

WAUBONSIE MENTAL HEALTH CENTER
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION
COMMENTS AND RECOMMENDATIONS
YEARS ENDED JUNE 30, 2009 AND 2008

WAUBONSIE MENTAL HEALTH CENTER

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WAUBONSIE MENTAL HEALTH CENTER
 Officials
 June 30, 2009

<u>Board of Directors:</u>	<u>Address</u>	<u>Term Expires</u>
Glen Benskin, President	Stanton, Iowa	2010
Elaine Armstrong, Vice-President	Clarinda, Iowa	2010
Dawn Hough, Secretary	Clarinda, Iowa	2012
Thomas Clark, Treasurer	Tabor, Iowa	2010
Earl Hendrickson	Hamburg, Iowa	2010
Bernice Messer (Resigned October, 2008)	Stanton, Iowa	--
Sharon Yahnke	Sidney, Iowa	2012
Marjorie Pugh	Clarinda, Iowa	2010
Robert Beard (Appointed November, 2008, Resigned October, 2009)	Villisca, Iowa	--
Kirk Requist (Appointed November, 2008)	Stanton, Iowa	2011

As of the date of this report, the Board is looking for a replacement to fill one open director position. The open spot is from Montgomery County.

Executive Director:

Mary Anne Gibson	Coin, Iowa
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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, 2009 and 2008, 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, 2009 and 2008, 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 November 2, 2009 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.



Atlantic, Iowa
November 2, 2009

WAUBONSIE MENTAL HEALTH CENTER
Balance Sheets
June 30,

ASSETS

	2009	2008
Current Assets:		
Cash	\$ 223,945	\$ 458,438
Certificates of deposit	473,881	160,675
Client receivables, less allowances for doubtful accounts and contractual adjustments (\$102,000 in 2009 and \$90,000 in 2008)	103,149	89,691
Other receivables	61,048	10,625
Estimated third-party payor settlements	242,000	324,000
Prepaid expense	411	452
Total current assets	1,104,434	1,043,881
Property and Equipment, Net	78,439	39,426
Construction in Progress	--	2,940
Total assets	\$ 1,182,873	\$ 1,086,247

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 957	\$ 698
Accrued employee compensation	46,558	37,046
Deferred grant revenue	7,085	111,434
Total current liabilities	54,600	149,178
Net Assets:		
Unrestricted	1,128,273	937,069
Total liabilities and net assets	\$ 1,182,873	\$ 1,086,247

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,

	2009	2008
Support and Revenue:		
Support:		
Support from participating counties	\$ 31,549	\$ 78,219
Grants	337,949	79,577
Total support	369,498	157,796
Revenue:		
Client fees, net	817,655	1,052,432
Other revenue	12,438	13,199
Total revenue	830,093	1,065,631
Total Support and Revenue	1,199,591	1,223,427
Expenses:		
Operating expenses	1,015,150	813,071
Provision for depreciation	17,862	14,257
Provision for bad debts	1,023	3,055
Interest	--	2,891
Total expenses	1,034,035	833,274
Operating Income	165,556	390,153
Other Support and Gains (Losses):		
Interest income	15,911	9,464
Contributions	9,784	--
Loss on disposal of assets	(47)	(19)
Other support and gains, net	25,648	9,445
Increase in Unrestricted Net Assets	191,204	399,598
Net Assets, Beginning of Year	937,069	537,471
Net Assets, End of Year	\$ 1,128,273	\$ 937,069

The accompanying notes are an integral part of these statements.

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

	2009	2008
Cash flows from operating activities:		
Cash received from clients, third party payors, and contracting agencies	\$ 888,357	\$ 765,267
Cash paid to suppliers and employees	(1,005,338)	(808,577)
County support received	31,549	78,219
Grants received	179,994	213,433
Interest income	15,911	9,464
Contributions received	4,070	--
Other operating revenue	12,438	13,199
Interest paid	--	(2,891)
Net cash provided by operating activities	126,981	268,114
Cash flows from investing activities:		
Capital expenditures	(48,268)	(7,980)
Additions to certificates of deposit	(313,206)	(6,769)
Net cash used in investing activities	(361,474)	(14,749)
Cash flows from financing activities:		
Principal payments on capital lease obligations	--	(17,434)
Net increase (decrease) in cash	(234,493)	235,931
Cash beginning of year	458,438	222,507
Cash end of year	\$ 223,945	\$ 458,438

(continued next page)

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

	2009	2008
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 191,204	\$ 399,598
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Provision for depreciation	17,862	14,257
Provision for bad debts	1,023	3,055
Donated equipment	(5,714)	--
Loss on disposal of assets	47	19
Change in assets and liabilities		
Accounts receivable	17,096	(264,743)
Prepaid expense	41	2,082
Accounts payable, trade	259	378
Accrued employee compensation	9,512	2,034
Deferred grant revenue	(104,349)	111,434
Total adjustments	(64,223)	(131,484)
Net cash provided by operating activities	\$ 126,981	\$ 268,114

The accompanying notes are an integral part of these statements.

WAUBONSIE MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2009 and 2008

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, 2009 and 2008

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. 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, 2009 and 2008

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>2009</u>	<u>2008</u>
Automobiles	\$ 60,402	\$ 60,402
Office Equipment and Leasehold Improvements	<u>208,290</u>	<u>153,141</u>
	268,692	213,543
Less Accumulated Depreciation	<u>190,253</u>	<u>174,117</u>
	<u>\$ 78,439</u>	<u>\$ 39,426</u>

Rent expense for office space under cancelable operating leases totaled \$23,983 for the year ended June 30, 2009 (\$23,592 for June 30, 2008).

WAUBONSIE MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2009 and 2008

NOTE D - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

	2009	2008
Client Services	\$ 940,346	\$ 719,213
Management and General	93,689	114,061
	\$ 1,034,035	\$ 833,274

NOTE E - 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, 2009 were \$22,521 (\$19,409 for 2008).

NOTE F - 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.

Economic Dependency

The Center received approximately 25 percent of its total support and revenue from Fremont, Montgomery and Page counties in 2009 (31 percent in 2008).

Subsequent Events

The Center has evaluated all subsequent events through November 2, 2009, the date the financial statements were available to be issued.

WAUBONSIE MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2009 and 2008

NOTE G - 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, 2009 and 2008, was as follows:

	2009	2008
Medicaid	53%	52%
Other third-party payors and patients	47	48
	100%	100%

* * *

ACCOMPANYING INFORMATION

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

<u>Client Fees</u>	<u>2009</u>	<u>2008</u>
Self Pay and 3rd Party Insurance	\$ 255,276	\$ 286,275
Title XIX	724,521	626,753
Counties	<u>269,683</u>	<u>295,244</u>
Gross Client Fees	1,249,480	1,208,272
Less Contractual Adjustments	<u>431,825</u>	<u>155,840</u>
Net Client Fees	<u>\$ 817,655</u>	<u>\$ 1,052,432</u>
 <u>Support from Participating Counties</u>		
Fremont	\$ 1,200	\$ 16,007
Montgomery	28,775	33,775
Page	<u>1,574</u>	<u>28,437</u>
	<u>\$ 31,549</u>	<u>\$ 78,219</u>

See Independent Auditor's Report.

WAUBONSIE MENTAL HEALTH CENTER
Operating Expenses
Year ended June 30,

	<u>2009</u>	<u>2008</u>
General Operating Expenses:		
Administrative salaries	\$ 8,158	\$ 27,543
Therapists salaries	275,250	268,598
Clerical salaries	102,476	110,835
Psychiatric consultation	73,395	71,510
Employee benefits	69,635	72,233
Payroll tax expense	40,146	38,522
Audit and accounting fees	8,975	8,675
Other professional fees	13,040	14,233
Office supplies	9,969	9,561
CSP program expenses	1,807	3,335
Telephone	7,060	10,248
Emergency communication	4,008	4,084
Postage and shipping	6,280	6,372
Rent expense	23,983	23,592
Building repairs and maintenance	3,282	2,877
Insurance expense	11,688	10,835
Utilities	4,211	4,487
Travel expense	15,682	14,076
Agency vehicle expense	9,215	13,320
Staff development and training	2,442	1,810
Subscriptions	212	47
Organization dues	1,007	1,870
Equipment repairs and maintenance	854	952
Advertising	4,789	3,497
Medication expense	1,794	566
Miscellaneous	<u>1,577</u>	<u>642</u>
	700,935	724,320
Community Mental Health Services Grant Expenses - Adults:		
Salaries	6,412	9,386
Employee benefits	4,115	3,257
Travel expense	<u>1,749</u>	<u>10,925</u>
	12,276	23,568
Recovery Project Grant:		
Salaries	109,519	--
Employee benefits	9,710	--
Travel expense	14,753	--
Other expense	<u>7,402</u>	<u>--</u>
	141,384	--

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

	2009	2008
Community Mental Health Services Grant Expenses - Children & Adolescents:		
Salaries	\$ 6,050	\$ 14,156
Employee benefits	3,242	4,099
Travel expense	656	133
Other expense	1,380	5,180
	11,328	23,568
School Based Services Grant:		
Salaries	41,335	--
Employee benefits	11,224	--
Travel expense	2,814	--
Other expense	5,081	--
	60,454	--
Peer Support Services Program Expenses:		
Salaries	46,945	18,889
Employee benefits	6,153	2,745
Travel expense	3,107	--
Other expense	20,071	5,628
	76,276	27,262
Transitional Living Program Expenses:		
Housing	9,319	11,471
Other expense	3,178	2,882
	12,497	14,353
	\$ 1,015,150	\$ 813,071

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, 2009, and have issued our report thereon dated November 2, 2009. 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.

Gronwald, Beer, Kyhan & W.P.C.

Atlantic, Iowa
November 2, 2009

WAUBONSIE MENTAL HEALTH CENTER
Schedule of Findings
Year ended June 30, 2009

PART I - SIGNIFICANT DEFICIENCIES

09-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.

* * *