The Richmond Center
Financial Statements
Year Ended June 30, 2006

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Independent Auditor's Report

Board of Directors
The Richmond Center
Ames, Iowa

We have audited the accompanying statement of financial position of The Richmond Center as of June 30, 2006, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2005 financial statements and, in our report dated August 3, 2005 we expressed an unqualified opinion on those financial statements.

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. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Richmond Center 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 14, 2006, on our consideration of The Richmond Center's internal control over financial reporting and on 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 and 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.

Peterson & Houston P.C.

Peterson & Houston, P.C.
Boone, Iowa

August 14, 2006

The Richmond Center
Statement of Financial Position
June 30, 2006
(With Comparative Totals for June 30, 2005)

	2006	2005
Assets		
Assets		
Cash and cash equivalents	$ 134,160	$ 185,722
Accounts receivable		
Trade, net of allowance for doubtful accounts of $45,082 and $44,056	181,566	209,065
Other	22,170	15,617
Prepaid expenses	13,118	13,948
Other assets	889	2,610
Property and equipment, net of accumulated depreciation of $341,567 and $307,898	966,884	1,013,118
Total assets	$ 1,318,787	$ 1,440,080
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 15,507	$ 16,667
Accrued liabilities	122,151	113,029
Capital lease obligations	-	3,096
Short-term note	65,000	-
Notes payable	906,949	932,964
Total liabilities	1,109,607	1,065,756
Net assets		
Unrestricted		
Undesignated	189,777	352,817
Temporarily restricted	19,403	21,507
Total net assets	209,180	374,324
Total liabilities and net assets	$ 1,318,787	$ 1,440,080

See accompanying notes.

The Richmond Center
Statement of Activities
Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	Unrestricted	Temporarily Restricted	2006 Total	2005 Total
Changes in net assets				
Revenues, gains and other support				
Contributions	$ 7,845	$ -	$ 7,845	$ 15,591
United Way	13,000	-	13,000	14,500
Carroll County	59,840	-	59,840	75,088
Story County	133,953	-	133,953	173,011
Boone County	63,118	-	63,118	86,979
Greene County	16,520	-	16,520	68,004
City of Ames	15,000	-	15,000	19,875
City of Boone	1,500	-	1,500	1,500
ISU Government Student Body	1,000	-	1,000	4,684
Youth & Shelter Services	2,500	-	2,500	1,900
Community Mental Health Services Block Grant	90,640	-	90,640	64,940
Patient fees	1,083,856	-	1,083,856	1,378,458
Other income	10,898	-	10,898	29,602
Investment income	1,683	395	2,078	1,841
Total revenues, gains and other support	1,501,353	395	1,501,748	1,935,973
Net assets released from restrictions	2,499	(2,499)	-	-
Total revenues, gains, support, and reclassifications	1,503,852	(2,104)	1,501,748	1,935,973
Expenses				
Program services				
Outpatient services	1,113,968	-	1,113,968	1,414,099
Outreach services	357,813	-	357,813	311,765
Other program services	-	-	-	5,597
Total program services	1,471,781	-	1,471,781	1,731,461
Support activities				
General and administrative	195,111	-	195,111	251,050
Total expenses	1,666,892	-	1,666,892	1,982,511
Loss on disposal of fixed asset	-	-	-	11,032
Write-off of trade receivables	-	-	-	167,540
Total losses	-	-	-	178,572
Total expenses and losses	1,666,892	-	1,666,892	2,161,083
Increase (decrease) in net assets	(163,040)	(2,104)	(165,144)	(225,110)
Net assets, beginning of year	352,817	21,507	374,324	599,434
Net assets, end of year	$ 189,777	$ 19,403	$ 209,180	$ 374,324

See accompanying notes.

The Richmond Center
Statement of Functional Expenses
Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	Program Services			Support Activities		
	Outpatient Services	Outreach Services	Total Program Services	General and Administrative	2006 Total	2005 Total
Salaries and wages	$ 782,224	$ 197,227	$ 979,451	$ 125,205	$ 1,104,656	$ 1,323,952
Employee benefits	78,064	31,819	109,883	15,778	125,661	116,150
Payroll taxes	56,788	14,659	71,447	9,860	81,307	98,154
Total salaries and related expenses	917,076	243,705	1,160,781	150,843	1,311,624	1,538,256
Contract services	19,652	-	19,652	189	19,841	32,260
Contracted physician services	26,050	-	26,050	-	26,050	32,590
Community support services	-	3,386	3,386	-	3,386	3,483
Advertising	-	-	-	10,949	10,949	13,538
Professional fees	-	-	-	5,263	5,263	4,584
Office supplies	13,248	3,351	16,599	2,246	18,845	24,155
Postage	2,473	1,680	4,153	4,284	8,437	11,142
Continuing education	3,087	1,940	5,027	254	5,281	5,700
Dues and subscriptions	259	248	507	3,012	3,519	4,305
Data systems	7,413	1,875	9,288	1,257	10,545	30,411
Occupancy	19,767	6,012	25,779	572	26,351	55,248
Utilities	10,047	11,573	21,620	1,089	22,709	19,907
Insurance	25,206	11,427	36,633	4,050	40,683	33,687
Repairs and maintenance	1,338	1,202	2,540	208	2,748	5,875
Telephone	8,875	4,595	13,470	2,173	15,643	15,545
Travel	4,096	10,233	14,329	791	15,120	20,624
Miscellaneous	2,087	323	2,410	218	2,628	4,804
Interest expense	34,936	30,732	65,668	5,368	71,036	76,219
Depreciation	18,358	25,531	43,889	2,345	46,234	50,178
Total functional expenses	$ 1,113,968	$ 357,813	$ 1,471,781	$ 195,111	$ 1,666,892	$ 1,982,511

See accompanying notes.

The Richmond Center
Statement of Cash Flows
Year Ended June 30, 2006
(With Comparative Totals for the Year Ended June 30, 2005)

	2006	2005
Cash flows from operating activities		
Decrease in net assets	$ (165,144)	$ (225,110)
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	46,234	50,178
Loss on disposal of fixed asset	-	11,032
(Increase) decrease in operating assets		
Accounts receivable	20,946	171,287
Prepaid expenses	830	(8,276)
Other assets	1,721	603
Increase (decrease) in operating liabilities		
Accounts payable	(1,160)	1,153
Accrued liabilities	9,122	(24,004)
Net cash used by operating activities	(87,451)	(23,137)
Cash flows from investing activities		
Purchase of property and equipment	-	(9,450)
Net cash used by investing activities	-	(9,450)
Cash flows from financing activities		
Repayment on capital lease obligations	(3,096)	(2,885)
Proceeds from short-term debt	65,000	-
Repayment on notes payable	(26,015)	(39,933)
Net cash provided (used) by financing activities	35,889	(42,818)
Net decrease in cash and cash equivalents	(51,562)	(75,405)
Cash and cash equivalents, beginning of year	185,722	261,127
Cash and cash equivalents, end of year	$ 134,160	$ 185,722
Supplemental disclosures:		
Interest paid during year	$ 71,036	$ 76,219

See accompanying notes.

The Richmond Center
Notes to Financial Statements

1. Nature of Activities and Summary of Significant Accounting Policies

a. Nature of Activities
The Richmond Center, located in Ames, Iowa, is a nonprofit organization providing mental health services which include outpatient mental health, community support, consultation, education, and psychiatric services for the residents of Story, Boone, Greene and Carroll Counties.

The Organization is dependent on continued funding by Federal, State and local governmental bodies to provide the programs necessary to support the services and objectives set out above.

b. Basis of Accounting
The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

c. Basis of Presentation
The Organization follows Statement of Financial Accounting Standards No. 117, Financial Statements of Not-for-Profit Organizations, and 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. The Organization has no permanently restricted net assets.

d. Use of Estimates
The preparation of financial statements in conformity with 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.

e. Cash and Cash Equivalent
For purposes of the statement of cash flows, the Organization considers all highly liquid investments and certificates of deposit with maturities of three months or less when purchased to be cash equivalents.

f. 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 provision for bad debts totaled approximately $45,000 ($44,000 in 2005).

1. Nature of Activities and Summary of Significant Accounting Policies (continued)

g. Property and Equipment

Property and equipment is carried at cost, or, if donated, at the approximate fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation of buildings and equipment is computed using the straight-line method for financial reporting purposes at rates based on the following useful lives:

Building & improvements	5 – 39
Equipment & furnishings	3 – 7

Expenditures for major renewals and betterments in excess of $3,000 that extend the useful lives of buildings and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

h. Contributions

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets as net assets released from restrictions.

i. Expenses Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon distribution of salaries and wages and usage of facilities and equipment.

j. Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by individual program. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2005, from which the summarized information was derived.

1. Nature of Activities and Summary of Significant Accounting Policies (continued)

k. Income Taxes

The Organization is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income.

2. Property and Equipment

Property and equipment are summarized by major classifications as follows:

	2006	2005
Land	$ 169,000	$ 169,000
Building	841,000	841,000
Building Improvements	76,368	76,368
Vehicles	85,029	85,029
Furniture and fixtures	137,054	155,931
	1,308,451	1,327,328
Accumulated depreciation	(341,567)	(262,450)
	$ 966,884	$1,064,878

Depreciation expense was $46,234 and $50,178 for the years ended June 30, 2006 and 2005, respectively.

3. Notes Payable

Contract to an Iowa general partnership dated July 1, 2005, due in monthly installments of $6,394, including interest at 7.25%, with a balloon payment due July 1, 2009. Real estate is pledged as collateral.	$872,722
Note payable to Boone Bank and Trust Co. dated January 31, 2003, due February 15, 2008. Payments of $158, including interest at 6.75%, are due monthly. A vehicle is pledged as collateral.	2,954
Note payable to Boone Bank and Trust Co. dated February 10, 2004, due February 10, 2009. Payments of $203, including interest at 6.50% are due monthly. A vehicle is pledged as collateral.	5,945
Note payable to Boone Bank and Trust Co. dated April 27, 2004, due April 15, 2009. Payments of $332, including interest at 5.90% are due monthly. A vehicle is pledged as collateral.	10,373

3. Notes Payable (continued)

Note payable to Boone Bank and Trust Co. dated April 27, 2004, due April 15, 2009. Payments of $293, including interest at 5.90% are due monthly. A vehicle is pledged as collateral.	9,164
Note payable to Boone Bank and Trust Co. dated April 27, 2004, due April 15, 2009. Payments of $185, including interest at 5.90% are due monthly. A vehicle is pledged as collateral.	5,791
	$906,949

As of June 30, 2006, the aggregate maturities of the notes payable are as follows:

June 30, 2007	$ 26,231
June 30, 2008	26,757
June 30, 2009	27,578
June 30, 2010	826,383
	$906,949

4. Revolving Line of Credit

The Organization has a $65,000 revolving line of credit, of which $-0- was unused at June 30, 2006. Bank advances on the credit line are payable on demand and carry an interest rate at the bank's prime rate (10.25% at June 30, 2006.) The credit line is secured by substantially all assets of the Organization.

5. Operating Leases

The Organization is the lessee of various office spaces under monthly operating leases. Total rent expense was $21,820 and $43,090 for the years ended June 30, 2006 and 2005, respectively.

6. Restrictions/Limitations on Net Assets

The Organization has no limitations on unrestricted net assets:

	2006	2005
Unrestricted net assets	$189,777	$352,817

Temporarily restricted net assets were available for the following purposes:

Special needs program	$ 19,403	$ 21,507

7. Advertising

The Organization uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. Advertising costs totaled $10,949 and $13,538 for the years ended June 30, 2006 and 2005, respectively.

8. Retirement Plans

The Organization participates in a tax-deferred retirement plan qualified under Section 401(k) of the Internal Revenue Code. The plan covers all employees who have worked more than 1,000 hours for the Organization. Annual discretionary contributions are determined by the Board of Directors. The Organization contributed 3% of gross salaries for qualified employees to the plan for the year ended June 30, 2006. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code if they wish. Plan expenses were $26,996 and $25,131 for the years ended June 30, 2006 and 2005 respectively.

9. Concentration of Credit Risk

The Organization's credit risk for accounts receivable is concentrated because substantially all of the balances are receivable from entities or individuals within the same geographic region.

10. Unemployment Tax Liability

The Organization has elected to pay unemployment compensation upon the filing of an actual claim rather than pay state unemployment taxes to provide insurance against such claims. Claims were $0 for the year ended June 30, 2006 and $0 for the year ended June 30, 2005. Included in accrued liabilities is an accrued state unemployment liability of $25,884 at June 30, 2006 and 2005 respectively.

11. Professional Service Agreements

The Organization has entered into an agreement to provide Employee Assistance services to Iowa State University and Mary Greeley Medical Center. The Organization maintains separate bank accounts as required by the agreements.

12. Risk Management

The Richmond 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 Organization assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three fiscal years.

13. Net Patient Service Revenue

Patient service revenue is reported at the estimated 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.

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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 of
The Richmond Center
Ames, Iowa

We have audited the financial statements of The Richmond Center as of and for the year ended June 30, 2006 and have issued our report thereon dated August 14, 2006. 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.

<u>Internal Control over Financial Reporting</u>

In planning and performing our audit, we considered The Richmond 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 Richmond 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 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, we believe that none of the reportable conditions described in the accompanying Schedule of Findings is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Richmond 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 Board of Directors, management and grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Peterson & Houston P.C.

Peterson & Houston, P.C.
Boone, IA

August 14, 2006

The Richmond Center
Schedule of Findings
Year ended June 30, 2006

Findings related to the Financial Statements:

REPORTABLE CONDITIONS:

A. 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 Organization's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the patient accounts receivable.

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

Response – We will continue to review control procedures to determine the most effective utilization of personnel to maximize those controls.

Conclusion – Response accepted.

B. Billings and Collections – It was noted while reviewing procedures for the billings and accounts receivable that there is no formal policy being followed when billings are changed nor is there a policy for specific write-offs.

Recommendation – In addition to segregating the duties for the patient accounts receivable functions, the organization should develop formal procedures addressing billings and collections.

Response – We will review our procedures and update them to make our billing and collection process more efficient and effective.

Conclusion – Response accepted.