

WAUBONSIE MENTAL HEALTH CENTER
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION
COMMENTS AND RECOMMENDATIONS
YEARS ENDED JUNE 30, 2005 AND 2004

WAUBONSIE MENTAL HEALTH CENTER

CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS:	
Balance Sheets	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	7
ACCOMPANYING INFORMATION:	
Schedules Supporting Statements of Activities:	
Revenues and support	11
Operating expenses	12
COMMENTS AND RECOMMENDATIONS:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	14
Schedule of Findings	16

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

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

ROGER A. BELL
MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Waubonsie Mental Health Center as of June 30, 2005 and 2004, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Waubonsie Mental Health Center as of June 30, 2005 and 2004, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2005 on our consideration of Waubonsie Mental Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, 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.

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

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

Atlantic, Iowa
September 14, 2005

WAUBONSIE MENTAL HEALTH CENTER
Balance Sheets
June 30,

ASSETS

	<u>2005</u>	<u>2004</u>
Current Assets:		
Cash	\$ 51,249	\$ 144,921
Certificates of deposit	143,115	140,530
Client receivables, less allowances for doubtful accounts and contractual adjustments (\$79,000 in 2005 and \$76,000 in 2004)	69,558	79,985
Other receivables	120,378	83,550
Prepaid expense	635	4,048
Total current assets	<u>384,935</u>	<u>453,034</u>
Property and Equipment, Net	<u>29,357</u>	<u>43,529</u>
Total assets	<u>\$ 414,292</u>	<u>\$ 496,563</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 4,205	\$ 43,041
Accrued employee compensation	32,292	29,867
Total current liabilities	<u>36,497</u>	<u>72,908</u>
Net Assets:		
Unrestricted	<u>377,795</u>	<u>423,655</u>
Total liabilities and net assets	<u>\$ 414,292</u>	<u>\$ 496,563</u>

The accompanying notes are an integral part of these statements.

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

	2005	2004
Support and Revenue:		
Support:		
Fees from participating counties	\$ 308,523	\$ 348,131
Grants	93,363	34,004
Total support	401,886	382,135
Revenue:		
Client fees, net	359,796	341,855
Other revenue	12,885	15,211
Total revenue	372,681	357,066
Total Support and Revenue	774,567	739,201
Expenses:		
Operating expenses	800,510	766,489
Provision for depreciation	20,255	24,265
Provision for bad debts	2,871	7,242
Total expenses	823,636	797,996
Operating Loss	(49,069)	(58,795)
Other Support and Gains:		
Interest income	3,209	2,945
Loss on disposal of assets	--	(278)
Total other support and gains	3,209	2,667
Decrease in Unrestricted Net Assets	(45,860)	(56,128)
Net Assets, Beginning of Year	423,655	479,783
Net Assets, End of Year	\$ 377,795	\$ 423,655

The accompanying notes are an integral part of these statements.

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

	2005	2004
Cash flows from operating activities:		
Cash received from clients, third party payors, and contracting agencies	\$ 338,363	\$ 345,925
Cash paid to employees	(449,058)	(418,132)
Cash paid to suppliers	(346,461)	(341,422)
County funding received	295,888	326,671
Grants received	60,170	6,159
Interest income	3,209	2,945
Other operating revenue	<u>12,885</u>	<u>15,211</u>
Net cash used in operating activities	(85,004)	(62,643)
Cash flows from investing activities:		
Capital expenditures	(6,083)	(1,555)
Additions to certificates of deposit	<u>(2,585)</u>	<u>(2,047)</u>
Net cash used in investing activities	<u>(8,668)</u>	<u>(3,602)</u>
Net decrease in cash	(93,672)	(66,245)
Cash beginning of year	<u>144,921</u>	<u>211,166</u>
Cash end of year	<u><u>\$ 51,249</u></u>	<u><u>\$ 144,921</u></u>

(continued next page)

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

	2005	2004
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	\$(45,860)	\$(56,128)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Provision for depreciation	20,255	24,265
Provision for bad debts	2,871	7,242
Loss on disposal of assets	--	278
Change in assets and liabilities		
Accounts receivable	(29,272)	(45,684)
Prepaid expense	3,413	753
Accounts payable, trade	(38,836)	40,676
Accrued employee compensation	2,425	3,495
Deferred county revenue	--	(37,540)
Total adjustments	(39,144)	(6,515)
Net cash used in operating activities	\$(85,004)	\$(62,643)

The accompanying notes are an integral part of these statements.

WAUBONSIE MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2005 and 2004

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

1. Nature of Activities

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

2. Basis of Accounting and Presentation

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

3. Use of Estimates

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

4. Client Receivables

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

WAUBONSIE MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2005 and 2004

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

5. Unrestricted Revenues and Support

- a. Fees from clients are recorded at list price with adjustments based upon ability to pay and government program and insurance limitations deducted to arrive at net fees from clients. The Center does not record charges and the related write-off of Supported Community Living Services that are deemed uncollectible. If these charges were recorded, the revenues and the related adjustments would be higher. The amount of unrecorded revenues and related adjustments cannot be determined.
- b. Fees from participating counties are based on the Center's annual budget and are allocated among the counties based on their relative usages and populations.
- c. Grant revenues are for specific programs provided by the Center and are recognized as income when grant requirements have been satisfied.

6. Property and Equipment

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

7. Capital Leases

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

8. Charity Care

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

WAUBONSIE MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2005 and 2004

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

9. Cash and Cash Equivalents

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

NOTE B - PROPERTY AND EQUIPMENT

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

	2005	2004
Automobiles	\$ 60,402	\$ 60,402
Office Equipment and Leasehold Improvements	125,084	119,001
	185,486	179,403
Less Accumulated Depreciation	156,129	135,874
	\$ 29,357	\$ 43,529

Rent expense for office space under cancelable operating leases totaled \$22,416 for the year ended June 30, 2005 (\$22,815 for June 30, 2004).

NOTE C - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

	2005	2004
Client Services	\$ 717,635	\$ 689,292
Management and General	106,001	108,704
	\$ 823,636	\$ 797,996

NOTE D - RETIREMENT PLAN

The Center offers a 403(b) retirement plan in which the Center contributes five percent of an eligible individual's gross wages, limited to \$40,000, to the plan. All full-time staff with two months of employment and who are over eighteen years of age are included in the plan. Total contributions made by the Center for the year ended June 30, 2005 were \$18,363 (\$18,793 for 2004).

WAUBONSIE MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2005 and 2004

NOTE E - CONTINGENCIES

Risk Management

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

Off-Balance Sheet Risk

The Center maintains its deposits at several banks in the area. At June 30, 2005, the deposits in one bank exceeded the FDIC insured deposits limit for one entity (by approximately \$2,000). Management of the Center has received no indication of any potential viability problems with this bank by the date of this report.

Economic Dependency

The Center received approximately 40 percent of its revenue from Fremont, Montgomery and Page counties in 2005 (47 percent in 2004).

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, 2005 and 2004, was as follows:

	2005	2004
Medicaid	44%	50%
Other third-party payors and patients	56	50
	100%	100%

* * *

ACCOMPANYING INFORMATION

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

<u>Client Fees</u>	<u>2005</u>		<u>2004</u>
	<u>Gross</u>	<u>Adjustments</u>	<u>Net</u>
Self Pay and 3rd Party			
Insurance	\$ 431,739	\$ 355,528	\$ 76,211
Title XIX	340,282	133,079	207,203
ARO	<u>76,382</u>	<u>--</u>	<u>76,382</u>
	<u>\$ 848,403</u>	<u>\$ 488,607</u>	<u>\$ 359,796</u>
 <u>Fees from Participating Counties</u>			
Fremont			\$ 76,588
Montgomery			110,779
Page			<u>160,764</u>
			<u>\$ 308,523</u>
			<u>\$ 348,131</u>

See Independent Auditor's Report.

WAUBONSIE MENTAL HEALTH CENTER
Operating Expenses
Year ended June 30,

	<u>2005</u>	<u>2004</u>
Administrative salaries	\$ 26,745	\$ 26,630
Therapists salaries	269,853	267,884
Clerical salaries	95,033	106,937
Psychiatric consultation	66,542	71,260
Employee benefits	79,174	83,181
Payroll tax expense	37,216	34,979
Audit and accounting fees	8,112	9,059
Other professional fees	13,213	13,805
Office supplies	5,591	6,159
CSP program expenses	6,281	4,843
Telephone	9,653	9,976
Postage and shipping	5,693	5,573
Rent expense	22,416	22,815
Building repairs and maintenance	2,190	2,215
Insurance expense	11,255	10,849
Utilities	4,143	4,198
Travel expense	13,686	15,588
Agency vehicle expense	8,251	8,180
Staff development and training	3,758	2,682
Subscriptions	877	326
Organization dues	1,836	1,862
Equipment repairs and maintenance	1,365	1,236
Advertising	3,818	3,697
Medication expense	1,596	3,525
Miscellaneous	<u>1,870</u>	<u>2,647</u>
	700,167	720,106
 Community Mental Health Services Grant Expenses - Adults:		
Salaries	8,907	9,525
Employee benefits	702	728
Travel expense	2,049	612
Other expense	<u>5,107</u>	<u>4,787</u>
	16,765	15,652
 Senior Contract Program Grant:		
Salaries	40,520	--
Employee benefits	6,662	--
Travel expense	1,849	--
Other expense	<u>5,660</u>	<u>--</u>
	54,691	--

(continued next page)

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

	2005	2004
Community Mental Health Services Grant Expenses - Children & Adolescents:		
Salaries	\$ 10,425	\$ 10,651
Employee benefits	2,231	2,273
Travel expense	540	358
Other expense	3,587	3,547
	16,783	16,829
 Transitional Living Program Expenses:		
Housing	8,790	10,948
Other expense	3,314	2,954
	12,104	13,902
	\$ 800,510	\$ 766,489

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

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

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

ROGER A. BELL
MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

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

We have audited the accompanying financial statements of Waubonsie Mental Health Center as of and for the year ended June 30, 2005, and have issued our report thereon dated September 14, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Waubonsie Mental Health Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 Waubonsie Mental Health Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

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 item 05-I-A is a material weakness.

To the Board of Directors
Waubonsie Mental Health Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Waubonsie Mental Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 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 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Waubonsie Mental Health Center and other parties to whom Waubonsie Mental Health Center may report, including federal awarding agencies and pass-through entities. 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
September 14, 2005

WAUBONSIE MENTAL HEALTH CENTER
Schedule of Findings
Year ended June 30, 2005

PART I - REPORTABLE CONDITIONS

05-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.

* * *