

SIOUXLAND MENTAL HEALTH SERVICES, INC.

Sioux City, Iowa

FINANCIAL STATEMENTS
(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

June 30, 2007

SIOUXLAND MENTAL HEALTH SERVICES, INC.

INDEX

	<u>Page</u>
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	7-11

SIOUXLAND MENTAL HEALTH SERVICES, INC.

BOARD OF DIRECTORS

JUNE 30, 2007

Officers

Dr. Bob Powell
Sue Luther
Don Mathews
Nancy Knudsen

President
Vice President
Secretary
Treasurer

Members

John Ackerman
Dr. Tom Benzoni
Lance Ehmcke
Terri Guy
Rev. Al Hohl

Dean Meine
Mike Peters
Marlene Sturdevant
Mike Wood
Bev Zenor

Executive Director

James Rixner

Chief Financial Officer

Joel Peterson



KING, REINSCH, PROSSER & CO., L.L.P.
Certified Public Accountants

Member Private Companies Practice Section of AICPA

522 4TH STREET, SUITE 200
SIOUX CITY, IA 51101-1620
(712) 258-5550
FAX (712) 277-6705

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Siouxland Mental Health Services, Inc.
Sioux City, Iowa

We have audited the accompanying statement of financial position of Siouxland Mental Health Services, Inc., as of June 30, 2007 and the related statement of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Siouxland Mental Health Services, Inc.'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. 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.

Siouxland Mental Health Services, Inc. has recorded its investment in Tri-State Behavioral Health Association, Inc. (Tri-State) at cost. In our opinion, this investment should be recorded at fair value in order to conform with accounting principles generally accepted in the United States of America. If that investment were recorded at fair value, it would increase investments and net assets by approximately \$125,000 as of June 30, 2007.

In our opinion, except for the effect of not recording its Tri-State investment at fair value as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Siouxland Mental Health Services, Inc. as of June 30, 2007, 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.

Sioux City, Iowa
January 3, 2008

King, Reinsch, Prosser & Co., L.L.P.

SIOUXLAND MENTAL HEALTH SERVICES, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2007

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 293,848
Accounts receivable:	
Patients - net allowance of \$340,301	13,809
Insurance - net allowance of \$109,993	295,248
Woodbury County - case management	111,583
Iowa Department of Human Services	16,347
Sioux City Community School District	7,164
Miscellaneous	14,156
Prepaid expenses	<u>58,343</u>
Total current assets	<u>\$ 810,498</u>

PROPERTY AND EQUIPMENT:

Land	\$ 115,403
Buildings and improvements	1,466,795
Furniture and equipment	<u>606,980</u>
	\$ 2,189,178
Accumulated depreciation	<u>(1,158,705)</u>
Net property and equipment	<u>\$ 1,030,473</u>

OTHER ASSETS:

Investments	<u>\$ 11,000</u>
Total assets	<u><u>\$ 1,851,971</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 49,666
Accrued wages	1,991
Accrued interest	3,972
Accrued expenses	46,168
Compensated absences	95,577
Note payable to Tri-State Behavioral Health Association, Inc.	112,411
Current maturities of long-term line-of-credit	<u>33,664</u>
Total current liabilities	\$ 343,449

LONG-TERM LINE-OF-CREDIT - NET OF CURRENT MATURITIES

	<u>31,971</u>
Total liabilities	<u>\$ 375,420</u>

NET ASSETS:

Unrestricted:	
Undesignated	\$ 1,302,605
Designated for special purposes	73,946
Temporarily restricted	<u>100,000</u>
Total net assets	<u>\$ 1,476,551</u>
Total liabilities and net assets	<u><u>\$ 1,851,971</u></u>

SIouxLAND MENTAL HEALTH SERVICES, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

CHANGES IN UNRESTRICTED NET ASSETS:

Public support:	
Tri-State Behavioral Health Association, Inc. - net	\$ 1,072,545
Woodbury County - case management program - net	409,699
Woodbury County - contributions for building	9,995
Project Compass	243,265
Community Mental Health Services Block Grant	76,077
Sioux City Community School District	221,342
EAP Grant	<u>15,600</u>
	<u>\$ 2,048,523</u>
Patient revenue:	
Patient fees and Title XIX	\$ 2,711,764
Allowance for denied claims	<u>(1,065,223)</u>
	<u>\$ 1,646,541</u>
Other revenue:	
Investment income	\$ 9,422
Conference	22,132
Consulting	74,463
Miscellaneous	<u>64,935</u>
	<u>\$ 170,952</u>
Total unrestricted public support and revenues	<u>\$ 3,866,016</u>
EXPENSES:	
Program services:	
Therapy program	\$ 889,004
Psychiatry program	988,351
Community support programs	485,631
Case management program	317,710
CMHS Grant	81,917
Project Compass	<u>160,388</u>
	<u>\$ 2,923,001</u>
Supporting activities:	
Administrative	<u>1,003,452</u>
Total expenses	<u>\$ 3,926,453</u>
DECREASE IN UNRESTRICTED NET ASSETS	\$ (60,437)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:	
Woodbury County - provider improvement grants	<u>100,000</u>
CHANGE IN NET ASSETS	\$ 39,563
NET ASSETS AT BEGINNING OF YEAR	<u>1,436,988</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,476,551</u>

See notes to financial statements.

SIouxLAND MENTAL HEALTH SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2007

	Program Services						Total Program Expenses	Supporting Activities	Total
	Therapy Program	Psychiatry Program	Community Support Programs	Case Management Program	CMHS Grant	Project Compass			
Salaries and payroll taxes	\$ 440,341	\$ 567,771	\$ 325,240	\$ 226,367	\$ 61,571	\$ 122,404	\$ 1,743,694	\$ 628,190	\$ 2,371,884
Professional consultants	303,484	201,863	-	-	-	-	505,347	-	505,347
Fringe benefits	95,495	89,828	88,909	72,266	11,092	33,363	390,953	146,481	537,434
Total salaries and benefits	\$ 839,320	\$ 859,462	\$ 414,149	\$ 298,633	\$ 72,663	\$ 155,767	\$ 2,639,994	\$ 774,671	\$ 3,414,665
Interest	-	-	-	-	-	-	-	-	14,813
Legal and accounting	-	-	-	-	-	-	-	-	22,631
Telephone	527	119	1,357	194	-	-	2,197	11,334	13,531
Supplies and postage	329	1,122	6,148	914	101	225	8,839	35,491	44,330
Insurance	3,664	10,741	2,699	1,736	386	964	20,190	4,874	25,064
Occupancy	20,540	15,919	19,744	2,054	2,054	-	60,311	5,477	65,788
Repairs and maintenance	-	-	-	-	-	-	-	-	27,417
Staff development	2,441	831	1,024	2,740	1,005	925	8,966	1,437	10,403
Travel	1,003	-	12,768	3,489	4,222	782	22,264	3,579	25,843
Recruitment and advertising	-	1,414	-	-	-	-	1,414	3,540	4,954
Reference materials	138	-	-	-	-	-	138	89	227
Center dues	44	2,171	25	5,304	-	-	7,544	275	7,819
Prescriptions	-	83,685	-	-	-	-	83,685	-	83,685
Meal programs	-	-	6,461	-	-	-	6,461	-	6,461
Conference	-	-	-	-	-	-	-	-	17,828
Depreciation	17,860	11,364	12,288	2,268	1,354	1,311	46,445	72,266	118,711
Miscellaneous	3,138	1,523	8,968	378	132	414	14,553	7,730	22,283
Total expenses	\$ 889,004	\$ 988,351	\$ 485,631	\$ 317,710	\$ 81,917	\$ 160,388	\$ 2,923,001	\$ 1,003,452	\$ 3,926,453

See notes to financial statements.

SIouxLAND MENTAL HEALTH SERVICES, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 39,563
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	118,711
Change in current assets and liabilities:	
Decrease in accounts receivable	33,062
Increase in prepaid expenses	(6,098)
Decrease in accounts payable	(4,605)
Decrease in accrued wages	(2,533)
Increase in accrued interest	3,972
Increase in accrued expenses	15,293
Increase in compensated absences	(718)
Net cash provided by operating activities	<u>\$ 196,647</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment in property and equipment	<u>\$ (33,932)</u>
--------------------------------------	--------------------

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on note payable to Tri-State Behavior Health Association, Inc.	\$ (37,589)
Proceeds from short-term notes payable	50,000
Payments on short-term notes payable	(50,000)
Proceeds from long-term line-of-credit	15,600
Payments on long-term line-of-credit	(31,882)
Net cash used by financing activities	<u>\$ (53,871)</u>

CHANGE IN CASH AND CASH EQUIVALENTS \$ 108,844

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 185,004

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 293,848

SIouxLAND MENTAL HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1 - ORGANIZATION AND FUNCTION:

Siouxland Mental Health Services, Inc. (the Center) is a nonprofit corporation established to provide a comprehensive community mental health program for the diagnosis and treatment of general psychiatric and psychological disorders and to promote the prevention of mental illness.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICES:

Financial Statement Presentation - The Center follows the standards of the Financial Accounting Standards Board in its 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, as follows:

Unrestricted Net Assets - Net assets and transactions which are not subject to donor-imposed restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

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. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Temporarily Restricted Net Assets - Net assets and transactions which are subject to donor-imposed restrictions that will be met by actions of the Center and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Center. Generally, the donors of these assets permit the Center to use all or part of the income earned on related investments for general or specific purposes.

Contributions - The Center follows the standards of SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, (SFAS 116).

SIouxLAND MENTAL HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED):

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is made. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Donated services are recognized as contributions in accordance with SFAS 116.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents - Highly liquid investments with an initial maturity of three months or less are included in cash and cash equivalents, unless held for investment purposes.

Property and Equipment - Property and equipment are stated at cost. Expenditures for plant and equipment renewals and improvements are capitalized. Depreciation is provided over the estimated useful lives of the equipment and improvements using the straight-line method. Repairs and maintenance are charged to expense as incurred. Donations of property and equipment are recorded as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Income Taxes - The Center is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Functional Expenses - The Center allocates its expenses on a functional basis among its various programs and supporting activities. Expenses that can be identified with a specific program or supporting activity are allocated directly according to their purpose. Other expenses that are common to several functions are allocated based on management's estimate of time and utilization.

Management 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 the reported revenues and expenses. Actual results could differ from those estimates.

SIouxLAND MENTAL HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Compensated Absences - Center employees accumulate a limited amount of earned but unused vacation benefits. The amount representing the cost of compensated absences is recorded as a liability and has been computed based on rates of pay in effect at June 30, 2007. The balance is as follows:

Accrued vacation	\$ <u>95,577</u>
------------------	------------------

NOTE 3 - CASH AND CASH EQUIVALENTS:

Cash and cash equivalents are composed accordingly as of June 30, 2007:

Outstanding checks in excess of demand deposits	\$ (84,068)
Money market deposits and annuities	<u>377,916</u>
	<u>\$ 293,848</u>

NOTE 4 - PROPERTY AND EQUIPMENT:

The cost, book value after accumulated depreciation and estimated useful lives at June 30, 2007, are as follows:

	<u>Useful Lives</u>	<u>Cost</u>	<u>Book Value</u>
Land	N/A	\$ 115,403	\$ 115,404
Buildings and improvements	20 years	1,466,798	797,317
Office furniture and equipment	5-10 years	<u>606,977</u>	<u>117,752</u>
		<u>\$ 2,189,178</u>	<u>\$ 1,030,473</u>

NOTE 5 - INVESTMENTS:

The Center purchased 110 shares of stock in Tri-State Behavioral Health Association, Inc. in July 1995 for \$11,000. The investment is recorded in the statement of financial position at cost. Tri-State's purpose is to deliver mental health services to the Siouxland area on an integrated basis. Income related to this investment was \$12,100 for the year ended June 30, 2007.

SIOUXLAND MENTAL HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 6 - NOTE PAYABLE TO TRI-STATE BEHAVIORAL HEALTH ASSOCIATION, INC.:

Effective June 28, 2006, the Center borrowed \$150,000 from Tri-State Behavioral Health Association, Inc. (Tri-State) in exchange for a promissory note bearing interest at 7 percent. There was \$112,411 outstanding on the note as of June 30, 2007. The amount is to be paid in full by December 31, 2007. The Center's Tri-State stock is being held as collateral on the note.

NOTE 7 - LONG-TERM LINE-OF-CREDIT:

Effective April 28, 2006, the Center entered into a long-term line-of-credit agreement with Security National Bank that allows the Center to borrow up to \$100,000. The Center borrowed a high of \$81,596 during fiscal year 2007 and owed \$65,635 as of June 30, 2007. Payments of \$3,110 are due monthly through April 2009 with final payment due May 2009. Payments include interest charged at a per annum rate of 7.25 percent. The line-of-credit is secured by all assets of the Center under a commercial security agreement. Maturities during fiscal years 2008 through 2009 are as follows:

2008	\$ 33,664
2009	<u>31,971</u>
	<u>\$ 65,635</u>

NOTE 8 - DESIGNATED NET ASSETS:

Designated for Special Purposes - The Center has designated a portion of their money market account to accommodate future capital expansion as follows:

Computer upgrade	\$ 69,085
Building maintenance	4,567
Emergency	<u>294</u>
	<u>\$ 73,946</u>

NOTE 9 - RETIREMENT PLAN:

The Center has a noncontributory money purchase pension plan covering employees upon attaining six months of service. For the period July 1, 2006 through February 28, 2007, the Center contributed an amount equal to 6 percent of the participants' wages. Effective March 1, 2007, the Center contributed 3 percent of the participants' wages. Retirement plan expense was \$110,576 for the year ended June 30, 2007. It is the Center's policy to currently fund benefits accrued.

SIouxLAND MENTAL HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 10 - CONTRACT WITH TRI-STATE BEHAVIORAL HEALTH ASSOCIATION, INC.:

Siouxland Mental Health Services, Inc., and Tri-State Behavioral Health Association, Inc. have entered into a contract expiring June 30, 2007, whereby the Center is required to provide mental health services to residents of Woodbury County. Revenue from this contract is recognized when allowable and reimbursable expenses are incurred, and upon meeting the contractual requirements. Expenses are to be used for the purposes specified by the contract. The maximum annual amount to be received from Tri-State is limited to \$1,050,000 under the terms of the contract. Through the date of this report, the Center continues to provide mental health services to eligible residents of Woodbury County and is billing Tri-State Behavioral Health Association, Inc. although a new contract is not in place. Management is in the process of finalizing a new contract with Tri-State.

NOTE 11 - RISK MANAGEMENT:

The 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. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 12 - CONCENTRATION OF FUNDS:

Siouxland Mental Health Services, Inc. deposits in Security National Bank Money Market Gold Account total \$310,334 at June 30, 2007.

NOTE 13 - RELATED PARTY TRANSACTIONS:

A member of the Board of Directors is a partner in the law firm engaged by the Center. There were \$16,331 legal fees incurred during the year ended June 30, 2007 and none payable as of June 30, 2007.

NOTE 14 – TEMPORARILY RESTRICTED NET ASSETS:

The Center has received provider improvement grants totaling \$100,000 from Woodbury County that are to be used for specified purposes. That amount is presented as temporarily restricted net assets as of June 30, 2007.