

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

SOUTHWEST IOWA MENTAL HEALTH CENTER

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SOUTHWEST IOWA MENTAL HEALTH CENTER
Officials
June 30, 2005

<u>Board of Directors:</u>	<u>Address</u>	<u>Term Expires</u>
Carolyn Groves, President	Massena, Iowa	September, 2006
Julie Gade, Vice-President	Atlantic, Iowa	September, 2005
Mary Jo Blunk, Secretary-Treasurer	Atlantic, Iowa	September, 2007
Maynard Hansen	Wiota, Iowa	September, 2006
Todd Pellett	Atlantic, Iowa	September, 2006
Phyllis Stakey	Massena, Iowa	September, 2005
Don Volk	Atlantic, Iowa	September, 2007
 <u>Executive Director:</u>		
Emerson Link	Atlantic, Iowa	

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Southwest Iowa Mental Health Center as of June 30, 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 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.

As indicated in Note C, the Center's continued existence is dependent on cooperation of a related entity. Should the cooperation be discontinued, it would have a significant impact on the Center's financial position and cash flows.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwest Iowa Mental Health Center as of June 30, 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 July 27, 2005 on our consideration of Southwest Iowa Mental Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, 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 12 through 16) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gronewold, Bell, Kyhnn & Co. P.C.
Atlantic, Iowa
July 27, 2005

SOUTHWEST IOWA MENTAL HEALTH CENTER
Balance Sheets
June 30,

ASSETS

	2005	2004
Current Assets:		
Cash	\$ 16,675	\$ 56,684
Client receivables, less allowances for doubtful accounts and contractual adjustments (\$74,000 in 2005 and \$85,000 in 2004)	41,952	73,773
Other receivables	39,073	44,485
Prepaid expense	223	288
Assets limited as to use	1,572	109
Total current assets	99,495	175,339
Property and Equipment, Net	102,274	124,962
Total assets	\$ 201,769	\$ 300,301

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 43,157	\$ 2,910
Accrued employee compensation	38,533	37,464
Deferred revenue	6,806	8,722
Due to Cass County Memorial Hospital	3,984	141,916
Total current liabilities	92,480	191,012
Net Assets:		
Unrestricted	109,289	109,289
Total liabilities and net assets	\$ 201,769	\$ 300,301

The accompanying notes are an integral part of these statements.

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

	2005	2004
Changes in Unrestricted Net Assets:		
Support and Revenue:		
Support:		
Support from Cass County, Iowa	\$ 162,000	\$ 164,000
Support from Audubon County, Iowa	8,292	11,667
Mental health/mental retardation	38	23,693
Hospital tax revenue	60,434	65,042
Hospital deficit funding	221,637	18,571
Grants	31,031	37,414
Total support	483,432	320,387
Revenue:		
Client fees, net	451,167	533,037
Contracted services from Hospital	176,654	196,369
Other revenue	2,747	1,121
Total revenue	630,568	730,527
Total Support and Revenue	1,114,000	1,050,914
Expenses:		
Staff salaries and benefits	407,790	333,536
Contracted staff and benefits	578,020	602,209
Other expenses	98,469	95,876
Provision for depreciation	29,711	19,484
Total expenses	1,113,990	1,051,105
Operating Income (Loss)	10	(191)
Other Support and Gains (Losses):		
Interest income	165	191
Loss on disposal of assets	(175)	--
	(10)	191
Increase in Unrestricted Net Assets	--	--
Net Assets, Beginning of Year	109,289	109,289
Net Assets, End of Year	\$ 109,289	\$ 109,289

The accompanying notes are an integral part of these statements.

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

	2005	2004
Cash flows from operating activities:		
Cash received from clients, third party payors, contracting agencies, and public support	\$ 836,215	\$ 946,083
Cash paid to employees	(206,168)	(290,852)
Cash paid to suppliers	(762,591)	(714,571)
Investment income	165	191
Grants received	31,031	37,414
Cash received for hospital support	70,000	18,571
Net cash used in operating activities	(31,348)	(3,164)
Cash flows from investing activities:		
Capital expenditures	(7,198)	(20,227)
Cash flows from financing activities:		
Hospital operating cash funding	--	52,016
Net increase (decrease) in cash	(38,546)	28,625
Cash beginning of year	56,793	28,168
Cash end of year	\$ 18,247	\$ 56,793
Reconciliation of cash to the balance sheets:		
Cash	\$ 16,675	\$ 56,684
Cash in assets limited as to use	1,572	109
Total cash	\$ 18,247	\$ 56,793

(continued next page)

SOUTHWEST IOWA 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	\$ --	\$ --
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	29,711	19,484
Loss on disposal of assets	175	--
Change in assets and liabilities		
Accounts receivable	37,233	12,841
Prepaid expense	65	2,428
Accounts payable	40,247	(6,619)
Accrued employee compensation	1,069	(16,343)
Deferred revenue	(1,916)	3,355
Due to Cass County Memorial Hospital	(137,932)	(18,310)
Total adjustments	(31,348)	(3,164)
Net cash used in operating activities	\$(31,348)	\$(3,164)

The accompanying notes are an integral part of these statements.

SOUTHWEST IOWA 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 Southwest Iowa Mental Health Center is an Iowa not-for-profit corporation operating under Chapter 230A of the Code of Iowa and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Center is established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. The Board of Directors serve three year terms and are selected by the existing Board.

The Organization received \$162,000 of revenue from Cass County in 2005 (\$164,000 in 2004). In addition, the Center received a significant portion of its revenue through an agreement with Cass County Memorial Hospital as indicated in Note C.

2. Basis of Accounting and Presentation

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

3. Use of Estimates

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

4. Client Receivables

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

5. Assets Limited As to Use

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

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

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

6. Property and Equipment

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

7. Support and Revenue

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

8. Charity Care

The Center provides care to clients who meet certain criteria under its charity care policy at amounts less than its regular rates. Revenue from services to these clients is recorded as indicated in 7. above. These reductions are recorded as adjustments to fees from clients.

9. Cash and Cash Equivalents

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

NOTE B - PROPERTY AND EQUIPMENT

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

	2005	2004
Land	\$ 1,689	\$ 1,689
Land Improvements	37,737	37,757
Buildings	141,591	139,955
Furniture and Equipment	115,899	132,215
	296,916	311,616
Less Accumulated Depreciation	(194,642)	(186,654)
	\$ 102,274	\$ 124,962

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

NOTE C - COMMITMENT, RELATED PARTY, AND ECONOMIC DEPENDENCY

The Center participates in a sharing agreement with Cass County Memorial Hospital, pursuant to Chapter 28E of the Iowa Code, to deliver mental health services in the area. Under the agreement, the Mental Health Center purchases all non-physician services necessary for the Center's operations from the Hospital. Tax funds collected by the Hospital for a portion of the cost of the Center's non-physician personnel result in credits of \$60,434 at June 30, 2005 (\$65,042 at June 30, 2004) being passed through to the Center. These credits are recorded as Hospital support on the Statements of Activities and Changes in Net Assets. These credits represent non-cash transactions for purposes of the Statements of Cash Flows. The Hospital purchases all mental health physician services necessary for its inpatient operation from the Center.

During the years ended June 30, 2005 and 2004, the Center received additional operating cash of \$70,000 from the Hospital to fund the operations of the Center. At June 30, 2005, the Center had a deficit of \$221,637 (\$18,571 deficit at June 30, 2004) without the Hospital's funding which was recorded as Hospital support on the Statement of Activities and Changes in Net Assets. Any unused operating cash or additional deficit funding is included in or reduced from the amount owed by the Center to the Hospital.

The Center has incurred losses in each year between 1995 and 2005. In each year the Hospital has funded the losses of the Center. The survival of the Center is dependent on its ability to generate profits in the future years, and the cooperation of Cass County Memorial Hospital. Should the Hospital decide to discontinue its support, the Center's survival would be in serious doubt.

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

	June 30,	
	<u>2005</u>	<u>2004</u>
Mental Health Center revenue from Hospital for physicians	<u>\$ 176,654</u>	<u>\$ 196,369</u>
Support from Hospital to Mental Health Center	<u>\$ 282,071</u>	<u>\$ 83,613</u>
Mental Health Center expense for personnel costs	<u>\$ 581,319</u>	<u>\$ 605,331</u>
Mental Health Center expense for liability insurance	<u>\$ 16,329</u>	<u>\$ 17,944</u>
Owed by Mental Health Center to Hospital	<u>\$ 3,984</u>	<u>\$ 141,916</u>

The financial arrangements for the 2005-2006 year are based on the budgeted needs of each entity. The Hospital has agreed to pay the Mental Health Center approximately \$252,720 for physician services and deficit funding; and, the Center agreed to pay the Hospital approximately \$557,010 for non-physician services. Future financial arrangements will be determined annually based on a review of actual operations and needs.

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

NOTE D - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

	2005	2004
Client Services	\$ 1,054,801	\$ 998,579
Management and General	59,189	52,526
	\$ 1,113,990	\$ 1,051,105

NOTE E - COMMITMENT AND CONTINGENCY

Retirement Plan

The Center has a defined contribution retirement plan which covers all employees who meet the eligibility requirements. To be eligible, an employee must have completed one year of service equal to 1,000 hours. The plan allows for contributions by employees as well as contributions by the Center. The Center contributes 5% of wages. Retirement plan expenses totaled \$10,288 and \$13,975 for the years ended June 30, 2005 and 2004, respectively.

Risk Management

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

NOTE F - CONCENTRATION OF CREDIT RISK

The Center grants credit without collateral to its clients, most of whom are area residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2005 and 2004, was as follows:

	2005	2004
Medicare	18%	25%
Medicaid	29	26
Other third-party payors	47	43
Patients	6	6
	100%	100%

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

NOTE G - NON-CASH TRANSACTIONS

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

	<u>2005</u>	<u>2004</u>
Non-cash support from Hospital	<u>\$ 212,071</u>	<u>\$ 65,042</u>

* * *

ACCOMPANYING INFORMATION

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

	2005			2004
	<u>Gross</u>	<u>Adjustments</u>	<u>Net</u>	<u>Net</u>
Self Pay	\$ 76,351	\$(72,835)	\$ 3,516	\$ 4,710
3rd Party Insurance	286,214	(161,543)	124,671	134,842
Medicare	130,331	(91,017)	39,314	62,748
Title XIX	295,238	(195,343)	99,895	121,568
Employee and Student Assistance Programs	34,026	--	34,026	45,950
Case Management	135,626	--	135,626	141,786
*Others	17,095	(2,976)	14,119	21,433
	<u>\$ 974,881</u>	<u>\$(523,714)</u>	<u>\$ 451,167</u>	<u>\$ 533,037</u>

* Includes consultation fees.

See Independent Auditor's Report.

SOUTHWEST IOWA MENTAL HEALTH CENTER
 Operating Expenses
 Year ended June 30, 2005

	<u>Outpatient</u>	<u>Administration</u>	<u>Emergency</u>	<u>Inpatient</u>	<u>Patient Consultation</u>
Program and Administrative Service Expenses:					
Professional staff salaries and fees	\$ 148,164	\$ 17,760	\$ 1,462	\$ 79,842	\$ 2,160
Retirement benefits	16,520	1,990	164	8,945	244
Other employee benefits	50,846	6,222	501	27,485	706
Contracted support staff	76,901	9,327	747	41,289	1,033
Contracted professional staff	144,234	17,557	14,045	77,682	2,004
Professional fees	5,590	697	61	2,904	84
Operating supplies	11,144	1,553	79	6,016	73
Telephone	3,592	409	42	1,968	58
Postage	1,255	154	12	656	15
Utilities	2,635	322	26	1,420	33
Repairs and maintenance	6,838	844	71	3,684	82
Director liability insurance	509	63	5	272	7
Travel reimbursement	833	97	9	444	14
Conferences, conventions and meetings	1,408	171	12	723	11
Subscriptions	384	48	2	194	7
Organization dues	804	107	9	439	6
Public relations and miscellaneous	1,645	209	17	882	20
	<u>473,302</u>	<u>57,530</u>	<u>17,264</u>	<u>254,845</u>	<u>6,557</u>
Provision for Depreciation	<u>13,702</u>	<u>1,659</u>	<u>134</u>	<u>7,382</u>	<u>189</u>
Total Operating Expenses	<u>\$ 487,004</u>	<u>\$ 59,189</u>	<u>\$ 17,398</u>	<u>\$ 262,227</u>	<u>\$ 6,746</u>

See Independent Auditor's Report.

<u>Community Education</u>	<u>Evaluation</u>	<u>Audubon County Outpatient</u>	<u>Case Management</u>	<u>C/A Case Management</u>	<u>PSG</u>	<u>EAP</u>	<u>Drop-In Center</u>	<u>Total</u>
\$ 191	\$ 4,184	\$ 4,271	\$ 55,140	\$ --	\$ 1,800	\$ 7,422	\$ --	\$ 322,396
23	471	476	6,166	628	170	835	--	36,632
65	1,444	1,491	19,290	835	822	2,577	165	112,449
88	2,026	2,249	29,091	1,282	1,320	3,900	1,350	170,603
180	4,016	4,163	54,204	9,638	5,773	7,265	2,969	343,730
6	191	157	2,039	--	114	1,528	980	14,351
4	255	354	4,406	544	433	703	495	26,059
5	104	95	1,285	350	68	185	--	8,161
--	37	40	495	--	--	55	--	2,719
3	70	78	1,020	--	--	133	--	5,740
6	178	2,342	2,487	--	--	371	2,925	19,828
1	14	15	196	--	--	25	--	1,107
1	22	952	1,265	787	--	85	--	4,509
1	28	40	1,360	1,554	--	797	--	6,105
--	5	11	132	--	--	16	--	799
--	24	24	3,631	--	--	472	--	5,516
<u>2</u>	<u>49</u>	<u>50</u>	<u>614</u>	<u>--</u>	<u>--</u>	<u>87</u>	<u>--</u>	<u>3,575</u>
<u>576</u>	<u>13,118</u>	<u>16,808</u>	<u>182,821</u>	<u>15,618</u>	<u>10,500</u>	<u>26,456</u>	<u>8,884</u>	<u>1,084,279</u>
<u>16</u>	<u>370</u>	<u>400</u>	<u>5,165</u>	<u>--</u>	<u>--</u>	<u>694</u>	<u>--</u>	<u>29,711</u>
<u>\$ 592</u>	<u>\$ 13,488</u>	<u>\$ 17,208</u>	<u>\$ 187,986</u>	<u>\$ 15,618</u>	<u>\$ 10,500</u>	<u>\$ 27,150</u>	<u>\$ 8,884</u>	<u>\$ 1,113,990</u>

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

	2005	2004
Program and Administrative Service Expenses:		
Professional staff salaries and fees	\$ 322,396	\$ 274,509
Retirement benefits	36,632	40,739
Other employee benefits	112,449	131,928
Contracted support staff	170,603	161,551
Contracted professional staff	343,730	327,018
Professional fees	14,351	13,194
Operating supplies	26,059	23,369
Telephone	8,161	9,891
Postage	2,719	1,765
Utilities	5,740	5,717
Repairs and maintenance	19,828	20,612
Director liability insurance	1,107	963
Travel reimbursement	4,509	3,909
Conferences, conventions and meetings	6,105	5,354
Subscriptions	799	721
Organization dues	5,516	4,632
Public relations and miscellaneous	3,575	5,749
	1,084,279	1,031,621
Provision for Depreciation	29,711	19,484
Total Operating Expenses	\$ 1,113,990	\$ 1,051,105

See Independent Auditor's Report.

SOUTHWEST IOWA MENTAL HEALTH CENTER
 Schedule of Gross Charges and Adjustments for Client Services
 Year ended June 30, 2005

Client accounts receivable July 1, 2004		\$	158,773
Gross charges for client services	\$		974,881
Adjustments and bad debts written off (net of decrease in allowance for doubtful accounts and contractual adjustments of \$11,000)	(534,465)	440,416
Less: Payments received for client services		482,988	
Recoveries of bad debts written off		249	(483,237)
Client accounts receivable June 30, 2005			\$ 115,952

See Independent Auditor's Report.

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

<u>County</u>	<u>2005</u>			<u>2004</u>
	<u>Return Clients</u>	<u>New Clients</u>	<u>Total</u>	<u>Total</u>
Audubon	83	44	127	111
Cass	541	177	718	684
Shelby	54	17	71	60
Pottawattamie	71	26	97	82
Other	219	81	300	291
	<u>968</u>	<u>345</u>	<u>1,313</u>	<u>1,228</u>

<u>Year Ended June 30,</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Center operating expense per client served:	<u>\$ 848</u>	<u>\$ 856</u>	<u>\$ 833</u>	<u>\$ 866</u>
Net fees from clients per client served:	<u>\$ 344</u>	<u>\$ 434</u>	<u>\$ 407</u>	<u>\$ 431</u>

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

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

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

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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
Southwest Iowa Mental Health Center
Atlantic, Iowa

We have audited the accompanying financial statements of Southwest Iowa Mental Health Center as of and for the year ended June 30, 2005, and have issued our report thereon dated July 27, 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 Southwest Iowa Mental Health Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 Southwest Iowa Mental Health Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

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 of
Southwest Iowa Mental Health Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southwest Iowa Mental Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of 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 Southwest Iowa Mental Health Center and other parties to whom Southwest Iowa 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, Kuhn & Co. P.C.

Atlantic, Iowa
July 27, 2005

SOUTHWEST IOWA 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 contract or employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Center to contract or employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

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