Financial Statements
June 30, 2010 and 2009

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

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NORTHWEST IOWA MENTAL HEALTH CENTER
D/B/A SEASONS CENTER FOR COMMUNITY MENTAL HEALTH
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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** (Center) as of June 30, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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, 2010 and 2009, 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 October 14, 2010 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.

The accompanying financial statements have been prepared assuming that the Center will continue as a going concern. As discussed in Note 11 to the financial statements, the Center's decrease in unrestricted net assets raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters also are described in Note 11. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Eide Bailly LLP

Sioux Falls, South Dakota
October 14, 2010

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NORTHWEST IOWA MENTAL HEALTH CENTER
D/B/A SEASONS CENTER FOR COMMUNITY MENTAL HEALTH
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 273,347**	$ 318,106
Receivables		
Patient, net of estimated uncollectibles of $161,000 in 2010 and $108,000 in 2009	**222,625**	208,607
Accounts receivable, counties and other governmental agencies	**137,927**	248,875
Other receivables	**2,471**	-
Supplies	**9,956**	16,128
Prepaid expenses	**59,684**	69,363
Total current assets	**706,010**	861,079
PROPERTY AND EQUIPMENT	**599,731**	584,492
OTHER ASSETS		
Investment	**11,000**	11,000
Total assets	**$ 1,316,741**	$ 1,456,571
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Notes Payable	**$ 137,155**	$ -
Current maturities of long-term debt	**2,500**	2,500
Accounts payable		
Trade	**129,326**	47,732
Accrued expenses		
Salaries and wages	**55,426**	71,280
Vacation	**73,806**	112,077
Payroll taxes and other	**25,057**	11,342
Total current liabilities	**423,270**	244,931
LONG-TERM DEBT, less current maturities	**20,000**	22,500
Total liabilities	**443,270**	267,431
NET ASSETS		
Unrestricted	**873,471**	1,189,140
Total liabilities and net assets	**$ 1,316,741**	$ 1,456,571

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, 2010 AND 2009

	2010	2009
PUBLIC SUPPORT AND REVENUES		
Public support		
Counties	$ 791,688	$ 807,172
Federal grants	-	3,240
Other grants	126,443	125,919
Contributions	129	-
Total public support	918,260	936,331
Revenues		
Net patient and resident services	1,471,959	1,489,367
Other program and fee income	471,711	450,966
Investment income	82,157	20,030
Miscellaneous income	31,598	22,118
Total revenues	2,057,425	1,982,481
Total public support and revenues	2,975,685	2,918,812
EXPENSES		
Outpatient care	914,996	952,473
Community support	264,654	257,764
Case management	332,340	332,420
ISP Grant	2,908	-
Psychiatric	699,209	706,344
Administration	934,202	673,741
Total expenses	3,148,309	2,922,742
EXPENSES IN EXCESS OF REVENUES BEFORE DISCONTINUED OPERATIONS	(172,624)	(3,930)
DISCONTINUED OPERATIONS	(143,045)	106,295
REVENUE IN EXCESS OF (LESS THAN) EXPENSES AND (DECREASE) INCREASE IN NET ASSETS	(315,669)	102,364
NET ASSETS - BEGINNING OF YEAR	1,189,140	1,086,776
NET ASSETS - END OF YEAR	$ 873,471	$ 1,189,140

NORTHWEST IOWA MENTAL HEALTH CENTER
D/B/A SEASONS CENTER FOR COMMUNITY MENTAL HEALTH
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2010
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2009

	OUTPATIENT	COMMUNITY SUPPORT	CASE MANAGEMENT	ISP GRANT
Salaries and wages	$ 508,726	$ 154,060	$ 188,191	$ -
Purchase services	6,674	707	849	400
Payroll taxes	71,208	21,519	19,994	-
Workers compensation	9,405	2,823	3,604	-
Medical insurance	88,613	21,311	32,987	-
Retirement	24,184	5,691	8,367	-
Staff development	12,472	180	3,003	-
Recruiting and moving	461	138	1,041	-
Malpractice insurance	10,521	2,772	3,796	-
Auto insurance	3,172	855	1,121	-
Auto repairs and maintenance	(1,312)	5,694	896	318
Auto gas	1,480	3,285	2,670	538
Mileage	3,883	2,254	3,676	32
Other travel expenses	457	-	213	-
Rent	38,700	11,063	3,507	-
Insurance	9,654	2,582	3,449	-
Depreciation	41,137	10,389	14,451	-
Utilities	12,763	2,271	5,420	-
Building repairs and maintenance	7,379	1,637	3,425	-
Professional services	4,111	1,109	1,488	-
Computer services	4,636	1,166	1,901	-
Board and administrative expenses	1,378	324	498	-
Dues and subscriptions	1,940	492	711	-
Advertising and promotion	1,951	557	491	-
Supplies	6,723	1,040	2,845	61
Postage	1,223	149	1,380	75
Printing	142	2	11	-
Telephone	23,553	4,897	7,684	134
Rentals	15,307	4,979	12,342	1,350
Equipment repair and maintenance	2,347	648	2,248	-
Interest	-	-	-	-
Food and provisions	1,828	-	-	-
Bank and credit card charges	280	60	81	-
Bad debt expense	-	-	-	-
	$ 914,996	$ 264,654	$ 332,340	$ 2,908

PSYCHIATRIC	ADMIN	TOTALS 2010	TOTALS 2009
$ 356,802	$ 671,843	**$ 1,879,622**	$ 1,869,934
131,194	14,504	**154,328**	129,576
36,552	49,495	**198,768**	148,532
2,676	-	**18,508**	21,343
53,841	16,718	**213,470**	174,579
14,323	7,386	**59,951**	51,215
2,908	1,902	**20,465**	15,721
289	1,158	**3,087**	10,742
3,692	3,127	**23,908**	18,767
983	997	**7,128**	5,354
(21)	358	**5,933**	4,021
42	583	**8,598**	7,776
14,886	9,004	**33,735**	30,134
-	1,442	**2,112**	1,260
793	10,690	**64,753**	62,942
2,973	3,030	**21,688**	16,409
24,707	11,299	**101,983**	77,361
9,009	3,351	**32,814**	27,318
5,835	5,020	**23,295**	23,164
2,489	3,662	**12,859**	11,990
3,064	39,395	**50,162**	12,811
846	1,178	**4,224**	10,761
2,337	1,318	**6,798**	5,318
1,306	1,895	**6,200**	5,150
5,641	6,302	**22,611**	23,264
1,232	9,657	**13,716**	15,541
85	252	**492**	3,326
11,916	12,935	**61,119**	63,495
4,671	11,712	**50,362**	61,479
4,003	1,241	**10,489**	10,604
-	1,848	**1,848**	204
-	697	**2,525**	4
135	1,354	**1,909**	2,481
-	28,849	**28,849**	169
$ 699,209	$ 934,202	**$ 3,148,309**	$ 2,922,742

NORTHWEST IOWA MENTAL HEALTH CENTER
D/B/A SEASONS CENTER FOR COMMUNITY MENTAL HEALTH
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
OPERATING ACTIVITIES		
Change in net assets	$ (315,669)	$ 102,364
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	101,983	79,398
Changes in assets and liabilities		
Accounts receivable - patients, net	(14,018)	61,315
Accounts receivable - counties and other governmental agencies	108,477	(56,318)
Supplies	6,172	2,429
Prepaid expenses	9,679	(26,379)
Accounts payable	81,594	10,764
Accrued payroll, payroll taxes, and other	(2,139)	16,491
Accrued vacation pay	(38,271)	17,041
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	(62,192)	207,105
INVESTING ACTIVITIES		
Purchase of property and equipment	(117,222)	(262,838)
FINANCING ACTIVITIES		
Proceeds from line of credit	137,155	-
Proceeds from issuance of long-term debt		25,000
Repayment of long-term debt	(2,500)	-
NET CASH FROM FINANCING ACTIVITIES	134,655	25,000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(44,759)	(30,733)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	318,106	348,839
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 273,347	$ 318,106
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 1,848	$ 204

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 to individuals in an eight-county area which includes Clay, Dickinson, Emmet, Lyon, O'Brien, Osceola, Palo Alto and Buena Vista counties.

The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, 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 and resident receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident 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 and residents 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.

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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 revenues in excess of (less than) 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, 2010 and 2009, 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.

Donor-restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When donor stipulated time restrictions or purpose restrictions are met or accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the statement of operations.

Accounting for Income Taxes

The Center has adopted the provisions of FASB Accounting Standards Codification Topic ASC 740-10 (previously Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*) on July1, 2009. The implementation of this standard had no impact on the financial statements as of both the date of adoption, and as of June 30, 2010, the unrecognized tax benefit accrual was zero.

The Center will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred. The Organization is no longer subject to Federal tax examinations by tax authorities for years before 2007.

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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.

Subsequent Events

The Center has evaluated subsequent events through October 14, 2010, the date which the financial statements were available to be issued.

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, 2010 and 2009, follows:

	2010		2009	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Buildings and improvement	**$ 845,183**	**$ 520,788**	$ 840,313	$ 489,612
Vehicles	**20,750**	**20,750**	20,750	20,063
Furniture and equipment	**1,190,710**	**945,170**	1,124,127	891,023
Construction in Process	**29,796**	**-**	-	-
	$ 2,086,439	**$ 1,486,708**	$ 1,985,190	$ 1,400,698
		$ 599,731		$ 584,492

As of June 30, 2010 the Center had incurred expenditures of $29,796 for an office remodeling project. The estimated cost of this project is $67,000 and was completed in September 2010. The project will be financed with proceeds from the Center's line of credit.

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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 agreements. These leases have been recorded as operating leases. Total lease expense for the years ended June 30, 2010 and 2009, for all operating leases was $106,228 and $98,461.

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

Years Ending June 30,	
2011	$ 83,332
2012	69,651
2013	48,659
2014	32,537
2015	20,486
	$ 254,665

NOTE 5 - NOTES PAYABLE AND LONG TERM DEBT

Notes payable consists of:

	2010	2009
3.25% variable rate line of credit, due on February 12, 2011 Total credit line available under this note is $100,000	**$ 20,155**	$ -
3.25% variable rate line of credit due on April 30, 2011 Total credit line available under this note is $250,000	**117,000**	-
	$ 137,155	$ -

Long-term debt consists of:

	2010	2009
Mortgage Payable, 6.5% due in yearly installments of $2,500, plus interest, to November 10, 2018	**$ 22,500**	$ 25,000
Less current maturities	**(2,500)**	(2,500)
	$ 20,000	$ 22,500

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Long-term debt maturities are as follows:

Years Ending June 30,	
2011	$ 2,500
2012	2,500
2013	2,500
2014	2,500
2015	2,500
Thereafter	10,000
	$ 22,500

Substantially all of the Center’s assets at June 30, 2010 and 2009 are pledged as collateral for debt obligations.

NOTE 6 - 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, 2010 and 2009, 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 $74,559 and $66,999 for the years ended June 30, 2010 and 2009.

NOTE 7 - 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, 2010 and 2009, was as follows:

	2010	2009
Private pay	**32%**	31%
Blue Cross	**29%**	12%
Medicaid	**17%**	22%
Medicare	**13%**	12%
Commercial insurance	**9%**	23%
	100%	100%

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.

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NOTE 8 - 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, 2010 and 2009, are as follows:

	2010	2009
Patient health care services	**$ 2,214,107**	$ 2,249,001
General and administrative	**934,202**	673,741
	$ 3,148,309	$ 2,922,742

NOTE 9 - ECONOMIC DEPENDENCY ON MEMBER COUNTIES AND THIRD-PARTY PAYORS

The Center received $774,309, or 16% of the Center’s total revenues, from the seven member counties during the year ended June 30, 2010, for mental health services. In addition another $469,989 or 10% of total revenues was received from the counties for case management fees, related to those county residents. Together this represents 34% of the Center’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.

NOTE 10 - DISCONTINUED OPERATIONS

During the year ended June 30, 2010, the Center closed its residential care facility which was operating under the name of Oak Haven. Oak Haven provided supportive and rehabilitative services as well as outpatient services for adults with mental illness and disabilities.

Summary financial statements related to this discontinued operation consist of the following for the years ended June 30, 2010 and 2009:

	2010	2009
REVENUES		
Net patient and resident service revenue	**$ 655,943**	$ 1,141,796
EXPENSES		
Salaries and wages	**495,735**	697,418
Employee benefits	**132,492**	109,804
Supplies and other expenses	**170,761**	228,280
Total expenses	**798,988**	1,035,501
REVENUE IN EXCESS OF (LESS THAN) EXPENSES FROM DISCONTINUED OPERATOINS	**$ (143,045)**	$ 106,295

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NOTE 11 - GOING CONCERN

For the fiscal year ended June 30, 2010 the Center incurred a decrease in its unrestricted net assets of $315,669 which does include the financial results of Oak Haven which closed during the year. The decrease in net assets is a substantial change from the Center's operating results for the fiscal year ended June 30, 2009. The decrease in net assets along with the decrease in the levels of cash and accounts receivable and the increase in liabilities raise substantial doubt about the Center's ability to continue as a going concern.

In response to the above circumstances, management's plans include the following:

- Hire additional counselors and psychiatrists to provide additional sources of revenue in order to cover operating expenses.

- Continuing to review salaries including a freeze on salary increases.

- Evaluate current operations to determine if other expenses can be reduced or eliminated

- Review and, when possible, implement rate increases to maximize revenue.

- Conducting a review on administrative processes to determine if efficiencies can be implemented.

Northwest Iowa Mental Health Center
D/B/A Seasons Center For Community Mental Health

Supplementary Information

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, Northwest Iowa Mental Health CenterD/B/A Seasons Center For Community Mental Health (Center) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 14, 2010. 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*, by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Current Audit Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting (findings 07-1 and 06-1). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance.

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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 Standard*.

We also noted certain 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 October 14, 2010.

Northwest Iowa Mental Health Center D/B/A Seasons Center For Community Mental Health's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings and Responses. We did not audit the responses of Northwest Iowa Mental Health Center D/B/A Seasons Center For Community Mental Health and, accordingly, we express no opinion on them.

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

Eide Bailly LLP

Sioux Falls, South Dakota
October 14, 2010

FINDING 07-1 Preparation of Financial Statements

Criteria: A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted account principles (GAAP).

Condition: Northwest Iowa Mental Health Center D/B/A Seasons Center For Community Mental Health does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

Cause: We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with generally accepted accounting principles can be considered costly and ineffective.

Effect – The effect of this condition is that the year-end financial reporting is prepared by a party outside of the entity. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. 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 consideration.

Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response – This finding and recommendation is not a result of any change in the Organization’s procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and FASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion: Response accepted.

FINDING 06-1 Segregation of Duties

Criteria: One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible

Condition: The Facility has a limited number of office personnel performing the record keeping functions of the organization.

Cause: A limited number of office personnel prevent a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition for organizations of your size.

Effect: Inadequate segregation of duties could adversely affect the Center'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.

Conclusion: Response accepted.

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, 2010, and have issued our report thereon dated October 14, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information relating to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 6, 2010. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Center 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 2010. We noted no transactions entered into by the Center during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 relate to the collectability of resident receivables and depreciation expense.

> Accounts Receivable Allowances - Management's estimate of the allowance for contractual adjustments and doubtful accounts is based on historical loss levels and an analysis of the collectability of individual accounts.
>
> Depreciation Expense - Management's estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

Difficulties Encountered in Performing the Audit

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

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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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 October 14, 2010.

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.

OTHER MATTERS

Contractual Allowance Estimate

As part of the monthly process for preparing financial statements adjustments are made to the allowance for contractual adjustments. This allowance is used to reflect the estimated write off on claims submitted to third party payors for payment. We suggest that Management periodically review the percentages being used in the computations to determine if they reflect the current rates being incurred on paid claims.

Accounting for Leases

On August 17, 2010, the Financial Accounting Standards Board (FASB) issued proposed accounting standards update 1850-100, *Leases*. The FASB is seeking comments regarding this proposal. This proposal has been talked about over the last several years and seeks to change the way in which substantially all leases are reflected in financial statements. Under the guidance in the proposed standard, the lessee would recognize an asset representing its right to use the leased ('underlying') asset for the lease term (the 'right-of-use' asset) and a liability to make lease payments. Substantially all leases currently considered operating leases would now be brought onto the balance sheet. Assets and liabilities recognized by lessees and lessor would be measured on a basis that:

a) Assumes the longest possible lease term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease.
b) Uses an expected outcome technique to reflect the lease payments, including contingent rentals and expected payments under term option penalties and residual value guarantees, specified by the lease.
c) Is updated when changes in facts or circumstances indicate that there would be a significant change in those assets or liabilities since the previous reporting period.

We recommend that you review the proposed guidance and consider responding to the questions included in the proposed standard if these changes are of concern.

Tax Considerations

Expanded Form 1099 Reporting

Under the new Patient Protection and Affordable Care Act of 2010, trade or businesses are required to report a wider range of payments using Form 1099. These rules are effective for payments made after December 31, 2011.

The primary change to the reporting expands the items reported on Form 1099 to include "amounts in consideration for property" in addition to reporting amounts paid for services. This means that if a business makes a purchase of equipment or property in excess of $600 it will be required to file a Form 1099. The second change expands the reporting requirements to all corporations that are not tax exempt.

These rules will require new records to generate the information necessary to file a completed Form 1099. Due to the significance of the efforts that would be required, many attempts are being made by business groups to have these rules modified. Eide Bailly will keep you informed of any changes to these newly enacted rules. In the meantime, you should consider how the new expanded Form 1099 reporting requirements will affect your business operations.

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 Stephanie Patten and your staff for the fine cooperation we received during the course of the audit.

Eide Bailly LLP

Sioux Falls, South Dakota
October 14, 2010

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

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 ("Center") as of and for the year ended June 30, 2010, 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 was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Center's internal control to be significant deficiencies:

Preparation of Financial Statements

We were requested to draft the financial statements and accompanying notes to the financial statements. The Center 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. 115, *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 decisions whether to accept the degree of risk associated with this condition because of cost or other considerations.

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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 mitigate 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.

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

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 you and your staff for the fine cooperation we received during the course of the audit.

Eide Bailly LLP

Sioux Falls, South Dakota
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Eide Bailly LLP

Sioux Falls, South Dakota
October 14, 2010