

PLAINS AREA MENTAL HEALTH, INC.

Independent Auditors' Report

June 30, 2006

PLAINS AREA MENTAL HEALTH, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Plains Area Mental Health, Inc.
Le Mars, Iowa

We have audited the accompanying statements of financial position of PLAINS AREA MENTAL HEALTH, INC., (a nonprofit organization) as of June 30, 2006, and the related statements of activities, cash flows, and statement of functional expenses for the year then ended. These financial statements are the responsibility of the management of Plains Area Mental Health, Inc. Our responsibility is to express an opinion on these financial statements based on our audits. The information for the year ended June 30, 2005 is presented for comparative purposes only and was extracted from the financial statements of Plains Area Mental Health, Inc. which were presented by fund for the year ended June 30, 2005, and were audited by other auditors whose report dated August 17, 2005, expressed an unqualified opinion on those statements.

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 audits 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 Plains Area Mental Health, Inc. at June 30, 2006, and the changes in its net assets and 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 31, 2006 on our consideration of Plains Area Mental Health, Inc.'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 read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of fees and grants from governmental agencies 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 audit 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.

Williams & Company, P.C.
Certified Public Accountants

Le Mars, Iowa
August 31, 2006

PLAINS AREA MENTAL HEALTH, INC.
Statement of Financial Position
June 30, 2006 with Comparative Totals for 2005

	2006			2005
	Unrestricted Fund	Furniture, Fixtures, and Equipment Fund	Total	Total
Current Assets				
Cash on Hand	\$ 1,034	\$ -	\$ 1,034	\$ 2,469
Cash in Savings and Money Market Funds	24,140	472	24,612	14,994
Accounts Receivable, (net of allowance for doubtful accounts and rate adjustments)	208,217	-	208,217	224,331
Other Receivables	29,409	-	29,409	32,331
Grant Receivables	40,868	-	40,868	8,000
Investments	11,000	-	11,000	11,000
Prepaid Expenses	10,435	-	10,435	9,505
Marketable Securities	24,561	-	24,561	27,371
Total Current Assets	349,664	472	350,136	330,001
Furniture, Fixtures and Equipment:				
Leasehold Improvements	-	29,831	29,831	29,831
Office Furniture and Equipment	-	214,119	214,119	204,735
Less: Accumulated Depreciation	-	174,586	174,586	167,904
Net Furniture, Fixtures and Equipment	-	69,364	69,364	66,662
Total Assets	349,664	69,836	419,500	396,663
Current Liabilities				
Accounts Payable	35,722	-	35,722	27,360
Accrued Salaries	57,831	-	57,831	52,368
Payroll Taxes Payable	6,910	-	6,910	6,572
Accrued Pension Payable	12,915	-	12,915	12,550
Accrued Interest Payable	231	-	231	-
Line of Credit	30,000	-	30,000	-
Total Current Liabilities	143,609	-	143,609	98,850
Total Liabilities	143,609	-	143,609	98,850
Net Assets				
Unrestricted:				
Undesignated	206,055	69,836	275,891	297,813
Total Net Assets	206,055	69,836	275,891	297,813
Total Liabilities and Net Assets	\$ 349,664	\$ 69,836	\$ 419,500	\$ 396,663

PLAINS AREA MENTAL HEALTH, INC.
Statement of Activities
For the Year Ended June 30, 2006
With Comparative Totals for 2005

	2006			2005
	Unrestricted Fund	Furniture, Fixtures, and Equipment Fund	Total	Total
Unrestricted Net Assets				
Revenue, Gains and Public Support:				
Contributions	\$ 3,125	\$ -	\$ 3,125	\$ 725
Outpatient and Community Services	1,125,443	-	1,125,443	1,122,534
Fees and Grants from Governmental Agencies	418,412	-	418,412	333,801
Interest/Dividend Income	13,174	24	13,198	13,449
Recovery of Bad Debts	17,326	-	17,326	6,498
Miscellaneous Income	41,699	-	41,699	44,901
Gain (Loss) on Sale of Equipment	-	(77)	(77)	6
(Loss) on Sale of Investments	-	-	-	(158)
Unrealized Gain (Loss) on Investments	(2,810)	-	(2,810)	2,141
Total Unrestricted Support	1,616,369	(53)	1,616,316	1,523,897
Expenses				
Program Services:				
Outpatient and Community Support Services	934,679	-	934,679	901,136
Special Program Costs	116,304	-	116,304	94,938
Supporting Services:				
Management and General	570,539	16,716	587,255	619,561
Total Expenses	1,621,522	16,716	1,638,238	1,615,635
(Decrease) in Unrestricted Net Assets	(5,153)	(16,769)	(21,922)	(91,738)
Other Changes in Net Assets:				
Equipment Acquisitions (Net of Disposals) From				
Unrestricted Fund	(9,384)	9,384	-	-
Transfer of Funds From Unrestricted Fund	(10,111)	10,111	-	-
Increase (Decrease) in Net Assets	(24,648)	2,726	(21,922)	(91,738)
Net Assets at Beginning of Year	230,703	67,110	297,813	389,551
Net Assets at End of Year	\$ 206,055	\$ 69,836	\$ 275,891	\$ 297,813

PLAINS AREA MENTAL HEALTH, INC.
Statements of Cash Flows
For the Year Ended June 30, 2006
With Comparative Totals for 2005
Increase (Decrease) in Cash and Cash Equivalents

	2006	2005
Cash Flows from Operating Activities		
Contributions	\$ 3,125	\$ 725
Cash Received from Customers	1,124,683	1,106,854
Cash Received from Government Agencies	388,466	356,905
Bad Debt Recovery	17,326	6,498
Interest Received	13,198	13,449
Payments to Employees and Suppliers	<u>(1,549,414)</u>	<u>(1,543,441)</u>
Net Cash (Used) by Operating Activities	<u>(2,616)</u>	<u>(59,010)</u>
Cash Flows from Investing Activities		
Proceeds from Sale of Property and Equipment	5	300
Proceeds from Sale of Investment	-	1,418
Payments for Property and Equipment	<u>(18,927)</u>	<u>(8,074)</u>
Net Cash (Used) by Investing Activities	<u>(18,922)</u>	<u>(6,356)</u>
Cash Flows from Financing Activities		
Line of Credit Receipts	45,000	-
Line of Credit Payments	(15,000)	-
Interest Paid on Line of Credit	<u>(279)</u>	<u>-</u>
Net Cash Provided by Financing Activities	<u>29,721</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,183	(65,366)
Beginning Cash and Cash Equivalents	<u>17,463</u>	<u>82,829</u>
Ending Cash and Cash Equivalents	<u>\$ 25,646</u>	<u>\$ 17,463</u>
Supplemental Schedule - Noncash Investing, Financing and Operating Activities:		
Unrealized Gain (Loss) on Investments	<u>\$ (2,810)</u>	<u>\$ 2,141</u>

PLAINS AREA MENTAL HEALTH, INC.
Statements of Cash Flows
For the Year Ended June 30, 2006
With Comparative Totals for 2005
Increase (Decrease) in Cash and Cash Equivalents

	2006	2005
Reconciliation of Changes in Net Assets to Net Cash Provided by Operating Activities		
(Decrease) in Net Assets	\$ (21,922)	\$ (91,738)
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	16,716	16,724
(Gain) Loss on Disposal of Property and Equipment	77	(6)
Interest Expense on Line of Credit	510	-
Unrealized Loss on Investments	2,810	(2,141)
Realized Loss on Investments	-	157
<i>(Increase) Decrease in Operating Assets:</i>		
Accounts Receivable - Trade	16,114	(17,664)
Accounts Receivable - Other	2,922	20,661
Accounts Receivable - Grant	(32,868)	2,443
Prepaid Expenses	(930)	10,988
<i>Increase (Decrease) in Operating Liabilities:</i>		
Accounts Payable	7,789	(12,887)
Accrued Liabilities	6,166	14,453
Total Adjustments	<u>19,306</u>	<u>32,728</u>
Net Cash (Used) by Operating Activities	<u>\$ (2,616)</u>	<u>\$ (59,010)</u>

Reconciliation of Cash and Cash Equivalents to the Balance Sheet:

Cash on Hand	\$ 1,034	\$ 2,469
Cash in Savings and Money Market Funds	24,612	14,994
	<u>\$ 25,646</u>	<u>\$ 17,463</u>

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PLAINS AREA MENTAL HEALTH, INC.
Statement of Functional Expenses
For the Year Ended June 30, 2006
With Comparative Totals for 2005

	Program Services			
	ADM Grant	Area IV Agency on Aging	Family Liason/ Case Aid	Total of Special Programs
Salaries	\$ 30,244	\$ 25,394	\$ 22,769	\$ 78,407
Employee Benefits and Payroll Taxes	8,213	4,208	5,183	17,604
Employee Travel and Transportation	1,401	2,480	1,756	5,637
Total Salaries and Related Expenses	39,858	32,082	29,708	101,648
Contracted Services	460			460
Rents		2,000		2,000
Professional Development				-
Supplies and Printing	2,724	1,231	594	4,549
Telephone		1,871	550	2,421
Postage and Shipping	14	1,203	100	1,317
Advertising and Recruitment		890	977	1,867
Insurance		905	500	1,405
Conferences, Conventions and Meetings		444		444
Membership Dues and Subscriptions		165	28	193
Miscellaneous				-
Professional Services				-
Repairs and Maintenance				-
Utilities				-
Interest Expense				-
Bad Debt Expense				-
Total Expenses Before Depreciation	43,056	40,791	32,457	116,304
Depreciation of Property and Equipment	-	-	-	-
Total Expenses Year Ended June 30, 2006	\$ 43,056	\$ 40,791	\$ 32,457	\$ 116,304
Total Expenses Year Ended June 30, 2005	\$ 57,958	\$ 36,980	\$ -	\$ 94,938

See Accompanying Notes to Financial Statements

Outpatient and Community Support Services	Supporting Services	Total Program and Supporting Services Expenses	
	Management and General	Total for 2006	Comparative Totals for 2005
\$ 419,536	\$ 275,345	\$ 773,288	\$ 803,215
134,391	44,241	196,236	245,726
9,729	7,471	22,837	19,712
563,656	327,057	992,361	1,068,653
297,105	22,037	319,602	236,647
	89,772	91,772	89,197
4,867	426	5,293	4,550
17,788	2,354	24,691	21,575
14,307	403	17,131	17,581
6,732		8,049	6,254
13,063		14,930	8,883
15,801		17,206	27,131
100	2,892	3,436	3,653
467	5,259	5,919	5,394
793	691	1,484	2,514
	25,383	25,383	25,698
	15,673	15,673	20,877
	19,509	19,509	17,388
	510	510	-
	58,573	58,573	42,916
934,679	570,539	1,621,522	1,598,911
-	16,716	16,716	16,724
<u>\$ 934,679</u>	<u>\$ 587,255</u>	<u>\$ 1,638,238</u>	<u>\$ 1,615,635</u>
<u>\$ 901,136</u>	<u>\$ 619,561</u>		

See Accompanying Notes to Financial Statements

PLAINS AREA MENTAL HEALTH, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

REPORTING ENTITY - The Center is a nonprofit corporation established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. The Center's major revenue sources are patient service revenues from patients and their third party payors as well as funding from the counties it serves and various other governmental agencies. Services are provided to residents of Cherokee, Ida, Plymouth, Sioux and Buena Vista Counties.

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

FUND ACCOUNTING – The accounts of the Center are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. The various funds are grouped as follows in the financial statements:

UNRESTRICTED FUND – This fund is utilized to account for the daily transactions of the Center that are not properly recorded in another fund.

The Center's Board may designate portions of the current unrestricted fund for specific purposes, projects or investment as an aid in the planning of expenses and the conservation of assets. The Center maintains separate accounts for such designations within the current unrestricted fund and segregates the designated and undesignated portions of the fund within the net assets section of the balance sheet.

FURNITURE, FIXTURES AND EQUIPMENT FUND – This fund is established to account for all furniture and equipment of the Center and provide funds for replacements.

FURNITURE, FIXTURES AND EQUIPMENT – Furniture and equipment is stated at cost. Donations of furniture, fixtures and equipment are reported as support at their estimated fair value. Expenditures for additions and betterments are capitalized, while expenditures for maintenance and repairs are charged to expenses as incurred. The cost of assets retired or sold and the related accumulated depreciation are eliminated from the accounts in the year of disposal, with the resulting gain or loss credited or charged to operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The Center's policy is to capitalize any individual fixed asset purchased that has a useful life of greater than one year. No interest costs were capitalized since there were no qualifying assets.

BASIS OF ACCOUNTING – Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements.

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

Purchases of fixed assets providing future benefits are directly charged against the unrestricted fund balance and capitalized in the furniture, fixtures and equipment fund.

PLAINS AREA MENTAL HEALTH, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

BASIS OF PRESENTATION – Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Center and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

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.

ADVERTISING – Advertising costs are expensed as incurred. Advertising expense was \$12,455 and \$7,679 for 2006 and 2005, respectively.

CASH AND CASH EQUIVALENTS – The Center considers cash on hand and demand deposits in banks as cash, and certificates of deposit with original maturities of three months or less as cash equivalents.

RECEIVABLES – Accounts receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts and current reimbursement rates from its third party payors. Management considers accounts past due after 30 days and are sent to collections after approximately 90 days. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts and rate adjustments at June 30, 2006 and 2005 was \$171,000 and \$177,400, respectively.

MARKETABLE EQUITY SECURITIES – The Center's marketable securities are classified as available for sale and consist of equity securities that have a readily determinable fair market value. Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such determinations at each balance sheet date.

Realized gains and losses on all marketable securities are determined by specific identification and are charged or credited to current earnings.

ESTIMATES – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

DONATED MATERIALS – Donated materials are recognized as contributions and valued at fair market value at receipt.

COMPENSATED ABSENCES – Center employees accumulate a limited amount of earned but unused vacation benefits payable to employees. Amounts representing the cost of compensated absences have been combined with accrued salaries on the statement of financial position and have been computed based on rates of pay in effect at July 1, 2006 and 2005.

PROMISES TO GIVE – Contributions are recognized when the donor makes a promise to give to the Center that is, in substance, unconditional.

PLAINS AREA MENTAL HEALTH, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

NET PATIENT SERVICE REVENUE – Patient service revenue is reported at the estimated net 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.

TOTAL COLUMN – The total column on the statement of financial position and the statement of activities is presented to facilitate financial analysis. Data in these columns does not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 – INVESTMENTS:

Cost and fair market value of marketable securities available for sale at June 30, 2006 and 2005 are as follows:

Year	Cost	Unrealized Losses	Fair Value
2006	\$ 28,619	\$ 4,058	\$ 24,561
2005	\$ 28,619	\$ 1,248	\$ 27,371

NOTE 3 – DESCRIPTION OF LEASING ARRANGEMENTS:

OPERATING LEASES – The Center rents space for the Le Mars and Cherokee offices under noncancellable operating leases. The Center also rents space from Buena Vista Regional Medical Center under a noncancellable operating lease. In June 2005 the Center entered noncancellable operating leases for copy machines in the Cherokee and Le Mars offices. These leases run for a term of 60 months. The operating lease expense under noncancellable operating leases was \$88,433 and \$85,140 for the years ended June 30, 2006 and 2005, respectively. The following schedule shows the minimum future rental payments due under the leases.

Fiscal Year Ended	Amount
2007	\$ 89,642
2008	89,642
2009	89,642
2010	89,642
2011	87,040
2012-2014	184,613
Total	\$ 630,221

The Le Mars and Cherokee offices sublease a portion of their office space under one year renewing leases. Total rent earned for the years ended June 30, 2006 and 2005 was \$17,796 and \$26,794, respectively.

PLAINS AREA MENTAL HEALTH, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 4 – SHORT TERM NOTES PAYABLE

The Center opened a \$50,000 operating line-of-credit at First National Bank in July 2005. The line-of-credit was established to fund short-term cash flow shortages. During the year the Center drew \$45,000 and had an outstanding balance at June 30, 2006 of \$30,000. Balances on the credit line are due on demand, carry an interest rate of 9%, and are collateralized by substantially all assets of the organization.

NOTE 5 – CONTINGENCIES:

Center employees can accumulate up to 480 sick leave hours for subsequent use. These accumulations are not recognized as expenditures until used, as these amounts are not paid out at retirement or termination. The Center's appropriate maximum liability for unrecognized accrued employee benefits at June 30, 2006 and 2005 is \$89,742 and \$80,866 respectively.

NOTE 6 – DEFINED CONTRIBUTION PENSION PLAN:

Effective June 1, 1996, the Center adopted a profit sharing pension plan covering substantially all of its full-time employees. The Center contributes 5% of covered employee's salaries. Pension expense amounted to \$22,329 and \$24,883 for 2006 and 2005, respectively. Previously the Center had a defined contribution pension plan. Plan assets remain in this plan but no new contributions will be made.

NOTE 7 - OTHER ASSETS:

The Center has joined with other similar agencies to form Tri-State Behavioral Health Association. This is a nonprofit group formed to benefit its members. The original investment was \$11,000. It is carried at cost.

NOTE 8– RISK MANAGEMENT

Plains Area Mental Health, Inc. 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 disaster. 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.

SUPPLEMENTARY INFORMATION

PLAINS AREA MENTAL HEALTH, INC.
Schedule of Fees and Grants from Governmental Agencies
For the Year Ended June 30, 2006
With Comparative Totals for 2005

	<u>2006</u>	<u>2005</u>
County Allotments:		
Plymouth County, Iowa	\$ 160,537	\$ 135,775
Cherokee County, Iowa	78,494	72,643
Ida County, Iowa	54,831	45,649
Other Iowa Counties	911	13,865
	<u>294,773</u>	<u>267,932</u>
ADM Grant:		
Department of MH/MR/DD	<u>46,727</u>	<u>36,562</u>
Elderly Peer Grant:		
Area IV Agency on Aging	<u>9,600</u>	<u>9,600</u>
Head Start Grant:		
Mid-Sioux Opportunity, Inc. Head Start Program	<u>8,000</u>	<u>8,000</u>
Senior Living Trust Program Grant:		
Northwest Aging Associates	<u>3,000</u>	<u>1,500</u>
MOC Floyd Valley Grant	<u>390</u>	<u>500</u>
Jail Services	<u>6,225</u>	<u>5,690</u>
Family Team	<u>5,525</u>	<u>4,017</u>
Liason & Aid Grant	<u>35,519</u>	<u>-</u>
MOM's Grant	<u>3,896</u>	<u>-</u>
Hubbing Grant	<u>1,798</u>	<u>-</u>
Plymouth County LOST Funds	<u>2,959</u>	<u>-</u>
	<u>\$418,412</u>	<u>\$ 333,801</u>

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Plains Area Mental Health, Inc.

We have audited the financial statements of PLAINS AREA MENTAL HEALTH, INC. as of and for the year ended June 30, 2006, and have issued our report thereon dated August 31, 2006. 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.

Compliance:

As part of obtaining reasonable assurance about whether Plains Area Mental Health, Inc.'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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered Plains Area Mental Health, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Plains Area Mental Health, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-06.

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, we believe II-A-06 is a material weakness.

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

We would like to acknowledge the hard work and cooperation extended to us by personnel of Plains Area Mental Health, Inc. during the course of our audit. If you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience.

Williams & Company, P.C.
Certified Public Accountants

Le Mars, Iowa
August 31, 2006

PLAINS AREA MENTAL HEALTH, INC.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

There were no prior year audit findings.

REPORTABLE CONDITIONS:

II-A-06 Financial Accounting – Segregation of Duties

- A. Observation – The Center's accountant is involved in almost all phases of the finance operation, including check preparation, preparation of journal entries, as well as financial reporting and statements. We did note that there are controls and checks in place over cash receipts and that all purchase orders are approved by the Executive Director prior to payment.

Recommendation – With a limited number of personnel, segregation of duties is difficult. The Center has implemented management review procedures which we feel aid in improving the internal controls of the Center. However, we comment that this weakness exists and the duties of the accountant should be continually monitored by management.

Response – The Center feels that additional personnel would not be cost effective. However, management will continue to monitor transactions on a regular basis.

Conclusion – Response accepted.

PLAINS AREA MENTAL HEALTH, INC.
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2006

Part V: Findings – Year Ended June 30, 2005

II-A-05: Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine 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 the Center's financial statements. We noted one individual has custody of receipts and performs all recordkeeping and reconciling functions for the office.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the Center should review the operating procedures to obtain the maximum internal control possible under the circumstances.

Current Status - This finding still exists at June 30, 2006 (See Comment II-A-06).

11-B-05: Client's Files – In a client file, there was an instance where the therapist's notes for another client were in the file with a charge for the day. It appears the therapist saw both clients the same day and his notes were incorrectly filed.

In another instance, in another client's file, there were notes by the therapist (same one as above) that were not noted as billed in the accounts receivable billing for that client,

Recommendation – Plains Area Mental Health, Inc. should take care to ensure that all therapists' notes are properly filed and that all services are properly and timely billed.

Current Status – No findings of this nature were found during the current audit.

