

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

PRAIRIE ROSE MENTAL HEALTH CENTER  
CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS:	
Balance Sheets	3
Statements of Activities	4
Statements of Changes in Net Assets (Deficit)	5
Statements of Cash Flows	6
Notes to Financial Statements	7
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	11
Schedule of Findings	13

PRAIRIE ROSE MENTAL HEALTH CENTER  
Officials  
June 30, 2005

<u>Board of Directors:</u>	<u>Address</u>	<u>Term Expires</u>
Alan Hjelle, President	Elk Horn, Iowa	June, 2006
Cheryl Chipman, Vice President	Harlan, Iowa	June, 2006
Sue Assman, Secretary-Treasurer	Harlan, Iowa	June, 2007
Duane Magee	Harlan, Iowa	June, 2007
Robert Burton	Irwin, Iowa	June, 2006

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

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DAVID A. GINTHER

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying balance sheets of Prairie Rose Mental Health Center as of June 30, 2005 and 2004, and the related statements of activities, changes in net assets (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Prairie Rose Mental Health Center as of June 30, 2005 and 2004, and the results of its operations, changes in net assets (deficit), 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 August 11, 2005 on our consideration of Prairie Rose Mental Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, 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.

*Gronewold, Bell, Kyhnn & Co. P.C.*  
Atlantic, Iowa  
August 11, 2005

PRAIRIE ROSE MENTAL HEALTH CENTER  
Balance Sheets  
June 30,

ASSETS

	2005	2004
<b>Current Assets:</b>		
Cash	\$ 6,614	\$ 13,934
Accounts receivable, less allowances for doubtful accounts and contractual adjustments (\$30,861 in 2005, \$23,579 in 2004)	78,532	62,968
Other receivables	13,483	5,726
Prepaid expense	6,264	6,774
Total current assets	104,893	89,402
Furniture and Equipment	7,809	7,809
Less accumulated depreciation	7,809	7,809
Net furniture and equipment	--	--
Total assets	\$ 104,893	\$ 89,402

LIABILITIES AND NET ASSETS (DEFICIT)

<b>Current Liabilities:</b>		
Accounts payable	\$ 8,606	\$ 9,946
Accrued employee compensation	20,816	22,460
Payroll taxes withheld and accrued	3,345	2,391
Other payables	1,626	1,523
Due to related parties	122,439	101,245
Total current liabilities	156,832	137,565
<b>Net Assets (Deficit):</b>		
Unrestricted	( 51,939)	( 48,163)
Total liabilities and net assets	\$ 104,893	\$ 89,402

The accompanying notes are an integral part of these statements.

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

	2005	2004
Support and Revenue:		
Support:		
Fees from county	\$ 99,105	\$ 92,646
Grants	24,284	25,174
Total support	123,389	117,820
Revenue:		
Client fees, net	232,140	244,166
Other revenue	472	686
Total revenue	232,612	244,852
Total Support and Revenue	356,001	362,672
Expenses:		
Salaries and wages	216,821	205,900
Employee benefits	39,357	35,909
Meetings, travel, and education	4,697	4,028
Supply costs	10,700	5,584
Rent	14,865	14,865
Insurance	11,777	12,487
Utilities and telephone	1,926	2,423
Depreciation	--	630
Purchased services	42,071	48,526
Dues and publications	2,142	990
Provision for bad debts	15,421	24,417
Total expenses	359,777	355,759
Increase (Decrease) in Unrestricted Net Assets	\$( 3,776)	\$ 6,913

The accompanying notes are an integral part of these statements.

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

	2005	2004
Unrestricted Net Assets:		
Increase (Decrease) in Unrestricted Net Assets	\$( 3,776)	\$ 6,913
Net Assets (Deficit) at Beginning of Year	( 48,163)	( 55,076)
Net Assets (Deficit) at End of Year	\$( 51,939)	\$( 48,163)

The accompanying notes are an integral part of these statements.

PRAIRIE ROSE 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 public support	\$ 317,259	\$ 339,175
Cash paid to suppliers	( 134,614)	( 109,627)
Cash paid to employees	( 218,465)	( 202,796)
Net cash provided by (used in) operating activities	( 35,820)	26,752
Cash flows from financing activities:		
Advance from (to) Myrtue Memorial Hospital	28,500	( 23,000)
Net change in cash	( 7,320)	3,752
Cash at beginning of year	13,934	10,182
Cash at end of year	<u>\$ 6,614</u>	<u>\$ 13,934</u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$( 3,776)	\$ 6,913
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	--	630
Bad debts	15,421	24,417
Changes in assets and liabilities		
Accounts receivable	( 30,985)	( 24,026)
Other receivables	( 7,757)	529
Prepaid expense	510	110
Due to related parties	( 7,306)	11,497
Accounts payable	( 1,340)	3,191
Accrued employee compensation	( 1,644)	3,104
Payroll taxes withheld and accrued	954	273
Other payables	103	114
Total adjustments	( 32,044)	19,839
Net cash provided by (used in) operating activities	<u>\$( 35,820)</u>	<u>\$ 26,752</u>

The accompanying notes are an integral part of these statements.

PRAIRIE ROSE 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 Prairie Rose Mental Health Center is an Iowa not-for-profit corporation operating under Chapter 230A of the Code of Iowa and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. It is governed by a five member Board of Directors selected by the existing Board for one or two year terms. Of the five, three are also members of the Board of Shelby County Myrtue Memorial Hospital, a related organization (Note B). The Center is established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness in Shelby County and surrounding areas.

2. Basis of Accounting and Presentation

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

3. Use of Estimates

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

4. Client Receivables

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

5. Revenues and Support

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

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

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

6. Capital Assets

The Center's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of four years and cost in excess of \$1,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

7. Charity Care

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

8. Cash and Cash Equivalents

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

NOTE B - RELATED ORGANIZATION

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

	<u>2005</u>	<u>2004</u>
<u>Between PRMHC and MMH</u>		
Services purchased from MMH	\$ <u>28,182</u>	\$ <u>26,254</u>
Sale of services and supplies to MMH	\$ <u>--</u>	\$ <u>90</u>
Amount payable to MMH at year end	\$ <u>122,439</u>	\$ <u>100,606</u>
<u>Between PRMHC and SCMC</u>		
Purchase of administrative services from SCMC	\$ <u>3,186</u>	\$ <u>9,022</u>
Amount payable to SCMC at year end	\$ <u>--</u>	\$ <u>639</u>

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

NOTE C - CLASSIFICATION OF EXPENSES

Following is a summary classifying expenses by function:

	<u>2005</u>	<u>2004</u>
Medical services costs	\$ 311,448	\$ 303,879
Administrative and general costs	<u>48,329</u>	<u>51,880</u>
Total expenses	<u>\$ 359,777</u>	<u>\$ 355,759</u>

NOTE D - CONCENTRATION OF CREDIT RISK

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

	<u>2005</u>	<u>2004</u>
Medicare	17%	6%
Medicaid	20	18
Other third-party payors	23	40
Clients	<u>40</u>	<u>36</u>
	<u>100%</u>	<u>100%</u>

NOTE E - COMMITMENT, CONTINGENCIES, AND SUBSEQUENT EVENT

Pension Plan

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

Pension plan expense for the year was approximately \$10,900 in 2005 (\$9,900 in 2004).

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

NOTE E - COMMITMENT, CONTINGENCIES, AND SUBSEQUENT EVENT - Continued

Economic Dependency

The Center has incurred losses in five of the six years between 2000 and 2005 resulting in a net deficit of (\$51,939) as of June 30, 2005. The survival of the Center is dependent on its ability to generate profits in future years, and the cooperation of Shelby County Myrtue Memorial Hospital (MMH) and Shelby County, Iowa. Should the Hospital decide to discontinue its cooperation, or the County decide to reduce its funding, the Center's survival would be in serious doubt.

The Center received a significant portion of its revenue and support from Shelby County (\$90,000 in 2005, \$90,000 in 2004).

Risk Management

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

Subsequent Event

Subsequent to year end, the boards of MMH and the Center determined that the Center should be combined with and become a department of MMH. A tentative date of November, 2005 has been set for the combination.

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## COMMENTS AND RECOMMENDATIONS

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

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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  
Prairie Rose Mental Health Center  
Harlan, Iowa

We have audited the financial statements of Prairie Rose Mental Health Center as of and for the year ended June 30, 2005, and have issued our report thereon dated August 11, 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 Prairie Rose Mental Health Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Prairie Rose Mental Health Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 in the Schedule of Findings, we believe item 05-I-A is a material weakness.

To the Board of Directors  
Prairie Rose Mental Health Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Prairie Rose Mental Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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 of the Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of Prairie Rose Mental Health Center and other parties to whom the Center may report. This report is not intended to be and should not be used by anyone other than these specified parties.

*Gronewald, Bell, Kyburz + Co. P.C.*  
Atlantic, Iowa  
August 11, 2005

PRAIRIE ROSE 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.

\* \* \*