

Vera French
Community Mental Health Center, Inc.

Auditor's Report
Financial Statements and
Supplemental Information

Year Ending June 30, 2006

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Sheldon S. Sitrick, CPA (1954 - 1988)
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Independent Auditor's Report

To The Board of Directors
Vera French Community Mental Health Center, Inc.
Davenport, Iowa

We have audited the accompanying statement of financial position of Vera French Community Mental Health Center, Inc. (a nonprofit organization) as of June 30, 2006, 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; *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 Vera French Community Mental Health Center, Inc. as of June 30, 2006, and the results of its operations and its cash flows for then year 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 10, 2006, on our consideration of Vera French Community Mental Health Center's internal control structure and a report dated August 10, 2006, on its compliance with laws and regulations.

Sitrick & Associate
SITRICK & ASSOCIATES, LLC
Certified Public Accountants

August 10, 2006
Bettendorf, Iowa

Vera French Community Mental Health Center, Inc.
Statement of Financial Position
 June 30, 2006

Assets

Current Assets:	
Cash on hand and in bank	\$ 291,122
Accounts receivable (Note 5)	744,693
Prepaid expenses	<u>89,156</u>
Total Current Assets	<u>1,124,971</u>
Property and Equipment (Note 1):	
Land	25,200
Furnishings and equipment	1,245,285
Buildings and improvements	<u>3,201,367</u>
Property and Equipment at Cost	4,471,852
Less: accumulated depreciation	<u>2,504,408</u>
Total Property and Equipment	<u>1,967,444</u>
 Total Assets	 <u>\$ 3,092,415</u>

Liabilities and Net Assets

Current Liabilities:	
Accounts payable	\$ 125,386
Accrued wages and payroll taxes	355,492
Notes Payable	<u>487,514</u>
Total Current Liabilities	<u>968,392</u>
Long Term Liabilities	
Notes Payable	<u>620,183</u>
Total Liabilities	<u>1,588,575</u>
Net Assets:	
Unrestricted Net Assets:	
Designated by Board for buildings	38,251
Undesignated	<u>1,305,589</u>
Total Unrestricted	<u>1,343,840</u>
Temporarily Restricted Net Assets	<u>160,000</u>
Total Net Assets	<u>1,503,840</u>
 Total Liabilities & Net Assets	 <u>\$ 3,092,415</u>

The Notes to Financial Statements are an integral part of this financial statement

Vera French Community Mental Health Center, Inc.
Statement of Activities
For the Year Ended June 30, 2006

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Support and Revenue:			
Unrestricted:			
Scott County	\$ 3,153,510	\$ -	\$ 3,153,510
Service Fees	2,923,235	-	2,923,235
ARO	1,283,558	-	1,283,558
Contributions	259,535	-	259,535
Title XIX	756,924	-	756,924
SSI,SSDI, SSA	449,512	-	449,512
Grants	593,819	160,000	753,819
Other	82,433	-	82,433
	<hr/>	<hr/>	<hr/>
Total Unrestricted Support	9,502,526	160,000	9,662,526
Expenses:			
Outpatient	4,749,641	-	4,749,641
Community Support	784,130	-	784,130
Community Service	83,126	-	83,126
Inpatient	73,535	-	73,535
Day Treatment	466,064	-	466,064
Supportive Employment	173,212	-	173,212
Jail Diversion	119,994	-	119,994
Outreach	313,333	-	313,333
Residential Programs	2,561,330	-	2,561,330
	<hr/>	<hr/>	<hr/>
Total Program Services	9,324,365	-	9,324,365
Supporting Services			
Case Management	672,985	-	672,985
Case Monitoring	150,109	-	150,109
	<hr/>	<hr/>	<hr/>
Total Expenses	10,147,459	-	10,147,459
Change in Net Assets	(644,933)	160,000	(484,933)
Net Assets, Beginning of Year	<hr/>	<hr/>	<hr/>
	1,988,773	-	1,988,773
Net Assets, End of Year	<u>\$ 1,343,840</u>	<u>\$ 160,000</u>	<u>\$ 1,503,840</u>

The Notes to Financial Statements are an integral part of this financial statement

Vera French Community Mental Health Center, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2006

Cash Flows From Operating Activities:	
Change in net assets	\$ (484,933)
Revenues and expense items not requiring cash:	
Depreciation	212,744
(Increase) Decrease In:	
Accounts receivable	(105,273)
Prepaid expenses	37,236
Increase (Decrease) In:	
Accounts payable	16,483
Accrued and other liabilities	<u>14,900</u>
Net cash provided by operating activities	<u>(308,843)</u>
Cash Flows From Investing Activities:	
Purchases of fixed assets	<u>(660,490)</u>
Net cash flows used by investing activities	<u>(660,490)</u>
Cash Flows From Financing Activities:	
Issuance of Notes Payable	549,817
Repayment on Notes Payable	(73,076)
Advance on Line of credit	<u>358,599</u>
Net cash provide by financing activities	<u>835,340</u>
Net increase in cash	(133,993)
Cash at beginning of year	<u>425,115</u>
Cash at end of year	<u><u>\$ 291,122</u></u>

The Notes to Financial Statements are an integral part of this financial statement

Vera French Community Mental Health Center, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2006

	Vera French Community Mental Health Programs	Pine Knoll Residential Programs	Grant Programs	Management and General	Total
Salaries	4,630,678	1,768,272	250,322	\$ 513,070	\$ 7,162,342
Benefits	1,016,654	439,721	52,907	162,224	1,671,506
Occupancy	213,443	150,347	-	31,045	394,835
Communications	100,009	10,288	3,011	27,315	140,623
Supplies	115,927	126,179	565	25,302	267,973
Equipment Costs	33,619	40,559	-	3,856	78,034
Other Expenses	112,693	25,964	6,528	24,907	170,092
Consultation & Education	9,320	-	-	-	9,320
Interest	39,990	-	-	-	39,990
Depreciation	177,369	-	-	35,375	212,744
 Total	 <u>\$ 6,449,702</u>	 <u>\$ 2,561,330</u>	 <u>\$ 313,333</u>	 <u>\$ 823,094</u>	 <u>\$ 10,147,459</u>

The Notes to Financial Statements are an integral part of this financial statement

Vera French Community Mental Health Center, Inc.

Notes to Financial Statements

For the Year Ended June 30, 2006

Note 1 - Nature of Organization and Significant Accounting Policies:

The Vera French Community Mental Health Center, Inc. was formed in 1950 for the purpose of providing facilities and a complex of community mental health services offering professional consultation and care in coordination with other agencies of the community.

Financial Statement Presentation - The Center elected to adopt Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Non-Profit Organizations," 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.

Contributions - In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Under SFAS No. 116, such contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the time restriction.

Net Patient Revenue – Patient service revenue is reported at estimated net realizable amounts from patients, third party payors, and others for services rendered.

Cash and Cash Equivalents - For purposes of the statements of cash flows, the Center considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

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.

Income Taxes - The Center is exempt from income taxes as a non-profit organization under section 501(c)(3) of the Internal Revenue Service Code. The Center is also exempt from state income taxes.

Vera French Community Mental Health Center, Inc.
Notes to Financial Statements
For the Year Ended June 30, 2006

Note 1 - Nature of Organization and Significant Accounting Policies:

Fixed Assets - Fixed assets are stated at cost and being depreciated over their estimated useful life using the straight-line method of depreciation. Fixed assets under \$ 500 are expensed in the current period. The following lives are currently used:

<u>Classification</u>	<u>Lives</u>
Furnishings and equipment	5 or 7 years
Buildings and improvements	5, 15, 25, 30 or 31.5 years

Leased Assets - Equipment under capital leases are recorded as assets and obligations at amounts equal to the fair market values of the equipment at the beginning of the lease terms. Each lease payment is allocated between a reduction of the lease obligation and interest expense. The assets are being amortized using the straight-line method of depreciation.

Note 2 - Retirement Plan:

The Center has a defined contribution retirement plan for substantially all full time employees. The annual contribution to the plan equals approximately 4.5% of gross salary. The amount included in the expenses for the year ended June 30, 2006 is approximately \$388,752.

Note 3 - Leased Land:

The Center leases approximately four acres of land, upon which the Center's building is located, for an annual rental of \$1 plus the payment of any taxes and insurance. The lease agreement expires in May 2020 and provides that the Center will have the right of first refusal in the event of any sale of land by the lessor.

Note 4 - Contingent Liabilities:

According to the Center's employment policies, sick leave pay is forfeited upon termination and therefore has not been accrued.

Malpractice claims may be asserted arising from past service provided. Management believes that these claims, if asserted would be settled within the limits of insurance coverage.

Vera French Community Mental Health Center, Inc.

Notes to Financial Statements

For the Year Ended June 30, 2006

Note 5 - Accounts Receivable:

Accounts receivable of the Center at June 30, 2006 totaled \$1,041,525. Based on past collection experience, management has provided for an allowance for doubtful accounts of \$296,832 of the receivable balance. Accounts receivable of the Pine Knoll residential center was \$80,520 and \$200,038 was from grants.

Note 6 – Notes Payable:

Notes payable consists of two short term notes due within one year. The notes are secured by the centers interest in its building and accounts receivable.

Line of Credit with variable interest rate, currently at 7.5%	\$ 430,956
Mortgage with an variable interest rate, currently 6.65%	<u>676,741</u>
Total	<u>\$1,107,697</u>

Maturities of long-term debt for each of the next five years:

2007	\$ 487,514
2008	60,436
2009	64,580
2010	69,006
2011	<u>426,161</u>
	<u>\$ 1,107,697</u>

Note 7 - Pine Knoll Residential Center:

Vera French Community Mental Health Center entered into a leasehold agreement with Scott County, Iowa as of July 1, 1987. Under the terms of the lease, all administrative, programmatic and fiscal control of the operation known as "The Pine Knoll Health Care Facility" was given to Vera French Community Health Center for the consideration of \$1 per year. The property under lease is to remain a residential care facility, primarily for the care and treatment of the chronically mentally ill. The county remains responsible for insurance and maintenance of structural and mechanical features of the building. The Community Mental Health Center is responsible for routine inside building and personal property, insurance and maintenance, as well as outside grounds maintenance. However, Scott County maintains a landlord's lien and security interest on all personal property and substitutions. Therefore, no assets at Pine Knoll are included in this report as property of Vera French Community Mental Health Center, Inc.

Vera French Community Mental Health Center, Inc.

Notes to Financial Statements
For the Year Ended June 30, 2006

Note 8 – Revenue

Approximately \$442,740 included in ARO fee revenue is a match from Scott County under the adult rehab option.

Approximately 36 percent of 2006 revenue was derived under federal and state third-party reimbursement programs. These revenues are based in part, on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediaries. Laws and regulations governing these programs are extremely complex and subject to interpretation. As a result there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Note 9 - Related Organizations:

Vera French Housing Corporation - This Corporation works closely with Vera French Community Mental Health Center to provide affordable housing to its patients. The Board of the Housing Corporation is approved and may be removed by the Center's Board. A financial statement summary for June 30, 2006 is as follows:

Assets	\$1,490,033	Revenues	\$ 653,559
Liabilities	<u>318,998</u>	Expenses	<u>545,502</u>
Net Assets	<u>\$1,171,035</u>	Change in net assets	<u>\$ 108,057</u>

Vera French Foundation - The Foundation supports the Center and various other organizations. During the year ended June 30, 2006 the Vera French Foundation made a grant to Vera French Community Mental Health Center for capital improvements and programs. The Center's Board approves and can remove the Foundation's Board. A financial statement summary for June 30, 2006 is as follows:

Assets	\$ 607,910	Revenues	\$ 389,507
Liabilities	<u>1,206</u>	Expenses	<u>373,480</u>
Net Assets	<u>\$ 606,704</u>	Change in net assets	<u>\$ 16,027</u>

Note 10 – Concentration of Credit Risk:

The agency maintains cash balances at a local bank. Accounts at the institution are insured by the Federal Deposit Insurance Corporation up to \$100,000.



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To the Board of Directors
Vera French Community Mental Health Center, Inc.
Davenport, Iowa

Our report on our audit of the basic financial statements of the Vera French Community Mental Health Center, Inc. (a nonprofit organization) as of June 30, 2006, appears on page one. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The statement of Functional Support, Revenues and Expense, Schedule I Vera French Community Mental Health Center Programs, and Schedule II State and United Way Grant supported Programs are presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information was subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the supplementary information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Sitrick & Associates
SITRICK & ASSOCIATES, LLC
Certified Public Accountants

August 10, 2006
Bettendorf, Iowa

Vera French Community Mental Health Center, Inc.
Statement of Functional Support, Revenues and Expenses
For the Year Ended June 30, 2006

	Vera French Community Mental Health Center Schedule I	Pine Knoll Residential Programs	State and Grant Programs Schedule II	Total
Support and Revenue:				
Unrestricted:				
Scott County	\$ 2,480,674	\$ 672,836	\$ -	\$ 3,153,510
Service Fees	2,721,888	201,347		2,923,235
ARO	85,547	1,198,011	-	1,283,558
Contributions	252,896	6,639		259,535
Title XIX	756,924	-	-	756,924
SSI,SSDI, SSA	-	449,512	-	449,512
Grants	59,237	-	534,582	593,819
Other	79,838	2,595	-	82,433
	<u>6,437,004</u>	<u>2,530,940</u>	<u>534,582</u>	<u>9,502,526</u>
Total Unrestricted Support				
	6,437,004	2,530,940	534,582	9,502,526
Expenses:				
Salaries	5,143,748	1,768,272	250,322	7,162,342
Benefits	1,178,878	439,721	52,907	1,671,506
Occupancy	244,488	150,347	-	394,835
Communications	127,324	10,288	3,011	140,623
Supplies	141,229	126,179	565	267,973
Equipment Costs	37,475	40,559	-	78,034
Other Expenses	137,600	25,964	6,528	170,092
Consultation & Education	9,320	-	-	9,320
Interest	39,990	-	-	39,990
Depreciation	212,744	-	-	212,744
	<u>7,272,796</u>	<u>2,561,330</u>	<u>313,333</u>	<u>10,147,459</u>
Total Expenses				
	7,272,796	2,561,330	313,333	10,147,459
Change in Unrestricted Net Assets	<u>\$ (835,792)</u>	<u>\$ (30,390)</u>	<u>\$ 221,249</u>	<u>\$ (644,933)</u>

The Notes to Financial Statements are an integral part of this statement.

Day Treatment	Case Monitoring	Supportive Employment	Jail Diversion	Total
\$ 291,491	\$ 148,372	\$ 70,076	\$ 117,562	\$ 2,480,674
131,550	-	-	-	2,721,888
-	-	9,703	-	85,547
-	-	-	-	243,932
52,630	-	-	-	756,924
-	-	50,693	-	50,693
-	-	37,783	-	97,346
<u>475,671</u>	<u>148,372</u>	<u>168,255</u>	<u>117,562</u>	<u>6,437,004</u>
275,702	94,148	100,840	87,915	5,143,748
75,469	30,437	35,080	32,079	1,178,878
34,652	5,127	9,690	-	244,488
9,809	4,580	3,799	-	127,324
10,337	4,836	2,155	-	141,229
1,577	737	9,370	-	37,475
10,842	4,093	4,840	-	177,590
-	-	-	-	9,320
<u>47,676</u>	<u>6,151</u>	<u>7,438</u>	<u>-</u>	<u>212,744</u>
<u>466,064</u>	<u>150,109</u>	<u>173,212</u>	<u>119,994</u>	<u>7,272,796</u>
<u>\$ 9,607</u>	<u>\$ (1,737)</u>	<u>\$ (4,957)</u>	<u>\$ (2,432)</u>	<u>\$ (835,792)</u>

The Notes to Financial Statements are an integral part of this statement.

Vera French Community Mental Health Center, Inc.
Schedule II - State and United Way Grant Supported Programs
For the Year Ended June 30, 2006

	AEA Safe Schools	DHS Children	Path Program	Capital Improvements	Total
Support and Revenue:					
Unrestricted:					
Scott County	\$ -	\$ -	\$ -	\$ -	\$ -
Grants	313,889	50,693	60,000	110,000	534,582
Service Fees	-	-	-	-	-
Other	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Unrestricted Support	313,889	50,693	60,000	110,000	534,582
 Expenses:					
Salaries	161,190	41,213	47,919	-	250,322
Benefits	41,946	80	10,881	-	52,907
Occupancy	-	-	-	-	-
Communications	3,011	-	-	-	3,011
Supplies	565	-	-	-	565
Equipment Costs	-	-	-	-	-
Other Costs	5,328	-	1,200	-	6,528
Consultation & Education	-	-	-	-	-
Depreciation	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenses	212,040	41,293	60,000	-	313,333
 Change in Unrestricted					
Net Assets	<u>\$ 101,849</u>	<u>\$ 9,400</u>	<u>\$ -</u>	<u>\$ 110,000</u>	<u>\$ 221,249</u>



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REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To The Board of Directors
Vera French Community Mental Health Center, Inc.
Davenport, Iowa

We have audited the financial statements of Vera French Community Mental Health Center, Inc. (a nonprofit organization) as of and for the year ended June 30, 2006 and have issued our report thereon dated August 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As Part of obtaining reasonable assurance about whether Vera French Community Mental Health Center, Inc.'s financial statements are free of material misstatements, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Vera French Community Mental Health Center, Inc.'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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 of risk that misstatements in amounts that would be material in relation to 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management and others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sitrick & Associates
SITRICK & ASSOCIATES, LLC
Certified Public Accountants

August 10, 2006
Bettendorf, Iowa



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Board of Directors
Vera French Community Mental Health Center
Davenport, Iowa

In planning and performing our audit of the financial statements of Vera French Community Mental Health Center for the year ended June 30, 2006 we considered the Center's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of one matter that is an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarized our comments and suggestions regarding those matters. This letter does not affect our report dated August 10, 2006 on the financial statements of Vera French Community Mental Health Center.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various Company personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, to assist you in implementing the recommendations.

Sitrick & Associates
SITRICK & ASSOCIATES, LLC
Certified Public Accountants

August 10, 2006
Bettendorf, Iowa

Vera French Community Mental Health Center
June 30, 2006

August 10, 2006
Page 2 of 2

Segregation of Duties

During the year the administrator at Pine Knoll took another position at the Center and that position has not been filled yet. One of the duties of the prior administrator was to approve all disbursements and sign the checks. These duties of approving and signing were transferred to the same person preparing the disbursements.

In order to maintain proper segregation of duties we recommend that the duties of approving and signing checks be given to someone other than the person preparing the disbursements.