SOUTHERN IOWA MENTAL HEALTH CENTER
OTTUMWA, IOWA

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS

SCHEDULE OF FINDINGS

JUNE 30, 2006

Anderson, Larkin & Co. P.C.

SOUTHERN IOWA MENTAL HEALTH CENTER

TABLE OF CONTENTS
JUNE 30, 2006

	PAGE
BOARD OF DIRECTORS	1
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS:	
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES	4
STATEMENT OF FUNCTIONAL EXPENSES	5
STATEMENT OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7-9
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	10-11
SCHEDULE OF FINDINGS	12

Anderson, Larkin & Co. P.C.

SOUTHERN IOWA MENTAL HEALTH CENTER

BOARD OF DIRECTORS
JUNE 30, 2006

Name	Title
Nancy Emanuel	President
Kathy Hasley	Vice President
Sarah Wenke	Secretary/Treasurer
Tim Hotek	Board Member
Don Bramschreiber	Board Member
LuEtta White	Board Member
Marvin Knoot	Board Member
Jackie Greenfield	Board Member
Dale Taylor	Board Member
Steve Siegel	Board Member
Dan Stroda	Board Member
Himar Hernandez	Board Member
Donna Crookham	Executive Director

Anderson, Larkin & Co. P.C.

ANDERSON, LARKIN & CO. P.C.
Certified Public Accountants
"Achieving your goals with our knowledge."

Kenneth E. Crosser, CPA
April D. Hammack, CPA
Michael J. Podliska, CPA

David W. Goodman, CPA (Former Principal)
Robert E. Wells, CPA (Retired)

C. Kenneth Anderson, CPA (1952-1977)
Joseph C. Larkin, CPA (1960-1990)

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southern Iowa Mental Health Center
Ottumwa, Iowa

We have audited the accompanying statement of financial position of Southern Iowa Mental Health Center (a non-profit corporation), Ottumwa, Iowa, 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 Center'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 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 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 Southern Iowa Mental Health 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 our report dated August 23, 2006, on our consideration of Southern Iowa Mental Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or 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.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
August 23, 2006

Anderson, Larkin & Co. P.C.

215 West Fourth Street • P.O. Box 533 • Ottumwa, Iowa 52501 • (641) 684-5489 • Fax (641) 683-1665
103 Benton Avenue East • Albia, Iowa 52531 • (641) 932-3295 • Fax (641) 932-2549

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2006

ASSETS

Cash and cash equivalents	$ 193,713
Receivables:	
Accounts receivable; patient services, less allowance for doubtful accounts $29,859	69,672
Prepaid expenses	13,456
Furniture, fixtures and equipment	172,610
Less accumulated depreciation	(153,664)
TOTAL ASSETS	$ 295,787

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	$ 9,245
Accrued liabilities:	
Payroll	20,791
Payroll taxes	1,676
Vacation	11,890
Pension	6,297
Capital lease obligation	5,960
Total liabilities	55,859
Net assets:	
Unrestricted net assets	239,928
TOTAL LIABILITIES AND NET ASSETS	$ 295,787

Anderson, Larkin & Co. P.C.

See Accompanying Notes to Financial Statements

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

PUBLIC SUPPORT AND REVENUES:	
Public support:	
County funds	$ 406,699
Federal funds and grants	48,577
Total public support	455,276
Revenues:	
Private fees, Title XIX and other	376,327
Promise Center	51,862
Interest	2,167
Miscellaneous	10,260
Total revenues	440,616
TOTAL PUBLIC SUPPORT AND REVENUES	895,892
EXPENSES:	
Program services	793,184
Support services	69,187
TOTAL EXPENSES	862,371
CHANGE IN NET ASSETS	33,521
NET ASSETS - Beginning of year	206,407
NET ASSETS - End of year	$ 239,928

Anderson, Larkin & Co. P.C.

See Accompanying Notes to Financial Statements

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2006

	Program Services Mental Health Center Programs	Support Services Management and General	Total
EXPENSES:			
Salaries	$ 445,762	$ 49,379	$ 495,141
Payroll taxes	35,712	4,414	40,126
Group health insurance and employee benefits	48,295	5,969	54,264
Pension	15,474	1,912	17,386
Total salaries and related expenses	545,243	61,674	606,917
Professional fees	153,030	-	153,030
Promise Center	20,215	-	20,215
Advertising	597	596	1,193
Office supplies	11,761	1,307	13,068
Telephone	6,616	735	7,351
Travel	855	95	950
Repairs and maintenance	1,819	202	2,021
Dues	1,809	201	2,010
Staff development	2,818	313	3,131
Insurance	11,482	-	11,482
Cleaning	2,324	258	2,582
Rent	23,119	2,569	25,688
Miscellaneous	3,749	417	4,166
Service agreement	360	-	360
Interest	687	76	763
Total expenses before depreciation	786,484	68,443	854,927
Depreciation	6,700	744	7,444
TOTAL EXPENSES	$ 793,184	$ 69,187	$ 862,371

Anderson, Larkin & Co. P.C.

See Accompanying Notes to Financial Statements

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ 33,521
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	7,444
Decrease in allowance for doubtful accounts	(10,757)
Decrease in accounts receivable	35,855
Increase in prepaid expenses	(6,694)
Decrease in accounts payable	(3,836)
Increase in accrued liabilities	3,285
NET CASH PROVIDED BY OPERATING ACTIVITIES	58,818
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on capital lease obligation	(2,135)
Purchase of fixed assets	(4,652)
NET CASH USED IN FINANCING ACTIVITIES	(6,787)
NET INCREASE IN CASH AND CASH EQUIVALENTS	52,031
CASH AND CASH EQUIVALENTS - Beginning of year	141,682
CASH AND CASH EQUIVALENTS - End of year	$ 193,713
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid during the year for interest	$ 763

Anderson, Larkin & Co. P.C.

See Accompanying Notes to Financial Statements

SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A 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. Services are provided to residents of Southeastern Iowa

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

B Financial Statement Presentation

The Center has adopted 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. In addition, the Center is required to present a statement of cash flows. At June 30, 2006, the Center had only unrestricted net assets

C Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

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

D Cash and Cash Equivalents

The Center considers savings accounts and all other highly liquid investments with an original maturity of three months or less to be cash equivalents

E. Receivables

The Center grants credit to clients, most of whom are located in the Southeast Iowa area. Also, the Center has grant and contract receivables from the federal, state, and county governments The risk of loss on these receivables is the balance owed at the time of default. Accounts receivable are considered past due after 30 days and are charged off when management determines the account is uncollectible. The Center has provided an allowance for the year ended June 30, 2006, based on historical collections and management's estimate of the collectibility of accounts receivable

F. Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are stated at cost Purchases of fixed assets in excess of $500 that provide future benefits are capitalized and depreciation is computed on the straight-line method over the estimated useful lives of 3-10 years. No interest costs were capitalized since there were no qualifying assets

G. Compensated Absences

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

Anderson, Larkin & Co. P.C.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H Employee Benefits

The Center has adopted a defined contribution pension plan covering substantially all employees who have completed one year of service and are at least 21 years of age. The Center contributes 4% of eligible employees' salaries into the pension plan. Employees become fully vested after six years of service. Years of service for purposes of defining plan years are those in which the employee completes at least 1000 hours of service. Pension expense for the year ended June 30, 2006, totaled $17,386.

I. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

J. Advertising

The Center expenses advertising production costs as they are incurred and advertising communication costs the first time advertising takes place.

NOTE 2: CAPITAL LEASE OBLIGATIONS

The Center leased a copier with terms through September 30, 2008. The obligations under the capital lease have been recorded in the accompanying financial statements at the present value of future minimum lease payments, discounted at an interest rate of 8 percent. The capitalized cost of $10,011 is included in furniture, fixtures and equipment in the accompanying financial statements. Amortization expense on the lease totaled $834 for the year ended June 30, 2006, and is included with depreciation expense. On October 30, 2004 the Center traded in the old copier for a new model. The new lease has a capitalized cost of $3,505. Amortization expense on the new lease totaled $876 for the year ended June 30, 2006 and is included with depreciation expense.

The future minimum lease payments required under capital leases at June 30, 2006, are as follows:

June 30,	
2007	$ 2,898
2008	2,898
2009	966
	6,762
Less amounts representing interest	802
Present value of future minimum lease payments	5,960
Less current portion	2,374
Long-term portion	$ 3,586

NOTE 3: MAJOR REVENUE SOURCE

The Center receives an annual grant from Wapello County and also provides treatment to residents of this County. Revenue from the County totaled $359,526 for the year ended June 30, 2006.

NOTE 4: LEASE AGREEMENT

The Center leases office space under a month to month operating lease at a monthly rental amount of $2,141. Rent expense on this lease for the year ended June 30, 2006, totaled $25,688.

Anderson, Larkin & Co. P.C.

NOTE 5: CENTER RISK MANAGEMENT

Southern Iowa Mental Health 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. With the exception of a lawsuit accrued at June 30, 2004 and settled during the year ended June 30, 2005, settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 6: INSURED DEPOSITS

The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts. The Center had deposits in excess of federally insured limits of $105,626 as of June 30, 2006

Anderson, Larkin & Co. P.C.

ANDERSON, LARKIN & CO. P.C.
Certified Public Accountants
"Achieving your goals with our knowledge"

Kenneth E. Crosser, CPA
April D. Hammack, CPA
Michael J. Podliska, CPA

David W. Goodman, CPA (Former Principal)
Robert E. Wells, CPA (Retired)

C. Kenneth Anderson, CPA (1952-1977)
Joseph C. Larkin, CPA (1960-1990)

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Southern Iowa Mental Health Center

We have audited the financial statements of Southern Iowa Mental Health Center, Ottumwa, Iowa, as of and for the year ended June 30, 2006, and have issued our report thereon dated August 23, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Southern Iowa Mental Health Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 Southern Iowa Mental Health Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

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, of the reportable conditions described above, we believe item A to be a material weakness. Prior year reportable conditions have all been resolved except for Item A.

Compliance

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.

Comments involving statutory and other legal matters about the Center's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Anderson, Larkin & Co. P.C.

215 West Fourth Street • P.O. Box 533 • Ottumwa, Iowa 52501 • (641) 684-5489 • Fax (641) 683-1665
103 Benton Avenue East • Albia, Iowa 52531 • (641) 932-3295 • Fax (641) 932-2549

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Southern Iowa Mental Health Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO. P.C

Ottumwa, Iowa
August 23, 2006

Anderson, Larkin & Co. P.C.

SOUTHERN IOWA MENTAL HEALTH CENTER

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Findings Related to the Financial Statements:

Reportable Conditions:

(A) Segregation of Duties - Due to the small size of your organization, one employee performs many bookkeeping duties. This is a lack of segregation of duties, a problem commonly associated with small businesses and organizations.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Center should be aware of the lack of segregation of duties and periodically review its internal policies.

Response - The internal policies will be reviewed on a regular basis.

Conclusion - Response accepted.

Instances of Non-Compliance:

No matters were reported.

Other Findings Related to Statutory Requirements and Other Matters:

No matters were reported.

Anderson, Larkin & Co. P.C.