ 1,167,664 | \$ 758,187 | \$ 208,605 | \$ 206,444 | \$ 1,173,236 |
| Payroll taxes | 52,806 | 19,481 | 15,502 | 87,789 | 56,623 | 15,781 | 15,495 | 87,899 |
| Employee benefits | 163,494 | 55,179 | 46,340 | 265,013 | 164,086 | 45,551 | 44,833 | 254,470 |
| Total personnel | 915,641 | 336,455 | 268,370 | 1,520,466 | 978,896 | 269,937 | 266,772 | 1,515,605 |
| Psychiatric consultation | 65,809 | | | 65,809 | 105,798 | | | 105,798 |
| Contracted consultation | | | | | 5,671 | | | 5,671 |
| Independent contractors | 46,801 | 11,966 | | 58,767 | 45,934 | 2,804 | | 48,738 |
| Professional fees | 18,913 | 5,775 | 5,164 | 29,852 | 21,704 | 5,735 | 5,819 | 33,258 |
| Day treatment expenses, adult | | | | | 234 | | | 234 |
| Day treatment expenses, child | 3,010 | | | 3,010 | 2,963 | | | 2,963 |
| SED Clinical | | | | | 19,198 | | | 19,198 |
| Recovery workshop | | | | | 1,395 | | | 1,395 |
| Building repair and maintenance | 5,746 | 2,951 | 1,955 | 10,652 | 12,433 | 3,250 | 3,320 | 19,003 |
| Office supplies and expense | 15,683 | 5,003 | 4,351 | 25,037 | 15,537 | 4,749 | 4,412 | 24,698 |
| Telephone | 7,371 | 2,106 | 1,966 | 11,443 | 9,163 | 2,060 | 2,319 | 13,542 |
| Mileage and travel | 15,189 | 4,846 | 4,215 | 24,250 | 21,467 | 4,544 | 5,326 | 31,337 |
| Rent | 2,759 | 929 | 781 | 4,469 | 2,821 | 779 | 769 | 4,369 |
| Janitorial services | 7,368 | 3,669 | 2,470 | 13,507 | 11,020 | 2,909 | 2,954 | 16,883 |
| Equipment repair and maintenance | 7,325 | 2,420 | 2,059 | 11,804 | 9,651 | 2,556 | 2,590 | 14,797 |
| Equipment rental | 4,211 | 1,460 | 1,206 | 6,877 | 4,055 | 1,090 | 1,095 | 6,240 |
| Depreciation and amortization | 54,662 | | 9,544 | 64,206 | 58,797 | | 9,842 | 68,639 |
| Bad debts | 23,875 | 7,733 | | 31,608 | 20,478 | 16,612 | | 37,090 |
| Property tax | 5,350 | | | 5,350 | | | | |
| Other expenses | 43,561 | 18,669 | 12,718 | 74,948 | 80,461 | 14,516 | 17,784 | 112,761 |
| Total expenses | \$ 1,243,274 | \$ 403,982 | \$ 314,799 | \$ 1,962,055 | \$ 1,427,676 | \$ 331,541 | \$ 323,002 | \$ 2,082,219 |

See Notes to Financial Statements.

NORTHEAST IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

1. Organization and Function and Significant Accounting Policies

a. Organization and Function

The Northeast Iowa Mental Health Center is a private, nonprofit corporation organized under Chapter 504A.36 and Chapter 230A of the Code of Iowa. The Northeast Iowa Mental Health Center provides outpatient mental health and substance abuse evaluation, treatment and education services to the five counties of Allamakee, Clayton, Fayette, Howard and Winneshiek. The Northeast Iowa Mental Health Center's central office is in Decorah with a branch office in Oelwein. Satellite offices are located in Cresco, Elkader, Waukon and West Union, Iowa.

Northeast Iowa Mental Health Center and Gunderson Lutheran, Inc. have forged a corporate relationship to aid the coordination and delivery of quality health and education services to the residents of Northern Iowa. This established health system offers the sharing of resources and coordinating of services to clients. There is no financial dependence through this relationship.

Funding sources are patient fees, third-party payors, contracts with the five county Boards of Supervisors, contracts with MBC of Iowa an affiliate of Magellan Behavioral Health, First Judicial District Community Corrections for 321J treatment, the Division of Behavioral, Developmental and Protective Services for Families, Adults and Children of the Iowa Department of Human Services, and various grants that become available from year to year.

Accreditation is through the Division of Behavioral, Developmental and Protective Services for Families, Adults and Children of the Iowa Department of Human Services. Licensing is through the Division of Health Promotion, Prevention and Addictive Behaviors of the Iowa Department of Public Health. The Center is also a member of the Iowa Association of Community Providers, the National Council for Community Behavioral Healthcare, Iowa Substance Abuse Program Directors Association and the Iowa Substance Abuse Supervisors Association.

b. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

1. Organization and Function and Significant Accounting Policies (Continued)c. Financial Statement Presentation

The Center follows Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, 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. As required by this statement, the Center has prepared its external financial statements to present the three classes of net assets required. As permitted by this standard, the Center has discontinued its use of fund accounting and has, accordingly, reclassified its financial statements to present classes of net assets.

The Center follows SFAS No. 116, "Accounting for Contributions Received and Contributions Made." In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. The Center has not received any contributions with donor-imposed restrictions that would result in temporarily or permanently restricted net assets.

d. Cash and Cash Equivalents

For purposes of reporting the statements of cash flows, the Center includes all unrestricted cash accounts, money market accounts, and certificates of deposit with a maturity of 90 days or less as cash and cash equivalents on the accompanying statements of position.

e. Patient Services Revenue

Patient services revenue is reported at the estimated 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 on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Balances that are still outstanding after management has used reasonable collection efforts are written off to bad debts. The allowance for adjustment was \$35,880 and \$67,204 at June 30, 2004 and 2003, respectively.

f. Investments

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

The fair value of investment securities are based on quoted market prices for those investments.

g. Property and Equipment

Property and equipment acquired by the Center are considered to be owned by the Center. All expenses are capitalized and are stated at cost. Depreciation is computed by the straight-line method with estimated useful lives ranging from 20 to 40 years for buildings and 5 to 10 years for equipment.

NOTES TO FINANCIAL STATEMENTS

1. Organization and Function and Significant Accounting Policies (Continued)

h. Support and Revenue

Support in the statements of activities consists of nonreciprocal receipts of grants and contracts. Revenues are classified as private, county or other revenues. Private revenues represent revenues which the Center has received from patient services and contracted third-party payors.

A portion of other revenues represents revenues from MBC of Iowa an affiliate of Magellan Behavioral Health, in the Alcohol and Related Problems Program.

i. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

j. Income Taxes

Northeast Iowa Mental Health Center is a nonprofit corporation qualifying for exempt status under Section 501(c)(3) of the Internal Revenue Code and is not required to pay income tax. The Center files the required annual informational return for organizations exempt from income tax. In addition, the Center has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for 2004.

k. Pension Plan

The Center has a defined contribution pension plan for employees who have completed one year (date of hire to anniversary of that date) with a minimum of 1,000 hours of service to Northeast Iowa Mental Health Center. Thereafter, the Center contributes 10% of the employee's salary into the pension plan. The employee is not allowed to contribute. Vesting occurs at the rate of 33 1/3% per year.

The pension plan is administered by Mutual of America, Milwaukee, Wisconsin. Employees of the Center are eligible to participate in tax sheltered annuities. The Center does not contribute to the employee's tax sheltered annuities.

l. Accrued Vacation

The Center accrues vacation pay as a liability and as an expense on the statements of activities in the year it is earned and reduces the liability account in the year the vacation is taken.

m. Concentrations of Credit Risk

Financial instruments that potentially subject the Center to significant concentrations of credit risk consist principally of accounts receivables and cash. Receivables are primarily from the U.S. Government, the State of Iowa and local governments in Iowa, patients and third-party payors. These receivables are uncollateralized.

NOTES TO FINANCIAL STATEMENTS

1. Organization and Function and Significant Accounting Policies (Continued)

m. Concentrations of Credit Risk (Continued)

As of the balance sheet date, cash balances on deposit with financial institutions exceeded the amount insured by the Federal Deposit Insurance Corporation (FDIC) by \$477,925. These cash balances fluctuate during the year and at various times may exceed the \$100,000 insurance limit. Management continually monitors the financial condition of the financial institutions along with the cash balances, which are maintained on deposit with them in order to minimize this potential risk.

n. Management Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

2. Investments

Investments at June 30, 2004 and 2003 are carried at fair value and are composed of the following:

| | 2004 | | 2003 | |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Cost | Fair Value | Cost | Fair Value |
| Investments whose use is limited | | | | |
| Mutual funds | \$ 15,579 | \$ 16,374 | \$ 15,063 | \$ 16,451 |
| Certificates of deposit | 187,719 | 188,637 | 182,586 | 183,648 |
| | <u>\$ 203,298</u> | <u>\$ 205,011</u> | <u>\$ 197,649</u> | <u>\$ 200,099</u> |

The following schedule summarizes the investment return for the years ended June 30, 2004 and 2003:

| | 2004 | 2003 |
|------------------------|------------------|------------------|
| Investment income | \$ 13,877 | \$ 14,588 |
| Unrealized gain (loss) | (737) | 726 |
| | <u>\$ 13,140</u> | <u>\$ 15,314</u> |

The following tabulation summarizes the relationship between cost and market value of investment assets:

| | Cost | Market Value | Excess of Market Over Cost |
|---|-------------------|-------------------|----------------------------|
| Balance, beginning of year | <u>\$ 197,649</u> | <u>\$ 200,099</u> | \$ 2,450 |
| Decrease in unrealized gains on investments | | | (737) |
| Balance, end of year | <u>\$ 203,298</u> | <u>\$ 205,011</u> | <u>\$ 1,713</u> |

The Center incurred no direct investment expenses during the years ended June 30, 2004 and 2003.

NOTES TO FINANCIAL STATEMENTS

3. Property and Equipment

Major classifications of property and equipment as of June 30 are summarized as follows:

| | <u>2004</u> | <u>2003</u> |
|--------------------------------|--------------------|--------------------|
| Buildings | \$1,274,495 | \$1,273,375 |
| Office furniture and equipment | <u>410,330</u> | <u>405,660</u> |
| | 1,684,825 | 1,679,035 |
| Accumulated depreciation | <u>639,584</u> | <u>578,194</u> |
| | <u>\$1,045,241</u> | <u>\$1,100,841</u> |

The total depreciation expense for the Center for the years ended June 30, 2004 and 2003 was \$64,206 and \$68,639, respectively.

4. Assets Whose Use is Limited

Assets of \$313,530 (\$306,575 in 2003) have been designated by the Board of Directors for the improvement, replacement and expansion of property and equipment. Of this total, \$244,829 is designated for operating reserve, \$1,012 for a Medicare claiming reserve and \$67,689 is for equipment replacement. Management expects that a portion of the board-designated funds may be required for operations in the fiscal year ended June 30, 2005. This designation is subject to change at the discretion of the Board and is not a legal restriction on use of the assets.

5. Contributed Services

Contributed services, which require special skills that would be purchased if not donated, or create or enhance a nonfinancial asset are recognized in the statements of activities. This amount equaled \$3,080 for the year ended June 30, 2004. There were no contributed services for the year ended June 30, 2003.

6. Fund-Raising Expense

The Center incurred no fund-raising expenses for the years ended June 30, 2004 and 2003.

7. Pension Plan

The total pension expense for the Center for the years ended June 30, 2004 and 2003 was \$95,218 and \$99,592, respectively.

8. Interest Expense

For the years ended June 30, 2004 and 2003, the Center incurred no interest cost, and accordingly, no interest expense was capitalized during these periods.

9. Lease Obligations

The Center leases office space for its satellite offices under various month to month leases with \$4,469 and \$4,368 charged to expense for the years ended June 30, 2004 and 2003, respectively.

The Center also rents equipment under various month to month leases which totaled \$6,877 and \$6,240 for the years ended June 30, 2004 and 2003, respectively.

NOTES TO FINANCIAL STATEMENTS

10. Commitments and Contingencies

The Center's employees accumulate sick leave days for subsequent use. These accumulations are not recognized as expenses by the Center until used. The Center's approximate unrecognized accrued sick leave at June 30, 2004 is \$154,779 (\$140,367 at June 30, 2003). Sick leave becomes payable when used by the employees. The Center's policy prohibits payoff of accumulated benefits at termination of employment. The Board of Directors considers this amount designated, however, no assets have been specifically earmarked for this purpose.

Northeast Iowa Mental Health Center has entered into two contracts as of June 30, 2004. To meet HIPPA requirements effective April 2005 the Center has contracted with Networking Solutions for \$22,000 to improve technology. Oelwein building improvements have been contracted with WHV. The approved bids were a new HVAC roof unit for \$30,000 and \$24,000 for an adhered roof. As of June 30, 2004, no costs have been incurred on either project.

11. Risk Management

Northeast Iowa Mental Health Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

12. Support from Governmental Units

The Center receives a substantial portion of its support from federal, state and local governments. These various governments are the source for approximately one third of the Center's revenue and support. A significant reduction in the level of this support would have a significant effect on the Center's programs and activities.

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INDEPENDENT AUDITOR'S REPORT ON THE
SUPPLEMENTARY INFORMATION

To the Board of Directors
Northeast Iowa Mental Health Center
Decorah, Iowa

Our report on our audits of the basic financial statements of Northeast Iowa Mental Health Center (a nonprofit corporation) as of and for the years ended June 30, 2004 and 2003 appears on page 2. We conducted our audits in accordance with U.S. generally accepted auditing standards. These audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information listed on pages 14 through 21 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 the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
August 18, 2004

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF FINANCIAL POSITION INFORMATION
June 30, 2004

| | Mental Health Program | Alcohol and Related Problems Program | Inter-program Eliminations | Total all Programs |
|---|--------------------------------|--|-------------------------------|--------------------------------|
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | \$ 463,010 | | | \$ 463,010 |
| Accounts receivable, net of allowance for adjustments | 158,383 | \$ 38,692 | | 197,075 |
| Due from Mental Health Program | | 413,940 | \$ (413,940) | None |
| Prepaid expenses | 39,408 | | | 39,408 |
| Total current assets | 660,801 | 452,632 | (413,940) | 699,493 |
| PROPERTY AND EQUIPMENT | | | | |
| Buildings | 1,274,495 | | | 1,274,495 |
| Equipment | 410,330 | 474 | | 410,804 |
| Less accumulated depreciation | 1,684,825 (639,584) | 474 (474) | | 1,685,299 (640,058) |
| Total property and equipment | 1,045,241 | None | | 1,045,241 |
| ASSETS WHOSE USE IS LIMITED | | | | |
| Cash and cash equivalents | 105,910 | | | 105,910 |
| Investments, at fair market value | 205,011 | | | 205,011 |
| Accrued interest receivable | 2,609 | | | 2,609 |
| Noncurrent assets whose use is limited | 313,530 | | | 313,530 |
| | \$ 2,019,572 | \$ 452,632 | \$ (413,940) | \$ 2,058,264 |
| CURRENT LIABILITIES | | | | |
| Account payable | \$ 15,734 | | | \$ 15,734 |
| Due to Alcohol and Related Problems Program | 413,940 | | \$ (413,940) | None |
| Accrued salary and vacation pay | 34,036 | \$ 17,800 | | 51,836 |
| Total current liabilities | 463,710 | 17,800 | (413,940) | 67,570 |
| NET ASSETS | | | | |
| Unrestricted net assets | | | | |
| Designated for specified purposes | 468,309 | | | 468,309 |
| Undesignated | 1,087,553 | 434,832 | | 1,522,385 |
| Total unrestricted net assets | 1,555,862 | 434,832 | | 1,990,694 |
| | \$ 2,019,572 | \$ 452,632 | \$ (413,940) | \$ 2,058,264 |

See Independent Auditor's Report on the Supplementary Information.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF FINANCIAL POSITION INFORMATION (Continued)

June 30, 2004

ASSETS WHOSE USE IS LIMITED

| | Interest Rate | Maturity Date | Amount |
|------------------------------------|------------------|--------------------|-------------------|
| <u>Mental Health Program</u> | | | |
| Cash Equivalents | | | |
| Savings Account | | | |
| Northeast Security Bank | Variable | | \$ 67,689 |
| Money Market Accounts | | | |
| Decorah Bank & Trust Company | Variable | | 37,299 |
| Edward D. Jones & Company | Variable | | 922 |
| | | | <u>105,910</u> |
| | | | |
| Mutual Fund | | | |
| U.S. Government Securities Fund | | | |
| American Funds Service Company | Variable | | <u>16,374</u> |
| | | | |
| Certificate of Deposits | | | |
| Edward D. Jones & Company | | | |
| American National | 7.00% | February 23, 2006 | 18,920 |
| Farmers and Merchants Savings Bank | 2.50% | February 18, 2005 | 67,306 |
| Community First National Bank | 3.25% | June 9, 2005 | 66,931 |
| Community First National Bank | 1.90% | March 4, 2005 | 34,468 |
| Decorah Bank & Trust | 2.50% | September 10, 2006 | 1,012 |
| | | | <u>188,637</u> |
| | | | |
| Accrued interest | | | <u>2,609</u> |
| | | | <u>\$ 313,530</u> |

Total assets whose use is limited

See Independent Auditor's Report on the Supplementary Information.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF CHANGES IN NET ASSETS (By Program)
Year Ended June 30, 2004

| | Mental Health Program | Alcohol and Related Problems Program | Inter-program Eliminations | Total All Programs |
|---------------------------|--------------------------|--|-------------------------------|-----------------------|
| Total support and revenue | \$ 1,312,326 | \$ 637,172 | \$ (14,210) | \$ 1,935,288 |
| Total expenses | 1,434,751 | 541,514 | (14,210) | 1,962,055 |
| Change in net assets | (122,425) | 95,658 | None | (26,767) |
| NET ASSETS, beginning | 1,678,287 | 339,174 | None | 2,017,461 |
| NET ASSETS, ending | <u>\$ 1,555,862</u> | <u>\$ 434,832</u> | <u>None</u> | <u>\$ 1,990,694</u> |

See Independent Auditor's Report on the Supplementary Information.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF ACTIVITIES INFORMATION
Year Ended June 30, 2004

| | Mental Health Program | Alcohol and Related Problems Program | Inter-program Eliminations | Total All Programs |
|---|--------------------------|--|-------------------------------|-----------------------|
| SUPPORT AND REVENUE | | | | |
| Support | | | | |
| County block grants | \$ 248,502 | | | \$ 248,502 |
| Division of Health, Promotion, Prevention and Addictive Behaviors contract | | \$ 365,327 | | 365,327 |
| Iowa Department of Corrections | | 15,914 | | 15,914 |
| U.S. Department of Justice Valley Grant | | 14,063 | | 14,063 |
| University of Iowa contract | 31,808 | | | 31,808 |
| Division of Behavioral, Developmental and Protective Services for Families, Adults and Children | | | | |
| Mental Health Adult Grant | 24,568 | | | 24,568 |
| Mental Health Child Grant | 24,568 | | | 24,568 |
| | <hr/> | <hr/> | | <hr/> |
| Total support | 329,446 | 395,304 | | 724,750 |
| Revenue and Gains | | | | |
| County | | | | |
| Outpatient fees | 123,497 | | | 123,497 |
| Adult recovery | 14,834 | | | 14,834 |
| Community support services | 22,831 | | | 22,831 |
| | <hr/> | | | <hr/> |
| | 161,162 | | | 161,162 |
| Other Revenue | | | | |
| Fees | | | | |
| Medicaid | | 110,796 | | 110,796 |
| Medicare | 102,878 | 6,046 | | 108,924 |
| Patient fees | 377,585 | 495,054 | | 872,639 |
| Contracted third party payors | 485,228 | | | 485,228 |
| Department of Health and Human Services | 10,824 | | | 10,824 |
| Day treatment/IOP child | 25,725 | | | 25,725 |
| Community support services - MBC | 56,320 | | | 56,320 |
| Community support services - other | 4,936 | | | 4,936 |
| MBC services income | 15,940 | | | 15,940 |
| OWI education | | 19,150 | | 19,150 |
| Less adjustments | (27,423) | (332,186) | | (359,609) |
| Insurance write-offs | (278,633) | (58,449) | | (337,082) |
| | <hr/> | <hr/> | | <hr/> |
| | 773,380 | 240,411 | | 1,013,791 |

See Independent Auditor's Report on the Supplementary Information.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF ACTIVITIES INFORMATION (Continued)
Year Ended June 30, 2004

| | Mental Health Program | Alcohol and Related Problems Program | Inter-program Eliminations | Total All Programs |
|---------------------------------|--------------------------|--|-------------------------------|-----------------------|
| Sub-total forward from page 17 | \$ 773,380 | \$ 240,411 | | \$ 1,013,791 |
| SUPPORT AND REVENUE (Continued) | | | | |
| Revenue and Gains (Continued) | | | | |
| Other Revenue (Continued) | | | | |
| Other | | | | |
| Psychological services | 4,939 | | | 4,939 |
| Psychiatric services | 639 | | | 639 |
| Rural grant | 1,353 | | | 1,353 |
| Rent | 14,210 | | \$ (14,210) | None |
| Interest | 14,793 | 6 | | 14,799 |
| Dividends | 518 | | | 518 |
| Gifts | 1,849 | | | 1,849 |
| Unrealized gain on investments | (737) | | | (737) |
| In-kind contributions | 3,080 | | | 3,080 |
| Miscellaneous | 7,694 | 1,451 | | 9,145 |
| Total other revenue | <u>821,718</u> | <u>241,868</u> | <u>(14,210)</u> | <u>1,049,376</u> |
| Total revenue and gains | <u>982,880</u> | <u>241,868</u> | <u>(14,210)</u> | <u>1,210,538</u> |
| Total support and revenue | <u>\$ 1,312,326</u> | <u>\$ 637,172</u> | <u>\$ (14,210)</u> | <u>\$ 1,935,288</u> |

See Independent Auditor's Report on the Supplementary Information.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF FUNCTIONAL EXPENSES INFORMATION
Year Ended June 30, 2004

| | Program Services | | | Supporting Services | | Total Expenses |
|----------------------------------|-----------------------|--------------------------------------|----------------------------|----------------------------|----------------------------|---------------------|
| | Mental Health Program | Alcohol and Related Problems Program | Inter-program Eliminations | General and Administrative | Inter-program Eliminations | |
| Salaries | \$ 699,341 | \$ 261,795 | | \$ 206,528 | | \$ 1,167,664 |
| Payroll taxes | 52,806 | 19,481 | | 15,502 | | 87,789 |
| Employee benefits | 163,494 | 55,179 | | 46,340 | | 265,013 |
| Total personnel | 915,641 | 336,455 | | 268,370 | | 1,520,466 |
| Psychiatric consultation | 65,809 | | | | | 65,809 |
| Independent contractors | 46,801 | 11,966 | | | | 58,767 |
| Professional fees | 18,913 | 5,775 | | 5,164 | | 29,852 |
| Day treatment expenses, child | 3,010 | | | | | 3,010 |
| Building repair and maintenance | 5,746 | 2,951 | | 1,955 | | 10,652 |
| Office supplies and expense | 15,683 | 5,003 | | 4,351 | | 25,037 |
| Telephone | 7,371 | 2,106 | | 1,966 | | 11,443 |
| Mileage and travel | 15,189 | 4,846 | | 4,215 | | 24,250 |
| Rent | 2,759 | 5,357 | \$ (4,428) | 2,209 | \$ (1,428) | 4,469 |
| Janitorial services | 7,368 | 3,669 | | 2,470 | | 13,507 |
| Equipment repair and maintenance | 7,325 | 2,420 | | 2,059 | | 11,804 |
| Equipment rental | 4,211 | 7,777 | (6,317) | 3,243 | (2,037) | 6,877 |
| Depreciation and amortization | 54,662 | | | 9,544 | | 64,206 |
| Bad debts | 23,875 | 7,733 | | | | 31,608 |
| Property tax | 5,350 | | | | | 5,350 |
| Other expenses | 43,561 | 18,669 | | 12,718 | | 74,948 |
| Total expenses | \$ 1,243,274 | \$ 414,727 | \$ (10,745) | \$ 318,264 | \$ (3,465) | \$ 1,962,055 |

See Independent Auditor's Report on the Supplementary Information.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF FUNCTIONAL EXPENSES INFORMATION (Continued)
Year Ended June 30, 2004

| | Program Services | | | Support Services General and Administrative | Total Expenses |
|------------------------------|-----------------------------|---|------------------------------|--|-------------------|
| | Mental Health Program | Alcohol and Related Problems Program | Total Program Services | | |
| OTHER EXPENSES | | | | | |
| Heat, light, water and cable | \$ 14,258 | \$ 5,313 | \$ 19,571 | \$ 4,202 | \$ 23,773 |
| Postage and shipping | 7,425 | 2,651 | 10,076 | 2,151 | 12,227 |
| Insurance/settlements | 6,707 | 3,727 | 10,434 | 2,373 | 12,807 |
| Conferences and conventions | 2,066 | 2,093 | 4,159 | 1,036 | 5,195 |
| Organization dues | 2,613 | 1,339 | 3,952 | | 3,952 |
| Advertising | 3,466 | 1,112 | 4,578 | 965 | 5,543 |
| Board meeting expense | | | | 1,213 | 1,213 |
| Computer support | 254 | 126 | 380 | 85 | 465 |
| Moving/recruitment | 648 | 252 | 900 | | 900 |
| Miscellaneous | 2,688 | 647 | 3,335 | 677 | 4,012 |
| Emergency Answer Plus | 3,380 | 1,390 | 4,770 | | 4,770 |
| Subscriptions | 56 | 19 | 75 | 16 | 91 |
| Total other expenses | \$ 43,561 | \$ 18,669 | \$ 62,230 | \$ 12,718 | \$ 74,948 |

See Independent Auditor's Report on the Supplementary Information.

NORTHEAST IOWA MENTAL HEALTH CENTER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2004

| Grantor/Program Title | Federal CFDA Number | Contract Number | Program Expenditures |
|--|---------------------------|------------------------------------|-------------------------|
| Indirect | | | |
| U.S. Department of Justice, Office of Juvenile Justice and Delinquency Prevention Valley Community Coalition, Helping Services for Northeast Iowa, Inc. Drug-Free Communities Support Grant | 16.729 | | \$ 14,063 |
| U.S. Department of Health and Human Services Iowa Department of Public Health Division of Health Promotion, Prevention and Addictive Behaviors Block Grant for Prevention and Treatment of Substance Abuse (1) | 93.959 | | <u>127,499</u> |
| Iowa Department of Human Services Division of Behavioral, Developmental and Protective Services for Families, Adults and Children Block Grants for Community Mental Health Service Education Request for Proposal (Juvenile) | 93.958 | Contract #04-0324-401-6490-2349-58 | 24,568 |
| Education Request for Proposal (Juvenile) | 93.958 | Contract #04-0324-401-6440-2464-26 | <u>24,568</u> |
| | | | <u>49,136</u> |
| Iowa State University Consolidated Knowledge Development and Application Program | 93.230 | Professional Services Agreement | <u>1,353</u> |
| Subtotal Department of Health and Human Services | | | <u>177,988</u> |
| | | | <u>\$ 192,051</u> |

(1) Administered by MBC of Iowa

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Northeast Iowa Mental Health Center
Decorah, Iowa

We have audited the financial statements of Northeast Iowa Mental Health Center (a nonprofit corporation) as of and for the year ended June 30, 2004 and have issued our report thereon dated August 18, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, 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 Northeast Iowa 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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Northeast Iowa Mental Health Center in a separate letter dated August 18, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast Iowa Mental Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Northeast Iowa Mental Health Center in a separate letter dated August 18, 2004.

This report, a public record by law, is intended solely for the information and use of the Board, management, and is not intended to be and should not be used by anyone other than these specified parties.

Hatcher, Nelson + Co., P.C.

Decorah, Iowa
August 18, 2004

MANAGEMENT LETTER

To the Board of Directors
Northeast Iowa Mental Health Center
Decorah, Iowa

In planning and performing our audit of the financial statements of Northeast Iowa Mental Health Center for the year ended June 30, 2004, we considered the Center's internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. A separate report dated August 18, 2004 contains our report on the Center's internal control. This letter does not affect our report dated August 18, 2004 on the financial statements of Northeast Iowa Mental Health Center. These comments are not intended to and do not constitute legal opinions. Comment 1 was also included in last year's management letter. All other prior year recommendations have been implemented.

1. Segregation of Duties

During our review of internal controls, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of Northeast Iowa Mental Health Center's financial statements. The financial and grant reporting is primarily the responsibility of one person. As a result, interruption of some accounting functions could occur if they were unable to perform their duties.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. However, the Center should review the operating procedures to obtain the maximum internal control possible under the circumstances. The Center should also consider the potential consequence of reliance on one person for financial and grant reporting.

Response and Corrective Action Planned

This issue is reviewed annually through the audit review with the Board of Directors. The size of the agency prevents further segregation of duties.

Conclusion

Recommendation stands.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of Northeast Iowa Mental Health Center during the course of our examination.

If you have any questions concerning these or other matters, we would be happy to discuss them with you at your convenience.

Huber, Nelson & Co., P.C.

Decorah, Iowa
August 18, 2004