NORTHEAST IOWA MENTAL HEALTH CENTER

FINANCIAL STATEMENTS

JUNE 30, 2005

TABLE OF CONTENTS

	Page
BOARD OF DIRECTORS AND STAFF MEMBERS	1
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Statements of Functional Expenses	6
Notes to Financial Statements	7-12
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION	13
SUPPLEMENTARY INFORMATION	
Statement of Financial Position Information	14-15
Statement of Changes in Net Assets (By Program)	16
Statement of Activities Information	17-18
Statement of Functional Expenses Information	19-20
Schedule of Expenditures of Federal Awards	21
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*	22-23
MANAGEMENT LETTER	24-25

NORTHEAST IOWA MENTAL HEALTH CENTER

BOARD OF DIRECTORS AND STAFF MEMBERS
June 30, 2005

President:	Dale Fenske (Howard)
Vice President:	Emory Westcott (Howard)
Secretary:	Sallee A. Scarff-Muehlbauer (Clayton)
Treasurer:	Sallee A. Scarff-Muehlbauer (Clayton)

Mike Bergan, Winneshiek
Steve Bouska, Winneshiek
Deb Chensvold, Gundersen Lutheran
Bill Clark, Allamakee
Larry Gibbs, Clayton
Bill Nixon, Winneshiek
Rev. Ginny Olson, Winneshiek
Kristen Olson, Allamakee
Kathy Strike, Howard
John Youngblut, Clayton

STAFF MEMBERS

Administration
Patrick Smith, Executive Director
Elaine Nicola, M.D., Medical Director*
B.J. Dave, M.D., Medical Director
Marcia Oltrogge, MA, CADC, Associate Director
Marlene Pins, MIS Director
Jan Jauert, Administrative Assistant

Medical Staff
Vithalji Modha, M.D.
Afshin Shirani, M.D.
Steven Silver, M.D.

Counseling Staff
Susan Doll, ACADC, LISW
Lynda Elgers, MA
Carol Hagen, LISW
Kimberly Havens, BA, CADC
Larry Heckert, BA, CADC
Jamie Lanus, LMSW
Kathrine Martin, CADC*
Darla Nave, MA
Ginger O'Connell, BA, ACADC
Cynthia Peterson, MA, LISW
Jennifer Shaw, LMSW
Barbara Smed, MSW*
Michael Tallman, MA, LMFT*
Karen Tenneson, LMSW
Lee Zook, PhD, LISW

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

Intensive Services Staff
Diane Engen, BA*
Cheryl Hermansen, BA
Sharon Trewin, BSN, LMSW*
Hope Trainor, BA*
Linda Turnure, MSW*

Community Support Staff
Wendy Buenzow, BA
Virginia Leidahl, LBSW
Ann Pahlas, LBSW

Wellness Recovery Staff
Brenda Burke, BSW

*Terminated prior to or on June 30, 2005

HACKER, NELSON & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
and BUSINESS CONSULTANTS

123 WEST WATER STREET
P.O. BOX 507
DECORAH, IOWA 52101
TELEPHONE 563 382-3637
FAX 563 382-5797
E-MAIL @HACKERNELSON.COM

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

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

We have audited the accompanying statements of financial position of Northeast Iowa Mental Health Center (a nonprofit corporation) as of June 30, 2005 and 2004, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2005, on our consideration of Northeast Iowa Mental Health Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
August 12, 2005

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENTS OF FINANCIAL POSITION
June 30, 2005 and 2004

ASSETS

	2005	2004
CURRENT ASSETS		
Cash and cash equivalents	$ 367,569	$ 463,010
Accounts receivable, less allowance for adjustments of 2005 $40,776; 2004 $35,880	195,285	197,075
Prepaid expenses	24,899	39,408
Total current assets	587,753	699,493
PROPERTY AND EQUIPMENT, net	1,043,803	1,045,241
ASSETS WHOSE USE IS LIMITED		
Cash and cash equivalents	107,635	105,910
Investments, at fair market value	211,250	205,011
Accrued interest receivable	1,509	2,609
Noncurrent assets whose use is limited	320,394	313,530
	$ 1,951,950	$ 2,058,264

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	$ 23,776	$ 15,734
Accrued salary and vacation pay	49,271	51,836
Total current liabilities	73,047	67,570
NET ASSETS		
Unrestricted net assets		
Designated for specified purposes	481,385	468,309
Undesignated	1,397,518	1,522,385
Total net assets	1,878,903	1,990,694
	$ 1,951,950	$ 2,058,264

See Notes to Financial Statements.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENTS OF ACTIVITIES
June 30, 2005 and 2004

	2005	2004
SUPPORT AND REVENUE		
Support		
Grants and contracts	$ 740,679	$ 724,750
Revenue and gains		
County fees	120,731	161,162
Other		
Fees	694,055	1,013,791
Other services	7,709	6,931
Interest	13,062	14,799
Dividends	561	518
Gifts	635	1,849
Unrealized loss on investments	(280)	(737)
In-kind contributions	2,670	3,080
Miscellaneous	6,119	9,145
Total revenue and gains	845,262	1,210,538
Total support and revenue	1,585,941	1,935,288
EXPENSES		
Program services		
Mental Health program	859,429	1,243,274
Alcohol and Related Problems program	502,023	403,982
Total program services	1,361,452	1,647,256
Support services		
General and administrative	336,280	314,799
Total expenses	1,697,732	1,962,055
Change in unrestricted net assets	(111,791)	(26,767)
NET ASSETS, beginning	1,990,694	2,017,461
NET ASSETS, ending	$ 1,878,903	$ 1,990,694

See Notes to Financial Statements.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENTS OF CASH FLOWS
June 30, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (111,791)	$ (26,767)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	61,433	64,206
Provision for adjustments	4,896	(31,323)
Unrealized loss on investments	280	737
Changes in:		
Accounts receivable	(3,106)	51,170
Accrued interest	1,100	(609)
Prepaid expenses	14,509	(7,352)
Accounts payable and accrued expenses	8,040	(46,524)
Due to others	-	(10,098)
Accrued salaries and benefits	(2,565)	740
Net cash used in operating activities	(27,204)	(5,820)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment, furniture and fixtures	(59,993)	(8,606)
Purchase of investments	(6,519)	(5,649)
Net cash used in investing activities	(66,512)	(14,255)
Net decrease in cash	(93,716)	(20,075)
CASH AND CASH EQUIVALENTS		
Beginning of year	568,920	588,995
End of year	$ 475,204	$ 568,920
STATEMENT OF FINANCIAL POSITION RECONCILIATION		
Current assets	$ 367,569	$ 463,010
Assets whose use is limited	107,635	105,910
	$ 475,204	$ 568,920

See Notes to Financial Statements.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2005 and 2004

	2005				2004			
	Program Services				Program Services			
	Mental Health Program	Alcohol and Related Problems Program	Supporting Services General and Administrative	Total	Mental Health Program	Alcohol and Related Problems Program	Supporting Services General and Administrative	Total
Salaries	$ 469,990	$ 321,513	$ 212,017	$ 1,003,520	$ 699,341	$ 261,795	$ 206,528	$ 1,167,664
Payroll taxes	37,816	28,660	17,915	84,391	52,806	19,481	15,502	87,789
Employee benefits	109,626	69,657	47,817	227,100	163,494	55,179	46,340	265,013
Total personnel	617,432	419,830	277,749	1,315,011	915,641	336,455	268,370	1,520,466
Psychiatric consultation	45,007			45,007	65,809			65,809
Independent contractors	16,977	3,895		20,872	46,801	11,966		58,767
Professional fees	13,613	8,011	5,742	27,366	18,913	5,775	5,164	29,852
Day treatment expenses, child	528			528	3,010			3,010
Building repair and maintenance	8,368	5,947	3,843	18,158	5,746	2,951	1,955	10,652
Office supplies and expense	11,918	10,797	6,187	28,902	15,683	5,003	4,351	25,037
Telephone	6,006	2,879	2,332	11,217	7,371	2,106	1,966	11,443
Mileage and travel	11,700	6,617	4,853	23,170	15,189	4,846	4,215	24,250
Rent	2,124	1,384	936	4,444	2,759	929	781	4,469
Janitorial services	8,058	5,722	3,699	17,479	7,368	3,669	2,470	13,507
Equipment repair and maintenance	4,915	3,416	2,234	10,565	7,325	2,420	2,059	11,804
Equipment rental	2,186	1,532	998	4,716	4,211	1,460	1,206	6,877
Depreciation and amortization	49,491		11,942	61,433	54,662		9,544	64,206
Bad debts	14,283	8,534		22,817	23,875	7,733		31,608
Property tax	5,590			5,590	5,350			5,350
Other expenses	41,233	23,459	15,765	80,457	43,561	18,669	12,718	74,948
Total expenses	$ 859,429	$ 502,023	$ 336,280	$ 1,697,732	$ 1,243,274	$ 403,982	$ 314,799	$ 1,962,055

See Notes to Financial Statements.

NORTHEAST IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

1. Organization and Function and Significant Accounting Policies

a. Organization and Function

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

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

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

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

b. Basis of Accounting

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

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

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

c. Financial Statement Presentation

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

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

d. Cash and Cash Equivalents

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

e. Patient Services Revenue

Patient services revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Balances that are still outstanding after management has used reasonable collection efforts are written off to bad debts. The allowance for adjustment was $40,776 and $35,880 at June 30, 2005 and 2004, respectively.

f. Investments

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

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

g. Property and Equipment

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

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

h. Support and Revenue

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

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

i. Functional Allocation of Expenses

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

j. Income Taxes

Northeast Iowa Mental Health Center is a nonprofit corporation qualifying for exempt status under Section 501(c)(3) of the Internal Revenue Code and is not required to pay income tax. The Center files the required annual informational return for organizations exempt from income tax. In addition, the Center has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for 2005.

k. Pension Plan

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

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

l. Accrued Vacation

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

m. Concentrations of Credit Risk

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

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

m. Concentrations of Credit Risk (Continued)

As of the balance sheet date, cash balances on deposit with financial institutions exceeded the amount insured by the Federal Deposit Insurance Corporation (FDIC) by $351,704. These cash balances fluctuate during the year and at various times may exceed the $100,000 insurance limit. Management continually monitors the financial condition of the financial institutions along with the cash balances, which are maintained on deposit with them in order to minimize this potential risk.

n. Management Estimates

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

2. Investments

Investments at June 30, 2005 and 2004 are carried at fair value and are composed of the following:

	2005		2004	
	Cost	Fair Value	Cost	Fair Value
Investments whose use is limited				
Mutual funds	$ 16,141	$ 17,267	$ 15,579	$ 16,374
Certificates of deposit	193,676	193,983	187,719	188,637
	$ 209,817	$ 211,250	$ 203,298	$ 205,011

The following schedule summarizes the investment return for the years ended June 30, 2005 and 2004:

	2005	2004
Investment income	$ 11,874	$ 13,877
Unrealized loss	(280)	(737)
	$ 11,594	$ 13,140

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

	Cost	Market Value	Excess of Market Over Cost
Balance, beginning of year	$ 203,298	$ 205,011	$ 1,713
Decrease in unrealized gains on investments			(280)
Balance, end of year	$ 209,817	$ 211,250	$ 1,433

The Center incurred no direct investment expenses during the years ended June 30, 2005 and 2004.

3. Property and Equipment

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

	2005	2004
Buildings	$1,323,845	$1,274,495
Office furniture and equipment	420,149	410,330
	1,743,994	1,684,825
Accumulated depreciation	700,191	639,584
	$1,043,803	$1,045,241

The total depreciation expense for the Center for the years ended June 30, 2005 and 2004 was $61,433 and $64,206, respectively.

4. Assets Whose Use is Limited

Assets of $320,394 ($313,530 in 2004) have been designated by the Board of Directors for the improvement, replacement, and expansion of property and equipment. Of this total, $250,729 is designated for operating reserve, $1,038 for a Medicare claiming reserve and $68,627 is for equipment replacement. Management expects that a portion of the board-designated funds may be required for operations in the fiscal year ended June 30, 2006. This designation is subject to change at the discretion of the Board and is not a legal restriction on use of the assets.

5. Contributed Services

Contributed services, which require special skills that would be purchased if not donated, or create or enhance a nonfinancial asset are recognized in the statements of activities. This amount equaled $2,670 and $3,080 for the years ended June 30, 2005 and 2004, respectively.

6. Fund-Raising Expense

The Center incurred no fund-raising expenses for the years ended June 30, 2005 and 2004.

7. Pension Plan

The total pension expense for the Center for the years ended June 30, 2005 and 2004 was $91,262 and $95,218, respectively.

8. Interest Expense

For the years ended June 30, 2005 and 2004, the Center incurred no interest cost, and accordingly, no interest expense was capitalized during these periods.

9. Lease Obligations

The Center leases office space for its satellite offices under various month to month leases with $4,444 and $4,469 charged to expense for the years ended June 30, 2005 and 2004, respectively.

The Center also rents equipment under various month to month leases which totaled $4,716 and $6,877 for the years ended June 30, 2005 and 2004, respectively.

10. Commitments and Contingencies

The Center's employees accumulate sick leave days for subsequent use. These accumulations are not recognized as expenses by the Center until used. The Center's approximate unrecognized accrued sick leave at June 30, 2005 is $160,991 ($154,779 at June 30, 2004). Sick leave becomes payable when used by the employees. The Center's policy prohibits payoff of accumulated benefits at termination of employment. The Board of Directors considers this amount designated, however, no assets have been specifically earmarked for this purpose.

Northeast Iowa Mental Health Center's medical director, Dr. Nicola resigned effective, January 21, 2005. The Center has been without a permanent psychiatrist since that time and has been providing limited services to patients provided by temporary psychiatrists. On April 4, 2005, the Center entered into a contingency search agreement with FCS for the recruitment of a psychiatrist. Dr. Neelu Gill signed an employment agreement on July 19, 2005, to provide medical services for three years commencing in July 2006. Under the agreement, in addition to compensation and benefits, the Center will pay for relocation costs up to $7,000 and attorney's fees up to $5,000 to help Dr. Gill obtain H-1B visa status. In accordance with the contingency search agreement with FCS, the Center paid half the fee, $10,000 upon Dr. Gill signing the employment agreement. The remaining $10,000 will be due when Dr. Gill begins work at the Center in July 2006. The Center will be refunded the initial $10,000 paid to FCS should Dr. Gill fail to commence employment or depart within 30 days of start date.

11. Risk Management

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

12. Support from Governmental Units

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

Effective July 1, 2005, the Center lost its contract with the Fayette County Board of Supervisors as the County's designated mental health provider. Patients receiving County support for mental health care only no longer receive treatment from the Center. The Center still provides mental health and emergency services in Fayette County to patients not receiving County support. In addition, the Substance Abuse contract with the Iowa Department of Public Health continues to be in effect. The Center can treat substance abuse and dual disorder patients under this contract and receive reimbursement. Management's assessment on the loss of the Fayette contract is that of revenue neutrality.

HACKER, NELSON & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
and BUSINESS CONSULTANTS

123 WEST WATER STREET
P.O. BOX 507
DECORAH, IOWA 52101
TELEPHONE 563 382-3637
FAX 563 382-5797
E-MAIL @HACKERNELSON.COM

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

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

Our report on our audits of the basic financial statements of Northeast Iowa Mental Health Center (a nonprofit corporation) as of and for the years ended June 30, 2005 and 2004 appears on page 2. We conducted our audits in accordance with U.S. generally accepted auditing standards. These audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information listed on pages 14 through 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
August 12, 2005

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF FINANCIAL POSITION INFORMATION
June 30, 2005

	Mental Health Program	Alcohol and Related Problems Program	Inter-program Eliminations	Total all Programs
CURRENT ASSETS				
Cash and cash equivalents	$ 367,569			$ 367,569
Accounts receivable, net of allowance for adjustments	160,214	$ 35,071		195,285
Due from Mental Health Program		438,567	$ (438,567)	None
Prepaid expenses	24,899			24,899
Total current assets	552,682	473,638	(438,567)	587,753
PROPERTY AND EQUIPMENT				
Buildings	1,323,845			1,323,845
Equipment	420,149	474		420,623
	1,743,994	474		1,744,468
Less accumulated depreciation	(700,191)	(474)		(700,665)
Total property and equipment	1,043,803	None		1,043,803
ASSETS WHOSE USE IS LIMITED				
Cash and cash equivalents	107,635			107,635
Investments, at fair market value	211,250			211,250
Accrued interest receivable	1,509			1,509
Noncurrent assets whose use is limited	320,394			320,394
	$ 1,916,879	$ 473,638	$ (438,567)	$ 1,951,950
CURRENT LIABILITIES				
Account payable	$ 23,776			$ 23,776
Due to Alcohol and Related Problems Program	438,567		$ (438,567)	None
Accrued salary and vacation pay	24,989	$ 24,282		49,271
Total current liabilities	487,332	24,282	(438,567)	73,047
NET ASSETS				
Unrestricted net assets				
Designated for specified purposes	481,385			481,385
Undesignated	948,162	449,356		1,397,518
Total unrestricted net assets	1,429,547	449,356		1,878,903
	$ 1,916,879	$ 473,638	$ (438,567)	$ 1,951,950

See Independent Auditor's Report on the Supplementary Information.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF FINANCIAL POSITION INFORMATION (Continued)
June 30, 2005

ASSETS WHOSE USE IS LIMITED

	Interest Rate	Maturity Date	Amount
Mental Health Program			
Cash Equivalents			
Savings Account			
Northeast Security Bank	Variable		$ 68,627
Money Market Accounts			
Decorah Bank & Trust	Variable		38,085
Edward D. Jones & Company	Variable		923
			107,635
Mutual Fund			
U.S. Government Securities Fund			
American Funds Service Company	Variable		17,267
Certificate of Deposits			
Edward D. Jones & Company			
American National	7.00%	February 23, 2006	18,308
Farmers and Merchants Savings Bank	3.45%	April 18, 2006	69,283
Bank of the West	3.40%	June 9, 2006	70,232
Bank of the West	2.62%	March 4, 2006	35,122
Decorah Bank & Trust	2.50%	September 10, 2006	1,038
			193,983
Accrued interest			1,509
Total assets whose use is limited			$ 320,394

See Independent Auditor's Report on the Supplementary Information.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF CHANGES IN NET ASSETS (By Program)
Year Ended June 30, 2005

	Mental Health Program	Alcohol and Related Problems Program	Inter-program Eliminations	Total All Programs
Total support and revenue	$ 919,765	$ 683,527	$ (17,351)	$ 1,585,941
Total expenses	1,046,080	669,003	(17,351)	1,697,732
Change in net assets	(126,315)	14,524	None	(111,791)
NET ASSETS, beginning	1,555,862	434,832	None	1,990,694
NET ASSETS, ending	$ 1,429,547	$ 449,356	$ None	$ 1,878,903

See Independent Auditor's Report on the Supplementary Information.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF ACTIVITIES INFORMATION
Year Ended June 30, 2005

	Mental Health Program	Alcohol and Related Problems Program	Inter-program Eliminations	Total All Programs
SUPPORT AND REVENUE				
Support				
County block grants	$ 245,392			$ 245,392
Division of Health, Promotion, Prevention and Addictive Behaviors contract		$ 380,391		380,391
Iowa Department of Corrections		16,391		16,391
U.S. Department of Justice Valley Grant		488		488
University of Iowa contract	48,716			48,716
Division of Behavioral, Developmental and Protective Services for Families, Adults and Children				
Mental Health Adult Grant	24,968			24,968
Mental Health Child Grant	24,333			24,333
Total support	343,409	397,270		740,679
Revenue and Gains				
County				
Outpatient fees	83,758			83,758
Adult recovery	12,986			12,986
Community support services	23,987			23,987
	120,731			120,731
Other Revenue				
Fees				
Medicaid		150,659		150,659
Medicare	80,105	3,023		83,128
Patient fees	163,670	489,215		652,885
Contracted third party payors	254,908			254,908
Department of Health and Human Services	6,676			6,676
Day treatment/IOP child	8,400			8,400
Community support services - MBC	59,620			59,620
Community support services - other	3,468			3,468
MBC services income	2,145			2,145
County education	5,388			5,388
OWI education		26,400		26,400
Less adjustments	(14,011)	(298,689)		(312,700)
Insurance write-offs	(161,632)	(85,290)		(246,922)
	408,737	285,318		694,055

See Independent Auditor's Report on the Supplementary Information.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF ACTIVITIES INFORMATION (Continued)
Year Ended June 30, 2005

	Mental Health Program	Alcohol and Related Problems Program	Inter-program Eliminations	Total All Programs
Sub-total forward from page 17	$ 408,737	$ 285,318		$ 694,055
SUPPORT AND REVENUE (Continued)				
Revenue and Gains (Continued)				
Other Revenue (Continued)				
Other				
Psychological services	6,607			6,607
Psychiatric services	1,102			1,102
Rent	17,351		$ (17,351)	None
Interest	13,062			13,062
Dividends	561			561
Gifts	535	100		635
Unrealized loss on investments	(280)			(280)
In-kind contributions	2,670			2,670
Miscellaneous	5,280	839		6,119
Total other revenue	455,625	286,257	(17,351)	724,531
Total revenue and gains	576,356	286,257	(17,351)	845,262
Total support and revenue	$ 919,765	$ 683,527	$ (17,351)	$ 1,585,941

See Independent Auditor's Report on the Supplementary Information.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF FUNCTIONAL EXPENSES INFORMATION
Year Ended June 30, 2005

	Program Services				Supporting Services		
	Mental Health Program	Alcohol and Related Problems Program	Inter-program Eliminations	Total Program Services	General and Administrative	Inter-program Eliminations	Total Expenses
Salaries	$ 469,990	$ 321,513		$ 791,503	$ 212,017		$ 1,003,520
Payroll taxes	37,816	28,660		66,476	17,915		84,391
Employee benefits	109,626	69,657		179,283	47,817		227,100
Total personnel	617,432	419,830		1,037,262	277,749		1,315,011
Psychiatric consultation	45,007			45,007			45,007
Independent contractors	16,977	3,895		20,872			20,872
Professional fees	13,613	8,011		21,624	5,742		27,366
Day treatment expenses, child	528			528			528
Building repair and maintenance	8,368	5,947		14,315	3,843		18,158
Office supplies and expense	11,918	10,797		22,715	6,187		28,902
Telephone	6,006	2,879		8,885	2,332		11,217
Mileage and travel	11,700	6,617		18,317	4,853		23,170
Rent	2,124	6,317	$ (4,933)	3,508	2,450	$ (1,514)	4,444
Janitorial services	8,058	5,722		13,780	3,699		17,479
Equipment repair and maintenance	4,915	3,416		8,331	2,234		10,565
Equipment rental	2,186	9,877	(8,345)	3,718	3,557	(2,559)	4,716
Depreciation and amortization	49,491			49,491	11,942		61,433
Bad debts	14,283	8,534		22,817			22,817
Property tax	5,590			5,590			5,590
Other expenses	41,233	23,459		64,692	15,765		80,457
Total expenses	$ 859,429	$ 515,301	$ (13,278)	$ 1,361,452	$ 340,353	$ (4,073)	$ 1,697,732

See Independent Auditor's Report on the Supplementary Information.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF FUNCTIONAL EXPENSES INFORMATION (Continued)
Year Ended June 30, 2005

	Program Services			Support Services	
	Mental Health Program	Alcohol and Related Problems Program	Total Program Services	General and Administrative	Total Expenses
OTHER EXPENSES					
Heat, light, water and cable	$ 11,129	$ 8,020	$ 19,149	$ 5,145	$ 24,294
Postage and shipping	4,236	3,078	7,314	1,967	9,281
Insurance/settlements	4,602	3,764	8,366	2,264	10,630
Conferences and conventions	6,050	797	6,847	1,705	8,552
Organization dues	2,814	1,109	3,923		3,923
Advertising	4,754	1,717	6,471	1,674	8,145
Board meeting expense				1,031	1,031
Computer support	3,451	2,421	5,872	1,575	7,447
Moving/recruitment	797	329	1,126		1,126
Miscellaneous	815	584	1,399	375	1,774
Emergency Answer Plus	2,464	1,640	4,104		4,104
Subscriptions	121		121	29	150
Total other expenses	$ 41,233	$ 23,459	$ 64,692	$ 15,765	$ 80,457

See Independent Auditor's Report on the Supplementary Information.

NORTHEAST IOWA MENTAL HEALTH CENTER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

Grantor/Program Title	Federal CFDA Number	Contract Number	Program Expenditures
Indirect			
U.S. Department of Justice, Office of Juvenile Justice and Delinquency Prevention			
Valley Community Coalition, Helping Services for Northeast Iowa, Inc.			
Drug-Free Communities Support Grant	16.729		$ 488
U.S. Department of Health and Human Services			
Iowa Department of Public Health			
Division of Health Promotion, Prevention and Addictive Behaviors			
Block Grant for Prevention and Treatment of Substance Abuse (1)	93.959		127,051
Iowa Department of Human Services			
Division of Behavioral, Developmental and Protective Services for Families, Adults and Children			
Block Grants for Community Mental Health Service			
Education Request for Proposal (Adult)	93.958	Contract #05-0324-401-6440-2349-26	24,968
Education Request for Proposal (Juvenile)	93.958	Contract #05-0324-401-6440-2349-26	24,333
			49,301
The University of Iowa			
Centers for Medicare and Medicad Services Research, Demonstrations and Evaluations	93.779		48,716
Subtotal Department of Health and Human Services			225,068
U.S. Department of Education			
Safe and Drug-Free Schools and Communities			
Safe Schools/Healthy Students Initiative			
Community Connections Safe Schools Healthy Students Consortium			
Allamakee Community School District	84.184		11,250
			$ 236,806

(1) Administered by MBC of Iowa

See Independent Auditor's Report on the Supplementary Information.

HACKER, NELSON & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
and BUSINESS CONSULTANTS

123 WEST WATER STREET
P.O. BOX 507
DECORAH, IOWA 52101
TELEPHONE 563 382-3637
FAX 563 382-5797
E-MAIL @HACKERNELSON.COM

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
Northeast Iowa Mental Health Center
Decorah, Iowa

We have audited the financial statements of Northeast Iowa Mental Health Center (a nonprofit corporation) as of and for the year ended June 30, 2005, and have issued our report thereon dated August 12, 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 Northeast Iowa Mental Health Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Northeast Iowa Mental Health Center in a separate letter dated August 12, 2005.

Compliance and Other Matters

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

We noted certain other matters that we reported to management of Northeast Iowa Mental Health Center in a separate letter dated August 12, 2005.

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

Hacker, Nelson & Co., P.C.

Decorah, Iowa
August 12, 2005

HACKER, NELSON & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
and BUSINESS CONSULTANTS

123 WEST WATER STREET
P.O. BOX 507
DECORAH, IOWA 52101
TELEPHONE 563 382-3637
FAX 563 382-5797
E-MAIL@HACKERNELSON.COM

MANAGEMENT LETTER

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

In planning and performing our audit of the financial statements of Northeast Iowa Mental Health Center for the year ended June 30, 2005, we considered the Center's internal controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding those matters. A separate report dated August 12, 2005 contains our report on the Center's internal control. This letter does not affect our report dated August 12, 2005 on the financial statements of Northeast Iowa Mental Health Center. These comments are not intended to and do not constitute legal opinions. Comment 1 was also included in last year's management letter.

1. Segregation of Duties

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

Recommendation

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

Response and Corrective Action Planned

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

Conclusion

Recommendation stands.

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

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

Hacker, Nelson & Co., P.C.

Decorah, Iowa
August 12, 2005