

NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.

FINANCIAL STATEMENTS

**YEARS ENDED
JUNE 30, 2006 AND 2005**

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NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.

BOARD OF DIRECTORS

<u>Name</u>	<u>Title</u>	<u>County Represented</u>
Jim Gill	President	Webster
Larry Hood	Vice-President	Calhoun
Dorothy Griffin	Treasurer	Webster
Dave Young	Secretary	Hamilton
Dawn Villhauer-Murley	Director	Calhoun
Jane Zieg	Director	Calhoun
Patty Treibel	Director	Hamilton
Diane Bunkofske	Director	Hamilton
Mark Dohms	Director	Hamilton
Pam Olson	Director	Humboldt
Stacy Mooney	Director	Humboldt
Kay Kollmorgen	Director	Humboldt
Don Anderson	Director	Humboldt
Cindy Youngquist	Director	Webster
Irene Blair	Director	Webster
Stan Watne	Director	Wright
Janet Disney	Director	Wright
Brad Leckrone	Director	Wright
Jane Whyte	Director	Wright
Dona Nielsen	Director	Kossuth
Don Besch	Director	Kossuth
Deb Schulz	Director	Kossuth
Vince Triggs	Director	Pocahontas
Lisa Peterson	Director	Pocahontas

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Central Iowa Mental Health Center, Inc.
Fort Dodge, Iowa

We have audited the accompanying statements of financial position of North Central Iowa Mental Health Center, Inc. (a nonprofit organization) as of June 30, 2006 and 2005, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 and provisions 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 North Central Iowa Mental Health Center, Inc., as of June 30, 2006 and 2005, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2006, on our consideration of North Central Iowa Mental Health Center, 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.

Brooks Lodden, P.C.

West Des Moines, Iowa
August 18, 2006

NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2006 and 2005

ASSETS	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Cash	\$ 53,195	\$ 2,871
Accounts receivable - patient fees, net	276,962	317,283
Other receivables	4,854	35,917
Prepaid expenses	<u>36,570</u>	<u>50,955</u>
Total current assets	<u>\$ 371,581</u>	<u>\$ 407,026</u>
PROPERTY AND EQUIPMENT, net	<u>\$ 478,351</u>	<u>\$ 512,520</u>
Total assets	<u><u>\$ 849,932</u></u>	<u><u>\$ 919,546</u></u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Checks written in excess of bank balance	\$ -	\$ 20,292
Accounts payable and accrued expenses	81,584	71,698
Line of credit	-	8,000
Current maturities of long-term debt	<u>15,756</u>	<u>14,957</u>
Total current liabilities	<u>\$ 97,340</u>	<u>\$ 114,947</u>
LONG-TERM LIABILITIES		
County advances	\$ 34,034	\$ 34,034
Note payable, less current maturities	<u>94,328</u>	<u>109,988</u>
Net long-term liabilities	<u>\$ 128,362</u>	<u>\$ 144,022</u>
Total liabilities	<u>\$ 225,702</u>	<u>\$ 258,969</u>
NET ASSETS		
Unrestricted	<u>\$ 624,230</u>	<u>\$ 660,577</u>
Total liabilities and net assets	<u><u>\$ 849,932</u></u>	<u><u>\$ 919,546</u></u>

See Notes to Financial Statements.

NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2006 and 2005

	2006	2005
UNRESTRICTED NET ASSETS		
PUBLIC SUPPORT AND REVENUE		
Public support:		
Grant income	\$ 330,759	\$ 540,559
Contributions	12,191	12,048
Total public support	\$ 342,950	\$ 552,607
Revenue:		
Patient fees, net	\$ 1,548,622	\$ 1,518,529
Interest income	87	48
Miscellaneous income	188	-
Total revenue	\$ 1,548,897	\$ 1,518,577
Total public support and revenue	\$ 1,891,847	\$ 2,071,184
EXPENSES		
Program services	\$ 1,492,523	\$ 1,716,051
Management and general	435,671	452,330
Total expenses	\$ 1,928,194	\$ 2,168,381
Change in net assets	\$ (36,347)	\$ (97,197)
Net assets at beginning of year	660,577	757,774
Net assets at end of year	\$ 624,230	\$ 660,577

See Notes to Financial Statements.

NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2006 and 2005

	2006		
	Program Services	Management and General	Total
Salaries	\$ 1,104,367	\$ 263,448	\$ 1,367,815
Payroll taxes and employee benefits	130,317	49,038	179,355
Temporary employment	21,603	-	21,603
Purchased services	-	-	-
Travel	23,251	631	23,882
Program supplies, maintenance/activity	2,649	-	2,649
Insurance	59,495	4,074	63,569
Professional fees	4,926	27,742	32,668
Rent	23,291	769	24,060
Utilities and telephone	26,580	5,957	32,537
Answering service	8,100	-	8,100
Maintenance	19,870	2,165	22,035
Computer service	234	60,586	60,820
Equipment rental	5,246	-	5,246
Office supplies and expense	9,919	3,587	13,506
Publicity and public relations	491	6,878	7,369
Board expenses	-	1,986	1,986
Continuing education	530	-	530
Dues and subscriptions	3,329	-	3,329
Postage	5,275	2,709	7,984
Depreciation	32,677	3,377	36,054
Interest expense	7,433	509	7,942
Miscellaneous	2,940	2,215	5,155
	\$ 1,492,523	\$ 435,671	\$ 1,928,194

See Notes to Financial Statements.

2005

<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
\$ 1,257,463	\$ 295,047	\$ 1,552,510
185,439	71,055	256,494
228	-	228
1,140	-	1,140
20,680	7,188	27,868
3,817	-	3,817
58,542	4,009	62,551
9,058	29,527	38,585
22,761	769	23,530
25,605	5,523	31,128
8,690	-	8,690
22,286	1,820	24,106
8,153	14,233	22,386
3,978	-	3,978
17,332	5,271	22,603
689	7,246	7,935
-	1,721	1,721
10,800	-	10,800
3,403	-	3,403
7,241	3,620	10,861
32,967	4,011	36,978
6,159	422	6,581
9,620	868	10,488
<u>\$ 1,716,051</u>	<u>\$ 452,330</u>	<u>\$ 2,168,381</u>

NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (36,347)	\$ (97,197)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	36,054	36,978
Change in operating assets and liabilities:		
Decrease in patient accounts receivable	40,321	57,701
Decrease in other receivables	31,063	13,410
(Increase) decrease in prepaid expenses	14,385	(7,240)
Increase in accounts payable and accrued expenses	9,886	4,182
	<u>\$ 95,362</u>	<u>\$ 7,834</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	\$ (1,885)	\$ (32,699)
	<u>\$ (1,885)</u>	<u>\$ (32,699)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	\$ (14,861)	\$ (14,913)
Proceeds from issuance of long-term debt	-	21,000
(Decrease) in line of credit	(8,000)	(42,000)
Increase (decrease) in checks written in excess of bank balance	(20,292)	20,292
	<u>\$ (43,153)</u>	<u>\$ (15,621)</u>
Net cash (used in) investing activities	<u>\$ (1,885)</u>	<u>\$ (32,699)</u>
Net cash (used in) financing activities	<u>\$ (43,153)</u>	<u>\$ (15,621)</u>
Net increase (decrease) in cash	<u>\$ 50,324</u>	<u>\$ (40,486)</u>
Cash at beginning of year	<u>2,871</u>	<u>43,357</u>
Cash at end of year	<u>\$ 53,195</u>	<u>\$ 2,871</u>
 SUPPLEMENTAL DISCLOSURES		
Interest paid	<u>\$ 7,942</u>	<u>\$ 6,581</u>

See Notes to Financial Statements.

NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Reporting entity:

North Central Iowa Mental Health Center, Inc. (the Center), is a non-profit organization 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 provides these services based on an agreement with the various county boards of supervisors as provided for in Chapter 230A.3(2) of the Code of Iowa. The Center serves primarily Calhoun, Hamilton, Humboldt, Kossuth, Pocahontas, Webster, and Wright 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.

Classification of net assets:

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, 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.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Center and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction expires in the same reporting period in which the support is recognized, that support is reported as an increase in unrestricted net assets. Currently, the Center has no temporarily restricted net assets.

Permanently restricted net assets - Net assets subject to permanent restrictions imposed by donor. Although such assets may not be expended, the investment income earned on them may be expended for any purpose. Currently, the Center has no permanently restricted net assets.

Use of estimates:

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

Cash and cash equivalents:

For purposes of the statement of cash flows, the Center considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Patient receivables:

Patient receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a charge to receivables based on its assessment of the current status and billing rates of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to patient receivables. Changes in the valuation allowance have not been material to the financial statements. Management closely monitors outstanding balances and writes off all balances that will not be collected.

Property and equipment:

Acquisitions of property and equipment in excess of \$500 with an estimated life of at least one year are capitalized. Property and equipment are carried at cost, if purchased, or if donated, at the approximate fair value at the date of donation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from 5-40 years.

Compensated absences:

Center employees accumulate a limited amount of earned but unused vacation benefits. Amounts representing the cost of compensated absences are recorded as liabilities and have been computed based on rates of pay in effect at June 30, 2006 and 2005, respectively.

Net patient service revenue:

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, counties, 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.

Note 2. Accounts Receivable - Patient Fees

Accounts receivable - patient fees are recorded net of the allowance for doubtful accounts of \$83,000 and \$113,000 at June 30, 2006 and 2005, respectively. The allowance for doubtful accounts represents those patient receivables which are doubtful of collection, as well as estimated third-party contractual adjustments.

Note 3. Other Receivables

Other receivables consist of a grant receivable from CMHS for services provided during the years ended June 30, 2006 and 2005 in the amount of \$4,854 and \$16,286, respectively, and a grant receivable from Webster County for services provided during the years ended June 30, 2006 and 2005 in the amount of \$-0- and \$19,631, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 4. Property and Equipment

A summary of property and equipment for 2006 and 2005 is as follows:

	2006		
	Cost	Accumulated Depreciation	Book Value
Building and improvements	\$ 900,733	\$ 439,829	\$ 460,904
Furniture, fixtures and equipment	285,037	271,590	13,447
Vehicles	6,000	2,000	4,000
Total	\$1,191,770	\$ 713,419	\$ 478,351
	2005		
	Cost	Accumulated Depreciation	Book Value
Building and improvements	\$ 899,598	\$ 410,086	\$ 489,512
Furniture, fixtures and equipment	284,287	266,479	17,808
Vehicles	6,000	800	5,200
Total	\$1,189,885	\$ 677,365	\$ 512,520

Note 5. County Advances

The following counties have advanced operating funds to the Center, which are to be returned to the respective counties if the Center should terminate operations. The advances are non-interest bearing.

Webster	\$ 12,000
Calhoun	3,981
Hamilton	4,500
Humboldt	3,056
Kossuth	4,549
Pocahontas	2,381
Wright	3,567
	\$ 34,034

Note 6. Notes Payable

	2006	2005
Wells Fargo Bank Iowa, N.A., bears an interest rate of 5.25% per annum and requires monthly installments of \$1,763, including interest through April 2013. This note is secured by the building and substantially all equipment.	\$110,084	\$124,945
Less amounts due within one year	15,756	14,957
	\$ 94,328	\$109,988

NOTES TO FINANCIAL STATEMENTS

Note 6. Notes Payable (Continued)

The annual requirements for principal payments on notes payable for the next five years are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2006	\$ 15,756
2007	16,604
2008	17,497
2009	18,438
2010	19,429
Thereafter	<u>22,360</u>
	<u>\$110,084</u>

Note 7. Line of Credit

The Center has a line of credit for \$50,000, which bears interest at 1.00 percent above the prime rate set from time-to-time by Wells Fargo Bank, N.A. (9.25 and 7.25 percent as of June 30, 2006 and 2005, respectively). The line of credit requires monthly interest only payments until January 2007, at which time all outstanding principal plus all accrued unpaid interest is payable. The outstanding balance on the line at June 30, 2006 and 2005 was \$-0- and \$8,000, respectively. The line of credit is unsecured.

Note 8. Retirement Plan

The Center has a retirement plan covering all employees who are contracted to work in excess of twenty hours per week and have been employed by the Center for three years. The contribution was 5 percent of the eligible wages with no matching requirements. Effective May 1, 2005, the Center elected to discontinue making contributions to the retirement plan. The aggregate cost for the years ended June 30, 2006 and 2005 was \$-0- and \$29,296, respectively.

Note 9. Lease Commitments

On September 10, 1990, the Center entered into a lease with Trinity Regional Hospital, Fort Dodge, Iowa, for land on the hospital grounds on which to construct the mental health facility. The lease of the hospital's land provides for payments from the Center of one dollar per year for twenty years. The estimated lease value of \$12,000 has been recorded as a contribution and as rent expense. At the expiration of the twenty years, lease payments will be negotiated based on appraised fair market rates. The lease is renewable for three periods of twenty years and one additional period of nineteen years.

The Center has a lease for a mail machine, which requires quarterly payments of \$453 through January 2011, with an option to purchase the mail machine at fair market value at the end of the agreement. Lease expense for the mail machine totaled \$1,812 and \$453 for the years ended June 30, 2006 and 2005, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 9. Lease Commitments *(Continued)*

Minimum lease obligations under existing leases are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2007	\$ 1,812
2008	1,812
2009	1,812
2010	1,812
2011	<u>906</u>
	<u>\$ 8,154</u>

Note 10. Concentrations of Credit Risk

Financial instruments that potentially subject the Center to concentrations of credit risk consist principally of demand deposits located at a financial institution. These demand deposits exceeded the federally insured limit of \$100,000 at times throughout the year.

The Center provides counseling to individuals in a seven-county area. The Center grants credit to these individuals and the seven counties.

The Center receives a substantial amount of its revenue from third-party payors, including Medicare, Medicaid, Blue Cross and several counties. A significant reduction in reimbursement by any of these third-party payors could have a material impact on the Center's programs and services.

Note 11. Center 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.

**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
North Central Iowa Mental Health Center, Inc.
Fort Dodge, Iowa

We have audited the financial statements of North Central Iowa Mental Health Center, Inc. (a nonprofit organization) as of June 30, 2006 and 2005, and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated August 18, 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.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the 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 the Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2006-a. We also noted other matters involving internal control over financial reporting, which we have reported to management of the Center in a separate letter dated August 18, 2006.

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, we believe that the reportable condition listed as item 2006-a to be a material weakness.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Center's management and Board of Directors and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brooks Juhnke, P.C.

West Des Moines, Iowa
August 18, 2006

NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.

SCHEDULE OF FINDINGS

Findings Related to the General Purpose Financial Statements:

Reportable Condition:

Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the Center’s financial statements. We noted that the same individual who performs the record keeping duties and reconciliation of accounts receivable also had custody of receipts.

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

Response – Due to one of our front office staff leaving employment with the Center, another front office staff was assigned some of her duties. This led to decreased segregation of some of the financial functions. We have now shifted the former employee’s duties to a different front office staff person who is not otherwise involved in financial duties.

Conclusion – Response accepted.