

PRAIRIE ROSE MENTAL HEALTH CENTER
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION
COMMENTS AND RECOMMENDATIONS
YEARS ENDED JUNE 30, 2004 AND 2003

PRAIRIE ROSE MENTAL HEALTH CENTER

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PRAIRIE ROSE MENTAL HEALTH CENTER
Officials
June 30, 2004

<u>Board of Directors:</u>	<u>Address</u>	<u>Term Expires</u>
Alan Hjelle, President	Elk Horn, Iowa	June, 2006
Cheryl Chipman, Vice President	Harlan, Iowa	June, 2006
Sue Assman, Secretary-Treasurer	Harlan, Iowa	June, 2005
Duane Magee	Harlan, Iowa	June, 2005
Robert Burton	Irwin, Iowa	June, 2006

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Prairie Rose Mental Health Center
Harlan, Iowa

We have audited the accompanying balance sheets of Prairie Rose Mental Health Center as of June 30, 2004 and 2003, and the related statements of activities, changes in net assets (deficit), 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 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 Prairie Rose Mental Health Center as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 13, 2004 on our consideration of Prairie Rose 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 13, 2004

PRAIRIE ROSE MENTAL HEALTH CENTER
Balance Sheets
June 30,

ASSETS

	<u>2004</u>	<u>2003</u>
Current Assets:		
Cash	\$ 13,934	\$ 10,182
Accounts receivable, less allowances for doubtful accounts and contractual adjustments (\$23,579 in 2004, \$21,471 in 2003)	62,968	63,359
Other receivables	5,726	6,255
Prepaid expense	<u>6,774</u>	<u>6,884</u>
Total current assets	89,402	86,680
Furniture and Equipment	7,809	7,809
Less accumulated depreciation	<u>7,809</u>	<u>7,179</u>
Net furniture and equipment	<u>--</u>	<u>630</u>
Total assets	<u>\$ 89,402</u>	<u>\$ 87,310</u>

LIABILITIES AND NET ASSETS (DEFICIT)

Current Liabilities:		
Accounts payable	\$ 9,946	\$ 6,755
Accrued employee compensation	22,460	19,356
Payroll taxes withheld and accrued	2,391	2,118
Other payables	1,523	1,409
Due to related parties	<u>101,245</u>	<u>112,748</u>
Total current liabilities	137,565	142,386
Net Assets (Deficit):		
Unrestricted	<u>(48,163)</u>	<u>(55,076)</u>
Total liabilities and net assets	<u>\$ 89,402</u>	<u>\$ 87,310</u>

The accompanying notes are an integral part of these statements.

PRAIRIE ROSE MENTAL HEALTH CENTER
 Statements of Activities
 Year ended June 30,

	2004	2003
Support and Revenue:		
Support:		
Fees from county	\$ 90,000	\$ 95,000
Grants	<u>25,174</u>	<u>23,883</u>
Total support	115,174	118,883
Revenue:		
Client fees, net	212,728	195,735
Other revenue	<u>10,353</u>	<u>8,602</u>
Total revenue	<u>223,081</u>	<u>204,337</u>
 Total Support and Revenue	 338,255	 323,220
 Expenses:		
Salaries and wages	205,900	258,402
Employee benefits	35,909	62,147
Meetings, travel, and education	4,028	3,824
Supply costs	5,584	7,110
Rent	14,865	14,564
Insurance	12,487	10,362
Utilities and telephone	2,423	2,405
Depreciation	630	413
Purchased services	48,526	35,230
Dues and publications	<u>990</u>	<u>2,206</u>
Total expenses	<u>331,342</u>	<u>396,663</u>
 Increase (Decrease) in Unrestricted Net Assets	 <u>\$ 6,913</u>	 <u>\$(73,443)</u>

The accompanying notes are an integral part of these statements.

PRAIRIE ROSE MENTAL HEALTH CENTER
 Statements of Changes in Net Assets (Deficit)
 Year ended June 30,

	2004	2003
Unrestricted Net Assets:		
Increase (Decrease) in Unrestricted Net Assets	\$ 6,913	\$(73,443)
Net Assets (Deficit) at Beginning of Year	<u>(55,076)</u>	<u>18,367</u>
Net Assets (Deficit) at End of Year	<u><u>\$(48,163)</u></u>	<u><u>\$(55,076)</u></u>

The accompanying notes are an integral part of these statements.

PRAIRIE ROSE 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 public support	\$ 339,175	\$ 362,390
Cash paid to suppliers	(109,627)	(155,687)
Cash paid to employees	(202,796)	(258,885)
Net cash provided by (used in) operating activities	26,752	(52,182)
Cash flows from financing activities:		
Advance from (to) Myrtue Memorial Hospital	(23,000)	60,000
Net change in cash	3,752	7,818
Cash at beginning of year	10,182	2,364
Cash at end of year	\$ 13,934	\$ 10,182
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ 6,913	\$(73,443)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	630	413
Changes in assets and liabilities		
Accounts receivable	391	39,374
Other receivables	529	(204)
Prepaid expense	110	(1,632)
Due to related parties	11,497	(2,921)
Accounts payable	3,191	(12,321)
Accrued employee compensation	3,104	(483)
Payroll taxes withheld and accrued	273	(602)
Other payables	114	(363)
Total adjustments	19,839	21,261
Net cash provided by (used in) operating activities	\$ 26,752	\$(52,182)

The accompanying notes are an integral part of these statements.

PRAIRIE ROSE 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 Prairie Rose 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. It is governed by a five member Board of Directors selected by the existing Board for one or two year terms. Of the five, three are also members of the Board of Shelby County Myrtue Memorial Hospital, a related organization (Note B). 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 in Shelby County and surrounding areas.

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 provision for bad debts totaled approximately \$24,000 (\$20,000 in 2003). The allowance for contractual adjustments is based on the difference between the Center's normal fees and expected government program and insurance payments.

5. 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.
- b. Fees from Shelby 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.

PRAIRIE ROSE 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. Equipment and Depreciation

Equipment is stated at cost. The Center computes depreciation on equipment using the straight-line method. Lives range from five to eighteen years.

7. 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.

8. 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 - RELATED ORGANIZATION

The Center (PRMHC) is related to Shelby County Myrtue Memorial Hospital (MMH) and to Shelby County Medical Corporation (SCMC) through shared board members and a sharing of administrative services. The activities of PRMHC are conducted in facilities rented from MMH. MMH has provided working capital to PRMHC and is reimbursed for costs it pays on behalf of PRMHC. Below is a summary of the activity and year end balances owed between PRMHC and the related entities as of and for the year ended June 30:

	2004	2003
<u>Between PRMHC and MMH</u>		
Services purchased from MMH	\$ <u>26,254</u>	\$ <u>12,615</u>
Sale of services and supplies to MMH	\$ <u>90</u>	\$ <u>13</u>
Amount payable to MMH at year end	\$ <u>100,606</u>	\$ <u>112,000</u>
<u>Between PRMHC and SCMC</u>		
Purchase of administrative services from SCMC	\$ <u>9,022</u>	\$ <u>8,820</u>
Amount payable to SCMC at year end	\$ <u>639</u>	\$ <u>748</u>

PRAIRIE ROSE MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2004 and 2003

NOTE C - CLASSIFICATION OF EXPENSES

Following is a summary classifying expenses by function:

	<u>2004</u>	<u>2003</u>
Medical services costs	\$ 279,462	\$ 301,365
Administrative and general costs	<u>51,880</u>	<u>95,298</u>
Total expenses	<u>\$ 331,342</u>	<u>\$ 396,663</u>

NOTE D - 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 clients and third-party payors at June 30, 2004 and 2003, was as follows:

	<u>2004</u>	<u>2003</u>
Medicare	6%	10%
Medicaid	18	26
Other third-party payors	40	32
Clients	<u>36</u>	<u>32</u>
	<u>100%</u>	<u>100%</u>

The Center received a significant portion of its revenue and support from Shelby County (\$90,000 in 2004, \$95,000 in 2003).

NOTE E - COMMITMENT AND CONTINGENCIES

Pension Plan

The Center has established a defined contribution pension plan for all employees who meet age and service requirements. Under the plan the Center contributes five percent of each qualifying employee's wages. Each employee becomes vested in the contributions (and investment income allocated to the employee's account) after five years of service.

Pension plan expense for the year was approximately \$9,900 in 2004 (\$13,000 in 2003).

PRAIRIE ROSE MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2004 and 2003

NOTE E - COMMITMENT AND CONTINGENCIES - Continued

Economic Dependency

The Center has incurred losses in each year between 2000 and 2003 resulting in a net deficit of (\$48,163) as of June 30, 2004. The survival of the Center is dependent on its ability to generate profits in future years, and the cooperation of Shelby County Myrtue Memorial Hospital and Shelby County, Iowa. Should the Hospital decide to discontinue its cooperation, or the County decide to reduce its funding, the Center's survival would be in serious doubt.

In May of 2003, management of the Center adopted a plan to reduce operating costs, and enable it to continue operations during the 2003-2004 year. As a result, during the year ended June 30, 2004, there was a net gain of \$6,913.

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. Prairie Rose 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 during any of the past three fiscal years.

* * *

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
Prairie Rose Mental Health Center
Harlan, Iowa

We have audited the financial statements of Prairie Rose Mental Health Center as of and for the year ended June 30, 2004, and have issued our report thereon dated August 13, 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 Prairie Rose 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 Prairie Rose 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 Prairie Rose 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
Prairie Rose 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 items 04-I-A.

This report, a public record by law, is intended solely for the information and use of Prairie Rose 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.

Stonecold, Bell, Kuhn & Co. P.C.
Atlantic, Iowa
August 13, 2004

PRAIRIE ROSE 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.

* * *