

**THE COMMUNITY MENTAL HEALTH CENTER
FOR MID-EASTERN IOWA
Iowa City, Iowa**

**FINANCIAL STATEMENTS
June 30, 2007 and 2006**

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Independent Auditor's Report

Board of Directors
The Community Mental Health Center for Mid-Eastern Iowa
Iowa City, Iowa

We have audited the accompanying statements of financial position of The Community Mental Health Center for Mid-Eastern Iowa as of June 30, 2007 and 2006, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Community Mental Health Center for Mid-Eastern Iowa 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 accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 26, 2007 on our consideration of Community Mental Health Center for Mid-Eastern Iowa'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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited", on which we express no opinion, 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.

Clifton Gunderson LLP

Iowa City, Iowa
November 26, 2007

FINANCIAL STATEMENTS

THE COMMUNITY MENTAL HEALTH CENTER FOR MID-EASTERN IOWA
STATEMENTS OF FINANCIAL POSITION
June 30, 2007 and 2006

ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 412,815	\$ 367,555
Receivables:		
Client services, less allowance for doubtful accounts of \$45,000 in 2007 and \$54,637 in 2006	190,264	141,220
State of Iowa Community Mental Health Services grants- Federal	27,415	35,982
State of Iowa Homeless grant-Federal	7,461	8,688
State and county governments	124,423	216,479
Other	20,472	19,962
Prepaid expenses	<u>6,803</u>	<u>9,946</u>
Total current assets	<u>789,653</u>	<u>799,832</u>
 PROPERTY AND EQUIPMENT		
Land	56,775	56,775
Buildings	806,259	798,584
Furniture and equipment	<u>287,185</u>	<u>308,968</u>
Total	1,150,219	1,164,327
Less accumulated depreciation	<u>697,133</u>	<u>665,824</u>
Net property and equipment	<u>453,086</u>	<u>498,503</u>
 TOTAL ASSETS	 <u><u>\$ 1,242,739</u></u>	 <u><u>\$ 1,298,335</u></u>

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT LIABILITIES		
Accounts payable	\$ 46,920	\$ 83,822
Accrued expenses	<u>122,501</u>	<u>155,491</u>
Total current liabilities	<u>169,421</u>	<u>239,313</u>
NET ASSETS		
Unrestricted:		
General operating	1,020,923	981,756
Designated for capital improvements	<u>-</u>	<u>34,000</u>
Total unrestricted net assets	1,020,923	1,015,756
Temporarily restricted	<u>52,395</u>	<u>43,266</u>
Total net assets	<u>1,073,318</u>	<u>1,059,022</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,242,739</u>	<u>\$ 1,298,335</u>

The accompanying notes are an integral part of the financial statements.

THE COMMUNITY MENTAL HEALTH CENTER FOR MID-EASTERN IOWA
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2007 and 2006

	<u>2007</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Public support:			
Johnson County, including medication fund reimbursements	\$ 1,286,574	\$ -	\$ 1,286,574
Iowa County	43,200	-	43,200
Cedar County	80,110	-	80,110
Louisa County	2,239	-	2,239
Other counties	93,429	-	93,429
State payment program	164,348	-	164,348
Performance Partnership Grant	94,364	-	94,364
PATH Grant for Homeless Outreach Services	32,824	-	32,824
Other grants	48,716	-	48,716
Contributions	49,903	42,708	92,611
Net assets released from restrictions	<u>33,579</u>	<u>(33,579)</u>	<u>-</u>
Total public support	<u>1,929,286</u>	<u>9,129</u>	<u>1,938,415</u>
Revenue:			
Client fees	775,608	-	775,608
Investment income	7,440	-	7,440
Fundraising events, net of direct costs of \$ 4,406 in 2007	13,870	-	13,870
Gain on disposal of assets	1,500	-	1,500
Other	<u>18,951</u>	<u>-</u>	<u>18,951</u>
Total revenue	<u>817,369</u>	<u>-</u>	<u>817,369</u>
Total public support and revenue	<u>2,746,655</u>	<u>9,129</u>	<u>2,755,784</u>
EXPENSES			
Program services, including reimbursed medications	2,642,162	-	2,642,162
Supporting services			
Fundraising	9,800	-	9,800
Administrative	<u>89,526</u>	<u>-</u>	<u>89,526</u>
Total expenses	<u>2,741,488</u>	<u>-</u>	<u>2,741,488</u>
CHANGE IN NET ASSETS	5,167	9,129	14,296
NET ASSETS, BEGINNING OF YEAR AS PREVIOUSLY REPORTED	<u>1,015,756</u>	<u>43,266</u>	<u>1,059,022</u>
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	<u>1,015,756</u>	<u>43,266</u>	<u>1,059,022</u>
NET ASSETS, END OF YEAR AS RESTATED	<u>\$ 1,020,923</u>	<u>\$ 52,395</u>	<u>\$ 1,073,318</u>

2006		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 1,508,808	\$ -	\$ 1,508,808
43,200	-	43,200
86,656	-	86,656
34,451	-	34,451
114,652	-	114,652
101,164	-	101,164
100,676	-	100,676
32,825	-	32,825
33,659	-	33,659
49,390	39,300	88,690
<u>33,410</u>	<u>(33,410)</u>	<u>-</u>
<u>2,138,891</u>	<u>5,890</u>	<u>2,144,781</u>
766,412	-	766,412
6,279	-	6,279
-	-	-
-	-	-
<u>20,986</u>	<u>-</u>	<u>20,986</u>
<u>793,677</u>	<u>-</u>	<u>793,677</u>
<u>2,932,568</u>	<u>5,890</u>	<u>2,938,458</u>
2,980,188	-	2,980,188
-	-	-
<u>99,613</u>	<u>-</u>	<u>99,613</u>
<u>3,079,801</u>	<u>-</u>	<u>3,079,801</u>
(147,233)	5,890	(141,343)
<u>1,200,365</u>	<u>-</u>	<u>1,200,365</u>
<u>(37,376)</u>	<u>37,376</u>	<u>-</u>
<u>1,162,989</u>	<u>37,376</u>	<u>1,200,365</u>
<u>\$ 1,015,756</u>	<u>\$ 43,266</u>	<u>\$ 1,059,022</u>

The accompanying notes are an integral part of the financial statements.

THE COMMUNITY MENTAL HEALTH CENTER FOR MID-EASTERN IOWA
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 14,296	\$ (141,343)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	56,600	66,407
Allowance for doubtful accounts	7,125	(7,125)
Effects of changes in operating assets and liabilities:		
Receivables	45,171	20,684
Prepaid expenses	3,143	2,086
Accounts payable	(36,902)	61,752
Accrued expenses	(32,990)	41,543
Advances - Johnson County	-	(100,529)
	<u>56,443</u>	<u>(56,525)</u>
Net cash provided by (used in) operating activities		
	<u>56,443</u>	<u>(56,525)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(11,183)</u>	<u>(7,474)</u>
Net cash used in investing activities	<u>(11,183)</u>	<u>(7,474)</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 45,260	 (63,999)
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>367,555</u>	 <u>431,554</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u>\$ 412,815</u>	 <u>\$ 367,555</u>

The accompanying notes are an integral part of the financial statements.

THE COMMUNITY MENTAL HEALTH CENTER FOR MID-EASTERN IOWA
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30 , 2007

	Program Services									Supporting Services				
	School Liason	Clubhouse	Supported Community Living	Consultation and Education	PACE Johnson	Homeless	Psycho- therapy	Psychiatry	Med Fund	Total	Fundraising	Administrative	Total	Total
Direct salaries and nonemployee compensation	\$ 25,872	\$ 43,948	\$ 81,940	\$ 5,203	\$ 65,191	\$ 32,115	\$ 605,006	\$ 758,319	\$ 1,139	\$ 1,618,733	\$ 6,740	\$ 54,383	\$ 61,123	\$ 1,679,856
Payroll taxes	1,312	3,628	5,589	358	4,854	2,403	44,295	38,605	85	101,129	516	4,045	4,561	105,690
Employee benefits	1,867	6,439	11,681	778	12,647	7,037	99,689	84,058	242	224,438	472	11,156	11,628	236,066
Total salaries and related expenses	29,051	54,015	99,210	6,339	82,692	41,555	748,990	880,982	1,466	1,944,300	7,728	69,584	77,312	2,021,612
Rent	105	147	246	10	362	115	2,432	2,223	52	5,692	-	-	-	5,692
Dues and subscriptions	12	17	528	1	41	13	226	253	6	1,097	-	3,589	3,589	4,686
Repairs and maintenance	522	731	1,307	52	1,801	574	9,919	11,171	261	26,338	-	-	-	26,338
Insurance	668	935	1,569	67	2,304	734	12,619	27,864	334	47,094	-	4,224	4,224	51,318
Professional fees	850	1,190	2,247	85	2,931	935	16,059	18,013	425	42,735	-	5,499	5,499	48,234
Travel	281	246	2,885	2	2,131	341	3,672	526	12	10,096	-	-	-	10,096
Staff development	322	16	227	1	413	105	7,592	2,323	6	11,005	-	-	-	11,005
Utilities and telephone	960	1,495	1,619	54	2,119	862	10,949	11,620	269	29,947	-	1,534	1,534	31,481
Advertising	448	258	433	18	636	203	5,755	4,160	92	12,003	-	-	-	12,003
Office supplies and postage	555	3,230	1,690	51	1,766	582	10,375	11,885	256	30,390	-	4,136	4,136	34,526
Emergency services	120	168	282	12	414	132	2,268	2,544	60	6,000	-	-	-	6,000
Program activities and supplies	128	2,287	47	1	651	327	205	177	4	3,827	2,072	-	2,072	5,899
Food	13	19	32	1	46	15	254	284	7	671	-	-	-	671
Medical and lab tests	-	-	-	-	-	-	-	-	405,850	405,850	-	-	-	405,850
Recruitment	125	11	588	1	27	9	147	422	4	1,334	-	-	-	1,334
Other	114	204	646	10	1,604	403	1,944	2,207	51	7,183	-	960	960	8,143
Total before depreciation	34,274	64,969	113,556	6,705	99,938	46,905	833,406	976,654	409,155	2,585,562	9,800	89,526	99,326	2,684,888
Depreciation	1,108	2,756	2,604	111	3,822	1,219	20,939	23,487	554	56,600	-	-	-	56,600
TOTAL FUNCTIONAL EXPENSES	\$ 35,382	\$ 67,725	\$ 116,160	\$ 6,816	\$ 103,760	\$ 48,124	\$ 854,345	\$ 1,000,141	\$ 409,709	\$ 2,642,162	\$ 9,800	\$ 89,526	\$ 99,326	\$ 2,741,488

The accompanying notes are an integral part of the financial statements.

THE COMMUNITY MENTAL HEALTH CENTER FOR MID-EASTERN IOWA
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30 , 2006

	<u>Program Services</u>									<u>Total</u>	<u>Supporting Services - Administrative</u>	<u>Total</u>
	<u>School Liason</u>	<u>Clubhouse</u>	<u>Supported Community Living</u>	<u>Consultation and Education</u>	<u>PACE Johnson</u>	<u>Homeless</u>	<u>Psychotherapy</u>	<u>Psychiatry</u>	<u>Med Fund</u>			
Direct salaries and nonemployee compensation	\$ 31,825	\$ 56,029	\$ 91,996	\$ 5,792	\$ 100,778	\$ 36,912	\$ 653,927	\$ 619,088	\$ 17,967	\$ 1,614,314	\$ 64,886	\$ 1,679,200
Payroll taxes	2,173	3,825	6,281	395	6,880	2,520	44,645	42,266	1,227	110,212	4,430	114,642
Employee benefits	4,565	8,037	13,195	831	14,455	5,295	93,797	88,800	2,577	231,552	9,306	240,858
Total salaries and related expenses	38,563	67,891	111,472	7,018	122,113	44,727	792,369	750,154	21,771	1,956,078	78,622	2,034,700
Rent	142	203	2,074	29	435	170	10,275	2,782	24	16,134	-	16,134
Dues and subscriptions	12	83	540	3	38	55	183	103	2	1,019	3,433	4,452
Repairs and maintenance	475	5,225	1,737	36	1,690	218	12,253	5,647	402	27,683	-	27,683
Insurance	904	2,659	2,876	154	2,833	941	15,496	27,699	299	53,861	4,232	58,093
Professional fees	1,377	1,974	4,407	285	4,224	1,652	20,386	11,387	230	45,922	5,899	51,821
Travel	139	346	3,005	2	1,357	174	4,318	65	1	9,407	-	9,407
Staff development	336	22	1,034	3	308	19	2,479	274	3	4,478	-	4,478
Utilities and telephone	1,282	3,881	3,876	65	1,705	601	16,292	6,283	133	34,118	1,410	35,528
Advertising	221	317	1,461	44	677	265	6,756	2,292	37	12,070	-	12,070
Office supplies and postage	755	1,455	2,641	139	2,185	848	10,726	6,946	116	25,811	4,147	29,958
Emergency services	180	258	576	36	552	216	2,664	1,488	30	6,000	-	6,000
Program activities and supplies	451	2,486	962	-	927	223	10	12	-	5,071	1,696	6,767
Food	25	2,110	179	5	76	30	367	205	4	3,001	-	3,001
Medical and lab tests	-	-	-	-	-	-	-	-	703,976	703,976	-	703,976
Medical supplies	19	27	61	4	58	23	280	157	3	632	-	632
Recruitment	60	86	193	12	185	72	891	498	10	2,007	-	2,007
Other	140	262	707	28	745	1,371	2,077	1,160	23	6,513	174	6,687
Total before depreciation	45,081	89,285	137,801	7,863	140,108	51,605	897,822	817,152	727,064	2,913,781	99,613	3,013,394
Depreciation	1,731	7,744	5,511	248	4,240	1,488	28,732	16,257	456	66,407	-	66,407
TOTAL FUNCTIONAL EXPENSES	\$ 46,812	\$ 97,029	\$ 143,312	\$ 8,111	\$ 144,348	\$ 53,093	\$ 926,554	\$ 833,409	\$ 727,520	\$ 2,980,188	\$ 99,613	\$ 3,079,801

The accompanying notes are an integral part of the financial statements.

THE COMMUNITY MENTAL HEALTH CENTER FOR MID-EASTERN IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Community Mental Health Center for Mid-Eastern Iowa was incorporated in September 1969 in the State of Iowa. The Center's fiscal year ends June 30. Significant accounting policies followed by the Center are presented below.

NATURE OF ACTIVITIES

The Center provides outpatient psychotherapy for a wide range of clientele. It also provides outpatient community support for the chronically mentally ill to help them function more independently in the community and to prevent further hospitalization. Psychiatric services are provided as needed for both community support clients and outpatient psychotherapy clients. The Center is primarily supported by Johnson County and the surrounding counties.

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and all highly liquid investments purchased with a maturity of three months or less.

ACCOUNTS RECEIVABLE

Accounts receivable are uncollateralized customer obligations, which generally require payment within thirty days from the invoice date.

Accounts balances with invoices over ninety days old are considered delinquent. Delinquent accounts of \$100 or more are set up on a payment plan, with minimum monthly payments of \$5. Services are denied to delinquent account holders until they set up a payment plan. Payments of accounts receivable are applied to the specific invoices identified on the customer's remittance advice or, if unspecified, to the earliest unpaid invoices.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectibles of specific patient's accounts and the aging of the accounts receivable. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts.

THE COMMUNITY MENTAL HEALTH CENTER FOR MID-EASTERN IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY AND EQUIPMENT

Property and equipment that is purchased is stated at its original cost and donated property and equipment is recorded at its fair market value at the date of receipt. Depreciation is calculated on the straight-line basis over the estimated useful lives of the respective assets, which range from three to thirty-nine years.

IMPAIRMENT OF LONG-LIVED ASSETS

The Center reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

NET ASSETS

Net assets are classified into one of three classes of net assets based on the existence or absence of donor-imposed restrictions. The following is a description of each class:

Unrestricted - Unrestricted net assets includes all net assets which are neither temporarily nor permanently restricted.

Temporarily Restricted - Temporarily restricted net assets includes contributed net assets for which donor imposed time and purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted.

Permanently Restricted - Permanently restricted net assets includes contributions and other inflows of assets whose use by the Center is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Center.

Management has determined that the Center has no permanently restricted assets.

REVENUE RECOGNITION

Revenue from client service grants and contracts is recognized in the period the services are performed.

THE COMMUNITY MENTAL HEALTH CENTER FOR MID-EASTERN IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION (Continued)

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Amounts received which are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Center reports the support as unrestricted. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Revenue from client services is recognized, at estimated net collectible amounts, in the period services are performed. Estimated net collectible amounts are determined by reducing gross patient fees by amounts waived at the time of service due to a sliding fee schedule, amounts disallowed by insurance companies and other amounts determined to be not collectible from other sources. It is not currently practicable for the Center to differentiate between bad debt write-offs and other fee adjustments.

FUNCTIONAL EXPENSES

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

TAX-EXEMPT STATUS

The Center is exempt from income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code. As such, the Center is taxed only on its unrelated business income. Management has determined the Center did not receive any unrelated business income for the years ended June 30, 2007 and 2006. The Center is not a private foundation under provisions of section 509(a)(3) of the Internal Revenue Code.

NOTE 2 - CLIENT FEES

Client fees for the years ended June 30, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
Gross client fees	\$2,100,512	\$1,809,228
Fee adjustments	<u>(1,324,904)</u>	<u>(1,042,816)</u>
Net client fees	<u>\$ 775,608</u>	<u>\$ 766,412</u>

THE COMMUNITY MENTAL HEALTH CENTER FOR MID-EASTERN IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 3 - PENSION PLAN

The Center has a defined-contribution 403(b) pension plan covering all permanent employees who work 20 or more hours per week. The Center contributed an amount equal to 5% for 2007 and 8% for 2006 of the annual compensation of these employees. Pension expense totaled \$93,819 and \$118,657 for the years ended June 30, 2007 and 2006, respectively.

NOTE 4 - MEDICATION FUND

The Center administers a medication fund for its clients and for clients of other clinics in the local area. The Center pays for the medications used by patients and is reimbursed by Johnson County. Reimbursements received are included in public support revenue from Johnson County and the cost of the medications is included in medications expense. Johnson County also pays the Center a fee to administer the program. This fee is included in public support revenue from Johnson County. The program was discontinued in December of 2006.

NOTE 5 - SIGNIFICANT CONCENTRATIONS

Generally accepted accounting principles require disclosure of information about certain significant estimates and current vulnerabilities due to certain concentrations. These matters include the following:

During each of the years ended June 30, 2007 and 2006, the Center received 47% and 51% of its total public support and revenue from Johnson County, respectively. Significant reductions in the County's funding of social programs could materially affect the Center's operations.

The Center maintains a security repurchase agreement with Iowa State Bank. The investments purchased through the agreement are considered cash equivalents. The transactions entered into under the security repurchase agreement are not insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation or the National Credit Union Share Insurance Fund.

The Center receives a significant portion of its revenue from Medicaid. Revisions to Medicaid reimbursement structures or cutbacks in funding could significantly affect the Center's operations.

NOTE 6 – ENDOWMENT FUND

The Organization is the beneficiary of an account maintained at the Community Foundation of Johnson County. These funds are assets of the Community Foundation. The designated distributions are based on a spending rate determined by the Board of Directors annually. The balance of this fund was \$40,256 on June 30, 2007, and distributions for the year ended June 30, 2007 were \$1,828.

THE COMMUNITY MENTAL HEALTH CENTER FOR MID-EASTERN IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 7 – PRIOR PERIOD ADJUSTMENT

The prior period financial statements have been restated to reclassify certain net assets as temporarily restricted. The effect of this restatement was to increase temporarily restricted net assets by \$37,376, and decrease unrestricted net assets by the same amount.

NOTE 8 – NATURE AND AMOUNT OF TEMPORARY RESTRICTIONS

Temporarily restricted net assets are available for the following purposes:

	<u>2007</u>	<u>2006</u>
Subsequent years operations	\$ 23,931	\$ 23,088
Compeer program	<u>28,464</u>	<u>20,178</u>
Total	<u>\$ 52,395</u>	<u>\$ 43,266</u>

This information is an integral part of the accompanying financial statements.

SUPPLEMENTAL INFORMATION

**THE COMMUNITY MENTAL HEALTH CENTER FOR MID-EASTERN IOWA
CASE LOAD DISTRIBUTION
Years Ended June 30, 2007 and 2006**

(Unaudited)

NUMBER OF CLIENTS SERVICED	<u>2007</u>	<u>2006</u>
Duplicated count:		
Psychotherapy	1,019	1,226
Psychiatry	1,405	1,882
Supported Community Living	69	108
Clubhouse	39	51
Homeless	140	1
PACE-adult	25	32
PACE-child & adolescent	<u>10</u>	<u>18</u>
Total	<u><u>2,707</u></u>	<u><u>3,318</u></u>

**NUMBER OF CLIENT SERVED BY
PRIMARY PROGRAM**

Unduplicated count:		
Psychotherapy	971	944
Psychiatry	1,339	1,539
Supported Community Living	69	82
Clubhouse	39	41
School liasion	47	-
Homeless	140	-
PACE-adult	25	24
PACE-child & adolescent	<u>10</u>	<u>15</u>
Total	<u><u>2,640</u></u>	<u><u>2,645</u></u>

This information should be read only in connection
with the accompanying independent auditor's report.

**THE COMMUNITY MENTAL HEALTH CENTER FOR MID-EASTERN IOWA
COMPARATIVE SUMMARY OF BUDGETED AND ACTUAL FUNCTIONAL
EXPENSES AND CAPITAL EXPENDITURES
Year Ended June 30, 2007**

	(Unaudited) Budgeted <u>Expenditures</u>	Actual <u>Expenditures</u>
FUNCTIONAL EXPENSES		
Direct salaries and nonemployee compensation	\$ 1,727,504	\$ 1,679,856
Payroll taxes and employee benefits	<u>366,063</u>	<u>341,756</u>
Total salaries and related expenses	<u>2,093,567</u>	<u>2,021,612</u>
Rent	7,200	5,692
Dues and subscriptions	4,450	4,686
Repairs and maintenance	30,000	26,338
Insurance	43,557	51,318
Professional fees	56,500	48,234
Travel	8,500	10,096
Staff development	15,000	11,005
Utilities and telephone	37,638	31,481
Advertising	15,000	12,003
Office supplies and postage	35,648	34,526
Emergency services	6,000	6,000
Program activities and supplies	8,500	5,899
Food	-	671
Recruitment	2,500	1,334
Other	<u>4,602</u>	<u>8,143</u>
Total other functional expenses	<u>275,095</u>	<u>257,426</u>
TOTAL FUNCTIONAL EXPENSES BEFORE DEPRECIATION	<u>\$ 2,368,662</u>	<u>\$ 2,279,038</u>
CAPITAL EXPENDITURES		
Equipment and building purchases	<u>\$ 4,000</u>	<u>\$ 11,183</u>

This information should be read only in connection
with the accompanying independent auditor's report.

**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**

Board of Directors
The Community Mental Health Center for Mid-Eastern Iowa
Iowa City, Iowa

We have audited the financial statements of The Community Mental Health Center for Mid-Eastern Iowa as of and for the year ended June 30, 2007, and have issued our report thereon dated November 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Community Mental Health Center for Mid-Eastern Iowa'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 entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity'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 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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings, as items 2006-A and 2006-B, to be significant deficiencies 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 entity'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 in the accompanying schedule of findings are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Community Mental Health Center for Mid-Eastern Iowa'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*.

The Community Mental Health Center for Mid-Eastern Iowa's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit The Community Mental Health Center for Mid-Eastern Iowa's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of directors, 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.

Clifton Anderson LLP

Iowa City, Iowa
November 26, 2007

**THE COMMUNITY MENTAL HEALTH CENTER FOR MID-EASTERN IOWA
SCHEDULE OF FINDINGS
Year Ended June 30, 2007**

PART I: SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

1. An unqualified opinion was issued on the financial statements.
2. The significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements. The deficiencies are not considered material weaknesses.
3. The audit did not disclose any non-compliance which is material to the financial statements.

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Finding No. 2006-A: Segregation of Duties

Criteria or specific requirement: It is the auditee's responsibility to establish and maintain effective internal controls over financial transactions and reporting that provides reasonable assurance that the auditee can record, process, summarize, and report financial data consistent with management's assertions for the financial statements.

Condition: The Center has a limited number of individuals involved in the collection and disbursement of funds and the reconciliation of account balances.

Questioned costs: There were no questioned costs.

Context: Through our inquiries we noted that there was turnover in the accounting department that left the Center short staffed for part of the year. One individual was handling cash collections, disbursements, and reconciliation of accounts. At the end of the year, a new accountant was hired to perform some of these duties.

Effect: Incompatible duties were not properly segregated for the entire year.

Cause: Ideal separation of incompatible duties is difficult with a limited number of individuals performing billing and collection procedures.

Recommendation: The Board of Directors should closely monitor financial results on a regular basis and question any irregularities. The Finance Director should review and approve account reconciliations prior to finalizations.

Views of responsible officials and planned corrective actions: We agree. The new accountant will be trained and closely monitored. The Board will continue its regular reviews of financial results.

**THE COMMUNITY MENTAL HEALTH CENTER FOR MID-EASTERN IOWA
SCHEDULE OF FINDINGS
Year Ended June 30, 2007**

PART II: FINDINGS RELATED TO THE FINANCIAL STATEMENTS (CONTINUED)

Finding No. 2006-B: Reliance on Independent Auditors

Criteria or specific requirement: Clients cannot rely on independent auditors as a part of their organization's internal control system, including but not limited to, assistance with journal entries and drafting the financial statements.

Condition: Journal entries to adjust several asset and liability accounts were proposed and the financial statements were drafted by the independent auditors.

Questioned costs: There were no questioned costs.

Context: General accounting and auditing standards were updated within the last year, clarifying client and auditor responsibilities in relation to financial statements and adjustments occurring as an outcome of auditing procedures of account balances.

Effect: There is a higher risk that errors or irregularities could occur and not be detected within a timely period without periodic reconciliation of accounts.

Cause: Due to the limited number of personnel, several asset and liability accounts were not reconciled and adjusted to actual before audit fieldwork. There was also no supervision by Center personnel or the Board of Directors over financial statement preparation procedures.

Recommendation: It is recommended that reconciliations of all asset and liability accounts be performed by and reviewed by Center employees on a regular basis. It is also recommended that the Board of Directors recruit accounting professionals with financial statement preparation experience to supervise the preparation of the financial statements.

Views of responsible officials and planned corrective actions: We will review our month-end and year-end procedures to ensure that reconciliations are performed and adjustments are made prior to audit fieldwork. We will also review the skills and resources available to our board of directors and seek to recruit members or assistance to supervise the preparation of the financial statements.

**PART III: OTHER FINDINGS RELATED TO STATUTORY REQUIREMENTS
AND OTHER MATTERS**

No matters were reported.