

SOUTHERN IOWA MENTAL HEALTH CENTER  
OTTUMWA, IOWA

INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS

SCHEDULE OF FINDINGS

JUNE 30, 2005

Anderson, Larkin & Co. P.C.

SOUTHERN IOWA MENTAL HEALTH CENTER

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Anderson, Larkin & Co. P.C.

SOUTHERN IOWA MENTAL HEALTH CENTER

OFFICIALS  
JUNE 30, 2005

Name

Title

BOARD OF DIRECTORS

Nancy Emanuel	President
Don Bramschreiber	Vice President
Sarah Wenke	Secretary/Treasurer
Tim Hotek	Board Member
Kathy Hasley	Board Member
Bob Kramer	Board Member
Marvin Knoot	Board Member
Jackie Greenfield	Board Member
Dale Taylor	Board Member
Steve Siegel	Board Member
Dan Stroda	Board Member

OTHER OFFICIALS

Donna Crookham	Executive Director
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Anderson, Larkin & CO. P.C.



ANDERSON, LARKIN & CO. P.C.  
Certified Public Accountants  
*"Achieving your goals with our knowledge"*

Kenneth E. Crosser, CPA  
April D. Hammack, CPA  
Michael J. Podliska, CPA

David W. Goodman, CPA (Former Principal)  
Robert E. Wells, CPA (Retired)

C. Kenneth Anderson, CPA (1952-1977)  
Joseph C. Larkin, CPA (1960-1990)

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Southern Iowa Mental Health Center  
Ottumwa, Iowa

We have audited the accompanying statement of financial position of Southern Iowa Mental Health Center, Ottumwa, Iowa, as of June 30, 2005 and the related statements of activities, functional expenses, and cash flows for the year 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 audit.

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. 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 our audit provides 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 Southern Iowa Mental Health Center, as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 7, 2005, on our consideration of Southern Iowa Mental Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
September 7, 2005

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2005

ASSETS

Cash and cash equivalents	\$ 141,682
Receivables:	
Accounts receivable; patient services, less allowance for doubtful accounts \$40,616	94,770
Prepaid expense	6,762
Furniture, fixtures and equipment	167,958
Less accumulated depreciation	<u>(146,220)</u>
TOTAL ASSETS	\$ <u>264,952</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 13,081
Accrued liabilities:	
Payroll	16,305
Payroll taxes	1,155
Vacation	14,211
Pension	5,698
Capital lease obligation	<u>8,095</u>
Total liabilities	58,545
Net assets:	
Unrestricted net assets	<u>206,407</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>264,952</u>

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2005

PUBLIC SUPPORT AND REVENUES:

Public support:	
County funds	\$ 361,964
Federal funds and grants	<u>36,207</u>
Total public support	<u>398,171</u>
Revenues:	
Private fees, Title XIX and other	444,688
Promise Center	49,338
Interest	857
Miscellaneous	<u>24,138</u>
Total revenues	<u>519,021</u>

TOTAL PUBLIC SUPPORT AND REVENUES 917,192

EXPENSES:

Program services	807,969
Support services	<u>69,173</u>

TOTAL EXPENSES 877,142

CHANGE IN NET ASSETS 40,050

NET ASSETS - Beginning of year 166,357

NET ASSETS - End of year \$ 206,407

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2005

	<u>Program Services</u> Mental Health Center <u>Programs</u>	<u>Support Services</u> Management and General	<u>Total</u>
<b><u>EXPENSES:</u></b>			
Salaries	\$ 418,753	\$ 48,534	\$ 467,287
Payroll taxes	35,548	4,394	39,942
Group health insurance and employee benefits	61,565	7,609	69,174
Pension	<u>14,746</u>	<u>1,823</u>	<u>16,569</u>
Total salaries and related expenses	530,612	62,360	592,972
Professional fees	184,432	-	184,432
Promise Center	20,080	-	20,080
Advertising	153	159	318
Office supplies	8,209	912	9,120
Telephone	6,318	702	7,020
Travel	1,139	127	1,266
Repairs and maintenance	828	92	920
Dues	1,759	195	1,954
Staff development	2,772	308	3,080
Insurance	12,811	-	12,811
Cleaning	2,511	279	2,790
Rent	23,119	2,569	25,688
Miscellaneous	3,794	422	4,216
Interest	<u>823</u>	<u>92</u>	<u>915</u>
Total expenses before depreciation	799,365	68,217	867,582
Depreciation	<u>8,604</u>	<u>956</u>	<u>9,560</u>
TOTAL EXPENSES	\$ <u>807,969</u>	\$ <u>69,173</u>	\$ <u>877,142</u>

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 40,050
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	9,560
Increase in allowance for doubtful accounts	3,585
Increase in accounts receivable	(11,951)
Increase in prepaid expenses	(97)
Decrease in accounts payable	(3,089)
Increase in accrued liabilities	6,172
Decrease in litigation payable	<u>(15,000)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>29,230</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Principal payments on capital lease obligation	<u>(1,897)</u>
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NET INCREASE IN CASH 27,333

CASH AND CASH EQUIVALENTS - Beginning of year 114,349

CASH AND CASH EQUIVALENTS - End of year \$ 141,682

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for interest	\$ 915
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SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING  
AND FINANCING ACTIVITIES:

Obtained fixed asset with capital lease	\$ 3,505
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SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Center is a nonprofit corporation 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. Services are provided to residents of Southeastern Iowa.

The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes. The Center is classified as other than a private foundation.

B. Financial Statement Presentation

The Center has adopted 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. In addition, the Center is required to present a statement of cash flows. At June 30, 2005, the Center had only unrestricted net assets.

C. 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 conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

D. Cash and Cash Equivalents

The Center considers savings accounts and all other highly liquid investments with an original maturity of three months or less to be cash equivalents.

E. Receivables

The Center grants credit to clients, most of whom are located in the Southeast Iowa area. Also, the Center has grant and contract receivables from the federal, state, and county governments. The risk of loss on these receivables is the balance owed at the time of default. Accounts receivable are considered past due after 30 days and are charged off when management determines the account is uncollectible. The Center has provided an allowance for the year ended June 30, 2005, based on historical collections and management's estimate of the collectibility of accounts receivable.

F. Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are stated at cost. Purchases of fixed assets in excess of \$500 that provide future benefits are capitalized and depreciation is computed on the straight-line method over the estimated useful lives of 3-10 years. No interest costs were capitalized since there were no qualifying assets.

G. Compensated Absences

Center employees accumulate a limited amount of earned but unused vacation benefits payable to employees. Amounts representing the cost of compensated absences are recorded as liabilities and have been computed based on current rates of pay in effect at June 30, 2005.

SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Employee Benefits

The Center has adopted a defined contribution pension plan covering substantially all employees who have completed one year of service and are at least 21 years of age. The Center contributes 4% of eligible employees' salaries into the pension plan. Employees become fully vested after six years of service. Years of service for purposes of defining plan years are those in which the employee completes at least 1000 hours of service. Pension expense for the year ended June 30, 2005, totaled \$16,569.

I. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

J. Advertising

The Center expenses advertising production costs as they are incurred and advertising communication costs the first time advertising takes place.

NOTE 2: CAPITAL LEASE OBLIGATIONS

The Center leased a copier with terms through September 30, 2006. The obligations under the capital lease have been recorded in the accompanying financial statements at the present value of future minimum lease payments, discounted at an interest rate of 8 percent. The capitalized cost of \$10,011 is included in furniture, fixtures and equipment in the accompanying financial statements. Amortization expense on the lease totaled \$3,337 for the year ended June 30, 2005, and is included with depreciation expense. On October 30, 2004 the Center traded in the old copier for a new model. The new lease has a capitalized cost of \$3,505. Amortization expense on the new lease totaled \$584 for the year ended June 30, 2005 and is included with depreciation expense.

The future minimum lease payments required under capital leases at June 30, 2005, are as follows:

2006	\$ 2,898
2007	2,898
2008	2,898
2009	<u>966</u>
	9,660
Less amount representing interest	<u>1,565</u>
Present value of future minimum lease payments	8,095
Less current portion	<u>2,134</u>
Long-term portion	\$ <u>5,961</u>

NOTE 3: MAJOR REVENUE SOURCE

The Center receives an annual grant from Wapello County and also provides treatment to residents of this County. Revenue from the County totaled \$328,141 for the year ended June 30, 2005.

NOTE 4: LEASE AGREEMENT

The Center leases office space under a month to month operating lease at a monthly rental amount of \$2,141. Rent expense on this lease for the year ended June 30, 2005, totaled \$25,688.

SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

NOTE 5: CENTER RISK MANAGEMENT

Southern 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. With the exception of a lawsuit accrued at June 30, 2004 and settled during the year ended June 30, 2005, settled claims for these risks have not exceeded commercial insurance coverage for any of the past three years.

NOTE 6: INSURED DEPOSITS

The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts. The Center had deposits in excess of federally insured limits of \$51,134 as of June 30, 2005.

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

Board of Directors  
Southern Iowa Mental Health Center

We have audited the financial statements of Southern Iowa Mental Health Center, Ottumwa, Iowa, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 7, 2005. 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 Southern 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. 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 Southern 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 the accompanying Schedule of Findings.

A material weakness is a reportable 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. 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 above, we believe items A and B are material weaknesses. Prior year reportable conditions have all been resolved except for Item A.

**Compliance**

As part of obtaining reasonable assurance about whether the 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.

Comments involving statutory and other legal matters about the Center's operations for the year ended June 30, 2005 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. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Southern Iowa Mental Health Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
September 7, 2005

Anderson, Larkin & Co. P.C.

SOUTHERN IOWA MENTAL HEALTH CENTER

SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2005

Findings Related to the Financial Statements:

Reportable Conditions:

- (A) Segregation of Duties - Due to the small size of your organization, one employee performs many bookkeeping duties. This is a lack of segregation of duties, a problem commonly associated with small businesses and organizations.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Center should be aware of the lack of segregation of duties and periodically review its internal policies.

Response - The internal policies will be reviewed on a regular basis.

Conclusion - Response accepted.

- (B) Accounts Receivable - Testing in this area revealed instances of accounts not billed, denied payments that were not re-billed or followed up, and improper billings resulting in denied payments

Recommendation - We recommend that the Center's board and management develop policies that resolve these issues.

Response - The Board is aware of the problems and possible solutions are being investigated.

Conclusion - Response accepted.

Other Findings Related to Statutory Requirements and Other Matters:

No matters were noted.