

WEST CENTRAL MENTAL HEALTH CENTER, INC.

FINANCIAL STATEMENTS

JUNE 30, 2007

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WEST CENTRAL MENTAL HEALTH CENTER, INC.

BOARD OF DIRECTORS

June 30, 2007

ADAIR COUNTY

Bob Grasty, Supervisor
302 SW 3rd
Greenfield, IA 50849

Arlene Schwartz – Vice-Pres.
308 W. Iowa St.
Greenfield, IA 50849

Tom Bingaman
2080 York Ave.
Greenfield, IA 50849

DALLAS COUNTY

Brad Golightly, Supervisor
Courthouse #100
Adel, IA 50003

Arden Augspurger – Sec/Treas.
2526 360th St.
Van Meter, IA 50261

Ed Butler
15422 Rosewood Dr.
Clive, IA 50325

Russ Leckband
19186 Bear Creek Rd.
Earlham, IA 50072

GUTHRIE COUNTY

Kevin Wirt, Supervisor
3328 Hwy 44
Panora, IA 50216

Janet Oberholtz – President
2345 Redwood Ave.
Guthrie Center, IA 50115

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
West Central Mental Health Center, Inc.
Adel, Iowa 50003

We have audited the accompanying statement of financial position of West Central Mental Health Center, Inc. (a nonprofit organization) as of June 30, 2007, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards 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 audit provides a reasonable basis for our opinion.

Because of the lack of available data for beginning accounts receivable, we were unable to form an opinion regarding the amount of patient fees in the accompanying statement of activities (stated at \$389,360).

In our opinion, except for the effects of such adjustments if any that might have been determined to be necessary had patient fees been susceptible to satisfactory audit tests, the financial statements referred to above present fairly, in all material respects, the financial position of West Central Mental Health Center, Inc. at June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2007 on our consideration of West Central Mental Health Center, Inc.'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.

Brooks Lodden, P.C.

West Des Moines, Iowa
September 26, 2007

WEST CENTRAL MENTAL HEALTH CENTER, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2007

ASSETS

Cash	\$	145,779
Accounts receivable, patient services, less allowance for doubtful accounts \$74,012:		
Patients and third-party providers (Note 3)		127,594
Other (Note 4)		9,330
Prepaid expenses		17,676
Property and equipment, net of accumulated depreciation \$254,502 (Note 5)		<u>303,603</u>
Total assets	\$	<u><u>603,982</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$	1,363
Accrued expenses		<u>6,583</u>
Total liabilities	\$	<u>7,946</u>

NET ASSETS

Unrestricted	\$	<u>596,036</u>
Total assets	\$	<u>596,036</u>
Total liabilities and net assets	\$	<u><u>603,982</u></u>

See Notes to Financial Statements.

WEST CENTRAL MENTAL HEALTH CENTER, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Public support:			
Contributions	\$ -	\$ 550	\$ 550
Fees and grants from government agencies:			
Dallas County	\$ 372,741	\$ -	\$ 372,741
Adair County	63,823	-	63,823
Guthrie County	95,254	-	95,254
Community Mental Health Services Block Grant	57,234	-	57,234
Other services	2,524	-	2,524
Total fees and grants from government agencies	<u>\$ 591,576</u>	<u>\$ -</u>	<u>\$ 591,576</u>
Revenue:			
Patient fees, including Title XIX, Medicare, and insurance - net of non-collectibles written off	\$ 389,360	\$ -	389,360
Interest income	1,224	-	1,224
Miscellaneous income	4,259	-	4,259
Total revenue	<u>\$ 394,843</u>	<u>\$ -</u>	<u>\$ 394,843</u>
Net assets released from restrictions:			
Satisfaction of program restrictions	\$ 550	\$ (550)	\$ -
Total public support and revenue	<u>\$ 986,969</u>	<u>\$ -</u>	<u>\$ 986,969</u>
EXPENSES			
Program services:			
Mental health center programs	\$ 514,926	\$ -	\$ 514,926
Supported community living programs	21,082	-	21,082
New Horizons program	97,972	-	97,972
Total program services	<u>\$ 633,980</u>	<u>\$ -</u>	<u>\$ 633,980</u>
Supporting activity:			
Management and general	\$ 264,627	\$ -	\$ 264,627
Total expenses	<u>\$ 898,607</u>	<u>\$ -</u>	<u>\$ 898,607</u>
CHANGES IN NET ASSETS	\$ 88,362	\$ -	\$ 88,362
NET ASSETS, beginning of year	<u>507,674</u>	<u>-</u>	<u>507,674</u>
NET ASSETS, end of year	<u>\$ 596,036</u>	<u>\$ -</u>	<u>\$ 596,036</u>

See Notes to Financial Statements.

WEST CENTRAL MENTAL HEALTH CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2007

	Mental Health Center Programs	Supported Community Living Programs	New Horizons Program	Total Programs	Supporting Activity Management and General	Total
Salaries	\$ 234,701	\$ 12,159	\$ 53,944	\$ 300,804	\$ 148,948	\$ 449,752
Payroll taxes	17,312	913	4,061	22,286	11,367	33,653
Group health insurance	23,765	1,089	4,266	29,120	11,803	40,923
Retirement expense	12,791	732	3,257	16,780	7,369	24,149
Other employee benefits	8,376	-	3,324	11,700	5,444	17,144
Total salaries and related expenses	\$ 296,945	\$ 14,893	\$ 68,852	\$ 380,690	\$ 184,931	\$ 565,621
Consultation	137,330	358	1,650	139,338	3,667	143,005
After hours crisis	2,400	-	-	2,400	-	2,400
Legal and accounting	4,846	307	1,413	6,566	35,165	41,731
Contract labor	3,270	-	-	3,270	4,718	7,988
Professional supplies	199	-	259	458	-	458
Office supplies	7,990	506	2,330	10,826	5,180	16,006
Utilities and telephone	9,616	553	4,666	14,835	5,657	20,492
Postage	1,529	97	446	2,072	992	3,064
Rent	7,800	-	-	7,800	-	7,800
Repairs and maintenance	6,174	391	1,801	8,366	4,003	12,369
Dues and subscriptions	922	58	269	1,249	597	1,846
Transportation expenses	6,701	1,841	1,751	10,293	1,157	11,450
Insurance	12,598	1,029	4,393	18,020	7,758	25,778
Advertising	927	59	270	1,256	601	1,857
Miscellaneous	365	23	3,572	3,960	297	4,257
Total expenses before depreciation	\$ 499,612	\$ 20,115	\$ 91,672	\$ 611,399	\$ 254,723	\$ 866,122
Depreciation	15,314	967	6,300	22,581	9,904	32,485
Total expenses	\$ 514,926	\$ 21,082	\$ 97,972	\$ 633,980	\$ 264,627	\$ 898,607

See Notes to Financial Statements.

WEST CENTRAL MENTAL HEALTH CENTER, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in net assets	\$ 88,362
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	32,485
Change in assets and liabilities:	
(Increase) in patient accounts receivables	(15,598)
Decrease in other receivables	3,575
(Increase) in prepaid expenses	(876)
(Decrease) in accounts payable	(65,204)
Increase in accrued expenses	6,106
Net cash provided by operating activities	<u>\$ 48,850</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	<u>\$ (7,145)</u>
Net cash (used in) investing activities	<u>\$ (7,145)</u>

Net increase in cash \$ 41,705

Cash:

Beginning 104,074

Ending \$ 145,779

See Notes to Financial Statements.

WEST CENTRAL MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization

Reporting entity:

West Central Mental Health Center, Inc. (the Center) is a non-profit corporation established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. Services are provided to residents of Dallas, Adair and Guthrie Counties.

The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law.

The Center provides services through the following programs:

Mental Health Center – Provides outpatient psychotherapy and counseling services, psychiatric services, including ongoing medication management, psychiatric and psychosocial evaluation services, emergency services, and education services.

Supported Community Living – Provides people with serious and persistent mental illness with support to live independently in the community.

New Horizons – Enables patients with serious and persistent mental illness to gather together in one central location and to discover and develop their own unique capabilities.

Note 2. Summary of Significant Accounting Policies

Classification of net assets:

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Center and changes therein are classified and reported as follows:

Unrestricted – assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. The Center's board may designate portions of the unrestricted net assets as board-designated for specific purposes, projects or investment as an aid in the planning of expenses and the conservation of assets.

Temporarily restricted – assets resulting from contributions and other inflows of assets whose use by the Center is limited to donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Center meeting the purpose of the restriction.

Permanently restricted – assets resulting from contributions which are permanently restricted by donors. Although such assets may not be expended, the investment income earned on them may be expended for any purpose. Currently, the Center has no permanently restricted net assets.

Use of estimates:

The preparation of financial statements in conformity with U.S. 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.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies *(Continued)*

Cash and cash equivalents:

For purposes of the statement of cash flows, the Center considers cash on hand and in banks and investments with a maturity of less than a year to be cash equivalents.

Patient receivables:

Patient receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a charge to receivables based on its assessment of the current status and billing rates of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to patient receivables. Changes in the valuation allowance have not been material to the financial statements. Management closely monitors outstanding balances and writes off all balances that will not be collected.

Property and equipment:

Property and equipment is recorded at cost, if purchased, or if donated, at the approximate fair value at the date of donation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years. The Center follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,000.

Net patient service revenue:

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, counties, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Contributions received:

Contributions, which are defined as unconditional transfers of cash or other assets, are measured at fair value on the date received and given recognition as revenue. The imposition of restrictions on how a contribution is to be used does not delay recognition.

Contributions with donor-imposed restrictions are reported as restricted contributions. Gifts of long-lived assets received without donor-imposed restrictions are considered unrestricted support.

Functional allocations of expenses:

The Center allocates expenses on a functional basis among direct program services and management and general. Expenses are allocated directly to the program service or supporting activity benefited. Certain expenses are allocated using an estimated percentage base.

NOTES TO FINANCIAL STATEMENTS

Note 3. Accounts Receivable

Accounts receivable is stated net of allowance for doubtful accounts, which is estimated as a percentage of fees billed. The allowance for doubtful accounts represents those patient receivables which are doubtful of collection, as well as estimated third-party contractual adjustments.

Note 4. Other Receivables

Other receivables consist of a grant receivable from Iowa Medicaid Enterprise for services provided during the year ended June 30, 2007 in the amount of \$9,330.

Note 5. Property and Equipment

A summary of changes in property and equipment is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land	\$ 19,000	\$ -	\$ -	\$ 19,000
Building	406,008	1,314	-	407,322
Landscaping	20,270	1,450	-	21,720
Furniture, fixtures and equipment	87,153	4,381	-	91,534
Leasehold improvement	380	-	-	380
Vehicles	<u>18,149</u>	<u>-</u>	<u>-</u>	<u>18,149</u>
Total	<u>\$550,960</u>	<u>\$ 7,145</u>	<u>\$ -</u>	<u>\$558,105</u>

Note 6. Retirement Plan

A defined contribution pension plan for eligible employees is maintained by the Center. The funding is current as of June 30, 2007. Net pension expense for the current year ended June 30, 2007 was \$24,149. The plan has a six-month waiting period for participation for all employees.

Note 7. Operating Leases

The Center, as the lessee, leases a copy machine under an operating lease that requires monthly rental and maintenance agreement payments of \$274, through June 2009. Lease expense for the copy machine totaled \$3,542 for the year ended June 30, 2007.

The following is a schedule of non-cancelable future minimum lease payments required under the operating lease:

<u>June 30,</u>	
2008	\$ 3,291
2009	<u>3,291</u>
Total	<u>\$ 6,582</u>

NOTES TO FINANCIAL STATEMENTS

Note 8. Concentration of Credit Risk

Financial instruments that potentially subject the Center to concentrations of credit risk consist principally of demand deposits located at a financial institution. These demand deposits exceeded the federally insured limit of \$100,000 at times throughout the year.

The Center provides counseling to individuals in a three-county area. The Center grants credit to these individuals and the three counties.

The Center receives a substantial amount of its revenue from third-party payors, including Medicare, Medicaid, three counties and several insurance companies. A significant reduction in reimbursement by any of these third-party payors could have a material impact on the Center's programs and services. Support from Dallas County provides for 63 percent of total fees and grants from government agencies.

Note 9. Center 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.

**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
West Central Mental Health Center, Inc.:
Adel, Iowa

We have audited the financial statements of West Central Mental Health Center, Inc. (a nonprofit organization) as of and for the year ended June 30, 2007, and have issued our report thereon dated September 26, 2007, which was qualified because we did not audit the fees from patients, including potential cost settlements, because of the lack of available data for beginning accounts receivable. Except as described in the preceding sentence, we conducted our audit in accordance with U.S. generally accepted auditing standards 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 West Central Mental Health Center, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Center's financial statements that is more than inconsequential will not be prevented or detected by the Center's internal control. We consider the deficiency described in the accompanying Schedule of Findings and responses as 2007-A to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Center's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the West Central Mental Health Center, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Center's management and Board of Directors and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brooks Linder, P.C.

West Des Moines, Iowa
September 26, 2007

WEST CENTRAL MENTAL HEALTH CENTER, INC.

SCHEDULE OF FINDINGS

Findings Related to the General Purpose Financial Statements:

Material Weakness:

2007-A **Critical Accounting Routines** – Critical accounting routines are tasks which are to be completed on a regular basis in order to ensure the timeliness and accuracy of the flow of information to management, and to provide the Board of Directors sufficient timely and accurate information so they are able to fulfill their oversight responsibilities. During our review of internal control, we discovered numerous instances in which invoices were paid without proper approval prior to the issuance of payment for the invoices. When invoices are paid without proper approval, the possibility of improperly paid invoices exists. Also, without proper approval of invoices, the Center's ability to prevent losses from employee error or dishonesty decreases.

Recommendation – We recommend the Center review its internal control procedures over cash disbursements and communicate the process to all employees involved.

Response – The procedures for cash disbursements have been reviewed by management and communicated to all employees involved with the process.

Conclusion – Response accepted.