

WAUBONSIE MENTAL HEALTH CENTER
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION
COMMENTS AND RECOMMENDATIONS
YEARS ENDED JUNE 30, 2008 AND 2007

WAUBONSIE MENTAL HEALTH CENTER

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Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Waubonsie Mental Health Center
Clarinda, Iowa

We have audited the accompanying balance sheets of Waubonsie Mental Health Center as of June 30, 2008 and 2007, and the related statements of activities and changes in net assets, 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 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 and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Waubonsie Mental Health Center as of June 30, 2008 and 2007, and the results of its operations, changes in 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 October 24, 2008 on our consideration of Waubonsie Mental Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information (shown on pages 12 through 14) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gronewold, Bell, Kyhnn & Co. P.C.

Atlantic, Iowa
October 24, 2008

WAUBONSIE MENTAL HEALTH CENTER
Balance Sheets
June 30,

ASSETS

	2008	2007
Current Assets:		
Cash	\$ 458,438	\$ 222,507
Certificates of deposit	160,675	153,906
Client receivables, less allowances for doubtful accounts and contractual adjustments (\$90,000 in 2008 and \$114,000 in 2007)	89,691	109,658
Other receivables	10,625	52,970
Estimated third-party payor settlements	324,000	--
Prepaid expense	452	2,534
Total current assets	1,043,881	541,575
Property and Equipment, Net	39,426	48,662
Construction in Progress	2,940	--
Total assets	\$ 1,086,247	\$ 590,237

LIABILITIES AND NET ASSETS

Current Liabilities:		
Current maturities of capital lease obligations	\$ --	\$ 7,390
Accounts payable	698	320
Accrued employee compensation	37,046	35,012
Deferred grant revenue	111,434	--
Total current liabilities	149,178	42,722
Capital Lease Obligations, Less Current Maturities	--	10,044
Total liabilities	149,178	52,766
Net Assets:		
Unrestricted	937,069	537,471
Total liabilities and net assets	\$ 1,086,247	\$ 590,237

The accompanying notes are an integral part of these statements.

WAUBONSIE MENTAL HEALTH CENTER
 Statements of Activities and Changes in Net Assets
 Year ended June 30,

	2008	2007
Support and Revenue:		
Support:		
Support from participating counties	\$ 78,219	\$ 73,838
Grants	<u>79,577</u>	<u>233,994</u>
Total support	157,796	307,832
Revenue:		
Client fees, net	1,052,432	713,562
Other revenue	<u>13,199</u>	<u>14,421</u>
Total revenue	1,065,631	727,983
Total Support and Revenue	1,223,427	1,035,815
Expenses:		
Operating expenses	813,071	874,902
Provision for depreciation	14,257	18,713
Provision for bad debts	3,055	6,436
Interest	<u>2,891</u>	<u>3,715</u>
Total expenses	833,274	903,766
Operating Income	390,153	132,049
Other Support and Gains (Losses):		
Interest income	9,464	8,189
Loss on disposal of assets	<u>(19)</u>	<u>(720)</u>
Other support and gains, net	9,445	7,469
Increase in Unrestricted Net Assets	399,598	139,518
Net Assets, Beginning of Year	<u>537,471</u>	<u>397,953</u>
Net Assets, End of Year	<u>\$ 937,069</u>	<u>\$ 537,471</u>

The accompanying notes are an integral part of these statements.

WAUBONSIE MENTAL HEALTH CENTER
 Statements of Cash Flows
 Year ended June 30,

	2008	2007
Cash flows from operating activities:		
Cash received from clients, third party payors, and contracting agencies	\$ 765,267	\$ 708,449
Cash paid to suppliers and employees	(808,577)	(880,037)
County support received	78,219	73,838
Grants received	213,433	151,575
Interest income	9,464	8,189
Other operating revenue	13,199	14,421
Interest paid	(2,891)	(3,715)
Net cash provided by operating activities	268,114	72,720
Cash flows from investing activities:		
Capital expenditures	(7,980)	(9,583)
Additions to certificates of deposit	(6,769)	(6,605)
Net cash used in investing activities	(14,749)	(16,188)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(17,434)	(8,272)
Net increase in cash	235,931	48,260
Cash beginning of year	222,507	174,247
Cash end of year	\$ 458,438	\$ 222,507

(continued next page)

WAUBONSIE MENTAL HEALTH CENTER
 Statements of Cash Flows - Continued
 Year ended June 30,

	2008	2007
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 399,598	\$ 139,518
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Provision for depreciation	14,257	18,713
Provision for bad debts	3,055	6,436
Loss on disposal of assets	19	720
Change in assets and liabilities		
Accounts receivable	(264,743)	35,340
Prepaid expense	2,082	(1,899)
Accounts payable, trade	378	(834)
Accrued employee compensation	2,034	(2,402)
Deferred grant revenue	111,434	(122,872)
Total adjustments	(131,484)	(66,798)
Net cash provided by operating activities	\$ 268,114	\$ 72,720

The accompanying notes are an integral part of these statements.

WAUBONSIE MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2008 and 2007

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Nature of Activities

The Waubonsie Mental Health Center is an Iowa not-for-profit corporation operating under Chapter 230A of the Code of Iowa and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Center is 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 Board includes a representative from the County Board of Supervisors of each of the three counties in the service area (Fremont, Montgomery and Page counties). Each of these members serve an annual term. The six remaining members of the Board of Directors serve three year terms and are selected by the existing Board.

2. Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 and expenses during the reporting period. Actual results could differ from those estimates.

4. Client Receivables

Client receivables are shown at the amount expected to be collected from clients and other third-party payors. The allowance for doubtful accounts is based on an aging of all the individual client balances. The allowance for contractual adjustments is based on the difference between the Center's normal fees and expected government program and insurance payments.

WAUBONSIE MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2008 and 2007

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Unrestricted Revenues and Support

- a. Fees from clients are recorded at list price with adjustments based upon ability to pay and government program and insurance limitations deducted to arrive at net fees from clients. Effective October 1, 2006, Medicaid services are reimbursed based on a cost reimbursement methodology. The Center is reimbursed for these services at a tentative rate with a final settlement determined after submission and review of an annual cost report. The Center does not record charges and the related write-off of Supported Community Living Services that are deemed uncollectible. If these charges were recorded, the revenues and the related adjustments would be higher. The amount of unrecorded revenues and related adjustments cannot be determined.
- b. Fees from participating counties are based on the Center's annual budget and are allocated among the counties based on their relative usages and populations.
- c. Grant revenues are for specific programs provided by the Center and are recognized as income when grant requirements have been satisfied.

6. Property and Equipment

Property and equipment is stated at cost. The Center computes depreciation on equipment and vehicles using the straight-line method. Lives range from five to ten years for equipment and leasehold improvements and five years for vehicles.

7. Capital Leases

Leases which meet certain criteria are classified as capital leases, and assets and liabilities are recorded at amounts equal to the lesser of the present value of the minimum lease payments or the fair value of the leased properties at the beginning of the respective lease terms. Such assets are amortized evenly over the related lease terms or their economic lives with the amortization expense being included in the provision for depreciation. Interest expense relating to the lease liabilities is recorded to effect constant rates of interest over the terms of the leases.

8. Charity Care

The Center provides care to clients who meet certain criteria under its charity care policy at amounts less than its regular rates. Revenue from services to these clients is recorded as indicated in 5. above. These reductions are recorded as adjustments to fees from clients.

WAUBONSIE MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2008 and 2007

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Center considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicaid - Certain services are paid based on a cost reimbursement methodology. The Center is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Center and audits thereof by the fiscal intermediary. The Center's Medicaid cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2007. However, finalized cost reports are subject to re-opening by the intermediary.

The Center also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE C - PROPERTY AND EQUIPMENT

The cost and related accumulated depreciation by major category at June 30 are as follows:

	<u>2008</u>	<u>2007</u>
Automobiles	\$ 60,402	\$ 60,402
Office Equipment and Leasehold Improvements	<u>153,141</u>	<u>170,643</u>
	213,543	231,045
Less Accumulated Depreciation	<u>174,117</u>	<u>182,383</u>
	<u>\$ 39,426</u>	<u>\$ 48,662</u>

Rent expense for office space under cancelable operating leases totaled \$23,592 for the year ended June 30, 2008 (\$22,823 for June 30, 2007).

WAUBONSIE MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2008 and 2007

NOTE D - CAPITAL LEASES

Waubonsie Mental Health Center entered into two capital lease agreements. One lease was for a copying machine. The copying machine lease was for a period of five years with monthly payments of \$82, including interest at 19.75%. This lease was paid off during fiscal year 2007. The second lease was for computer equipment. The computer equipment lease was for a period of three years with monthly payments of \$782, including interest at 13.95%. The lease was paid off during fiscal year 2008.

Assets recorded under capital leases consist of the following at June 30:

	2008	2007
Computer Equipment	\$ --	\$ 22,857
Less: Accumulated Depreciation	--	(5,714)
Net Book Value	\$ --	\$ 17,143

NOTE E - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

	2008	2007
Client Services	\$ 719,213	\$ 788,505
Management and General	114,061	115,261
	\$ 833,274	\$ 903,766

NOTE F - RETIREMENT PLAN

The Center offers a 403(b) retirement plan in which the Center contributes five percent of an eligible individual's gross wages, limited to \$40,000, to the plan. All full-time staff with two months of employment and who are over eighteen years of age are included in the plan. Total contributions made by the Center for the year ended June 30, 2008 were \$19,409 (\$22,792 for 2007).

WAUBONSIE MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2008 and 2007

NOTE G- CONTINGENCIES

Risk Management

The Center is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Waubonsie Mental Health Center is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage for the past three years.

Off-Balance Sheet Risk

The Center maintains its deposits at several banks in the area. At June 30, 2008, the deposits in two banks exceeded the FDIC insured deposits limit for one entity (by approximately \$373,000). Management of the Center has received no indication of any potential viability problems with these banks by the date of this report.

Economic Dependency

The Center received approximately 42 percent of its revenue from Fremont, Montgomery and Page counties in 2008 (38 percent in 2007).

NOTE H - CONCENTRATION OF CREDIT RISK

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

	2008	2007
Medicaid	52%	54%
Other third-party payors and patients	48	46
	100%	100%

* * *

ACCOMPANYING INFORMATION

WAUBONSIE MENTAL HEALTH CENTER
Revenues and Support
Year ended June 30,

<u>Client Fees</u>	<u>2008</u>	<u>2007</u>
Self Pay and 3rd Party Insurance	\$ 286,275	\$ 267,720
Title XIX	626,753	613,959
Counties	<u>295,244</u>	<u>318,789</u>
Gross Client Fees	1,208,272	1,200,468
Less Contractual Adjustments	<u>155,840</u>	<u>486,906</u>
Net Client Fees	<u>\$ 1,052,432</u>	<u>\$ 713,562</u>
 <u>Support from Participating Counties</u>		
Fremont	\$ 16,007	\$ 15,063
Montgomery	33,775	21,775
Page	<u>28,437</u>	<u>37,000</u>
	<u>\$ 78,219</u>	<u>\$ 73,838</u>

See Independent Auditor's Report.

WAUBONSIE MENTAL HEALTH CENTER
Operating Expenses
Year ended June 30,

	2008	2007
General Operating Expenses:		
Administrative salaries	\$ 27,543	\$ 27,868
Therapists salaries	268,598	268,157
Clerical salaries	110,835	106,706
Psychiatric consultation	71,510	69,408
Employee benefits	72,233	75,383
Payroll tax expense	38,522	43,115
Audit and accounting fees	8,675	8,675
Other professional fees	14,233	16,388
Office supplies	9,561	8,543
CSP program expenses	3,335	2,458
Telephone	10,248	9,365
Emergency communication	4,084	--
Postage and shipping	6,372	5,642
Rent expense	23,592	22,823
Building repairs and maintenance	2,877	2,626
Insurance expense	10,835	10,810
Utilities	4,487	4,346
Printing	--	462
Travel expense	14,076	15,977
Agency vehicle expense	13,320	7,989
Staff development and training	1,810	3,779
Subscriptions	47	151
Organization dues	1,870	1,836
Equipment repairs and maintenance	952	764
Advertising	3,497	4,618
Medication expense	566	902
Miscellaneous	642	155
	724,320	718,946
 Community Mental Health Services Grant Expenses -		
Adults:		
Salaries	9,386	11,925
Employee benefits	3,257	1,933
Travel expense	10,925	6,478
Other expense	--	2,509
	23,568	22,845
 Senior Contract Program Grant:		
Salaries	--	45,038
Employee benefits	--	9,598
Travel expense	--	4,386
Other expense	--	2,830
	--	61,852

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WAUBONSIE MENTAL HEALTH CENTER
 Operating Expenses - Continued
 Year ended June 30,

	2008	2007
Community Mental Health Services Grant Expenses - Children & Adolescents:		
Salaries	\$ 14,156	\$ 14,026
Employee benefits	4,099	3,385
Travel expense	133	863
Other expense	5,180	4,590
	23,568	22,864
Co-Occurring Program Expenses:		
Salaries	--	27,937
Employee benefits	--	4,587
Travel expense	--	2,266
Other expense	--	5,681
	--	40,471
Peer Support Services Program Expenses:		
Salaries	18,889	--
Employee benefits	2,745	--
Other expense	5,628	--
	27,262	--
Transitional Living Program Expenses:		
Housing	11,471	5,948
Other expense	2,882	1,976
	14,353	7,924
	\$ 813,071	\$ 874,902

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors
Waubonsie Mental Health Center
Clarinda, Iowa

We have audited the financial statements of Waubonsie Mental Health Center as of and for the year ended June 30, 2008, and have issued our report thereon dated October 24, 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 Waubonsie Mental Health Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Waubonsie Mental Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

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

A control deficiency exists when the design or operation of the 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 accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood a misstatement of the Center's financial statements, that is more than inconsequential, will not be prevented or detected by the Center's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

To the Board of Directors
Waubonsie Mental Health Center

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood 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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Waubonsie Mental Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 or other matters that are required to be reported under Government Auditing Standards.

Waubonsie Mental Health Center's response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Center's response, we did not audit the Center's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Waubonsie Mental Health Center and other parties to whom the Center may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Granwald, Ben, Kyhn & W.P.C.

Atlantic, Iowa
October 24, 2008

WAUBONSIE MENTAL HEALTH CENTER
Schedule of Findings
Year ended June 30, 2008

PART I - SIGNIFICANT DEFICIENCIES

08-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Center. This deficiency is common among most small organizations.

Recommendation: We recognize that it may not be economically feasible for the Center to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Center to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *