

WAUBONSIE MENTAL HEALTH CENTER  
INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION  
COMMENTS AND RECOMMENDATIONS  
YEARS ENDED JUNE 30, 2006 AND 2005

WAUBONSIE MENTAL HEALTH CENTER  
CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS:	
Balance Sheets	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	7
ACCOMPANYING INFORMATION:	
Schedules Supporting Statements of Activities:	
Revenues and support	12
Operating expenses	13
COMMENTS AND RECOMMENDATIONS:	
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	15
Schedule of Findings	17

WAUBONSIE MENTAL HEALTH CENTER  
 Officials  
 June 30, 2006

<u>Board of Directors:</u>	<u>Address</u>	<u>Term Expires</u>
Glen Benskin, President	Red Oak, Iowa	--
Elaine Armstrong, Vice-President	Clarinda, Iowa	--
Ruthellen Reed, Secretary	Clarinda, Iowa	2007
Chuck Larson, Treasurer	Hamburg, Iowa	--
Bernice Messer	Stanton, Iowa	2008
Thomas Clark	Tabor, Iowa	2008
Dawn Hough	Clarinda, Iowa	2008
Sharon Yahnke	Hamburg, Iowa	2008

As of the date of this report, the Board is looking for a replacement to fill one open director position. The open spot is from Montgomery County.

Executive Director:

Mary Anne Gibson                      Coin, Iowa

# Gronewold, Bell, Kyhnn & Co. P.C.

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DAVID A. GINTHER

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Waubonsie Mental Health Center  
Clarinda, Iowa

We have audited the accompanying balance sheets of Waubonsie Mental Health Center as of June 30, 2006 and 2005, and the related statements of activities and changes in net assets, 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 audits.

We conducted our audits 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 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 Waubonsie Mental Health Center as of June 30, 2006 and 2005, and the results of its operations, changes in net assets, and cash flows for the years 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 September 27, 2006 on our consideration of Waubonsie 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 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information (shown on pages 12 through 14) 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 our audits 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.

*Gronewold, Bell, Kyhnn & Co. P.C.*

Atlantic, Iowa  
September 27, 2006

WAUBONSIE MENTAL HEALTH CENTER  
Balance Sheets  
June 30,

ASSETS

	2006	2005
Current Assets:		
Cash	\$ 174,247	\$ 51,249
Certificates of deposit	147,301	143,115
Client receivables, less allowances for doubtful accounts and contractual adjustments (\$116,000 in 2006 and \$79,000 in 2005)	100,929	69,558
Other receivables	103,475	120,378
Prepaid expense	635	635
Total current assets	526,587	384,935
Property and Equipment, Net	58,512	29,357
Total assets	\$ 585,099	\$ 414,292

LIABILITIES AND NET ASSETS

Current Liabilities:		
Current maturities of capital lease obligations	\$ 7,046	\$ --
Accounts payable	1,154	4,205
Accrued employee compensation	37,414	32,292
Deferred grant revenue	122,872	--
Total current liabilities	168,486	36,497
Capital Lease Obligations, Less Current Maturities	18,660	--
Total liabilities	187,146	36,497
Net Assets:		
Unrestricted	397,953	377,795
Total liabilities and net assets	\$ 585,099	\$ 414,292

The accompanying notes are an integral part of these statements.

WAUBONSIE MENTAL HEALTH CENTER  
 Statements of Activities and Changes in Net Assets  
 Year ended June 30,

	2006	2005
Support and Revenue:		
Support:		
Fees from participating counties	\$ 377,681	\$ 308,523
Grants	<u>140,622</u>	<u>93,363</u>
Total support	518,303	401,886
Revenue:		
Client fees, net	330,090	359,796
Other revenue	<u>16,227</u>	<u>12,885</u>
Total revenue	<u>346,317</u>	<u>372,681</u>
Total Support and Revenue	864,620	774,567
Expenses:		
Operating expenses	828,413	800,510
Provision for depreciation	18,281	20,255
Provision for bad debts	1,498	2,871
Interest	<u>395</u>	<u>--</u>
Total expenses	<u>848,587</u>	<u>823,636</u>
Operating Income (Loss)	16,033	( 49,069)
Other Support and Gains:		
Interest income	5,041	3,209
Contribution	( 200)	--
Loss on disposal of assets	<u>( 716)</u>	<u>--</u>
Total other support and gains	<u>4,125</u>	<u>3,209</u>
Increase (Decrease) in Unrestricted Net Assets	20,158	( 45,860)
Net Assets, Beginning of Year	<u>377,795</u>	<u>423,655</u>
Net Assets, End of Year	<u>\$ 397,953</u>	<u>\$ 377,795</u>

The accompanying notes are an integral part of these statements.

WAUBONSIE MENTAL HEALTH CENTER  
 Statements of Cash Flows  
 Year ended June 30,

	2006	2005
Cash flows from operating activities:		
Cash received from clients, third party payors, and contracting agencies	\$ 300,821	\$ 338,363
Cash paid to suppliers and employees	( 826,342)	( 795,519)
County funding received	396,493	295,888
Grants received	257,985	60,170
Interest income	5,041	3,209
Other operating revenue	16,227	12,885
Interest paid	( 395)	--
Contribution paid	( 200)	--
Net cash provided by (used in) operating activities	149,630	( 85,004)
Cash flows from investing activities:		
Capital expenditures	( 22,185)	( 6,083)
Additions to certificates of deposit	( 4,186)	( 2,585)
Net cash used in investing activities	( 26,371)	( 8,668)
Cash flows from financing activities:		
Principal payments on capital lease obligations	( 261)	--
Net increase (decrease) in cash	122,998	( 93,672)
Cash beginning of year	51,249	144,921
Cash end of year	\$ 174,247	\$ 51,249

(continued next page)

WAUBONSIE MENTAL HEALTH CENTER  
 Statements of Cash Flows - Continued  
 Year ended June 30,

	2006	2005
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ 20,158	\$( 45,860)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Provision for depreciation	18,281	20,255
Provision for bad debts	1,498	2,871
Loss on disposal of assets	716	--
Change in assets and liabilities		
Accounts receivable	( 15,966)	( 29,272)
Prepaid expense	--	3,413
Accounts payable, trade	( 3,051)	( 38,836)
Accrued employee compensation	5,122	2,425
Deferred grant revenue	122,872	--
Total adjustments	129,472	( 39,144)
Net cash provided by (used in) operating activities	\$ 149,630	\$( 85,004)

The accompanying notes are an integral part of these statements.

WAUBONSIE MENTAL HEALTH CENTER  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

1. Nature of Activities

The Waubonsie Mental Health Center is an Iowa not-for-profit corporation operating under Chapter 230A of the Code of Iowa and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Center is 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 Board includes a representative from the County Board of Supervisors of each of the three counties in the service area (Fremont, Montgomery and Page counties). Each of these members serve an annual term. The six remaining members of the Board of Directors serve three year terms and are selected by the existing Board.

2. Basis of Accounting and Presentation

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

3. Use of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. 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 allowance for contractual adjustments is based on the difference between the Center's normal fees and expected government program and insurance payments.

WAUBONSIE MENTAL HEALTH CENTER  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

5. Unrestricted Revenues and Support

- a. Fees from clients are recorded at list price with adjustments based upon ability to pay and government program and insurance limitations deducted to arrive at net fees from clients. The Center does not record charges and the related write-off of Supported Community Living Services that are deemed uncollectible. If these charges were recorded, the revenues and the related adjustments would be higher. The amount of unrecorded revenues and related adjustments cannot be determined.
- b. Fees from participating counties are based on the Center's annual budget and are allocated among the counties based on their relative usages and populations.
- c. Grant revenues are for specific programs provided by the Center and are recognized as income when grant requirements have been satisfied.

6. Property and Equipment

Property and equipment is stated at cost. The Center computes depreciation on equipment and vehicles using the straight-line method. Lives range from five to ten years for equipment and leasehold improvements and five years for vehicles.

7. Capital Leases

Leases which meet certain criteria are classified as capital leases, and assets and liabilities are recorded at amounts equal to the lesser of the present value of the minimum lease payments or the fair value of the leased properties at the beginning of the respective lease terms. Such assets are amortized evenly over the related lease terms or their economic lives with the amortization expense being included in the provision for depreciation. Interest expense relating to the lease liabilities is recorded to effect constant rates of interest over the terms of the leases.

8. Charity Care

The Center provides care to clients who meet certain criteria under its charity care policy at amounts less than its regular rates. Revenue from services to these clients is recorded as indicated in 5. above. These reductions are recorded as adjustments to fees from clients.

WAUBONSIE MENTAL HEALTH CENTER  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

9. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Center considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

NOTE B - PROPERTY AND EQUIPMENT

The cost and related accumulated depreciation by major category at June 30 are as follows:

	2006	2005
Automobiles	\$ 60,402	\$ 60,402
Office Equipment and Leasehold Improvements	165,868	125,084
	226,270	185,486
Less Accumulated Depreciation	167,758	156,129
	\$ 58,512	\$ 29,357

Rent expense for office space under cancelable operating leases totaled \$22,352 for the year ended June 30, 2006 (\$22,416 for June 30, 2005).

NOTE C - CAPITAL LEASES

Waubonsie Mental Health Center has entered into two lease agreements. One lease is for a copying machine, and the other lease is for computer equipment. The copying machine lease is for five years with payments of \$82 per month with 19.75% interest charged per annum. The computer equipment lease is for three years with payments of \$782 per month with 13.95% interest charged per annum.

Assets recorded under capital leases consist of the following at June 30:

	2006	2005
Computer Equipment	\$ 22,857	\$ --
Copying Machine	3,110	--
Less: Accumulated Depreciation	( 1,609)	--
Net Book Value	\$ 24,358	\$ --

WAUBONSIE MENTAL HEALTH CENTER  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE C - CAPITAL LEASES - Continued

The present value of the net minimum lease payments of capital leases as of June 30, 2006 follows:

<u>Year Ending June 30,</u>	<u>Capital Leases</u>
2007	\$ 10,364
2008	10,364
2009	10,364
2010	985
2011	<u>329</u>
Total minimum lease payments	32,406
Less: Amount representing interest	<u>6,700</u>
Present value of net minimum lease payments	<u>\$ 25,706</u>
Current maturities	<u>\$ 7,046</u>

NOTE D - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

	2006	2005
Client Services	\$ 746,914	\$ 717,635
Management and General	<u>101,673</u>	<u>106,001</u>
	<u>\$ 848,587</u>	<u>\$ 823,636</u>

NOTE E - RETIREMENT PLAN

The Center offers a 403(b) retirement plan in which the Center contributes five percent of an eligible individual's gross wages, limited to \$40,000, to the plan. All full-time staff with two months of employment and who are over eighteen years of age are included in the plan. Total contributions made by the Center for the year ended June 30, 2006 were \$19,429 (\$18,363 for 2005).

WAUBONSIE MENTAL HEALTH CENTER  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE F - CONTINGENCIES

Risk Management

The Center is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Waubonsie Mental Health Center is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage for the past three years.

Off-Balance Sheet Risk

The Center maintains its deposits at several banks in the area. At June 30, 2006, the deposits in two banks exceeded the FDIC insured deposits limit for one entity (by approximately \$123,000). Management of the Center has received no indication of any potential viability problems with this bank by the date of this report.

Economic Dependency

The Center received approximately 44 percent of its revenue from Fremont, Montgomery and Page counties in 2006 (40 percent in 2005).

NOTE G - CONCENTRATION OF CREDIT RISK

The Center grants credit without collateral to its clients, most of whom are area residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2006 and 2005, was as follows:

	2006	2005
Medicaid	56%	44%
Other third-party payors and patients	44	56
	100%	100%

NOTE H - NON-CASH TRANSACTIONS

The cash transactions of the Center are presented on the statements of cash flows. The Center also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of change in net assets to net cash provided by (used in) operating activities:

	2006	2005
Purchase equipment through capital leases	\$ 25,967	\$ --

\* \* \*

ACCOMPANYING INFORMATION

WAUBONSIE MENTAL HEALTH CENTER  
Revenues and Support  
Year ended June 30,

<u>Client Fees</u>	<u>2006</u>	<u>2005</u>
Self Pay and 3rd Party Insurance	\$ 425,654	\$ 431,739
Title XIX	434,043	340,282
ARO	<u>16,882</u>	<u>76,382</u>
Gross Client Fees	876,579	848,403
Less Contractual Adjustments	<u>546,489</u>	<u>488,607</u>
Net Client Fees	<u>\$ 330,090</u>	<u>\$ 359,796</u>
 <u>Fees from Participating Counties</u>		
Fremont	\$ 78,000	\$ 76,818
Montgomery	138,946	123,799
Page	<u>160,735</u>	<u>107,906</u>
	<u>\$ 377,681</u>	<u>\$ 308,523</u>

See Independent Auditor's Report.

WAUBONSIE MENTAL HEALTH CENTER  
Operating Expenses  
Year ended June 30,

	2006	2005
Administrative salaries	\$ 25,458	\$ 26,745
Therapists salaries	264,919	269,853
Clerical salaries	96,965	95,033
Psychiatric consultation	69,639	66,542
Employee benefits	78,145	79,174
Payroll tax expense	39,941	37,216
Audit and accounting fees	8,046	8,112
Other professional fees	14,556	13,213
Office supplies	7,242	5,591
CSP program expenses	2,969	6,281
Telephone	10,091	9,653
Postage and shipping	5,575	5,693
Rent expense	22,352	22,416
Building repairs and maintenance	2,540	2,190
Insurance expense	11,457	11,255
Utilities	4,148	4,143
Travel expense	16,546	13,686
Agency vehicle expense	10,963	8,251
Staff development and training	2,914	3,758
Subscriptions	363	877
Organization dues	2,226	1,836
Equipment repairs and maintenance	990	1,365
Advertising	3,743	3,818
Medication expense	2,185	1,596
Miscellaneous	911	1,870
	704,884	700,167
Community Mental Health Services Grant Expenses -		
Adults:		
Salaries	12,445	8,907
Employee benefits	2,536	702
Travel expense	4,690	5,709
Other expense	2,447	1,447
	22,118	16,765
Senior Contract Program Grant:		
Salaries	43,925	40,520
Employee benefits	5,949	6,662
Travel expense	2,988	1,849
Other expense	7,153	5,660
	60,015	54,691

(continued next page)

WAUBONSIE MENTAL HEALTH CENTER  
 Operating Expenses - Continued  
 Year ended June 30,

	2006	2005
Community Mental Health Services Grant Expenses - Children & Adolescents:		
Salaries	\$ 14,264	\$ 10,425
Employee benefits	3,267	2,231
Travel expense	1,085	540
Other expense	3,838	3,587
	22,454	16,783
Co-Occurring Program Expenses:		
Salaries	7,618	--
Employee benefits	533	--
Travel expense	261	--
Other expense	2,950	--
	11,362	--
Transitional Living Program Expenses:		
Housing	6,084	8,790
Other expense	1,496	3,314
	7,580	12,104
	\$ 828,413	\$ 800,510

See Independent Auditor's Report.

## COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

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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

To the Board of Directors  
Waubonsie Mental Health Center  
Clarinda, Iowa

We have audited the accompanying financial statements of Waubonsie Mental Health Center as of and for the year ended June 30, 2006, and have issued our report thereon dated September 27, 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 Waubonsie 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 Waubonsie 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 Part I of 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 06-I-A is a material weakness.

To the Board of Directors  
Waubonsie Mental Health Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Waubonsie Mental Health 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, 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 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 on 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. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Waubonsie Mental Health Center and other parties to whom Waubonsie Mental Health Center may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

G. A. ... , B. ... , K. ... & W. P. C.

Atlantic, Iowa  
September 27, 2006

WAUBONSIE MENTAL HEALTH CENTER  
Schedule of Findings  
Year ended June 30, 2006

PART I - REPORTABLE CONDITIONS

06-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Center.

Recommendation: We recognize that it may not be economically feasible for the Center to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Center to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

\* \* \*