

**NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.**

**FINANCIAL STATEMENTS**

**YEARS ENDED  
JUNE 30, 2008 AND 2007**

## CONTENTS

	<b>Page</b>
Board of Directors	1
<b>INDEPENDENT AUDITOR'S REPORT</b>	2
<b>FINANCIAL STATEMENTS</b>	
Statements of financial position	3
Statements of activities	4
Statements of functional expenses	5
Statements of cash flows	6
Notes to financial statements	7-13
<b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b>	14 and 15
<b>SCHEDULE OF FINDINGS</b>	16

**NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.**

**BOARD OF DIRECTORS**

<u>Name</u>	<u>Title</u>	<u>County Represented</u>
Cindy Youngquist	President	Webster
Don Anderson	Vice-President	Pocahontas
Dorothy Griffin	Treasurer	Webster
Dave Young	Secretary	Hamilton
Dawn Villhauer-Murley	Director	Calhoun
Gary Nicholson	Director	Calhoun
Leisa Mayer	Director	Calhoun
Patty Treibel	Director	Hamilton
Diane Bunkofske	Director	Hamilton
Mark Dohms	Director	Hamilton
Carl Mattes	Director	Humboldt
Tim Anderson	Director	Humboldt
Irene Blair	Director	Webster
Keith Dencklau	Director	Webster
Stan Watne	Director	Wright
Janet Disney	Director	Wright
Brad Leckrone	Director	Wright
Jane Whyte	Director	Wright
Dona Nielsen	Director	Kossuth
Don Besch	Director	Kossuth
Deb Schulz	Director	Kossuth
Vince Triggs	Director	Pocahontas

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
North Central Iowa Mental Health Center, Inc.  
Fort Dodge, Iowa

We have audited the accompanying statements of financial position of North Central Iowa Mental Health Center, Inc. (a nonprofit organization) as of June 30, 2008 and 2007, 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 and provisions require that we plan and perform the audits 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 North Central Iowa Mental Health Center, Inc., as of June 30, 2008 and 2007, and the results of its operations, 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 February 20, 2009 on our consideration of North Central Iowa 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 read in conjunction with this report in considering the results of our audit.

*Brooks Lodden, P.C.*

West Des Moines, Iowa  
February 20, 2009

**NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.**

**STATEMENTS OF FINANCIAL POSITION**

June 30, 2008 and 2007

<b>ASSETS</b>	<u>2008</u>	<u>2007</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 147,085	\$ 92,863
Accounts receivable - patient fees, net	312,619	268,816
Grant receivable	9,827	4,017
Prepaid expenses	32,121	33,338
Note receivable	<u>7,683</u>	<u>7,243</u>
Total current assets	<u>\$ 509,335</u>	<u>\$ 406,277</u>
<b>PROPERTY AND EQUIPMENT, net</b>	<u>\$ 424,637</u>	<u>\$ 451,785</u>
<b>OTHER ASSETS</b>		
Note receivable, less current maturities	<u>\$ 16,775</u>	<u>\$ 24,458</u>
Total other assets	<u>\$ 16,775</u>	<u>\$ 24,458</u>
Total assets	<u><u>\$ 950,747</u></u>	<u><u>\$ 882,520</u></u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 4,342	\$ 6,239
Accrued compensation	38,078	26,323
Accrued compensated absences	36,412	23,920
Contracts payable - Trinity Regional Medical Center	49,383	6,000
Line of credit	-	25,000
Current maturities of long-term debt	<u>17,491</u>	<u>16,599</u>
Total current liabilities	<u>\$ 145,706</u>	<u>\$ 104,081</u>
<b>LONG-TERM LIABILITIES</b>		
County advances	\$ 34,034	\$ 34,034
Note payable, less current maturities	<u>60,346</u>	<u>77,808</u>
Net long-term liabilities	<u>\$ 94,380</u>	<u>\$ 111,842</u>
Total liabilities	<u>\$ 240,086</u>	<u>\$ 215,923</u>
<b>NET ASSETS</b>		
Unrestricted	<u>\$ 710,661</u>	<u>\$ 666,597</u>
Total liabilities and net assets	<u><u>\$ 950,747</u></u>	<u><u>\$ 882,520</u></u>

*See Notes to Financial Statements.*

**NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.**

**STATEMENTS OF ACTIVITIES**

For the Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>UNRESTRICTED NET ASSETS</b>		
<b>PUBLIC SUPPORT AND REVENUE</b>		
Public support:		
Grant income	\$ 62,813	\$ 82,760
Contributions	12,060	12,057
	<u>74,873</u>	<u>94,817</u>
Total public support	\$ 74,873	\$ 94,817
Revenue:		
Patient fees, net	\$ 1,672,884	\$ 1,696,357
Interest income	2,006	72
Settlement agreement	-	40,851
Miscellaneous income	6,032	5,690
	<u>1,680,922</u>	<u>1,742,970</u>
Total revenue	\$ 1,680,922	\$ 1,742,970
Total public support and revenue	<u>1,755,795</u>	<u>1,837,787</u>
<b>EXPENSES</b>		
Program services	\$ 1,317,477	\$ 1,412,050
Management and general	394,254	383,370
	<u>1,711,731</u>	<u>1,795,420</u>
Total expenses	\$ 1,711,731	\$ 1,795,420
Change in net assets	\$ 44,064	\$ 42,367
Net assets at beginning of year	<u>666,597</u>	<u>624,230</u>
Net assets at end of year	<u><u>710,661</u></u>	<u><u>666,597</u></u>

*See Notes to Financial Statements.*

NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2008 and 2007

	2008		2007	
	Program Services	Management and General	Program Services	Management and General
	Total	Total	Total	Total
Salaries	\$ 852,368	\$ 256,437	\$ 999,862	\$ 239,610
Payroll taxes and employee benefits	113,894	49,010	120,610	43,817
Temporary employment	-	-	19,219	-
Purchased services	119,818	-	30,000	-
Travel	31,422	1,731	32,529	3,277
Program supplies, maintenance/activity	2,361	-	3,404	-
Insurance	43,136	3,668	54,162	4,606
Professional fees	6,411	31,979	4,207	32,679
Rent	23,120	940	23,120	940
Utilities and telephone	27,066	5,289	27,249	4,979
Answering service	6,809	-	7,824	-
Maintenance	17,639	2,684	21,348	2,772
Computer service	3,946	24,757	-	27,689
Equipment rental	3,824	-	4,040	-
Office supplies and expense	13,725	3,067	10,215	2,781
Publicity and public relations	-	4,534	1,418	11,001
Board expenses	-	1,870	-	1,700
Continuing education	3,986	-	2,030	-
Dues and subscriptions	2,219	-	3,119	-
Postage	4,253	2,079	5,428	2,417
Depreciation	35,138	4,612	31,919	3,614
Interest expense	4,945	421	6,273	534
Miscellaneous	1,397	1,176	4,074	954
	<u>\$ 1,317,477</u>	<u>\$ 394,254</u>	<u>\$ 1,412,050</u>	<u>\$ 383,370</u>
		<u>\$ 1,711,731</u>		<u>\$ 1,795,420</u>

**NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.**

**STATEMENTS OF CASH FLOWS**  
For the Years Ended June 30, 2008 and 2007

	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 44,064	\$ 42,367
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	39,750	35,533
Change in operating assets and liabilities:		
(Increase) decrease in patient accounts receivable	(43,803)	8,146
(Increase) decrease in grant receivable	(5,810)	837
Decrease in prepaid expenses	1,217	3,232
Decrease (increase) in note receivable	7,243	(31,701)
(Decrease) in accounts payable	(1,897)	(5,664)
Increase (decrease) in accrued salaries	11,755	(5,248)
Increase (decrease) in accrued vacation	12,492	(5,394)
(Decrease) in accrued payroll withholdings	-	(8,796)
Increase in contracts payable - Trinity Regional Medical Center	43,383	6,000
	<b>\$ 108,394</b>	<b>\$ 39,312</b>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	\$ (13,602)	\$ (8,967)
Proceeds from sale of equipment	1,000	-
	<b>\$ (12,602)</b>	<b>\$ (8,967)</b>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term debt	\$ (16,570)	\$ (15,677)
(Decrease) increase in line of credit	(25,000)	25,000
	<b>\$ (41,570)</b>	<b>\$ 9,323</b>
 Net cash provided by (used in) investing activities	<b>\$ (12,602)</b>	<b>\$ (8,967)</b>
 Net cash provided by (used in) financing activities	<b>\$ (41,570)</b>	<b>\$ 9,323</b>
 Net increase in cash	<b>\$ 54,222</b>	<b>\$ 39,668</b>
 Cash at beginning of year	<b>92,863</b>	<b>53,195</b>
 Cash at end of year	<b>\$ 147,085</b>	<b>\$ 92,863</b>
 <b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid	<b>\$ 5,366</b>	<b>\$ 6,807</b>

*See Notes to Financial Statements.*

**NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Note 1. Summary of Significant Accounting Policies**

**Reporting entity:**

North Central Iowa Mental Health Center, Inc. (the Center), is a non-profit organization 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. The Center provides these services based on an agreement with the various county boards of supervisors as provided for in Chapter 230A.3(2) of the Code of Iowa. The Center serves primarily Calhoun, Hamilton, Humboldt, Kossuth, Pocahontas, Webster, and Wright 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.

**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 net assets** - Net assets that are not subject to 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 net assets** - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Center and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction expires in the same reporting period in which the support is recognized, that support is reported as an increase in unrestricted net assets. Currently, the Center has no temporarily restricted net assets.

**Permanently restricted net assets** - Net assets subject to permanent restrictions imposed by donor. 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.

**Cash and cash equivalents:**

For purposes of the statement of cash flows, the Center considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

## NOTES TO FINANCIAL STATEMENTS

### **Note 1. Summary of Significant Accounting Policies (Continued)**

#### **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:**

Acquisitions of property and equipment in excess of \$500 with an estimated life of at least one year are capitalized. Property and equipment are carried at cost, if purchased, or if donated, at the approximate fair value at the date of donation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from 5-40 years.

#### **Compensated absences:**

Center employees accumulate a limited amount of earned but unused vacation benefits. Amounts representing the cost of compensated absences are recorded as liabilities and have been computed based on rates of pay in effect at June 30, 2008 and 2007, respectively.

#### **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 2. Significant Estimate**

#### **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.

The Center has agreements with third-party payors, which provide for reimbursement to the Center at amounts different from its established rates. The rates are based on clinical, diagnostic, and other factors. Services related to Medicare and Medicaid beneficiaries are reimbursed based upon a cost reimbursement method. The Center is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of an annual cost report.

The laws and regulations under which Medicaid reimburses the Center are complex, subject to frequent change, and subject to interpretation. As part of receiving reimbursement from Medicaid, there is a possibility that governmental authorities may review the company's compliance with these laws and regulations. Such review may result in adjustments to Medicaid reimbursements previously received and subject the company to fines and penalties. Although no assurances can be given, management believes they have complied with the requirements of Medicaid.

Retroactively calculated contractual adjustments or cost settlements arising under reimbursement agreements with third party payors are recognized on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Because these estimated contractual adjustments are based on management's knowledge of laws and regulations and the interpretation of intermediaries, it is possible that these estimates and the related payable or receivable balance may change significantly in the near-term.

### **Note 3. Accounts Receivable - Patient Fees**

Accounts receivable - patient fees are recorded net of the allowance for doubtful accounts of \$59,000 and \$63,000 at June 30, 2008 and 2007, respectively. The allowance for doubtful accounts represents those patient receivables which are doubtful of collection, as well as estimated third-party contractual adjustments.

### **Note 4. Grant Receivable**

Grant receivable consists of a grant receivable from CMHS for services provided during the years ended June 30, 2008 and 2007 in the amount of \$9,827 and \$4,017, respectively.

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Note Receivable

Note receivable consists of a note receivable from a former employee. This note bears an interest rate of 0 percent per annum and requires annual payments of \$9,150 through March 2011. This note is unsecured. Total receivable at June 30, 2008 and 2007 is \$24,458 and \$31,701, respectively, using an imputed interest rate of 6.0 percent per annum. This note is the result of a settlement agreement with the former employee. The Center recognized income of \$40,851 in the statement of activities for the year ended June 30, 2007.

	<b>2008</b>	<b>2007</b>
Note receivable	\$ 24,458	\$ 31,701
Less amounts due within one year	7,683	7,243
	<b>\$ 16,775</b>	<b>\$ 24,458</b>

### Note 6. Property and Equipment

A summary of property and equipment for 2008 and 2007 is as follows:

	<b>2008</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Book Value</b>
Building and improvements	\$ 901,760	\$ 499,474	\$ 402,286
Furniture, fixtures and equipment	306,579	284,228	22,351
Vehicles	-	-	-
Total	<b>\$1,208,339</b>	<b>\$ 783,702</b>	<b>\$ 424,637</b>
	<b>2007</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Book Value</b>
Building and improvements	\$ 900,733	\$ 469,584	\$ 431,149
Furniture, fixtures and equipment	294,004	276,168	17,836
Vehicles	6,000	3,200	2,800
Total	<b>\$1,200,737</b>	<b>\$ 748,952</b>	<b>\$ 451,785</b>

**NOTES TO FINANCIAL STATEMENTS**

**Note 7. County Advances**

The following counties have advanced operating funds to the Center, which are to be returned to the respective counties if the Center should terminate operations. The advances are non-interest bearing.

Webster	\$ 12,000
Calhoun	3,981
Hamilton	4,500
Humboldt	3,056
Kossuth	4,549
Pocahontas	2,381
Wright	<u>3,567</u>
	<u>\$ 34,034</u>

**Note 8. Notes Payable**

	<u>2008</u>	<u>2007</u>
Wells Fargo Bank Iowa, N.A., bears an interest rate of 5.25% per annum and requires monthly installments of \$1,763, including interest through April 2013. This note is secured by the building and substantially all equipment.	\$ 77,837	\$ 94,407
Less amounts due within one year	<u>17,491</u>	<u>16,599</u>
	<u>\$ 60,346</u>	<u>\$ 77,808</u>

The annual requirements for principal payments on notes payable for the next five years are as follows:

<b><u>Year Ended</u></b>	<b><u>Amount</u></b>
<b><u>June 30,</u></b>	
2009	\$ 17,491
2010	18,431
2011	19,423
2012	20,467
2013	<u>2,025</u>
	<u>\$ 77,837</u>

**Note 9. Line of Credit**

The Center has a line of credit for \$50,000, which bears interest at 1.00 percent above the prime rate set from time-to-time by Wells Fargo Bank, N.A. (6.00 percent and 9.25 percent as of June 30, 2008 and 2007, respectively). The line of credit requires monthly interest only payments until January 2009, at which time all outstanding principal plus all accrued unpaid interest is payable. The outstanding balance on the line at June 30, 2008 and 2007 was \$-0- and \$25,000, respectively. The line of credit is unsecured.

## NOTES TO FINANCIAL STATEMENTS

### Note 10. Retirement Plan

The Center has a retirement plan covering all employees who are contracted to work in excess of twenty hours per week and have been employed by the Center for three years. The contribution was 5 percent of the eligible wages with no matching requirements. Effective May 1, 2005, the Center elected to discontinue making contributions to the retirement plan.

### Note 11. Lease Commitments

On September 10, 1990, the Center entered into a lease with Trinity Regional Hospital, Fort Dodge, Iowa, for land on the hospital grounds on which to construct the mental health facility. The lease of the hospital's land provides for payments from the Center of one dollar per year for twenty years. The estimated lease value of \$12,000 has been recorded as a contribution and as rent expense. At the expiration of the twenty years, lease payments will be negotiated based on appraised fair market rates. The lease is renewable for three periods of twenty years and one additional period of nineteen years.

The Center has a lease for a mail machine, which requires quarterly payments of \$453 through January 2011, with an option to purchase the mail machine at fair market value at the end of the agreement. Lease expense for the mail machine totaled \$1,812 and \$1,812 for the years ended June 30, 2008 and 2007, respectively.

The Center has a lease for a copy machine, which requires monthly payments of \$209 through September 2011, with an option to purchase the copy machine at fair market value at the end of the agreement. Lease expense for the copy machine totaled \$2,504 and \$1,878 for the years ended June 30, 2008 and 2007, respectively.

Minimum lease obligations under existing leases are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2009	\$ 4,316
2010	4,316
2011	3,410
2012	<u>626</u>
	<u>\$ 12,668</u>

### Note 12. Concentrations 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 limits at times throughout the year.

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

The Center receives a substantial amount of its revenue from third-party payors, including Medicare, Medicaid, Blue Cross and several counties. A significant reduction in reimbursement by any of these third-party payors could have a material impact on the Center's programs and services.

## NOTES TO FINANCIAL STATEMENTS

### **Note 13. 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. The Center assumes liability for any deductibles and claims in excess of coverage limitations.

### **Note 14. Commitments**

The Center entered into agreements to remodel the upper level and the lower level of its building. The quote accepted totaled \$617,526. Subsequent to year end, the Center entered into a revised agreements, with a total amount committed of \$657,144.

### **Note 15. Subsequent Event and Related Parties**

On May 27, 2008, the Board of Directors approved a change to the Articles of Incorporation to be effective July 1, 2008, in which Trinity Health Systems, Inc. became the sole member of the Center. The composition of the Board of Directors changed on July 1, 2008 as well.

The contracts payable to Trinity Regional Medical Center totaled \$49,383 and \$6,000 as of June 30, 2008 and 2007, respectively. The total expense recorded for contracts totaled \$115,383 and \$30,000 for years ended June 30, 2008 and 2007, respectively. Trinity Regional Medical Center is an affiliate of Trinity Health Systems, Inc.

**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  
North Central Iowa Mental Health Center, Inc.  
Fort Dodge, Iowa

We have audited the financial statements of North Central Iowa Mental Health Center, Inc. (a nonprofit organization) as of and for the year ended June 30, 2008, and have issued our report thereon dated February 20, 2009. 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 North Central Iowa 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 as 2008-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 do not believe the significant deficiency described above to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the North Central Iowa 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*.

North Central Iowa Mental Health Center, Inc.'s response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit North Central Iowa Mental Health Center, Inc.'s response and accordingly, we express no opinion on it.

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 Lude, P.C.*

West Des Moines, Iowa  
February 20, 2009

**NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.**

**SCHEDULE OF FINDINGS**

**Findings Related to the General Purpose Financial Statements:**

**Significant Deficiencies – not a Material Weakness:**

**Monitoring Contracts and Agreements** - During the performance of audit procedures on accrued expenses, we noted contracts payable with an affiliate were not accrued for a portion of the month. We also noted the contracted employees were paid as employees of the Center for a portion of the same period of time covered by the contract.

**Recommendation** - Contract dates should be monitored to ensure the proper amount is recorded for a particular period of time. When employees are transferred between affiliates, the amount of salary paid should be monitored to ensure the proper affiliate is paying the employee for the proper period of time.

**Response** - The Center will expand its procedures for monitoring contracts, specifically for beginning and ending dates and changes in amounts paid to affiliates. The Center feels this was a unique situation due to the transfer of staff when the Center became an affiliate of Trinity Health Systems, Inc.