

**NORTHWEST IOWA MENTAL
HEALTH CENTER
D/B/A SEASONS CENTER FOR
COMMUNITY MENTAL HEALTH**

**NORTHWEST IOWA MENTAL HEALTH CENTER
D/B/A SEASONS CENTER FOR COMMUNITY MENTAL HEALTH**

Table of Contents

	<u>Page</u>
BOARD OF DIRECTORS	1
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS	
Financial Position	3
Activities and Changes in Net Assets	4
Functional Expenses	5
Cash Flows	6
Notes to Financial Statements	7
SUPPLEMENTARY INFORMATION	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters	12
Schedule of Findings and Responses	14
Schedule of Prior Year Audit Findings	15

**NORTHWEST IOWA MENTAL HEALTH CENTER
D/B/A SEASONS CENTER FOR COMMUNITY MENTAL HEALTH
BOARD OF DIRECTORS**

<u>Name</u>	<u>Title</u>	<u>County Represented</u>
Darwin Beltman	President	Osceola
Jake Moermond	Vice-President	O'Brien
Sylvia Schoer	Secretary-Treasurer	Clay
Charlene Anderson	Director	Buena Vista
Herb Crampton	Director	Buena Vista
Paul Merten	Director	Buena Vista
Del Brockshus	Director	Clay
Marilyn White	Director	Clay
Mardi Allen	Director	Dickinson
David Gottsche	Director	Dickinson
George Morris	Director	Dickinson
Roger Anderson	Director	Emmet
Ron Smith	Director	Emmet
Randy Bosch	Director	Lyon
Steve Michael	Director	Lyon
Tom Farnsworth	Director	O'Brien
Daryl Streng	Director	Osceola
Mary Green	Director	Palo Alto
Jerry Hofsted	Director	Palo Alto
Keith Wirtz	Director	Palo Alto
Carrie Baker	Executive Director	



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Northwest Iowa Mental Health Center
D/B/A Seasons Center For Community Mental Health
Spencer, Iowa

We have audited the accompanying statements of financial position of **Northwest Iowa Mental Health Center, D/B/A Seasons Center For Community Mental Health** 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 **Northwest Iowa Mental Health Center, D/B/A Seasons Center For Community Mental Health** as of June 30, 2008 and 2007, and the changes in its net assets, and 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 our report dated September 8, 2008 on our consideration of **Northwest Iowa Mental Health Center, D/B/A Seasons Center For Community Mental Health'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 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.

Sioux Falls, South Dakota
September 8, 2008

PEOPLE. PRINCIPLES. POSSIBILITIES.

www.eidebailly.com

**NORTHWEST IOWA MENTAL HEALTH CENTER
D/B/A SEASONS CENTER FOR COMMUNITY MENTAL HEALTH
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 348,839	\$ 402,845
Receivables		
Patient, net of estimated uncollectibles of \$140,000 in 2008 and \$110,000 in 2007	269,922	252,577
Accounts receivable, counties and other governmental agencies	192,557	141,718
Supplies	18,557	15,076
Prepaid expenses	42,984	56,826
	<u>872,859</u>	<u>869,042</u>
Total current assets		
PROPERTY AND EQUIPMENT	<u>401,051</u>	<u>445,665</u>
OTHER ASSETS		
Investment	<u>11,000</u>	<u>11,000</u>
Total assets	<u>\$ 1,284,910</u>	<u>\$ 1,325,707</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable		
Trade	\$ 36,968	\$ 48,903
Accrued expenses		
Salaries and wages	63,646	45,356
Vacation	95,036	84,012
Payroll taxes and other	2,484	11,171
	<u>198,134</u>	<u>189,442</u>
Total liabilities		
NET ASSETS		
Unrestricted	<u>1,086,776</u>	<u>1,136,265</u>
Total liabilities and net assets	<u>\$ 1,284,910</u>	<u>\$ 1,325,707</u>

**NORTHWEST IOWA MENTAL HEALTH CENTER
D/B/A SEASONS CENTER FOR COMMUNITY MENTAL HEALTH
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
PUBLIC SUPPORT AND REVENUES		
Public support		
Counties	\$ 1,384,197	\$ 1,180,082
Federal grants	85,571	107,137
Other grants	98,258	102,666
Contributions	300	702
Total public support	<u>1,568,326</u>	<u>1,390,587</u>
Revenues		
Net patient and resident services	1,728,039	1,801,889
Other program and fee income	404,716	366,726
Investment income	26,233	31,470
Miscellaneous income	29,858	14,021
Total revenues	<u>2,188,846</u>	<u>2,214,106</u>
Total support and revenues	<u>3,757,172</u>	<u>3,604,693</u>
EXPENSES		
Outpatient care	815,816	849,693
Community support	254,763	232,690
Case management	350,478	268,213
ISP Grant	62,634	106,924
Psychiatric	779,190	639,403
Administration	520,007	466,788
Oak Haven Care Facility	1,023,772	1,005,977
Total expenses	<u>3,806,661</u>	<u>3,569,687</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENSES AND INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(49,489)	35,006
NET ASSETS - BEGINNING OF YEAR	<u>1,136,265</u>	<u>1,101,259</u>
NET ASSETS - END OF YEAR	<u>\$ 1,086,776</u>	<u>\$ 1,136,265</u>

ISP GRANT	PSYCHIATRIC	ADMIN	OAK HAVEN	TOTALS	
				2008	2007
\$ 32,615	\$ 432,483	\$ 377,283	\$ 670,472	\$ 2,435,498	\$ 2,292,726
14,868	101,252	561	271	120,826	129,104
-	33,378	28,021	47,751	169,749	161,479
-	4,792	4,888	12,286	29,700	17,471
6,680	38,329	44,522	51,564	201,469	192,181
-	17,316	12,675	19,385	81,389	75,027
86	3,624	4,819	2,786	40,539	25,532
-	1,718	92	6,354	12,328	11,274
-	5,620	3,231	6,560	25,336	21,955
-	-	-	2,330	2,330	1,650
255	-	(150)	1,590	1,695	1,910
-	-	-	7,352	7,352	5,261
742	1,532	-	2,533	6,788	6,779
2,321	(13)	444	2,334	10,349	8,107
2,029	40	-	3,265	12,715	11,914
1,040	8,921	5,049	2,145	46,030	51,389
52	687	-	13	2,115	437
-	24,665	-	11,000	79,739	81,057
-	5,382	518	5,522	20,990	15,029
-	23,977	2,368	1,669	70,639	87,493
-	9,411	8,528	45,408	78,926	70,357
-	7,038	414	10,042	34,892	41,231
-	986	3,934	1,429	8,054	7,850
-	3,338	8,302	344	17,902	25,689
-	1,396	626	965	5,521	4,426
-	1,004	-	2,413	5,114	6,647
-	1,589	524	-	5,258	3,251
83	5,681	5,045	3,779	25,426	12,643
1,057	3,951	1,334	2,981	15,506	13,432
-	1,658	95	299	6,006	1,720
806	19,455	4,938	6,163	65,164	62,833
-	15,669	1,095	8,332	62,489	40,764
-	4,225	399	5,390	17,513	7,527
-	-	-	78,975	78,975	71,418
-	88	452	70	2,339	2,124
<u>\$ 62,634</u>	<u>\$ 779,190</u>	<u>\$ 520,007</u>	<u>\$ 1,023,772</u>	<u>\$ 3,806,661</u>	<u>\$ 3,569,687</u>

**NORTHWEST IOWA MENTAL HEALTH CENTER
D/B/A SEASONS CENTER FOR COMMUNITY MENTAL HEALTH
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (49,489)	\$ 35,006
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	70,639	87,493
Changes in assets and liabilities		
Accounts receivable - patients, net	(17,345)	16,079
Accounts receivable - counties and other governmental agencies	(50,839)	(58,753)
Accrued interest receivable	-	5,602
Supplies	(3,481)	(8,576)
Prepaid expenses	13,842	(7,461)
Accounts payable	(11,935)	20,794
Accrued payroll	9,603	(2,833)
Accrued vacation pay	11,024	4,275
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	<u>(27,981)</u>	<u>91,626</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(26,026)</u>	<u>(45,311)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(54,007)	46,315
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>402,845</u>	<u>356,530</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 348,839</u></u>	<u><u>\$ 402,845</u></u>

**NORTHWEST IOWA MENTAL HEALTH CENTER
D/B/A SEASONS CENTER FOR COMMUNITY MENTAL HEALTH
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Northwest Iowa Mental Health Center, D/B/A Seasons Center For Community Mental Health (Center) is a non-profit corporation established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. The Center provides these services based on an agreement with various county boards of supervisors. Services are provided to individuals in an eight-county area which includes Buena Vista, Clay, Dickinson, Emmet, Lyon, O'Brien, Osceola, and Palo Alto counties. In addition, the Center manages the Oak Haven Residential Care Facility in Dickinson County.

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, which provides tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes.

Use of Estimates

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

Patient and Resident Receivables

Patient receivables are uncollateralized patient, resident and third-party payor obligations. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim. The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

Supplies

Supplies are stated at lower of cost (first in, first out) or market.

NOTES TO FINANCIAL STATEMENTS

Property and Equipment

Property and equipment acquisitions in excess of \$2,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of property and equipment are as follows:

Buildings and improvements	5-50 years
Equipment	5-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net assets, and are excluded from excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net assets. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Center has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Center in perpetuity. As of June 30, 2008 and 2007, the Center did not have any temporarily or permanently restricted net assets.

Net Patient Service Revenue

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Advertising Costs

The Center expenses advertising costs as incurred.

Functional Allocation of Expenses

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - INVESTMENTS

The Center owns 110 shares of Class C stock of Tri-State Behavioral Health Associates, Inc., which represents an 11% ownership in a closely-held corporation. Tri-State is a for-profit consortium of mental health and substance abuse agencies and private psychiatric practitioners. It was formed as a management service organization to coordinate provider and hospital participation in managed care contracting and arrange for the provision and management of quality, cost-effective behavioral health care services. This investment is recorded on the financial statements at cost. There is no ready market for the Class C stock at present.

NOTE 3 - PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2008 and 2007, follows:

	2008		2007	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Buildings and improvement	\$ 745,735	\$ 457,374	\$ 745,735	\$ 432,867
Vehicles	38,019	29,332	38,019	21,128
Furniture and equipment	953,613	849,610	927,589	811,682
	<u>\$ 1,737,367</u>	<u>\$ 1,336,316</u>	<u>\$ 1,711,343</u>	<u>\$ 1,265,677</u>
		<u>\$ 401,051</u>		<u>\$ 445,666</u>

NOTE 4 - LEASE COMMITMENTS

On August 13, 1976, the Center entered into a lease with Spencer Municipal Hospital, Spencer, Iowa, for land on the hospital grounds on which to construct the mental health facility. The lease of the hospital's land provides for a \$1 a month payment from the Center for fifty years. At the expiration of the fifty years, the property will revert back to Spencer Municipal Hospital.

The Center leases office space and equipment under noncancelable long term lease agreement. These leases have been recorded as operating leases. Total lease expense for the years ended June 30, 2008 and 2007, for all operating leases was \$105,160 and \$99,967.

Minimum future lease payments for the operating leases are as follows:

<u>Year Ending June 30:</u>	<u>Operating Leases</u>
2009	\$ 44,757
2010	41,692
2011	29,740
2012	19,444
2013 and after	5,491
Total Minimum Lease payments	<u>\$ 141,124</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - PENSION PLAN

The Center maintains a 401(k) plan administered by The Hartford Company. The plan covers substantially all full time employees. For the years ended June 30, 2008 and 2007, the Center contributed an amount equal to 4% of the annual salary for each employee participating in the plan. The plan also allows employees to make pre-tax contributions if they so desire. Employer contributions credited to individual participants are subject to a five-year vesting schedule. The vested accumulated monies are paid upon a participant's retirement or termination. The Center's retirement expense totaled \$81,389 and \$75,027 for the years ended June 30, 2008 and 2007.

NOTE 6 - CONCENTRATION OF CREDIT RISK

The Center provides counseling to individuals in an eight-county area. The Center grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2008 and 2007, was as follows:

	<u>2008</u>	<u>2007</u>
Medicare	12%	18%
Blue Cross	14%	11%
Medicaid	22%	24%
Commercial insurance	11%	11%
Other third-party payors and patients	41%	36%
	<u>100%</u>	<u>100%</u>

The Center's cash balances are maintained in various bank accounts. At various times during the year the balances in these bank accounts were over the FDIC insurance limits.

NOTE 7 - FUNCTIONAL EXPENSES

The Center provides health care services to residents within its geographic location. Expenses related to providing these services by functional class for the years ended June 30, 2008 and 2007, are as follows:

	<u>2008</u>	<u>2007</u>
Patient health care services	\$ 3,286,654	\$ 3,102,898
General and administrative	520,007	466,788
	<u>\$ 3,806,661</u>	<u>\$ 3,569,687</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - ECONOMIC DEPENDENCY ON MEMBER COUNTIES AND THIRD-PARTY PAYORS

The Center received \$886,485, or 24% of the Center's total revenues, from the eight member counties during the year ended June 30, 2008, for mental health services. In addition another \$404,716 or 11% of total revenues was received from four of the counties for case management fees, related to those county residents. Together this represents 34% of the Center's total support and revenue. The Counties also purchased services totaling \$482,571 from Oak Haven for residents living at the facility. This represents 50% of Oak Haven's total support and revenue.

The Center also received a substantial amount of its revenue from third-party payors, such as Medicare, Medicaid and Blue Cross. A significant reduction in reimbursement from any of these parties could have a material impact on the Center's programs and services.

**NORTHWEST IOWA MENTAL HEALTH CENTER
D/B/A SEASONS CENTER FOR COMMUNITY MENTAL HEALTH**

SUPPLEMENTARY INFORMATION



CPAs & BUSINESS ADVISORS

**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**

The Board of Directors
Northwest Iowa Mental Health Center
D/B/A Seasons Center For Community Mental Health
Spencer, Iowa

We have audited the financial statements of Northwest Iowa Mental Health Center d/b/a Seasons Center for Community Mental Health as of and for the year ended June 30, 2008, and have issued our report thereon dated September 8, 2008. 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 Northwest Iowa Mental Health Center d/b/a Seasons Center for Community Mental Health'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 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 organization'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 organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiencies described in the accompanying Schedule of findings and questioned costs as findings 07-1 and 06-1 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 organizations internal control.

PEOPLE. PRINCIPLES. POSSIBILITIES.

www.eidebailly.com

200 E 10th St., Ste. 500 ■ PO Box 5125 ■ Sioux Falls, South Dakota 57117-5125 ■ Phone 605.339.1999 ■ Fax 605.339.1306 ■ EOE

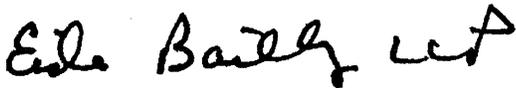
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwest Iowa Mental Health Center d/b/a Seasons Center for Community Mental Health'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*.

We also noted certain additional matters that we reported to management of Northwest Iowa Mental Health Center d/b/a Seasons Center for Community Mental Health in a separate letter dated September 8, 2008.

This report is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Eda Barty" followed by a stylized flourish or initials.

Sioux Falls, South Dakota
September 8, 2008

**NORTHWEST IOWA MENTAL HEALTH CENTER
D/B/A SEASONS CENTER FOR COMMUNITY MENTAL HEALTH
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2008**

FINDING 07-1

Condition: The Facility does not have an internal control system designed to provide for the preparation of the financial statements in accordance with accounting standards generally accepted in the United States of America.

Criteria: A good system of internal control contemplates the ability on the part of management to prepare complete financial statements which includes all footnote disclosures in accordance with general accepted accounting principles.

Effect: The inability to prepare the financial statements in accordance with accounting standards generally accepted in the United States of America, may affect the ability to properly report the Facility's financial position and results of operations.

Recommendations: While we recognize that management may not have the experience and expertise to prepare the financial statements, it is important that you aware of this condition.

Response: Management has requested the auditors to draft the financial statements and accompanying notes to the financial statements in accordance with auditing standards generally accepted in the United States of America.

FINDING 06-1

Condition: The Facility has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in certain areas because of a lack of segregation of duties.

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that not one individual handles a transaction from its inception to its completion.

Effect: Inadequate segregation of duties could adversely affect the Facility's ability to detect misstatements that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize that your office staff may not be large enough to assure optimal internal control, it is important that you are aware of this condition. Under this condition, management's close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities.

Response: Management does not plan to respond to the finding, as management believes that it is not possible to implement a cost effective solution at this time.

**NORTHWEST IOWA MENTAL HEALTH CENTER
D/B/A SEASONS CENTER FOR COMMUNITY MENTAL HEALTH
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2008**

The prior year audit findings 07-01 and 06-01 were repeated as part of the year ended June 30, 2008, report.



CPAs & BUSINESS ADVISORS

The Board of Directors
Northwest Iowa Mental Health Center
d/b/a Seasons Center For Community Mental Health
Spencer, Iowa

We have audited the financial statements of Northwest Iowa Mental Health Center d/b/a Seasons Center For Community Mental Health ("Center") for the year ended June 30, 2008, and have issued our report thereon dated September 8, 2008. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS AND GOVERNMENT AUDITING STANDARDS

As stated in our engagement letter dated July 21, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Northwest Iowa Mental Health Center d/b/a Seasons Center for community Mental Health. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we performed tests of the Center's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing discussed with management and in accordance with our engagement letter to you dated July 21, 2008.

SIGNIFICANT AUDIT FINDINGS AND CONSIDERATIONS

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of Northwest Iowa Mental Health Center d/b/a Seasons Center for Community Mental Health as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Center's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

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

PEOPLE. PRINCIPLES. POSSIBILITIES.

www.eidebailly.com

200 E 10th St., Ste. 500 ■ PO Box 5125 ■ Sioux Falls, South Dakota 57117-5125 ■ Phone 605.339.1999 ■ Fax 605.339.1306 ■ EOE

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 following deficiencies to be significant deficiencies in internal control:

Limited Size of Office Staff

It is desirable, from a standpoint of good internal control, that the functions of execution of transactions, recording of transactions and accountability for assets be performed by different individuals. We realize that, in an organization of your size, complete segregation of duties is not possible; however, we bring this to your attention as a matter of record.

In determining how to eliminate the lack of segregation of duties, management must weigh the costs of any proposed changes against the expected benefits. In lieu of segregation of duties, another effective program to provide control is for management to be involved in the control procedures available. Management involvement through the review of reconciliation procedures is an effective control to ensure these procedures are being properly completed on a timely basis. Our analysis indicated that management was performing compensatory controls such as review of reconciliations. In addition, the Board of Directors is actively involved in and knowledgeable about the operations of the Center.

Preparation of Financial Statements

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. Northwest Iowa Mental Health Center d/b/a Seasons Center For Community Mental Health does not have an internal control system over financial reporting designed to provide for the preparation of the financial statements, including the accompanying footnotes as required by generally accepted accounting standards, on a periodic or annual basis. The guidance in *Statement of Auditing Standards No. 112, Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter to those charged with governance. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

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. We do not believe the deficiency noted above constitutes material weaknesses.

As part of our audit, we considered the internal control of Northwest Iowa Mental Health Center d/b/a Seasons Center For Community Mental Health. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

OTHER MATTERS

We would like to bring the following additional matters to your attention:

1. In reviewing supplies, we noted that supplies for Oak Haven were not counted until after year end. We recommend the Center develop policies and put procedures in place to count supplies on an annual basis to assure that supplies are stated properly on the financial statements.
2. During the year ended June 30, 2008, the Center's total support and revenues increased by \$152,479 while the expenses of the Center have increased \$236,974. This combination resulted in showing an operating loss for the year. Management is aware of the expense increase and is addressing this expenditure increase through tighter controls of expenditures and obtaining increased revenue through additional funding sources. We suggest Management continue to analysis the operations in order to provide for the long term operations of the Center.
3. Revised Guidelines on Good Governance for Tax Exempt Entities:

The issue of corporate governance of tax exempt organizations has emerged as a major focal point for the Internal Revenue Service (IRS) and is a key factor addressed in the newly revised Form 990, Return of Organization Exempt from Income Tax effective for 2008. These guidelines can be found in the IRS document "Governance and Related Topics – 501(c)(3) Organizations," at the following link: http://www.irs.gov/pub/irs-tege/governance_practices.pdf. While tax law does not mandate the guidelines, they are a clear indication of the IRS' strong commitment to monitoring governance practices of the tax-exempt community. The IRS has indicated its belief that a well-governed charity is more likely to obey the tax laws, safeguard charitable assets and serve charitable interests than one without some of the recommended guidelines. The IRS document is in line with the redesigned Form 990 governance questions and focuses on six specific topics:

- Mission
- Organizational Documents
- Governing Body
- Governance & Management Policies
- Financial Statements & Form 990 Reporting
- Transparency and Accountability

The IRS intends to monitor the organizations' practices by utilizing primarily yes/no questions and detailed descriptions of policies and procedures on the new Form 990. Although these guidelines are directed towards 501(c)(3) organizations, all tax-exempt entities should consider the same governance practices. We recommend all tax-exempt organizations review the guidelines in detail, as well as the specific questions in Part VI of the 2008 Form 990 and consider whether current practices should be modified or new practices adopted. By reviewing the organization's governance practices now, the organization will be prepared to respond to the governance-related questions on the 2008 Form 990 and portray a positive image to the IRS and the public.

4. Revised Form 990 for Nonprofits

The IRS has released the final redesigned Form 990, "Return of Organization Exempt from Income Tax," which will be filed in 2009 for tax years beginning in 2008. The purpose of the redesigned form is to enhance transparency and promote compliance amongst nonprofit organizations. The form has changed significantly from the current form. The 2008 Form 990 consists of an 11-page core form that must be completed by all filers and 16 additional schedules which may need to be completed depending upon the organization's specific activities. The core form expands governance and management disclosures with questions on board composition and independence, governance and management structure and policies, and how the organization promotes transparency and accountability to constituents. The attached schedules require detail reporting on such things as non-cash contributions, transactions with related organizations and executive compensation.

Completion of the new form will require information that has not been reported in the past and likely will involve individuals from various areas of the organization. The organization will need to be prepared to provide detailed explanations of its activities in addition to its internal policies and procedures.

In light of the new form, we recommend reviewing the new Form 990 to determine what new information will be needed to complete the new form, who will be responsible for gathering the information and if changes need to be made to the reporting systems to accumulate the necessary information. Eide Bailly can assist in identifying potential issues as they relate to the Center or help you address the information needed.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Northwest Iowa Mental Health Center d/b/a Seasons Center for Community Mental Health are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Center during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Accounts Receivable Allowances

Management's estimates of the allowance for doubtful accounts and allowance for contractual adjustments are based on prior experience and current reimbursement rates. The actual allowances and estimated settlements could differ from these estimates.

Depreciable Lives

The Center records depreciation expense based on the estimated useful lives of individual units of property and equipment, which has been determined based upon prior experience and industry standards. Actual results could differ from these estimates.

We evaluated the key factors and assumptions used to develop the above estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosures related to the lease commitments for the Center. This disclosure details out the future commitments for the Center and the details of the lease for the Center's land in Spencer, Iowa.

The disclosure of significant concentrations of credit risk in Note 6, disclosing the mix of receivables from third-party payors, patients, and residents at June 30, 2008. These concentrations pose a certain level of credit risk to the Organization.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Adjustments were proposed and recorded as part of the audit. The most significant adjustments proposed and their affect on net income were as follows:

<u>Description</u>	<u>Amount</u>
Decrease in income due to reclassification of payments back to the County	\$ (35,005)
Decrease in expenses due to adjusting supplies	3,639
Increase in revenue for additional revenue from Oak Haven	26,169
Decrease in expenses due to adjusting depreciation expense	<u>5,561</u>
Income effect of adjustments	<u>\$ 364</u>

There were no significant uncorrected misstatements noted as part of the audit.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 8, 2008.

Management Consultations with Other Independent Accountants

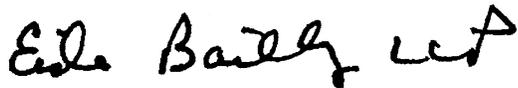
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Center's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Center's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the information and use of the Board of Directors, management, others within Northwest Iowa Mental Health Center d/b/a Seasons Center For Community Mental Health and is not intended to be and should not be used by anyone other than these specified parties.

As always, we will be happy to discuss these or any other topics at your convenience. We would like to take this opportunity to express our appreciation to Carrie Baker, Sonya Nash and your staff for the fine cooperation we received during the course of the audit. We look forward to many years of continued service to the Northwest Iowa Mental Health Center d/b/a Seasons Center For Community Mental Health.

A handwritten signature in black ink that reads "Eric Bailey" followed by a stylized flourish.

Sioux Falls, South Dakota
September 8, 2008