

SOUTHWEST IOWA MENTAL HEALTH CENTER

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

YEARS ENDED JUNE 30, 2004 AND 2003

SOUTHWEST IOWA MENTAL HEALTH CENTER

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SOUTHWEST IOWA MENTAL HEALTH CENTER  
Officials  
June 30, 2004

| <u>Board of Directors:</u>         | <u>Address</u> | <u>Term Expires</u> |
|------------------------------------|----------------|---------------------|
| Carolyn Groves, President          | Massena, Iowa  | September, 2006     |
| Julie Gade, Vice-President         | Griswold, Iowa | September, 2005     |
| Mary Jo Blunk, Secretary-Treasurer | Atlantic, Iowa | September, 2004     |
| Maynard Hansen                     | Wiota, Iowa    | September, 2006     |
| Todd Pellett                       | Atlantic, Iowa | September, 2006     |
| Phyllis Stakey                     | Massena, Iowa  | September, 2005     |
| Don Volk                           | Atlantic, Iowa | September, 2004     |
| <br><u>Executive Director:</u>     |                |                     |
| Emerson Link                       | Atlantic, Iowa |                     |

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

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Southwest Iowa Mental Health Center  
Atlantic, Iowa

We have audited the accompanying balance sheets of Southwest Iowa 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 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 Southwest 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 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 12 through 16) 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 July 20, 2004 on our consideration of Southwest Iowa 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  
July 20, 2004

SOUTHWEST IOWA MENTAL HEALTH CENTER  
Balance Sheets  
June 30,

ASSETS

|  | <u>2004</u>       | <u>2003</u>       |
|--|-------------------|-------------------|
| Current Assets:  |                   |                   |
| Cash   | \$ 56,684         | \$ 27,260         |
| Client receivables, less allowances for<br>doubtful accounts and contractual<br>adjustments (\$85,000 in 2004 and<br>\$65,000 in 2003) | 73,773            | 89,402            |
| Other receivables  | 44,485            | 41,697            |
| Prepaid expense  | 288               | 2,716             |
| Assets limited as to use   | 109               | 908               |
| Total current assets   | <u>175,339</u>    | <u>161,983</u>    |
| Property and Equipment, Net  | <u>124,962</u>    | <u>124,219</u>    |
| Total assets   | <u>\$ 300,301</u> | <u>\$ 286,202</u> |

LIABILITIES AND NET ASSETS

|                                      |                   |                   |
|--------------------------------------|-------------------|-------------------|
| Current Liabilities:                 |                   |                   |
| Accounts payable                     | \$ 2,910          | \$ 9,529          |
| Accrued employee compensation        | 37,464            | 53,807            |
| Deferred revenue                     | 8,722             | 5,367             |
| Due to Cass County Memorial Hospital | 141,916           | 108,210           |
| Total current liabilities            | <u>191,012</u>    | <u>176,913</u>    |
| Net Assets:                          |                   |                   |
| Unrestricted                         | <u>109,289</u>    | <u>109,289</u>    |
| Total liabilities and net assets     | <u>\$ 300,301</u> | <u>\$ 286,202</u> |

The accompanying notes are an integral part of these statements.

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

|                                     | 2004       | 2003       |
|-------------------------------------|------------|------------|
| Changes in Unrestricted Net Assets: |            |            |
| Support and Revenue:                |            |            |
| Support:                            |            |            |
| Support from Cass County, Iowa      | \$ 164,000 | \$ 150,000 |
| Support from Audubon County, Iowa   | 11,667     | 8,000      |
| Mental health/mental retardation    | 23,693     | 33,288     |
| Hospital tax revenue                | 65,042     | 58,445     |
| Hospital deficit funding            | 18,571     | 29,835     |
| Grants                              | 37,414     | 34,231     |
| Total support                       | 320,387    | 313,799    |
| Revenue:                            |            |            |
| Client fees, net                    | 533,037    | 523,951    |
| Contracted services from Hospital   | 196,369    | 232,956    |
| Other revenue                       | 1,121      | 1,650      |
| Total revenue                       | 730,527    | 758,557    |
| Total Support and Revenue           | 1,050,914  | 1,072,356  |
| Expenses:                           |            |            |
| Staff salaries and benefits         | 333,536    | 387,771    |
| Contracted staff and benefits       | 602,209    | 554,086    |
| Other expenses                      | 95,876     | 111,166    |
| Provision for depreciation          | 19,484     | 19,529     |
| Interest expense                    | --         | 17         |
| Total expenses                      | 1,051,105  | 1,072,569  |
| Operating Loss                      | ( 191)     | ( 213)     |
| Other Support and Gains (Losses):   |            |            |
| Interest income                     | 191        | 569        |
| Loss on disposal of assets          | --         | ( 356)     |
|                                     | 191        | 213        |
| Increase in Unrestricted Net Assets | --         | --         |
| Net Assets, Beginning of Year       | 109,289    | 109,289    |
| Net Assets, End of Year             | \$ 109,289 | \$ 109,289 |

The accompanying notes are an integral part of these statements.

SOUTHWEST IOWA 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,<br>contracting agencies, and public support | \$ 946,083 | \$ 960,885 |
| Cash paid to employees  | ( 290,852) | ( 293,549) |
| Cash paid to suppliers  | ( 714,571) | ( 758,794) |
| Investment income   | 191        | 569        |
| Interest paid   | --         | ( 17)      |
| Grants received   | 37,414     | 34,231     |
| Cash received for hospital support  | 18,571     | 29,835     |
| Net cash used in operating activities   | ( 3,164)   | ( 26,840)  |
| Cash flows from investing activities:   |            |            |
| Capital expenditures  | ( 20,227)  | ( 35,782)  |
| Cash flows from financing activities:   |            |            |
| Hospital operating cash funding   | 52,016     | 34,328     |
| Principal payments to Hospital for equipment<br>funding                                     | --         | ( 3,810)   |
| Net cash provided by financing activities   | 52,016     | 30,518     |
| Net increase (decrease) in cash   | 28,625     | ( 32,104)  |
| Cash beginning of year  | 28,168     | 60,272     |
| Cash end of year  | \$ 56,793  | \$ 28,168  |
| Reconciliation of cash to the balance sheets:   |            |            |
| Cash  | \$ 56,684  | \$ 27,260  |
| Cash in assets limited as to use  | 109        | 908        |
| Total cash  | \$ 56,793  | \$ 28,168  |

(continued next page)

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

|  | 2004        | 2003        |
|--|-------------|-------------|
| Reconciliation of change in net assets to net cash used in operating activities:       |             |             |
| Change in net assets   | \$       -- | \$       -- |
| Adjustments to reconcile change in net assets to net cash used in operating activities |             |             |
| Depreciation   | 19,484      | 19,529      |
| Loss on disposal of assets   | --          | 356         |
| Change in assets and liabilities   |             |             |
| Accounts receivable  | 12,841      | 14,136      |
| Prepaid expense  | 2,428       | 589         |
| Accounts payable   | ( 6,619)    | 907         |
| Accrued employee compensation  | ( 16,343)   | ( 2,297)    |
| Deferred revenue   | 3,355       | ( 3,096)    |
| Due to Cass County Memorial Hospital   | ( 18,310)   | ( 56,964)   |
| Total adjustments  | ( 3,164)    | ( 26,840)   |
| Net cash used in operating activities  | \$( 3,164)  | \$( 26,840) |

The accompanying notes are an integral part of these statements.

SOUTHWEST IOWA MENTAL HEALTH CENTER  
Notes to Financial Statements  
June 30, 2004 and 2003

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

1. Nature of Activities

The Southwest Iowa 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 of Directors serve three year terms and are selected by the existing Board.

The Organization received \$164,000 of revenue from Cass County in 2004 (\$150,000 in 2003). In addition, the Center received a significant portion of its revenue through an agreement with Cass County Memorial Hospital as indicated in Note C.

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 program payments.

5. Assets Limited As to Use

Assets limited as to use include assets set aside by the Board of Directors, including cash designated for future expenditures to meet grant requirements, over which the board retains control and (at its discretion) may subsequently use for other purposes. Amounts required for obligations classified as current liabilities are reported in current assets.

SOUTHWEST IOWA MENTAL HEALTH CENTER  
Notes to Financial Statements  
June 30, 2004 and 2003

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

6. Property and Equipment

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

7. Support and Revenue

- a. Fees from clients are recorded at list price with adjustments based upon ability to pay and government program limitations deducted to arrive at net fees from clients.
- b. Fees from Cass County include a predetermined amount based on the Center's annual budget.
- c. Grant revenues are for specific programs provided by the Center and are recognized as income when grant requirements have been satisfied.

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 7. above. These reductions are recorded as adjustments to fees from clients.

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, including amounts limited as to use.

NOTE B - PROPERTY AND EQUIPMENT

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

|                               | 2004       | 2003       |
|-------------------------------|------------|------------|
| Land                          | \$ 1,689   | \$ 1,689   |
| Land Improvements             | 37,757     | 37,757     |
| Buildings                     | 139,955    | 138,610    |
| Furniture and Equipment       | 132,215    | 113,887    |
|                               | 311,616    | 291,943    |
| Less Accumulated Depreciation | 186,654    | 167,724    |
|                               | \$ 124,962 | \$ 124,219 |

SOUTHWEST IOWA MENTAL HEALTH CENTER  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE C - COMMITMENT, RELATED PARTY, AND ECONOMIC DEPENDENCY

The Center participates in a sharing agreement with Cass County Memorial Hospital, pursuant to Chapter 28E of the Iowa Code, to deliver mental health services in the area. Under the agreement, the Mental Health Center purchases all non-physician services necessary for the Center's operations from the Hospital. Tax funds collected by the Hospital for a portion of the cost of the Center's non-physician personnel result in credits of \$65,042 at June 30, 2004 (\$58,445 at June 30, 2003) being passed through to the Center. These credits are recorded as Hospital support on the Statements of Activities and Changes in Net Assets. These credits represent non-cash transactions for purposes of the Statements of Cash Flows. The Hospital purchases all mental health physician services necessary for its inpatient operation from the Center.

During the years ended June 30, 2004 and 2003, the Center received additional operating cash of \$70,000 from the Hospital to fund the operations of the Center. At June 30, 2004, the Center had a deficit of \$18,571 (\$29,835 deficit at June 30, 2003) without the Hospital's funding which was recorded as Hospital support on the Statement of Activities and Changes in Net Assets. The unused operating cash is included in the amount owed by the Center to the Hospital.

Below is a summary of the activity and year end amounts due under the agreement with the Hospital:

|   | June 30,          |                   |
|---|-------------------|-------------------|
|   | 2004              | 2003              |
| Mental Health Center revenue from Hospital for physicians | <u>\$ 196,369</u> | <u>\$ 232,956</u> |
| Support from Hospital to Mental Health Center             | <u>\$ 83,613</u>  | <u>\$ 88,280</u>  |
| Mental Health Center expense for personnel costs          | <u>\$ 605,331</u> | <u>\$ 557,609</u> |
| Mental Health Center expense for liability insurance      | <u>\$ 17,944</u>  | <u>\$ 13,340</u>  |
| Owed by Mental Health Center to Hospital                  | <u>\$ 141,916</u> | <u>\$ 108,210</u> |

The financial arrangements for the 2004-2005 year are based on the budgeted needs of each entity. The Hospital has agreed to pay the Mental Health Center approximately \$219,000 for physician services and deficit funding; and, the Center agreed to pay the Hospital approximately \$575,580 for non-physician services. Future financial arrangements will be determined annually based on a review of actual operations and needs.

SOUTHWEST IOWA MENTAL HEALTH CENTER  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE D - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

|                        | 2004         | 2003         |
|------------------------|--------------|--------------|
| Client Services        | \$ 998,579   | \$ 1,013,879 |
| Management and General | 52,526       | 58,690       |
|                        | \$ 1,051,105 | \$ 1,072,569 |

NOTE E - COMMITMENT AND CONTINGENCY

Retirement Plan

The Center has a defined contribution retirement plan which covers all employees who meet the eligibility requirements. To be eligible, an employee must have completed one year of service equal to 1,000 hours. The plan allows for contributions by employees as well as contributions by the Center. The Center contributes 5% of wages. Retirement plan expenses totaled \$13,975 and \$14,661 for the years ended June 30, 2004 and 2003, respectively.

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. Southwest Iowa 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.

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 |
|--------------------------|------|------|
| Medicare                 | 25%  | 17%  |
| Medicaid                 | 26   | 26   |
| Other third-party payors | 43   | 52   |
| Patients                 | 6    | 5    |
|                          | 100% | 100% |

SOUTHWEST IOWA MENTAL HEALTH CENTER  
Notes to Financial Statements  
June 30, 2004 and 2003

NOTE G - NON-CASH TRANSACTIONS

The cash transactions of the Center are presented on the statements of cash flows. The Center also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of change in net assets to net cash used in operating activities:

|                                | <u>2004</u>      | <u>2003</u>      |
|--------------------------------|------------------|------------------|
| Non-cash support from Hospital | <u>\$ 65,042</u> | <u>\$ 58,445</u> |

\* \* \*

ACCOMPANYING INFORMATION

SOUTHWEST IOWA MENTAL HEALTH CENTER  
Service Revenue - Client Fees  
Year ended June 30,

|   | 2004                |                    |                   | 2003              |
|---|---------------------|--------------------|-------------------|-------------------|
|   | <u>Gross</u>        | <u>Adjustments</u> | <u>Net</u>        | <u>Net</u>        |
| Self Pay                                    | \$ 87,146           | \$ 82,436          | \$ 4,710          | \$ 6,023          |
| 3rd Party Insurance                         | 297,550             | 162,708            | 134,842           | 140,413           |
| Medicare                                    | 141,822             | 79,074             | 62,748            | 61,289            |
| Title XIX                                   | 381,358             | 259,790            | 121,568           | 112,126           |
| Employee and Student<br>Assistance Programs | 45,950              | --                 | 45,950            | 55,851            |
| Case Management                             | 141,786             | --                 | 141,786           | 124,007           |
| *Others                                     | <u>34,783</u>       | <u>13,350</u>      | <u>21,433</u>     | <u>24,242</u>     |
|   | <u>\$ 1,130,395</u> | <u>\$ 597,358</u>  | <u>\$ 533,037</u> | <u>\$ 523,951</u> |

\* Includes consultation fees.

See Independent Auditor's Report.

SOUTHWEST IOWA MENTAL HEALTH CENTER  
 Operating Expenses  
 Year ended June 30, 2004

|  | <u>Outpatient</u> | <u>Administration</u> | <u>Emergency</u> | <u>Inpatient</u>  | <u>Patient<br/>Consultation</u> |
|--|-------------------|-----------------------|------------------|-------------------|---------------------------------|
| Program and Administrative Service Expenses: |                   |                       |                  |                   |                                 |
| Professional staff salaries                  | \$ 130,141        | \$ 14,392             | \$ 1,509         | \$ 71,175         | \$ 2,782                        |
| Retirement benefits                          | 18,705            | 2,080                 | 216              | 10,251            | 404                             |
| Other employee benefits                      | 61,163            | 6,826                 | 690              | 33,467            | 1,357                           |
| Contracted support staff                     | 74,538            | 8,361                 | 858              | 40,756            | 1,595                           |
| Contracted professional staff                | 139,289           | 15,677                | 12,616           | 76,042            | 2,936                           |
| Professional fees                            | 5,794             | 555                   | 44               | 3,173             | 191                             |
| Operating supplies                           | 10,113            | 1,211                 | 166              | 5,658             | 154                             |
| Telephone                                    | 4,516             | 533                   | 54               | 2,480             | 91                              |
| Postage                                      | 848               | 86                    | 9                | 450               | 20                              |
| Utilities                                    | 2,715             | 302                   | 32               | 1,469             | 54                              |
| Repairs and maintenance                      | 7,439             | 782                   | 75               | 4,036             | 162                             |
| Director liability insurance                 | 453               | 51                    | 5                | 249               | 10                              |
| Travel reimbursement                         | 645               | 66                    | 6                | 351               | 9                               |
| Conferences, conventions and meetings        | 1,479             | 143                   | 14               | 781               | 33                              |
| Subscriptions                                | 349               | 41                    | 5                | 179               | 3                               |
| Organization dues                            | 618               | 61                    | 6                | 342               | 13                              |
| Public relations and miscellaneous           | 2,655             | 331                   | 40               | 1,474             | 42                              |
|  | <u>461,460</u>    | <u>51,498</u>         | <u>16,345</u>    | <u>252,333</u>    | <u>9,856</u>                    |
| Provision for Depreciation                   | 9,213             | 1,028                 | 106              | 5,027             | 194                             |
| Interest Expense                             | <u>--</u>         | <u>--</u>             | <u>--</u>        | <u>--</u>         | <u>--</u>                       |
| Total Operating Expenses                     | <u>\$ 470,673</u> | <u>\$ 52,526</u>      | <u>\$ 16,451</u> | <u>\$ 257,360</u> | <u>\$ 10,050</u>                |

See Independent Auditor's Report.

| <u>Community<br/>Education</u> | <u>Evaluation</u> | <u>Audubon<br/>County<br/>Outpatient</u> | <u>Case<br/>Manage-<br/>ment</u> | <u>C/A Case<br/>Manage-<br/>ment</u> | <u>PSG</u>       | <u>EAP</u>       | <u>Drop-In<br/>Center</u> | <u>Total</u>        |
|--------------------------------|-------------------|--|----------------------------------|--------------------------------------|------------------|------------------|---------------------------|---------------------|
| \$ 191                         | \$ 6,332          | \$ 3,042                                 | \$ 38,824                        | \$ --                                | \$ --            | \$ 6,121         | \$ --                     | \$ 274,509          |
| 27                             | 906               | 444                                      | 5,643                            | 617                                  | 543              | 903              | --                        | 40,739              |
| 87                             | 2,956             | 1,463                                    | 18,454                           | 821                                  | 1,273            | 3,027            | 344                       | 131,928             |
| 109                            | 3,593             | 1,787                                    | 22,677                           | 1,170                                | 1,170            | 3,617            | 1,320                     | 161,551             |
| 196                            | 6,689             | 3,350                                    | 42,480                           | 9,560                                | 8,277            | 6,847            | 3,059                     | 327,018             |
| 10                             | 263               | 135                                      | 1,688                            | --                                   | --               | 321              | 1,020                     | 13,194              |
| 5                              | 481               | 262                                      | 3,226                            | 440                                  | 944              | 430              | 279                       | 23,369              |
| 6                              | 217               | 104                                      | 1,409                            | 250                                  | --               | 231              | --                        | 9,891               |
| 1                              | 41                | 23                                       | 248                              | --                                   | --               | 39               | --                        | 1,765               |
| 3                              | 131               | 64                                       | 816                              | --                                   | --               | 131              | --                        | 5,717               |
| 6                              | 357               | 2,266                                    | 2,167                            | --                                   | --               | 397              | 2,925                     | 20,612              |
| 1                              | 22                | 11                                       | 138                              | --                                   | --               | 23               | --                        | 963                 |
| 1                              | 29                | 816                                      | 974                              | 684                                  | --               | 328              | --                        | 3,909               |
| 1                              | 67                | 30                                       | 1,150                            | 795                                  | --               | 861              | --                        | 5,354               |
| --                             | 16                | 7  | 102                              | --                                   | --               | 19               | --                        | 721                 |
| --                             | 30                | 15                                       | 3,174                            | --                                   | --               | 373              | --                        | 4,632               |
| <u>2</u>                       | <u>127</u>        | <u>70</u>                                | <u>853</u>                       | <u>--</u>                            | <u>40</u>        | <u>115</u>       | <u>--</u>                 | <u>5,749</u>        |
| 646                            | 22,257            | 13,889                                   | 144,023                          | 14,337                               | 12,247           | 23,783           | 8,947                     | 1,031,621           |
| 13                             | 444               | 220                                      | 2,792                            | --                                   | --               | 447              | --                        | 19,484              |
| <u>--</u>                      | <u>--</u>         | <u>--</u>                                | <u>--</u>                        | <u>--</u>                            | <u>--</u>        | <u>--</u>        | <u>--</u>                 | <u>--</u>           |
| <u>\$ 659</u>                  | <u>\$ 22,701</u>  | <u>\$ 14,109</u>                         | <u>\$ 146,815</u>                | <u>\$ 14,337</u>                     | <u>\$ 12,247</u> | <u>\$ 24,230</u> | <u>\$ 8,947</u>           | <u>\$ 1,051,105</u> |

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

|  | <u>2004</u>         | <u>2003</u>         |
|--|---------------------|---------------------|
| Program and Administrative Service Expenses: |                     |                     |
| Professional staff salaries                  | \$ 274,509          | \$ 291,252          |
| Retirement benefits                          | 40,739              | 40,587              |
| Other employee benefits                      | 131,928             | 134,419             |
| Contracted support staff                     | 161,551             | 152,164             |
| Contracted professional staff                | 327,018             | 323,435             |
| Professional fees                            | 13,194              | 14,206              |
| Operating supplies                           | 23,369              | 18,404              |
| Telephone                                    | 9,891               | 12,869              |
| Postage                                      | 1,765               | 2,751               |
| Utilities                                    | 5,717               | 5,548               |
| Repairs and maintenance                      | 20,612              | 25,922              |
| Director liability insurance                 | 963                 | 1,480               |
| Travel reimbursement                         | 3,909               | 6,573               |
| Conferences, conventions<br>and meetings     | 5,354               | 8,593               |
| Subscriptions                                | 721                 | 3,419               |
| Organization dues                            | 4,632               | 6,928               |
| Public relations and miscellaneous           | <u>5,749</u>        | <u>4,473</u>        |
|  | 1,031,621           | 1,053,023           |
| Provision for Depreciation                   | 19,484              | 19,529              |
| Interest Expense                             | <u>--</u>           | <u>17</u>           |
| Total Operating Expenses                     | <u>\$ 1,051,105</u> | <u>\$ 1,072,569</u> |

See Independent Auditor's Report.

SOUTHWEST IOWA MENTAL HEALTH CENTER  
 Schedule of Gross Charges and Adjustments for Client Services  
 Year ended June 30, 2004

|  |                   |                   |
|--|-------------------|-------------------|
| Client accounts receivable July 1, 2003  |                   | \$ 154,402        |
| Gross charges for client services  | \$ 1,130,395      |                   |
| Adjustments and bad debts written off (net of<br>increase in allowance for doubtful accounts<br>and contractual adjustments of \$20,000) | <u>( 577,358)</u> | 553,037           |
| Less: Payments received for client services  | 549,470           |                   |
| Recoveries of bad debts written off  | <u>( 804)</u>     | <u>( 548,666)</u> |
| Client accounts receivable June 30, 2004   |                   | <u>\$ 158,773</u> |

See Independent Auditor's Report.

SOUTHWEST IOWA MENTAL HEALTH CENTER  
 Clients Served - Distribution by County  
 Year ended June 30,

| <u>County</u> | <u>2004</u>               |                        |              | <u>2003</u>  |
|---------------|---------------------------|------------------------|--------------|--------------|
|               | <u>Return<br/>Clients</u> | <u>New<br/>Clients</u> | <u>Total</u> | <u>Total</u> |
| Audubon       | 62                        | 49                     | 111          | 110          |
| Cass          | 451                       | 233                    | 684          | 713          |
| Shelby        | 38                        | 22                     | 60           | 52           |
| Pottawattamie | 63                        | 19                     | 82           | 108          |
| Other         | 166                       | 125                    | 291          | 304          |
|               | <u>780</u>                | <u>448</u>             | <u>1,228</u> | <u>1,287</u> |

| <u>Year Ended June 30,</u>                  | <u>2004</u>   | <u>2003</u>   | <u>2002</u>   | <u>2001</u>   |
|---|---------------|---------------|---------------|---------------|
| Center operating expense per client served: | <u>\$ 856</u> | <u>\$ 833</u> | <u>\$ 866</u> | <u>\$ 811</u> |
| Net fees from clients per client served:    | <u>\$ 434</u> | <u>\$ 407</u> | <u>\$ 431</u> | <u>\$ 408</u> |

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  
Southwest Iowa Mental Health Center  
Atlantic, Iowa

We have audited the financial statements of Southwest Iowa Mental Health Center as of and for the year ended June 30, 2004, and have issued our report thereon dated July 20, 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 Southwest Iowa Mental Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, 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 on 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Southwest 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 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 Southwest Iowa 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 of  
Southwest Iowa 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 Southwest Iowa 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.

*Gronwald, Bell, Kyhan & Co. P.C.*

Atlantic, Iowa  
July 20, 2004

SOUTHWEST IOWA 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 contract or 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 contract or employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

\* \* \*