

SIOUXLAND MENTAL HEALTH SERVICES, INC.

Sioux City, Iowa

FINANCIAL STATEMENTS
(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

June 30, 2006

SIouxLAND MENTAL HEALTH SERVICES, INC.

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SIouxLAND MENTAL HEALTH SERVICES, INC.

BOARD OF DIRECTORS

JUNE 30, 2006

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Don Mathews
Nancy Knudsen

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James Rixner

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Joel Peterson



KING, REINSCH, PROSSER & CO., L.L.P.
Certified Public Accountants

Member Private Companies Practice Section of AICPA

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Siouxland Mental Health Services, Inc.
Sioux City, Iowa

We have audited the accompanying statement of financial position of Siouxland Mental Health Services, Inc., as of June 30, 2006 and the related statement of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Siouxland Mental Health Services, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

Siouxland Mental Health Services, Inc. has recorded its investment in Tri-State Behavioral Health Association, Inc. (Tri-State) at cost. In our opinion, this investment should be recorded at fair value in order to conform with accounting principles generally accepted in the United States of America. If that investment were recorded at fair value, it would increase investments and net assets by \$121,392 as of June 30, 2006.

In our opinion, except for the effect of not recording its Tri-State investment at fair value as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Siouxland Mental Health Services, Inc. as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Sioux City, Iowa
August 11, 2006

King, Reinsch, Prosser & Co., L.L.P.

SIouxLAND MENTAL HEALTH SERVICES, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2006

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 185,004
Accounts receivable:	
Patients - net allowance of \$292,864	11,658
Insurance - net allowance of \$114,452	140,022
Tri-State Behavioral Health Association, Inc. - net allowance of \$26,204	129,930
Woodbury County - case management	152,706
Iowa Department of Human Services	18,172
Western Hills Area Education Agency - Safe Schools/Healthy Students Grant	16,065
Miscellaneous	22,816
Prepaid expenses	<u>52,245</u>
Total current assets	<u>\$ 728,618</u>

PROPERTY AND EQUIPMENT:

Land	\$ 115,403
Buildings and improvements	1,442,063
Furniture and equipment	<u>597,780</u>
	\$ 2,155,246
Accumulated depreciation	<u>(1,039,994)</u>
Net property and equipment	<u>\$ 1,115,252</u>

OTHER ASSETS:

Investments	<u>\$ 11,000</u>
Total assets	<u>\$ 1,854,870</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 54,271
Accrued wages	4,524
Accrued expenses	30,875
Compensated absences	96,295
Note payable to Tri-State Behavioral Health Association, Inc.	150,000
Current maturities of long-term line-of-credit	<u>32,449</u>
Total liabilities	<u>\$ 368,414</u>

LONG-TERM LINE-OF-CREDIT - NET OF CURRENT MATURITIES

\$ 49,468

NET ASSETS:

Unrestricted:	
Undesignated	\$ 1,363,017
Designated for special purposes	<u>73,971</u>
Total net assets	<u>\$ 1,436,988</u>
Total liabilities and net assets	<u>\$ 1,854,870</u>

See notes to financial statements.

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SIOUXLAND MENTAL HEALTH SERVICES, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

UNRESTRICTED REVENUES:

Public support:

Tri-State Behavioral Health Association, Inc. - net	\$ 1,026,449
Woodbury County - case management program - net	362,838
Woodbury County - contributions for building	5,693
Project Compass	248,873
Community Mental Health Services Block Grant	76,994
Safe Schools/Healthy Students Grant	215,257
EAP Grant	15,600
	<u>\$ 1,951,704</u>

Patient revenue:

Patient fees and Title XIX	\$ 2,305,676
Allowance for denied claims	(983,991)
	<u>\$ 1,321,685</u>

Other revenue:

Investment income	\$ 7,394
Conference	26,429
Consulting	74,401
Miscellaneous	46,204
	<u>\$ 154,428</u>

Total unrestricted revenues \$ 3,427,817

EXPENSES:

Program services:

Therapy program	\$ 831,112
Psychiatry program	753,739
Community support programs	449,317
Case management program	311,270
CMHS Grant	78,151
Crisis program	62,435
Project Compass	159,993
	<u>\$ 2,646,017</u>

Supporting activities:

Administrative	<u>\$ 1,127,685</u>
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Total expenses \$ 3,773,702

CHANGE IN NET ASSETS \$ (345,885)

NET ASSETS AT BEGINNING OF YEAR 1,782,873

NET ASSETS AT END OF YEAR \$ 1,436,988

SIouxLAND MENTAL HEALTH SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2006

	Program Services							Total Program Expenses	Supporting Activities	
	Therapy Program	Psychiatry Program	Community Support Programs	Case Management Program	CMHS Grant	Crisis Program	Project Compass			
Salaries and payroll taxes	\$ 433,285	\$ 461,477	\$ 315,482	\$ 224,577	\$ 60,567	\$ 48,571	\$ 119,099	\$ 1,663,058	\$ 638,741	\$ 2,301,799
Professional consultants	300,495	141,385	-	-	-	-	-	441,880	-	441,880
Fringe benefits	82,224	70,164	73,786	67,602	11,018	13,219	32,264	350,277	148,773	499,050
Total salaries and benefits	\$ 816,004	\$ 673,026	\$ 389,268	\$ 292,179	\$ 71,585	\$ 61,790	\$ 151,363	\$ 2,455,215	\$ 787,514	\$ 3,242,729
Interest	-	-	-	-	-	-	-	-	628	628
Legal and accounting	-	-	-	-	-	-	-	-	24,517	24,517
Telephone	549	146	1,042	21	-	4	-	1,762	10,480	12,242
Supplies and postage	1,215	1,086	3,720	1,591	76	3	130	7,821	33,420	41,241
Insurance	3,788	9,834	2,651	1,865	378	379	947	19,842	4,678	24,520
Occupancy	-	-	12,644	-	-	-	-	12,644	47,491	60,135
Repairs and maintenance	-	-	-	-	-	-	-	-	29,242	29,242
Staff development	4,554	2,052	918	2,966	1,409	209	3,075	15,183	6,098	21,281
Travel	1,015	-	15,694	3,947	4,553	-	519	25,728	5,012	30,740
Recruitment and advertising	-	275	1,098	1,372	-	-	-	2,745	4,830	7,575
Reference materials	37	-	250	76	-	-	172	535	160	695
Center dues	-	2,483	25	6,670	-	-	-	9,178	393	9,571
Prescriptions	-	61,660	-	-	-	-	-	61,660	-	61,660
Meal programs	-	-	7,780	-	-	-	-	7,780	-	7,780
Conference	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	8,346	-	-	-	830	9,176	31,370	31,370
IRS penalty (Note 13)	-	-	-	-	-	-	-	-	113,787	122,963
Miscellaneous	3,950	3,177	5,881	583	150	50	2,957	16,748	16,187	16,187
Total expenses	\$ 831,112	\$ 753,759	\$ 449,317	\$ 311,270	\$ 78,151	\$ 62,435	\$ 159,993	\$ 2,646,017	\$ 1,127,685	\$ 3,773,702

See notes to financial statements.

SIouxLAND MENTAL HEALTH SERVICES, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (345,885)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	122,963
Change in current assets and liabilities:	
Increase in accounts receivable	(50,553)
Increase in prepaid expenses	(7,521)
Decrease in accounts payable	(10,802)
Increase in accrued wages	2,232
Increase in accrued expenses	19,618
Increase in compensated absences	<u>15,101</u>
Net cash provided by operating activities	<u>\$ (254,847)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment in property and equipment	<u>\$ (29,611)</u>
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CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from note payable to Tri-State Behavioral Health Association, Inc.	\$ 150,000
Proceeds from long-term line-of-credit	84,400
Payments on long-term line-of-credit	<u>(2,483)</u>
	<u>\$ 231,917</u>

CHANGE IN CASH AND CASH EQUIVALENTS \$ (52,541)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 237,545

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 185,004

SIOUXLAND MENTAL HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - ORGANIZATION AND FUNCTION:

Siouxland Mental Health Services, Inc. (the Center) is a nonprofit corporation established to provide a comprehensive community mental health program for the diagnosis and treatment of general psychiatric and psychological disorders and to promote the prevention of mental illness.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICES:

Financial Statement Presentation - The Center follows the standards of the Financial Accounting Standards Board in its 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 follows:

Unrestricted Net Assets - Net assets and transactions which are not subject to donor-imposed restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

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. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Temporarily Restricted Net Assets - Net assets and transactions which are subject to donor-imposed restrictions that will be met by actions of the Center and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Center. Generally, the donors of these assets permit the Center to use all or part of the income earned on related investments for general or specific purposes.

Contributions - The Center follows the standards of SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, (SFAS 116).

SIouxLAND MENTAL HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED):

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is made. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Donated services are recognized as contributions in accordance with SFAS 116.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents - Highly liquid investments with an initial maturity of three months or less are included in cash and cash equivalents, unless held for investment purposes.

Property and Equipment - Property and equipment are stated at cost. Expenditures for plant and equipment renewals and improvements are capitalized. Depreciation is provided over the estimated useful lives of the equipment and improvements using the straight-line method. Repairs and maintenance are charged to expense as incurred. Donations of property and equipment are recorded as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Income Taxes - The Center is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Functional Expenses - The Center allocates its expenses on a functional basis among its various programs and supporting activities. Expenses that can be identified with a specific program or supporting activity are allocated directly according to their purpose. Other expenses that are common to several functions are allocated based on management's estimate of time and utilization.

Management 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 the reported revenues and expenses. Actual results could differ from those estimates.

SIOUXLAND MENTAL HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Compensated Absences - Center employees accumulate a limited amount of earned but unused vacation benefits. The amount representing the cost of compensated absences is recorded as a liability and has been computed based on rates of pay in effect at June 30, 2006. The balance is as follows:

Accrued vacation	\$ <u>96,295</u>
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NOTE 3 - CASH AND CASH EQUIVALENTS:

Cash and cash equivalents are composed accordingly as of June 30, 2006:

Outstanding checks in excess of demand deposits	\$ (64,120)
Money market deposits and annuities	<u>249,124</u>
	<u>\$ 185,004</u>

NOTE 4 - PROPERTY AND EQUIPMENT:

The cost, book value after accumulated depreciation and estimated useful lives at June 30, 2006, are as follows:

	<u>Useful Lives</u>	<u>Cost</u>	<u>Book Value</u>
Land	N/A	\$ 115,403	\$ 115,404
Buildings and improvements	20 years	1,442,063	826,848
Office furniture and equipment	5-10 years	<u>597,780</u>	<u>173,000</u>
		<u>\$ 2,155,246</u>	<u>\$ 1,115,252</u>

NOTE 5 - INVESTMENTS:

The Center purchased 110 shares of stock in Tri-State Behavioral Health Association, Inc. in July 1995 for \$11,000. The investment is recorded in the statement of financial position at cost. Tri-State's purpose is to deliver mental health services to the Siouxland area on an integrated basis. Income related to this investment for the year ended June 30, 2006 was \$11,000.

SIouxLAND MENTAL HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 6 - NOTE PAYABLE TO TRI-STATE BEHAVIORAL HEALTH ASSOCIATION, INC.:

Effective June 28, 2006, the Center borrowed \$150,000 from Tri-State Behavioral Health Association, Inc. (Tri-State) in exchange for a non-interest bearing promissory note. The amount is to be paid in full by December 31, 2006. However, if the note is not paid in full by the due date, interest at the rate of 7 percent per annum will be charged for the period June 28 through December 31, 2006 and on the unpaid balance until paid. The note is secured by a percentage of the Center's future service claim amounts.

NOTE 7 - LONG-TERM LINE-OF-CREDIT:

Effective April 28, 2006, the Center entered into a long-term line-of-credit agreement with Security National Bank that allows the Center to borrow up to \$100,000. The Center borrowed \$84,400 during fiscal year 2006 and owed \$81,917 as of June 30, 2006. Payments of \$3,110 are due monthly through April 2009 with final payment due May 2009. Payments include interest charged at a per annum rate of 7.25 percent. The line-of-credit is secured by all assets of the Center under a commercial security agreement. Maturities during fiscal years 2007 through 2009 are as follows:

2007	\$ 32,449
2008	34,882
2009	<u>14,586</u>
	<u>\$ 81,917</u>

NOTE 8 - DESIGNATED NET ASSETS:

Designated for Special Purposes - The Center has designated a portion of their money market account to accommodate future capital expansion as follows:

Computer upgrade	\$ 69,085
Building maintenance	4,567
Emergency	<u>319</u>
	<u>\$ 73,971</u>

NOTE 9 - RETIREMENT PLAN:

The Center has a noncontributory money purchase pension plan covering employees upon attaining six months of service. The Center contributes an amount equal to 6 percent of the participants' wages. Retirement plan expense was \$121,193 for the year ended June 30, 2006. It is the Center's policy to currently fund benefits accrued.

SIouxLAND MENTAL HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 10 - CONTRACT WITH TRI-STATE BEHAVIORAL HEALTH ASSOCIATION, INC.:

Siouxland Mental Health Services, Inc., and Tri-State Behavioral Health Association, Inc. have entered into a contract expiring June 30, 2006, whereby the Center is required to provide mental health services to residents of Woodbury County. Revenue from this contract is recognized when allowable and reimbursable expenses are incurred, and upon meeting the contractual requirements. Expenses are to be used for the purposes specified by the contract. Through the date of this report, the Center continues to provide mental health services to eligible residents of Woodbury County and is billing Tri-State Behavioral Health Association, Inc. although a new contract is not in place. Management is in the process of finalizing a new contract with Tri-State.

NOTE 11 - RISK MANAGEMENT:

The 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.

NOTE 12 - CONCENTRATION OF FUNDS:

Siouxland Mental Health Services, Inc. deposits in Security National Bank Money Market Gold Account total \$163,831 at June 30, 2006.

NOTE 13 - INTERNAL REVENUE SERVICE AUDIT:

In March 2006, the Internal Revenue Service (IRS) conducted an audit of the Center's quarterly Form 941 returns for the period January 1, 2002 through January 31, 2003. It was determined that there were unsupported reductions to federal income tax withholdings and to Federal Insurance Contribution Act (FICA) payments as a result of the Center's health insurance/cafeteria plan in place at that time. In May 2006, the Center made a preliminary payment to the IRS of \$67,934 representing additional tax for the period under audit; this amount is classified as payroll tax expense in the accompanying statement of functional expenses. In December 2006, the Center reached a settlement agreement with the IRS requiring an additional payment of \$20,332; this amount has been recognized as a liability as of June 30, 2006 and classified \$4,145 as payroll tax expense and \$16,187 as penalties in the accompanying statement of functional expenses. The agreement represents a complete settlement and precludes the IRS from assessing additional amounts relating to this matter.