

NORTHEAST IOWA MENTAL HEALTH CENTER

FINANCIAL STATEMENTS

JUNE 30, 2007

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NORTHEAST IOWA MENTAL HEALTH CENTER
BOARD OF DIRECTORS AND STAFF MEMBERS
June 30, 2007

President:
Vice President:
Secretary:
Treasurer:

Emory Westcott (Howard)
Becky Cleveland (Gundersen Lutheran)
Sallee A. Scarff-Muehlbauer (Clayton)
Sallee A. Scarff-Muehlbauer (Clayton)

Steve Bouska, Winneshiek
Bill Clark, Allamakee
Diann Cline, Fayette
Randy Keehner, Clayton
Stuart Johnston, Winneshiek
John Lacewell, Allamakee

Lori McCarthy, Allamakee
Bill Nixon, Winneshiek
Mark Smith, Fayette
Kathy Strike, Howard
Mary Jo Wilhelm, Howard
John Youngblut, Clayton

STAFF MEMBERS

Administration

Patrick Smith, Executive Director
Neelu Gill, M.D., Medical Director
Marcia Oltrogge, MA, CADC, Associate Director
Marlene Pins, MIS Director
Jan Jauert, Administrative Assistant
Bonnie Johnson, Assistant to MIS Director

Community Support Staff

Wendy Buenzow, BA
Virginia Leidahl, LBSW*
Ann Pahlas, LBSW

Medical Staff

Vithalji Modha, M.D.
Afshin Shirani, M.D.*
B.J. Dave, M.D.

Wellness Recovery Staff

Brenda Burke, BSW

Peer Support Staff

Connie Bourassa*
Michael Hubbard*

Counseling Staff

Susan Doll, ACADC, LISW
Lynda Elgers, MA
Carol Hagen, LISW
Kimberly Havens, BA, CADC
Larry Heckert, BA, CADC*
Jamie Lanus, LISW
Rebecca Loven, M. Ed.
Esther Metzger, M. Ed.
Ginger O'Connell, BA, ACADC
Cynthia Peterson, MA, LISW
Karen Tenneson, LMSW
Karla Wolfs, LMSW

Intensive Services Staff

Cheryl Hermansen, BA*

Support Staff

Diane Decker
Kathy Holtey*
Michelle Hurlbut*
Dawn Levenhagen
Sharla Lieder
Susan Looney
Jaynece Tekippe
Kathy Villa

*Terminated prior to or on June 30, 2007

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors
Northeast Iowa Mental Health Center
Decorah, Iowa

We have audited the accompanying statements of financial position of Northeast Iowa Mental Health Center (a nonprofit corporation) as of June 30, 2007 and 2006, and the related statements of activities, functional expenses, 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 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Iowa Mental Health Center as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2007, on our consideration of Northeast Iowa Mental Health Center's internal control over financial reporting and on 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.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
October 5, 2007

NORTHEAST IOWA MENTAL HEALTH CENTER
STATEMENTS OF FINANCIAL POSITION
June 30, 2007 and 2006

ASSETS

	2007	2006
CURRENT ASSETS		
Cash and cash equivalents	\$ 186,591	\$ 274,242
Accounts receivable, less allowance for adjustments of 2007 \$54,457; 2006 \$28,003	226,609	153,599
Prepaid expenses	19,933	18,739
Total current assets	433,133	446,580
PROPERTY AND EQUIPMENT, net	970,469	1,012,896
ASSETS WHOSE USE IS LIMITED		
Cash and cash equivalents		926
Investments, at fair value	408,395	392,203
Accrued interest receivable	3,847	2,424
Noncurrent assets whose use is limited	412,242	395,553
	\$ 1,815,844	\$ 1,855,029

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 20,839	\$ 22,784
Accrued expenses	5,517	
Deferred revenue		19,344
Accrued salary and vacation pay	58,421	46,807
Total current liabilities	84,777	88,935
NET ASSETS		
Unrestricted net assets		
Designated for specified purposes	575,339	561,500
Undesignated	1,155,728	1,204,594
Total net assets	1,731,067	1,766,094
	\$ 1,815,844	\$ 1,855,029

See Notes to Financial Statements.

NORTHEAST IOWA MENTAL HEALTH CENTER
 STATEMENTS OF ACTIVITIES
 June 30, 2007 and 2006

	2007	2006
SUPPORT AND REVENUE		
Support		
Grants and contracts	\$ 576,953	\$ 648,203
Revenue and gains		
County fees	119,516	93,356
Other		
Fees	747,951	587,031
Other services	11,658	20,091
Registration - non grant	1,350	
Interest	19,636	17,205
Dividends	774	677
Gifts	735	250
Unrealized gain (loss) on investments	163	(1,285)
In-kind contributions	3,000	2,400
Miscellaneous	7,228	5,654
Total revenue and gains	912,011	725,379
Total support and revenue	1,488,964	1,373,582
EXPENSES		
Program services		
Mental Health program	814,789	737,394
Alcohol and Related Problems program	430,808	423,070
Total program services	1,245,597	1,160,464
Support services		
General and administrative	278,394	325,927
Total expenses	1,523,991	1,486,391
Change in unrestricted net assets	(35,027)	(112,809)
NET ASSETS, beginning	1,766,094	1,878,903
NET ASSETS, ending	\$ 1,731,067	\$ 1,766,094

See Notes to Financial Statements.

NORTHEAST IOWA MENTAL HEALTH CENTER
STATEMENTS OF CASH FLOWS
June 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (35,027)	\$ (112,809)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Depreciation	48,575	56,334
Provision for adjustments	26,455	(12,773)
Unrealized (gain) loss on investments	(163)	1,285
Changes in:		
Accounts receivable	(99,465)	54,459
Accrued interest	(1,423)	(915)
Prepaid expenses	(1,194)	6,161
Accounts payable and accrued expenses	(1,945)	(992)
Accrued expenses	5,517	
Deferred revenue	(19,344)	19,344
Accrued salaries and benefits	11,614	(2,464)
	<u>(66,400)</u>	<u>7,630</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment, furniture and fixtures	(6,148)	(25,427)
Purchase of investments	(16,029)	(182,239)
	<u>(22,177)</u>	<u>(207,666)</u>
Net cash used in investing activities	(22,177)	(207,666)
Net decrease in cash	(88,577)	(200,036)
CASH AND CASH EQUIVALENTS		
Beginning of year	275,168	475,204
End of year	<u>\$ 186,591</u>	<u>\$ 275,168</u>
STATEMENT OF FINANCIAL POSITION RECONCILIATION		
Current assets	\$ 186,591	\$ 274,242
Assets whose use is limited		926
	<u>\$ 186,591</u>	<u>\$ 275,168</u>

See Notes to Financial Statements.

NORTHEAST IOWA MENTAL HEALTH CENTER
 STATEMENTS OF FUNCTIONAL EXPENSES
 Years Ended June 30, 2007 and 2006

	2007			
	Program Services		Supporting Services	Total
	Mental Health Program	Alcohol and Related Problems Program	General and Administrative	
Salaries	\$ 507,668	\$ 274,657	\$ 181,551	\$ 963,876
Payroll taxes	44,735	25,167	16,299	86,201
Employee benefits	92,433	48,664	32,636	173,733
Total personnel	644,836	348,488	230,486	1,223,810
Psychiatric consultation	15,826			15,826
Independent contractors	84	1,765		1,849
Professional fees	11,745	6,618	4,283	22,646
Building repair and maintenance	6,867	4,955	2,843	14,665
Office supplies and expense	10,815	10,741	5,396	26,952
Telephone	4,846	2,173	1,593	8,612
Mileage and travel	13,406	5,200	4,152	22,758
Rent	2,090	1,437	844	4,371
Janitorial services	6,597	4,596	2,680	13,873
Equipment repair and maintenance	8,011	5,139	3,116	16,266
Equipment rental	650	425	255	1,330
Depreciation and amortization	40,871		7,704	48,575
Bad debts	5,584	11,392		16,976
Other expenses	42,561	27,879	15,042	85,482
Total expenses	\$ 814,789	\$ 430,808	\$ 278,394	\$ 1,523,991

See Notes to Financial Statements.

2006

Program Services		Supporting Services	
Mental Health Program	Alcohol and Related Problems Program	General and Administrative	Total
\$ 366,114	\$ 257,573	\$ 200,663	\$ 824,350
30,514	21,648	16,790	68,952
82,292	58,591	45,355	186,238
478,920	337,812	262,808	1,079,540
87,894			87,894
5,885	1,395		7,280
8,629	4,879	4,299	17,807
9,236	6,497	5,062	20,795
10,630	10,504	6,919	28,053
4,814	2,074	2,164	9,052
11,157	5,724	5,348	22,229
2,240	1,365	1,152	4,757
5,943	4,253	3,283	13,479
6,174	4,371	3,394	13,939
1,773	1,278	983	4,034
43,532		12,802	56,334
4,010	15,824		19,834
56,557	27,094	17,713	101,364
\$ 737,394	\$ 423,070	\$ 325,927	\$ 1,486,391

NORTHEAST IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

1. Organization and Function and Significant Accounting Policies

a. Organization and Function

The Northeast Iowa Mental Health Center is a private, nonprofit corporation organized under Chapter 504A.36 and Chapter 230A of the Code of Iowa operating under the fictitious name of Northeast Iowa Behavioral Health, Inc. The Northeast Iowa Mental Health Center provides outpatient mental health evaluation, treatment and education services to the four counties of Allamakee, Clayton, Howard, and Winneshiek. In addition, substance abuse services are provided to the previously mentioned counties plus Fayette County. The Northeast Iowa Mental Health Center's central office is in Decorah with a branch office in Oelwein. Satellite offices are located in Cresco, Elkader, Waukon and West Union, Iowa.

Northeast Iowa Mental Health Center and Gundersen Lutheran, Inc. have forged a corporate relationship to aid the coordination and delivery of quality health and education services to the residents of Northern Iowa. This established health system offers the sharing of resources and coordinating of services to clients. There is no financial dependence through this relationship.

Funding sources are patient fees, third-party payors, contracts with the four county Boards of Supervisors, contracts with MBC of Iowa an affiliate of Magellan Behavioral Health, First Judicial District Community Corrections for 321J treatment, the Division of Behavioral, Developmental and Protective Services for Families, Adults and Children of the Iowa Department of Human Services, and various grants that become available from year to year.

Accreditation is through the Division of Behavioral, Developmental and Protective Services for Families, Adults and Children of the Iowa Department of Human Services. Licensing is through the Division of Health Promotion, Prevention and Addictive Behaviors of the Iowa Department of Public Health. The Center is also a member of the Iowa Association of Community Providers, the National Council for Community Behavioral Healthcare, Iowa Substance Abuse Program Directors Association, Iowa Substance Abuse Supervisors Association and the National Coalition Against Domestic Violence.

b. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

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

c. Financial Statement Presentation

The Center follows 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 required by this statement, the Center has prepared its external financial statements to present the three classes of net assets required. As permitted by this standard, the Center has discontinued its use of fund accounting and has, accordingly, reclassified its financial statements to present classes of net assets.

The Center follows SFAS No. 116, "Accounting for Contributions Received and Contributions Made." In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. The Center has not received any contributions with donor-imposed restrictions that would result in temporarily or permanently restricted net assets.

NOTES TO FINANCIAL STATEMENTS

1. Organization and Function and Significant Accounting Policies (Continued)

d. Cash and Cash Equivalents

For purposes of reporting the statements of cash flows, the Center includes all unrestricted cash accounts, money market accounts, and certificates of deposit with a maturity of 90 days or less as cash and cash equivalents on the accompanying financial statements.

e. Patient Services Revenue

Patient services revenue is reported at the estimated realizable amounts from patients, third-party payors, 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. Balances that are still outstanding after management has used reasonable collection efforts are written off to bad debts. The allowance for adjustment was \$54,457 and \$28,003 at June 30, 2007 and 2006, respectively.

f. Investments

The Center follows SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

The fair value of investment securities are based on quoted market prices for those investments.

g. Property and Equipment

Property and equipment acquired by the Center are considered to be owned by the Center. Expenditures for maintenance repairs and minor replacements are charged to the current year, while major replacements and betterments costing over \$500 per item are capitalized. Depreciation is computed by the straight-line method with estimated useful lives ranging from 20 to 40 years for buildings and 5 to 10 years for equipment.

h. Support and Revenue

Support in the statements of activities consists of nonreciprocal receipts of grants and contracts. Revenues are classified as private, county, or other revenues. Private revenues represent revenues which the Center has received from patient services and contracted third-party payors.

A portion of other revenues represents revenues from MBC of Iowa an affiliate of Magellan Behavioral Health, in the Alcohol and Related Problems Program.

i. Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

j. Income Taxes

Northeast Iowa Mental Health Center is a nonprofit corporation qualifying for exempt status under Section 501(c) (3) of the Internal Revenue Code and is not required to pay income tax. The Center files the required annual informational return for organizations exempt from income tax. In addition, the Center has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for 2007.

NOTES TO FINANCIAL STATEMENTS

1. Organization and Function and Significant Accounting Policies (Continued)

k. Pension Plan

The Center has a defined contribution pension plan for employees who have completed one year (date of hire to anniversary of that date) with a minimum of 1,000 hours of service to Northeast Iowa Mental Health Center. Thereafter, the Center contributes 10% of the employee's salary into the pension plan. The employee is not allowed to contribute. Vesting occurs at the rate of 33 1/3% per year.

The pension plan is administered by Mutual of America, Milwaukee, Wisconsin. Employees of the Center are eligible to participate in tax sheltered annuities. The Center does not contribute to the employee's tax sheltered annuities.

l. Accrued Vacation

The Center accrues vacation pay as a liability and as an expense on the statements of activities in the year it is earned and reduces the liability account in the year the vacation is taken.

m. Concentrations of Credit Risk

Financial instruments that potentially subject the Center to significant concentrations of credit risk consist principally of accounts receivables and cash. Receivables are primarily from the U.S. Government, the State of Iowa and local governments in Iowa, patients and third-party payors. These receivables are uncollateralized.

As of the balance sheet date, cash balances on deposit with financial institutions exceeded the amount insured by the Federal Deposit Insurance Corporation (FDIC) by \$100,889. These cash balances fluctuate during the year and at various times may exceed the \$100,000 insurance limit. Excess cash is invested daily to increase income. These investments are collateralized by bonds purchased by the financial institution. Management continually monitors the financial condition of the financial institutions along with the cash balances, which are maintained on deposit with them in order to minimize this potential risk.

n. Management Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

2. Investments

Investments at June 30, 2007 and 2006 are carried at fair value and are composed of the following:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Investments whose use is limited				
Mutual funds	\$ 17,591	\$ 17,932	\$ 16,817	\$ 17,050
Certificates of deposit	390,493	390,463	375,238	375,153
	<u>\$ 408,084</u>	<u>\$ 408,395</u>	<u>\$ 392,055</u>	<u>\$ 392,203</u>

NOTES TO FINANCIAL STATEMENTS

2. Investments (Continued)

The following schedule summarizes the investment return for the years ended June 30, 2007 and 2006:

	2007	2006
Investment income	\$ 20,410	\$ 17,882
Unrealized gain (loss)	163	(1,285)
	\$ 20,573	\$ 16,597

The following tabulation summarizes the relationship between cost and market value of investment assets:

	Cost	Market Value	Excess of Market Over Cost
Balance, beginning of year	\$ 392,055	\$ 392,203	\$ 148
Increase in unrealized gains on investments			163
Balance, end of year	\$ 408,084	\$ 408,395	\$ 311

The Center incurred no direct investment expenses during the years ended June 30, 2007 and 2006.

3. Property and Equipment

Major classifications of property and equipment as of June 30 are summarized as follows:

	2007	2006
Buildings	\$ 1,341,926	\$ 1,339,655
Office furniture and equipment	430,835	427,472
	1,772,761	1,767,127
Accumulated depreciation	802,292	754,231
	\$ 970,469	\$ 1,012,896

The total depreciation expense for the Center for the years ended June 30, 2007 and 2006 was \$48,575 and \$56,334, respectively.

4. Assets Whose Use is Limited

Assets of \$412,242 (\$395,553 in 2006) have been designated by the Board of Directors for the improvement, replacement, and expansion of property and equipment. Of this total, \$338,066 is designated for operating reserve, \$1,099 for a Medicare claiming reserve and \$73,077 is for equipment replacement. Management expects that a portion of the board-designated funds may be required for operations in the fiscal year ended June 30, 2008. This designation is subject to change at the discretion of the Board and is not a legal restriction on use of the assets.

5. Contributed Services

Contributed services, which require special skills that would be purchased, if not donated, or create or enhance a nonfinancial asset are recognized in the statements of activities. This amount equaled \$3,000 and \$2,400 for the years ended June 30, 2007 and 2006, respectively.

6. Fund-Raising Expense

The Center incurred no fund-raising expenses for the years ended June 30, 2007 and 2006.

NOTES TO FINANCIAL STATEMENTS

7. Pension Plan

The total pension expense for the Center for the years ended June 30, 2007 and 2006 was \$76,958 and \$77,848, respectively.

8. Interest Expense

For the years ended June 30, 2007 and 2006, the Center incurred no interest cost, and accordingly, no interest expense was capitalized during these periods.

9. Lease Obligations

The Center leases office space for its satellite offices under various month to month leases with \$4,371 and \$4,757 charged to expense for the years ended June 30, 2007 and 2006, respectively.

The Center also rents equipment under various month to month leases which totaled \$1,330 and \$4,034 for the years ended June 30, 2007 and 2006, respectively.

10. Commitments and Contingencies

The Center's employees accumulate sick leave days for subsequent use. These accumulations are not recognized as expenses by the Center until used. The Center's approximate unrecognized accrued sick leave at June 30, 2007 is \$163,097 (\$165,947 at June 30, 2006). Sick leave becomes payable when used by the employees. The Center's policy prohibits payoff of accumulated benefits at termination of employment. The Board of Directors considers this amount designated, however, no assets have been specifically earmarked for this purpose.

Northeast Iowa Mental Health Center's medical director, Dr. Nicola resigned effective, January 21, 2005. The Center had been without a permanent psychiatrist since that time and had been providing limited services to patients provided by temporary psychiatrists. On April 4, 2005, the Center entered into a contingency search agreement with FCS for the recruitment of a psychiatrist. Dr. Neelu Gill signed an employment agreement on July 19, 2005, to provide medical services for three years, with a two year extension subsequently signed, commencing in July 2006. Under the agreement, in addition to compensation and benefits, the Center paid for relocation costs up to \$7,000 and attorney's fees up to \$5,000 to help Dr. Gill obtain H-1B visa status. In accordance with the contingency search agreement with FCS, the Center paid half the fee, \$10,000 upon Dr. Gill signing the employment agreement. The remaining \$10,000 was paid when Dr. Gill began work at the Center in July 2006 and recorded as an expense for that period.

11. Risk Management

Northeast Iowa Mental Health 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.

12. Support from Governmental Units

The Center receives a substantial portion of its support from federal, state, and local governments. These various governments are the source for approximately one half of the Center's revenue and support. A significant reduction in the level of this support would have a significant effect on the Center's programs and activities.

Effective July 1, 2005, the Center lost its contract with the Fayette County Board of Supervisors as the County's designated mental health provider. Patients receiving County support for mental health care only no longer receive treatment from the Center. The Center still provides mental health and emergency services in Fayette County to patients not receiving County support. In addition, the Substance Abuse contract with the Iowa Department of Public Health continues to be in effect. The Center can treat substance abuse and dual disorder patients under this contract and receive reimbursement. Management's assessment on the loss of the Fayette contract is that of revenue neutrality.

12. Support from Governmental Units (Continued)

Effective October 1, 2006, Medicaid introduced a new cost reimbursement program to help offset the cost Mental Health Centers were being forced to absorb. Under the new plan, the Center charges for Medicaid services based on a set fee schedule. In April 2007, a five percent increase was approved by Medicaid retroactive to October 1, 2006, for services provided. The Center also stopped billing the counties for Medicaid related administration fees. Starting October 1, 2006, reimbursement amounts under the new program can be up to five percent of costs over the state average for Mental Health Centers. The Center's Executive Director thought that the Center would average on the high side, since costs are generally higher in rural areas with satellite offices.

The Center did a cost report that was due September 30, 2007, and based on that will be reimbursed up to 100% of cost within the five percent limitation, as noted above. The Center's management estimated that the final reimbursement to be received for fiscal year 2007 will be between \$50,000 and \$80,000. Management is taking a conservative approach estimating \$50,000 for additional reimbursement under the Medicaid program for fiscal year 2007, with anything received above this being recognized in fiscal year 2008.

Based on the cost report that will be submitted for fiscal year 2007, the Center will receive a specific fiscal year 2008 reimbursement schedule for the Center only. There is uncertainty if at that time a retroactive reimbursement will be done to make up the difference from July 1, 2007 to the date to new rates are figured or if this will be done at the end of the fiscal year, since an old fee schedule will be used up to that point.

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INDEPENDENT AUDITOR'S REPORT ON THE
SUPPLEMENTARY INFORMATION

To the Board of Directors
Northeast Iowa Mental Health Center
Decorah, Iowa

Our report on our audits of the basic financial statements of Northeast Iowa Mental Health Center (a nonprofit corporation) as of and for the years ended June 30, 2007 and 2006 appears on page 2. We conducted our audits in accordance with U.S. generally accepted auditing standards. These audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information listed on pages 14 through 20 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 the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
October 5, 2007

NORTHEAST IOWA MENTAL HEALTH CENTER
STATEMENT OF FINANCIAL POSITION INFORMATION
June 30, 2007

	Mental Health Program	Alcohol and Related Problems Program
CURRENT ASSETS		
Cash and cash equivalents	\$ 186,591	
Accounts receivable, net of allowance for adjustments	165,878	\$ 60,731
Due from Mental Health Program		568,380
Prepaid expenses	19,933	
Total current assets	372,402	629,111
PROPERTY AND EQUIPMENT		
Buildings	1,341,926	
Equipment	430,835	
	1,772,761	
Less accumulated depreciation	(802,292)	
Total property and equipment	970,469	
ASSETS WHOSE USE IS LIMITED		
Investments, at fair market value	408,395	
Accrued interest receivable	3,847	
Noncurrent assets whose use is limited	412,242	
	\$ 1,755,113	\$ 629,111
CURRENT LIABILITIES		
Account payable	\$ 20,839	
Due to Alcohol and Related Problems Program	568,380	
Accrued expenses	5,517	
Accrued salary and vacation pay	32,626	\$ 25,795
Total current liabilities	627,362	25,795
NET ASSETS		
Unrestricted net assets		
Designated for specified purposes	575,339	
Undesignated	552,412	603,316
Total unrestricted net assets	1,127,751	603,316
	\$ 1,755,113	\$ 629,111

See Independent Auditor's Report on the Supplementary Information.

<u>Inter-program Eliminations</u>	<u>Total all Programs</u>
	\$ 186,591
	226,609
\$ (568,380)	None
	19,933
<u>(568,380)</u>	<u>433,133</u>
	1,341,926
	<u>430,835</u>
	1,772,761
	<u>(802,292)</u>
	<u>970,469</u>
	408,395
	<u>3,847</u>
	<u>412,242</u>
<u>\$ (568,380)</u>	<u>\$ 1,815,844</u>
	\$ 20,839
\$ (568,380)	None
	5,517
	<u>58,421</u>
<u>(568,380)</u>	<u>84,777</u>
	575,339
	<u>1,155,728</u>
	<u>1,731,067</u>
<u>\$ (568,380)</u>	<u>\$ 1,815,844</u>

NORTHEAST IOWA MENTAL HEALTH CENTER
STATEMENT OF FINANCIAL POSITION INFORMATION (Continued)
June 30, 2007

ASSETS WHOSE USE IS LIMITED

	Interest Rate	Maturity Date	Amount
<u>Mental Health Program</u>			
Mutual Fund			
U.S. Government Securities Fund American Funds Service Company	Variable		\$ 17,932
Certificate of Deposits			
Edward D. Jones & Company American National	5.20%	February 22, 2008	18,971
Farmers and Merchants Savings Bank	2.45%	June 18, 2008	73,887
Bank of the West	5.25%	July 9, 2007	76,471
Viking State Bank & Trust	5.10%	May 10, 2008	42,368
Northeast Security Bank	4.84%	April 24, 2008	73,077
Decorah Bank & Trust	5.20%	January 25, 2008	104,590
Decorah Bank & Trust	4.00%	September 10, 2007	1,099
			390,463
Accrued interest			3,847
Total assets whose use is limited			\$ 412,242

See Independent Auditor's Report on the Supplementary Information.

NORTHEAST IOWA MENTAL HEALTH CENTER
 STATEMENT OF CHANGES IN NET ASSETS (By Program)
 Year Ended June 30, 2007

	Mental Health Program	Alcohol and Related Problems Program	Inter-program Eliminations	Total All Programs
Total support and revenue	\$ 808,909	\$ 693,115	\$ (13,060)	\$ 1,488,964
Total expenses	963,824	573,227	(13,060)	1,523,991
Change in net assets	(154,915)	119,888	None	(35,027)
NET ASSETS, beginning	1,282,666	483,428	None	1,766,094
NET ASSETS, ending	\$ 1,127,751	\$ 603,316	\$ None	\$ 1,731,067

See Independent Auditor's Report on the Supplementary Information.

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF ACTIVITIES INFORMATION
Year Ended June 30, 2007

	Mental Health Program	Alcohol and Related Problems Program
SUPPORT AND REVENUE		
Support		
County block grants	\$ 59,100	
Division of Health, Promotion, Prevention and Addictive Behaviors contract		\$ 408,436
Iowa Department of Corrections		17,389
Magellan Grant	7,805	
Harkin Grant	21,591	
NIATX	11,538	
Division of Behavioral, Developmental and Protective Services for Families, Adults and Children		
Mental Health Adult Grant	29,632	
Mental Health Child Grant	21,462	
Total support	151,128	425,825
Revenue and Gains		
County		
Outpatient fees	94,516	
Adult recovery	12,000	
Community support services	13,000	
	119,516	
Other Revenue		
Fees		
Medicaid		126,901
Medicare	113,806	3,705
Patient fees	232,407	522,231
Contracted third party payors	231,791	
Department of Health and Human Services	4,705	
Level II Training	7,174	
Community support services - MBC	42,789	
OWI education		27,280
Less adjustments	(25,436)	(346,587)
Insurance write-offs	(124,763)	(68,052)
Total other revenue fees	482,473	265,478
Other		
Psychological services	11,658	
Registration - non grant	1,350	
Rent	13,060	
Interest	19,636	
Dividends	774	
Gifts	535	200
Unrealized loss on investments	163	
In-kind contributions	3,000	
Miscellaneous	5,616	1,612
Total other revenue other	55,792	1,812
Total other revenue	538,265	267,290
Total revenue and gains	657,781	267,290
Total support and revenue	\$ 808,909	\$ 693,115

See Independent Auditor's Report on the Supplementary Information.

Inter-program Eliminations	Total All Programs
	\$ 59,100
	408,436
	17,389
	7,805
	21,591
	11,538
	29,632
	<u>21,462</u>
	<u>576,953</u>
	94,516
	12,000
	<u>13,000</u>
	<u>119,516</u>
	126,901
	117,511
	754,638
	231,791
	4,705
	7,174
	42,789
	27,280
	(372,023)
	<u>(192,815)</u>
	<u>747,951</u>
	11,658
	1,350
\$ (13,060)	None
	19,636
	774
	735
	163
	3,000
	<u>7,228</u>
<u>(13,060)</u>	<u>44,544</u>
<u>(13,060)</u>	<u>792,495</u>
<u>(13,060)</u>	<u>912,011</u>
<u>\$ (13,060)</u>	<u>\$ 1,488,964</u>

NORTHEAST IOWA MENTAL HEALTH CENTER
 STATEMENT OF FUNCTIONAL EXPENSES INFORMATION
 Year Ended June 30, 2007

	Program Services			Total Program Services
	Mental Health Program	Alcohol and Related Problems Program	Inter-program Eliminations	
Salaries	\$ 507,668	\$ 274,657		\$ 782,325
Payroll taxes	44,735	25,167		69,902
Employee benefits	92,433	48,664		141,097
Total personnel	644,836	348,488		993,324
Psychiatric consultation	15,826			15,826
Independent contractors	84	1,765		1,849
Professional fees	11,745	6,618		18,363
Building repair and maintenance	6,867	4,955		11,822
Office supplies and expense	10,815	10,741		21,556
Telephone	4,846	2,173		7,019
Mileage and travel	13,406	5,200		18,606
Rent	2,090	7,479	\$ (6,042)	3,527
Janitorial services	6,597	4,596		11,193
Equipment repair and maintenance	8,011	5,139		13,150
Equipment rental	650	4,333	(3,908)	1,075
Depreciation and amortization	40,871			40,871
Bad debts	5,584	11,392		16,976
Other expenses	42,561	27,879		70,440
Total expenses	\$ 814,789	\$ 440,758	\$ (9,950)	\$ 1,245,597

See Independent Auditor's Report on the Supplementary Information.

Supporting Services		Total Expenses
General and Administrative	Inter-program Eliminations	
\$ 181,551		\$ 963,876
16,299		86,201
32,636		173,733
<u>230,486</u>		<u>1,223,810</u>
		15,826
		1,849
4,283		22,646
2,843		14,665
5,396		26,952
1,593		8,612
4,152		22,758
2,732	\$ (1,888)	4,371
2,680		13,873
3,116		16,266
1,477	(1,222)	1,330
7,704		48,575
		16,976
<u>15,042</u>		<u>85,482</u>
<u>\$ 281,504</u>	<u>\$ (3,110)</u>	<u>\$ 1,523,991</u>

NORTHEAST IOWA MENTAL HEALTH CENTER

STATEMENT OF FUNCTIONAL EXPENSES INFORMATION (Continued)
Year Ended June 30, 2007

	Program Services			Support Services General and Administrative	Total Expenses
	Mental Health Program	Alcohol and Related Problems Program	Total Program Services		
OTHER EXPENSES					
Heat, light, water and cable	\$ 13,827	\$ 9,843	\$ 23,670	\$ 5,683	\$ 29,353
Postage and shipping	2,761	2,206	4,967	1,209	6,176
Insurance/settlements	4,391	3,415	7,806	1,896	9,702
Conferences and conventions	3,771	1,771	5,542	1,265	6,807
Organization dues	1,706	1,667	3,373		3,373
Advertising	3,289	1,789	5,078	1,179	6,257
Board meeting expense				2,843	2,843
Computer support	1,599	1,112	2,711	648	3,359
Moving/recruitment	6,689	5,377	12,066		12,066
Miscellaneous	537	699	1,236	319	1,555
Emergency Answer Plus	3,991		3,991		3,991
Total other expenses	\$ 42,561	\$ 27,879	\$ 70,440	\$ 15,042	\$ 85,482

See Independent Auditor's Report on the Supplementary Information.

NORTHEAST IOWA MENTAL HEALTH CENTER
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2007

Grantor/Program Title	Federal CFDA Number
Indirect	
U.S. Department of Justice, Office of Juvenile Justice and Delinquency Prevention	
Iowa Department of Human Services/HAWC Partnerships for Children	
Juvenile Justice and Delinquency Prevention	16.540
Enforcing Underage Drinking Laws Program	16.727
Subtotal Department of Justice	
U.S. Department of Health and Human Services	
Iowa Department of Public Health	
Division of Health Promotion, Prevention and Addictive Behaviors	
Block Grant for Prevention and Treatment of Substance Abuse (1)	93.959
Division of Health Promotion & Chronic Disease Prevention	
Harkin Wellness Grant	93.283
Iowa Department of Human Services	
Division of Behavioral, Developmental and Protective Services for Families, Adults and Children	
Block Grants for Community Mental Health Service	
Education Request for Proposal (Adult)	93.958
Education Request for Proposal (Juvenile)	93.958
Subtotal Department of Health and Human Services	
U.S. Department of Education	
Safe and Drug-Free Schools and Communities	
Safe Schools/Healthy Students Initiative	
Community Connections Safe Schools Healthy Students Consortium	
Allamakee Community School District	84.184

(1) Administered by MBC of Iowa

See Independent Auditor's Report on the Supplementary Information.

Contract Number	Program Expenditures
Contract #CJJP-07-D1-003	\$ 8,132
Contract #CJJP-07-D1-003	4,580
	<u>12,712</u>
	<u>121,993</u>
Contract #5886HWG22	<u>21,591</u>
Contract #07-0324-401-6470-2349-26	29,632
Contract #07-0324-401-6470-2349-26	<u>21,462</u>
	<u>51,094</u>
	<u>194,678</u>
	<u>25,313</u>
	<u><u>\$ 232,703</u></u>

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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
Northeast Iowa Mental Health Center
Decorah, Iowa

We have audited the financial statements of Northeast Iowa Mental Health Center (a nonprofit corporation) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 5, 2007. 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 Northeast Iowa Mental Health Center'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 Northeast Iowa Mental Health 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 internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in 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 significant deficiencies.

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 Center'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 deficiencies described below to be significant deficiencies in internal control over financial reporting.

1. Segregation of Duties

During our review of internal controls, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of Northeast Iowa Mental Health Center's financial statements. The financial and grant reporting is primarily the responsibility of one person. As a result, interruption of some accounting functions could occur if they were unable to perform their duties.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. However, the Center should review the operating procedures to obtain the maximum internal control possible under the circumstances. The Center should also consider the potential consequence of reliance on one person for financial and grant reporting.

Response and Corrective Action Planned

This issue is reviewed annually through the audit review with the Board of Directors. The size of the agency prevents further segregation of duties.

Conclusion

Recommendation stands.

2. Financial Reporting

Reporting financial data reliably in accordance with generally accepted accounting principles requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently is able to prepare financial statements, but lacks the knowledge and training to appropriately fulfill the responsibilities of applying all accounting principles and preparing footnote disclosures, which is a common situation in small entities.

Recommendation

We understand that the Center has a limited number of office employees, amount of staff time and budget that can be dedicated to education. We recommend management obtain additional generally accepted accounting principles knowledge through reading relevant accounting literature and attending local professional education courses. This should help management significantly improve in their ability to prepare and take responsibility for reliable generally accepted accounting principles financial statements.

Response and Corrective Action Planned

The Center agrees that accounting staff should take advantage of training and readings that advance their understanding of generally accepted accounting principles when it is conveniently available and doesn't interfere with required day-to-day responsibilities.

Conclusion

Response accepted.

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 that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northeast 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, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Northeast Iowa Mental Health Center's responses to the findings identified in our audit are described previously. We did not audit Northeast Iowa Mental Health Center's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board, management, 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.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
October 5, 2007