

SOUTHWEST IOWA MENTAL HEALTH CENTER

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION
COMMENTS AND RECOMMENDATIONS

YEARS ENDED JUNE 30, 2006 AND 2005

SOUTHWEST IOWA MENTAL HEALTH CENTER
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SOUTHWEST IOWA MENTAL HEALTH CENTER
Officials
June 30, 2006

<u>Board of Directors:</u>	<u>Address</u>	<u>Term Expires</u>
Carolyn Groves, President	Massena, Iowa	September, 2006
Julie Gade, Vice-President	Atlantic, Iowa	September, 2008
Mary Jo Blunk, Secretary-Treasurer	Atlantic, Iowa	September, 2007
Maynard Hansen	Wiota, Iowa	September, 2006
Todd Pellett	Atlantic, Iowa	September, 2006
Phyllis Stakey	Massena, Iowa	September, 2008
Don Volk	Atlantic, Iowa	September, 2007

Executive Director:

Emerson Link	Atlantic, Iowa
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Gronewold, Bell, Kyhnn & Co. P.C.

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DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southwest Iowa Mental Health Center
Atlantic, Iowa

We have audited the accompanying balance sheets of Southwest Iowa 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 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.

As indicated in Note C, the Center's continued existence is dependent on cooperation of a related entity. Should the cooperation be discontinued, it would have a significant impact on the Center's financial position and cash flows.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwest Iowa 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 15, 2006 on our consideration of Southwest 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 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 16) 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 15, 2006

SOUTHWEST IOWA MENTAL HEALTH CENTER
Balance Sheets
June 30,

ASSETS

	<u>2006</u>	<u>2005</u>
Current Assets:		
Cash	\$ 48,343	\$ 16,675
Client receivables, less allowances for doubtful accounts and contractual adjustments (\$120,000 in 2006 and \$74,000 in 2005)	56,324	41,952
Other receivables	57,938	39,073
Prepaid expense	203	223
Assets limited as to use	<u>2,823</u>	<u>1,572</u>
Total current assets	165,631	99,495
Property and Equipment, Net	<u>78,869</u>	<u>102,274</u>
Total assets	<u>\$ 244,500</u>	<u>\$ 201,769</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 7,587	\$ 43,157
Accrued employee compensation	45,040	38,533
Deferred revenue	2,823	6,806
Due to Cass County Memorial Hospital	<u>79,761</u>	<u>3,984</u>
Total current liabilities	135,211	92,480
Net Assets:		
Unrestricted	<u>109,289</u>	<u>109,289</u>
Total liabilities and net assets	<u>\$ 244,500</u>	<u>\$ 201,769</u>

The accompanying notes are an integral part of these statements.

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

	<u>2006</u>	<u>2005</u>
Changes in Unrestricted Net Assets:		
Support and Revenue:		
Support:		
Support from Cass County, Iowa	\$ 162,000	\$ 162,000
Support from Audubon County, Iowa	1,417	8,292
Mental health/mental retardation	--	38
Hospital tax revenue	73,569	60,434
Hospital deficit funding	55,523	221,637
Grants	<u>43,478</u>	<u>31,031</u>
Total support	335,987	483,432
Revenue:		
Client fees, net	634,169	451,167
Contracted services from Hospital	248,611	176,654
Other revenue	<u>4,361</u>	<u>2,747</u>
Total revenue	<u>887,141</u>	<u>630,568</u>
Total Support and Revenue	1,223,128	1,114,000
Expenses:		
Staff salaries and benefits	411,663	407,790
Contracted staff and benefits	694,791	578,020
Other expenses	90,766	98,469
Provision for depreciation	<u>27,331</u>	<u>29,711</u>
Total expenses	<u>1,224,551</u>	<u>1,113,990</u>
Operating Income (Loss)	(1,423)	10
Other Support and Gains (Losses):		
Contributions	1,665	--
Interest income	203	165
Loss on disposal of assets	<u>(445)</u>	<u>(175)</u>
	1,423	(10)
Increase in Unrestricted Net Assets	--	--
Net Assets, Beginning of Year	<u>109,289</u>	<u>109,289</u>
Net Assets, End of Year	<u>\$ 109,289</u>	<u>\$ 109,289</u>

The accompanying notes are an integral part of these statements.

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

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from clients, third party payors, contracting agencies, and public support	\$ 1,013,338	\$ 836,215
Cash paid to suppliers and employees	(1,091,394)	(968,759)
Investment income	203	165
Grants received	43,478	31,031
Contributions received	1,665	--
Cash received for hospital support	<u>55,523</u>	<u>70,000</u>
Net cash provided by (used in) operating activities	22,813	(31,348)
Cash flows from investing activities:		
Capital expenditures	(4,371)	(7,198)
Cash flows from financing activities:		
Hospital operating cash funding	<u>14,477</u>	<u>--</u>
Net increase (decrease) in cash	32,919	(38,546)
Cash beginning of year	<u>18,247</u>	<u>56,793</u>
Cash end of year	<u>\$ 51,166</u>	<u>\$ 18,247</u>
Reconciliation of cash to the balance sheets:		
Cash	\$ 48,343	\$ 16,675
Cash in assets limited as to use	<u>2,823</u>	<u>1,572</u>
Total cash	<u>\$ 51,166</u>	<u>\$ 18,247</u>

(continued next page)

SOUTHWEST IOWA 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	\$ --	\$ --
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	27,331	29,711
Loss on disposal of assets	445	175
Change in assets and liabilities		
Accounts receivable	(33,237)	37,233
Prepaid expense	20	65
Accounts payable	(35,570)	40,247
Accrued employee compensation	6,507	1,069
Deferred revenue	(3,983)	(1,916)
Due to Cass County Memorial Hospital	61,300	(137,932)
Total adjustments	22,813	(31,348)
Net cash provided by (used in) operating activities	\$ 22,813	\$(31,348)

The accompanying notes are an integral part of these statements.

SOUTHWEST IOWA 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 Southwest Iowa 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 of Directors serve three year terms and are selected by the existing Board.

The Organization received \$162,000 of revenue from Cass County in 2006 (\$162,000 in 2005). In addition, the Center received a significant portion of its revenue through an agreement with Cass County Memorial Hospital as indicated in Note C.

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 program payments.

5. Assets Limited As to Use

Assets limited as to use include assets set aside by the Board of Directors, including cash designated for future expenditures to meet grant requirements, over which the board retains control and (at its discretion) may subsequently use for other purposes. Amounts required for obligations classified as current liabilities are reported in current assets.

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

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

6. Property and Equipment

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

7. Support and Revenue

- a. Fees from clients are recorded at list price with adjustments based upon ability to pay and government program limitations deducted to arrive at net fees from clients.
- b. Support from Cass County includes a predetermined amount based on the Center's annual budget.
- c. Grant revenues are for specific programs provided by the Center and are recognized as income when grant requirements have been satisfied.

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 7. above. These reductions are recorded as adjustments to fees from clients.

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, including amounts limited as to use.

NOTE B - PROPERTY AND EQUIPMENT

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

	2006	2005
Land	\$ 1,689	\$ 1,689
Land Improvements	35,835	37,737
Buildings	141,094	141,591
Furniture and Equipment	105,488	115,899
	284,106	296,916
Less Accumulated Depreciation	(205,237)	(194,642)
	\$ 78,869	\$ 102,274

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

NOTE C - COMMITMENT, RELATED PARTY, AND ECONOMIC DEPENDENCY

The Center participates in a sharing agreement with Cass County Memorial Hospital, pursuant to Chapter 28E of the Iowa Code, to deliver mental health services in the area. Under the agreement, the Mental Health Center purchases all non-physician services necessary for the Center's operations from the Hospital. Tax funds collected by the Hospital for a portion of the cost of the Center's non-physician personnel result in credits of \$73,569 at June 30, 2006 (\$60,434 at June 30, 2005) being passed through to the Center. These credits are recorded as Hospital support on the Statements of Activities and Changes in Net Assets. These credits represent non-cash transactions for purposes of the Statements of Cash Flows. The Hospital purchases all mental health physician services necessary for its inpatient operation from the Center.

During the years ended June 30, 2006 and 2005, the Center received additional operating cash of \$70,000 from the Hospital to fund the operations of the Center. At June 30, 2006, the Center had a deficit of \$55,523 (\$221,637 deficit at June 30, 2005) without the Hospital's funding which was recorded as Hospital support on the Statement of Activities and Changes in Net Assets. Any unused operating cash or additional deficit funding is included in or reduced from the amount owed by the Center to the Hospital.

The Center has incurred losses in each year between 1995 and 2006. In each year the Hospital has funded the losses of the Center. The survival of the Center is dependent on its ability to generate profits in the future years, and the cooperation of Cass County Memorial Hospital. Should the Hospital decide to discontinue its support, the Center's survival would be in serious doubt.

Below is a summary of the activity and year end amounts due under the agreement with the Hospital:

	June 30,	
	<u>2006</u>	<u>2005</u>
Mental Health Center revenue from Hospital for physicians	<u>\$ 248,611</u>	<u>\$ 176,654</u>
Support from Hospital to Mental Health Center	<u>\$ 129,092</u>	<u>\$ 282,071</u>
Mental Health Center expense for personnel costs	<u>\$ 716,494</u>	<u>\$ 581,319</u>
Mental Health Center expense for liability insurance	<u>\$ 13,866</u>	<u>\$ 16,329</u>
Owed by Mental Health Center to Hospital	<u>\$ 79,761</u>	<u>\$ 3,984</u>

The financial arrangements for the 2006-2007 year are based on the budgeted needs of each entity. The Hospital has agreed to pay the Mental Health Center approximately \$339,320 for physician services and deficit funding; and, the Center agreed to pay the Hospital approximately \$668,930 for non-physician services. Future financial arrangements will be determined annually based on a review of actual operations and needs.

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

NOTE D - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

	2006	2005
Client Services	\$ 1,151,407	\$ 1,054,801
Management and General	73,144	59,189
	\$ 1,224,551	\$ 1,113,990

NOTE E - COMMITMENT AND CONTINGENCY

Retirement Plan

The Center has a defined contribution retirement plan which covers all employees who meet the eligibility requirements. To be eligible, an employee must have completed one year of service equal to 1,000 hours. The plan allows for contributions by employees as well as contributions by the Center. The Center contributes 5% of wages. Retirement plan expenses totaled \$16,846 and \$10,288 for the years ended June 30, 2006 and 2005, respectively.

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. Southwest Iowa 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.

NOTE F - 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
Medicare	18%	18%
Medicaid	20	29
Other third-party payors	53	47
Patients	9	6
	100%	100%

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

NOTE G - 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:

	<u>2006</u>	<u>2005</u>
Non-cash support from Hospital	<u>\$ 73,569</u>	<u>\$ 212,071</u>

* * *

ACCOMPANYING INFORMATION

SOUTHWEST IOWA MENTAL HEALTH CENTER
Service Revenue - Client Fees
Year ended June 30,

	2006			2005
	<u>Gross</u>	<u>Adjustments</u>	<u>Net</u>	<u>Net</u>
Self Pay	\$ 86,390	\$ 63,202	\$ 23,188	\$ 3,516
3rd Party Insurance	361,064	216,405	144,659	124,671
Medicare	190,509	104,723	85,786	39,314
Title XIX	363,021	242,215	120,806	99,895
Employee and Student Assistance Programs	25,241	--	25,241	34,026
Case Management	221,603	--	221,603	135,626
*Others	<u>15,795</u>	<u>2,909</u>	<u>12,886</u>	<u>14,119</u>
	<u>\$ 1,263,623</u>	<u>\$ 629,454</u>	<u>\$ 634,169</u>	<u>\$ 451,167</u>

* Includes consultation fees.

See Independent Auditor's Report.

SOUTHWEST IOWA MENTAL HEALTH CENTER
 Operating Expenses
 Year ended June 30, 2006

	<u>Outpatient</u>	<u>Administration</u>	<u>Emergency</u>	<u>Inpatient</u>	<u>Patient Consultation</u>
Program and Administrative Service Expenses:					
Professional staff salaries and fees	\$ 148,199	\$ 21,028	\$ 2,067	\$ 86,422	\$ 54
Retirement benefits	23,918	3,394	334	13,948	9
Other employee benefits	65,573	9,304	914	38,239	24
Contracted support staff	75,463	10,707	1,053	44,007	28
Contracted professional staff	152,961	21,702	2,135	89,199	56
Professional fees	4,782	679	67	2,789	2
Operating supplies	7,273	1,032	101	4,242	3
Telephone	2,371	337	33	1,383	1
Postage	1,036	147	14	604	--
Utilities	2,586	367	36	1,508	1
Repairs and maintenance	7,706	1,094	108	4,494	3
Director liability insurance	463	66	6	270	--
Travel reimbursement	2,273	323	32	1,326	1
Conferences, conventions and meetings	1,885	267	26	1,099	1
Subscriptions	500	71	7	292	--
Organization dues	1,070	152	15	623	--
Public relations and miscellaneous	2,171	307	31	1,264	1
	<u>500,230</u>	<u>70,977</u>	<u>6,979</u>	<u>291,709</u>	<u>184</u>
Provision for Depreciation	<u>11,920</u>	<u>1,691</u>	<u>166</u>	<u>6,951</u>	<u>4</u>
Total Operating Expenses	<u>\$ 512,150</u>	<u>\$ 72,668</u>	<u>\$ 7,145</u>	<u>\$ 298,660</u>	<u>\$ 188</u>

See Independent Auditor's Report.

<u>Evaluation</u>	<u>Audubon County Outpatient</u>	<u>Case Manage- ment</u>	<u>C/A Case Manage- ment</u>	<u>PSG</u>	<u>EAP</u>	<u>Drop-In Center</u>	<u>Total</u>
\$ 2,476	\$ 3,047	\$ 68,820	\$ --	\$ 2,587	\$ 8,732	\$ --	\$ 343,432
400	491	10,868	809	502	1,409	--	56,082
1,096	1,347	30,836	2,430	1,947	3,864	--	155,574
1,261	1,551	34,521	1,530	1,530	4,447	1,260	177,358
2,554	3,145	70,264	12,541	7,486	9,013	2,952	374,008
80	99	2,188	--	--	282	1,000	11,968
121	148	3,272	668	507	429	861	18,657
40	49	1,085	--	--	140	--	5,439
17	21	474	--	--	61	--	2,374
43	53	1,183	--	--	152	--	5,929
129	159	3,526	--	--	454	2,730	20,403
8	10	212	--	--	27	--	1,062
38	47	1,040	1,160	491	134	--	6,865
31	39	889	883	--	110	--	5,230
8	10	229	--	--	30	--	1,147
18	22	4,548	--	--	62	--	6,510
36	45	1,149	--	50	128	--	5,182
<u>8,356</u>	<u>10,283</u>	<u>235,104</u>	<u>20,021</u>	<u>15,100</u>	<u>29,474</u>	<u>8,803</u>	<u>1,197,220</u>
199	245	5,453	--	--	702	--	27,331
<u>\$ 8,555</u>	<u>\$ 10,528</u>	<u>\$ 240,557</u>	<u>\$ 20,021</u>	<u>\$ 15,100</u>	<u>\$ 30,176</u>	<u>\$ 8,803</u>	<u>\$ 1,224,551</u>

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

	<u>2006</u>	<u>2005</u>
Program and Administrative Service Expenses:		
Professional staff salaries and fees	\$ 343,432	\$ 322,396
Retirement benefits	56,082	36,632
Other employee benefits	155,574	112,449
Contracted support staff	177,358	170,603
Contracted professional staff	374,008	343,730
Professional fees	11,968	14,351
Operating supplies	18,657	26,059
Telephone	5,439	8,161
Postage	2,374	2,719
Utilities	5,929	5,740
Repairs and maintenance	20,403	19,828
Director liability insurance	1,062	1,107
Travel reimbursement	6,865	4,509
Conferences, conventions and meetings	5,230	6,105
Subscriptions	1,147	799
Organization dues	6,510	5,516
Public relations and miscellaneous	<u>5,182</u>	<u>3,575</u>
	1,197,220	1,084,279
Provision for Depreciation	<u>27,331</u>	<u>29,711</u>
Total Operating Expenses	<u>\$ 1,224,551</u>	<u>\$ 1,113,990</u>

See Independent Auditor's Report.

SOUTHWEST IOWA MENTAL HEALTH CENTER
Schedule of Gross Charges and Adjustments for Client Services
Year ended June 30, 2006

Client accounts receivable July 1, 2005		\$ 115,952
Gross charges for client services	\$ 1,263,623	
Adjustments and bad debts written off (net of increase in allowance for doubtful accounts and contractual adjustments of \$46,000)	<u>(675,454)</u>	588,169
Less: Payments received for client services		<u>(527,797)</u>
Client accounts receivable June 30, 2006		<u>\$ 176,324</u>

See Independent Auditor's Report.

SOUTHWEST IOWA MENTAL HEALTH CENTER
 Clients Served - Distribution by County
 Year ended June 30,

<u>County</u>	<u>2006</u>			<u>2005</u>
	<u>Return Clients</u>	<u>New Clients</u>	<u>Total</u>	<u>Total</u>
Audubon	83	58	141	127
Cass	473	197	670	718
Shelby	40	26	66	71
Montgomery	40	30	70	49
Pottawattamie	65	55	120	97
Other	<u>162</u>	<u>138</u>	<u>300</u>	<u>251</u>
	<u>863</u>	<u>504</u>	<u>1,367</u>	<u>1,313</u>

<u>Year Ended June 30,</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Center operating expense per client served:	<u>\$ 896</u>	<u>\$ 848</u>	<u>\$ 856</u>	<u>\$ 833</u>
Net fees from clients per client served:	<u>\$ 464</u>	<u>\$ 344</u>	<u>\$ 434</u>	<u>\$ 407</u>

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
Southwest Iowa Mental Health Center
Atlantic, Iowa

We have audited the accompanying financial statements of Southwest Iowa Mental Health Center as of and for the year ended June 30, 2006, and have issued our report thereon dated September 15, 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 Southwest 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 Southwest 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 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
Southwest Iowa Mental Health Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southwest Iowa 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 Southwest Iowa Mental Health Center and other parties to whom Southwest Iowa 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.

Gronwald, Bell, Kyhan & Co. P.C.

Atlantic, Iowa
September 15, 2006

SOUTHWEST IOWA 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 contract or 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 contract or employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

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