

SIOUXLAND MENTAL HEALTH SERVICES, INC.

Sioux City, Iowa

FINANCIAL STATEMENTS
(WITH INDEPENDENT AUDITOR'S REPORT THEREON)

June 30, 2011

SIOUXLAND MENTAL HEALTH SERVICES, INC.

INDEX

	<u>Page</u>
Board of Directors	1
Independent Auditor's Report	2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6-10
Supplemental Information:	
Schedule of Functional Expenses	11

SIOUXLAND MENTAL HEALTH SERVICES, INC.

BOARD OF DIRECTORS

JUNE 30, 2011

Officers

Don Mathews	President
Lance Ehmcke	Vice President
Nancy Knudsen	Treasurer
Sue Luther	Secretary

Members

Dr. Bob Powell	Bev Zenor
Lisa Claeys	Dan Nettleton
Paul Crandell	Tim Coughlin
Dean Meine	Sheila Martin
Michelle Meyers	Dr. Dona Prince
Mike Wood	Peggy Smith
Dr. David Sly	

Executive Director

James Rixner

Chief Financial Officer

Joel Peterson



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Siouxland Mental Health Services, Inc.
Sioux City, Iowa

We have audited the accompanying statement of financial position of Siouxland Mental Health Services, Inc., as of June 30, 2011 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Siouxland Mental Health Services, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

Siouxland Mental Health Services, Inc. has recorded its investment in Tri-State Behavioral Health Association, Inc. (Tri-State) at cost. In our opinion, this investment should be recorded at fair value in order to conform with accounting principles generally accepted in the United States of America. If that investment were recorded at fair value, it would increase investments and net assets by approximately \$39,000 as of June 30, 2011.

In our opinion, except for the effect of not recording its Tri-State investment at fair value as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Siouxland Mental Health Services, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 11 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Sioux City, Iowa
November 30, 2011

King, Reinsch, Prosser & Co., L.L.P.

Page 2

SIouxLAND MENTAL HEALTH SERVICES, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2011

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 699,557
Accounts receivable:	
Patients - net allowance of \$195,898	6,686
Insurance - net allowance of \$194,175	201,695
Woodbury County - net allowance of \$19,390	279,462
Woodbury County - case management	190,449
Woodbury County - contributions	3,877
Iowa Department of Human Services	10,995
Sioux City Community School District	2,376
Siouxland Human Investment Partnership	3,428
EAP Grant	1,580
ATR Grant	3,966
Western Iowa Tech Community College contract	1,500
Miscellaneous	19,688
Prepaid expenses	<u>72,193</u>
Total current assets	<u>\$ 1,497,452</u>

PROPERTY AND EQUIPMENT:

Land	\$ 140,903
Buildings and improvements	1,624,548
Furniture and equipment	<u>522,100</u>
	\$ 2,287,551
Accumulated depreciation	<u>(1,263,820)</u>
Net property and equipment	<u>\$ 1,023,731</u>

OTHER ASSETS:

Investments	<u>\$ 11,000</u>
Total assets	<u>\$ 2,532,183</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 29,120
Accrued wages	2,048
Accrued expenses	73,603
Compensated absences	150,170
Deferred revenue	<u>258,183</u>
Total current liabilities	<u>\$ 513,124</u>

UNRESTRICTED NET ASSETS

	<u>\$ 2,019,059</u>
Total liabilities and net assets	<u>\$ 2,532,183</u>

See notes to financial statements.

SIouxLAND MENTAL HEALTH SERVICES, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2011

CHANGES IN UNRESTRICTED NET ASSETS:

Public Support and Revenues:

Public support:

Woodbury County - net	\$ 1,312,531
Woodbury County - case management program - net	404,117
Woodbury County - contributions	3,877
Project Compass	248,439
Community Mental Health Services Block Grant	61,780
Sioux City Community School District	204,076
EAP Grant	18,960
ATR Grant	25,489
IHH Grant	1,529
Contributions - advertising	34,355
Contributions - other	<u>40,643</u>
	<u>\$ 2,355,796</u>

Patient revenue:

Patient fees, commercial insurance and Title XIX	\$ 2,905,712
Allowance for denied claims	<u>(764,084)</u>
	<u>\$ 2,141,628</u>

Other revenue:

Investment income	\$ 1,838
Conference	25,470
Siouxland Human Investment Partnership	44,294
Western Iowa Tech Community College contract	18,825
Medical records	14,657
Miscellaneous	<u>7,668</u>
	<u>\$ 112,752</u>

Total unrestricted public support and revenues \$ 4,610,176

Expenses:

Program services:

Therapy program	\$ 1,101,823
Psychiatry program	1,312,490
Community support programs	596,262
Case management program	302,376
CMHS Grant	35,679
Project Compass	<u>160,791</u>
	<u>\$ 3,509,421</u>

Supporting activities:

Administrative	<u>1,196,635</u>
Total expenses	<u>\$ 4,706,056</u>

EXCESS OF EXPENSES OVER REVENUES AND CHANGE IN UNRESTRICTED NET ASSETS \$ (95,880)

UNRESTRICTED NET ASSETS AT BEGINNING OF YEAR 2,114,939

UNRESTRICTED NET ASSETS AT END OF YEAR \$ 2,019,059

SIOUXLAND MENTAL HEALTH SERVICES, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (95,880)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	81,034
Change in current assets and liabilities:	
Accounts receivable	(215,833)
Prepaid expenses	(11,611)
Accounts payable	(15,002)
Accrued wages	(122)
Accrued expenses	63,530
Compensated absences	14,805
Deferred revenue	<u>258,183</u>
Net cash provided by operating activities	<u>\$ 79,104</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment	<u>\$ (11,996)</u>
------------------------------------	--------------------

CHANGE IN CASH AND CASH EQUIVALENTS \$ 67,108

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 632,449

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 699,557

SIouxLAND MENTAL HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - ORGANIZATION AND FUNCTION:

Siouxland Mental Health Services, Inc. (the Center) is a nonprofit corporation established to provide a comprehensive community mental health program for the diagnosis and treatment of general psychiatric and psychological disorders and to promote the prevention of mental illness. Services are provided to residents in Woodbury County and nearby communities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICES:

Financial Statement Presentation – The Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, as follows:

Unrestricted Net Assets - Net assets and transactions which are not subject to donor-imposed restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

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. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Temporarily Restricted Net Assets - Net assets and transactions which are subject to donor-imposed restrictions that will be met by actions of the Center and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions that they be maintained permanently by the Center. Generally, the donors of these assets permit the Center to use all or part of the income earned on related investments for general or specific purposes.

Contributions - Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is made. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Donated services are recognized as contributions.

SIouxLAND MENTAL HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (CONTINUED):

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when incurred.

Cash and Cash Equivalents - Highly liquid investments with an initial maturity of three months or less are included in cash and cash equivalents, unless held for investment purposes.

Accounts Receivable - The Center carries its accounts receivable net of an allowance for doubtful accounts. On a periodic basis, the Center evaluates its accounts receivable and establishes an allowance for doubtful accounts based on past experience and any known existing circumstances. Accounts are written off as uncollectible when management determines that the likelihood of collection is remote.

Property and Equipment - Property and equipment are stated at cost. Expenditures for plant and equipment renewals and improvements are capitalized. Depreciation is provided over the estimated useful lives of the equipment and improvements using the straight-line method. Repairs and maintenance are charged to expense as incurred. Contributions of property and equipment are recorded at fair value as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Patient Services Revenue - Patient services revenue is reported at the estimated realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Income Taxes - The Center is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Center files Form 990 (Return of Organization Exempt from Income Tax) annually. Management has not identified any uncertain income tax positions that would not meet the more-likely-than-not criterion of FASB ASC 740-10. Accordingly, the accompanying financial statements do not include any provision for uncertain income tax positions, and no related interest or penalties have been recorded in the financial statements. Federal and state income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the date the returns are filed.

Functional Expenses - The Center allocates its expenses on a functional basis among its various programs and supporting activities. Expenses that can be identified with a specific program or supporting activity are allocated directly according to their purpose. Other expenses that are common to several functions are allocated based on management's estimate of time and utilization.

SIouxLAND MENTAL HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Management 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 the reported revenues and expenses. Actual results could differ from those estimates.

Contributed Services - The Center recognizes in the financial statements the value of contributed services that (a) create or enhance a non-financial asset, or (b) required specialized skills, are provided by entities or persons possessing those skills and would be purchased if they were not donated. Non-cash contributions of advertising are recorded as revenues and expenses at their estimated fair values at the date of the contribution. The amounts recognized as contributed advertising revenue and expense related to administrative activities for the year ended June 30, 2011 was \$34,355.

Advertising and Recruitment Costs - Advertising and recruitment costs are expensed as incurred and are included in administrative expenses. For the year ended June 30, 2011, advertising and recruitment expense was \$49,369.

Compensated Absences - The Center employees accumulate a limited amount of earned but unused vacation benefits. The amount representing the cost of compensated absences is recorded as a liability and has been computed based on rates of pay in effect at June 30, 2011.

Subsequent Events - The Center evaluated for subsequent events through November 30, 2011, the date which the Center's financial statements were available to be issued.

NOTE 3 - CASH AND CASH EQUIVALENTS:

Cash and cash equivalents are composed accordingly as of June 30, 2011:

Petty cash	\$ 642
Checks in excess of demand deposits	(125,444)
Money market deposits and annuities	<u>824,359</u>
	<u>\$ 699,557</u>

SIOUXLAND MENTAL HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 4 - PROPERTY AND EQUIPMENT:

The cost, book value after accumulated depreciation and estimated useful lives at June 30, 2011, are as follows:

	<u>Useful Lives</u>	<u>Cost</u>	<u>Book Value</u>
Land	N/A	\$ 140,903	\$ 140,903
Buildings and improvements	20 years	1,624,548	774,882
Office furniture and equipment	5-10 years	<u>522,100</u>	<u>107,946</u>
		<u>\$ 2,287,551</u>	<u>\$ 1,023,731</u>

NOTE 5 - INVESTMENTS:

The Center purchased 110 shares of stock in Tri-State Behavioral Health Association, Inc. in July 1995 for \$11,000. The investment is recorded in the statement of financial position at cost. Tri-State's purpose was to deliver mental health services to the Siouxland area on an integrated basis. Effective July 1, 2010, the operations of Tri-State were transferred to Woodbury County.

NOTE 6 - RETIREMENT PLAN:

The Center has a noncontributory money purchase pension plan covering employees upon attaining six months of service. The Center contributes an amount equal to 6 percent of the participants' wages. Retirement plan expense was \$151,995 for the year ended June 30, 2011. It is the Center's policy to currently fund benefits accrued.

NOTE 7 - RELATED PARTY TRANSACTIONS:

The Center paid \$7,129 in legal fees to Heidman Law Firm for the year ended June 30, 2011. A member of the Board of Directors is a partner at Heidman Law Firm.

NOTE 8 - RISK MANAGEMENT:

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage for the past five years.

SIOUXLAND MENTAL HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 9 - CONCENTRATION OF FUNDS:

During the year ended June 30, 2011, the Center maintained their cash accounts in a commercial bank located in Sioux City, Iowa. Interest-bearing accounts are secured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash deposits at times during the year exceeded the limits of coverage. As of June 30, 2011 the Center had \$574,359 in excess of FDIC limits.

SIOUXLAND MENTAL HEALTH SERVICES, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2011

	Program Services						Total Program Expenses	Supporting Activities	
	Therapy Program	Psychiatry Program	Community Support Programs	Case Management Program	CMHS Grant	Project Compass		Administrative	Total
Salaries and payroll taxes	\$ 612,218	\$ 768,930	\$ 428,011	\$ 222,347	\$ 22,665	\$ 124,662	\$ 2,178,833	\$ 785,001	\$ 2,963,834
Professional consultants	319,670	264,503	-	-	-	-	584,173	-	584,173
Fringe benefits	<u>119,695</u>	<u>116,456</u>	<u>76,675</u>	<u>59,382</u>	<u>5,025</u>	<u>33,659</u>	<u>410,892</u>	<u>162,751</u>	<u>573,643</u>
Total salaries and benefits	\$ 1,051,583	\$ 1,149,889	\$ 504,686	\$ 281,729	\$ 27,690	\$ 158,321	\$ 3,173,898	\$ 947,752	\$ 4,121,650
Legal and accounting	-	-	-	-	-	-	-	17,039	17,039
Telephone	620	281	1,464	962	-	8	3,335	8,163	11,498
Supplies and postage	5,060	17,533	16,122	1,175	698	591	41,179	28,354	69,533
Insurance	4,352	7,838	4,676	2,096	281	1,259	20,502	6,276	26,778
Occupancy	22,031	16,732	13,632	1,859	-	-	54,254	14,759	69,013
Repairs and maintenance	-	-	259	-	-	-	259	40,868	41,127
Staff development	3,265	5,935	3,019	4,328	6,840	131	23,518	307	23,825
Travel	297	180	15,029	3,707	170	301	19,684	3,290	22,974
Recruitment and advertising	-	-	1,529	-	-	-	1,529	47,840	49,369
Reference materials	35	-	-	-	-	-	35	-	35
Center dues	-	5,435	50	5,479	-	-	10,964	210	11,174
Prescriptions	-	101,525	-	-	-	-	101,525	-	101,525
Meal programs	-	-	10,282	-	-	-	10,282	-	10,282
Conference	-	-	-	-	-	-	-	28,377	28,377
Depreciation	11,517	3,287	17,483	1,041	-	180	33,508	47,526	81,034
Miscellaneous	-	-	8,031	-	-	-	8,031	5,874	13,905
Interpreting	<u>3,063</u>	<u>3,855</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,918</u>	<u>-</u>	<u>6,918</u>
Total expenses	<u>\$ 1,101,823</u>	<u>\$ 1,312,490</u>	<u>\$ 596,262</u>	<u>\$ 302,376</u>	<u>\$ 35,679</u>	<u>\$ 160,791</u>	<u>\$ 3,509,421</u>	<u>\$ 1,196,635</u>	<u>\$ 4,706,056</u>