The Richmond Center
Financial Statements
Year Ended June 30, 2011

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Independent Auditor's Report

Board of Directors
The Richmond Center
Ames, Iowa

We have audited the accompanying statement of financial position of The Richmond Center 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 the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the 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 audit provides 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 The Richmond Center 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 27, 2012, on our consideration of The Richmond Center's internal control over financial reporting and on 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.

Houston & Seeman, P.C.

Houston & Seeman, P.C.
Boone, Iowa

July 27, 2012

The Richmond Center
Statement of Financial Position
June 30, 2011

Assets		
Assets		
Cash and cash equivalents	$	110,806
Accounts receivable		
Trade, net of allowance for doubtful accounts of $159,664		130,454
Other		71,679
Prepaid expenses		7,258
Property and equipment, net of accumulated depreciation of $238,520		255,905
Total assets	$	576,102
Liabilities and Net Assets		
Liabilities		
Accounts payable	$	17,650
Accrued liabilities		83,594
Due to Community and Family Resources		331,323
City of Ames forgivable loan		25,000
Total liabilities		457,567
Net assets		
Unrestricted, Undesignated		104,526
Temporarily restricted		14,009
Total net assets		118,535
Total liabilities and net assets	$	576,102

See accompanying notes.

The Richmond Center
Statement of Activities
Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Total
Changes in net assets			
Revenues, gains and other support			
Program service fees	$ 1,764,178	$ -	$ 1,764,178
Grants	297,665	-	297,665
Contributions	45,977	-	45,977
Other income	37,400	-	37,400
Investment income	208	-	208
Total revenues, gains and other support	2,145,428	-	2,145,428
Net assets released from restrictions	-	-	-
Total revenues, gains, support, and reclassifications	2,145,428	-	2,145,428
Expenses			
Salaries, benefits and payroll taxes	1,484,833	-	1,484,833
Recruiting expense	22,135	-	22,135
Contracted physician services	363,774	-	363,774
Professional fees	40,726	-	40,726
Advertising	15,450	-	15,450
Office supplies	48,353	-	48,353
Postage	4,714	-	4,714
Staff development training	9,646	-	9,646
Dues and subscriptions	5,253	-	5,253
Data systems	32,645	-	32,645
Occupancy	58,040	-	58,040
Insurance	24,896	-	24,896
Repairs and maintenance	20,346	-	20,346
Vehicle	16,302	-	16,302
Telephone	51,816	-	51,816
Travel	22,358	-	22,358
Miscellaneous	51,082	-	51,082
Depreciation	21,331	-	21,331
Total expenses	2,293,700	-	2,293,700
Increase (decrease) in net assets	(148,272)	-	(148,272)
Net assets, beginning of year	252,798	14,009	266,807
Net assets, end of year	$ 104,526	$ 14,009	$ 118,535

See accompanying notes.

The Richmond Center
Statement of Cash Flows
Year Ended June 30, 2011

Cash flows from operating activities	
(Decrease) in net assets	$ (148,272)
Adjustments to reconcile change in net assets to	
net cash provided by operating activities	
Depreciation	21,331
(Increase) decrease in operating assets	
Accounts receivable	(45,579)
Prepaid expenses	(53)
Increase (decrease) in operating liabilities	
Accounts payable	12,747
Accrued liabilities	22,519
Deferred revenue	(30,822)
Due to Community and Family Resources	229,701
Net cash provided by operating activities	61,572
Cash flows from investing activities	
Purchase of property and equipment	(50,697)
Net cash (used) by investing activities	(50,697)
Net increase in cash and cash equivalents	10,875
Cash and cash equivalents, beginning of year	99,931
Cash and cash equivalents, end of year	$ 110,806

See accompanying notes.

The Richmond Center
Notes to Financial Statements

1. Nature of Activities and Summary of Significant Accounting Policies

a. Nature of Activities

The Richmond Center, located in Ames, Iowa, is a nonprofit organization providing mental health services which include outpatient mental health, community support, consultation, education, and psychiatric services for the residents of Story, Boone, Greene and Carroll Counties.

The Organization is dependent on continued funding by Federal, State and local governmental bodies to provide the programs necessary to support the services and objectives set out above.

b. Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

c. Basis of Presentation

The Organization 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. The Organization has no permanently restricted net assets.

d. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

e. Cash and Cash Equivalent

For purposes of the statement of cash flows, the Organization considers all highly liquid investments and certificates of deposit with maturities of three months or less when purchased to be cash equivalents.

f. Trade Receivables and Program Service Fees

Trade 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 doubtful accounts totaled $159,664 at June 30, 2011.

Program service fee revenue is reported at the estimated realizable amounts from patients, third party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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.

g. Contributions

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets as net assets released from restrictions.

1. Nature of Activities and Summary of Significant Accounting Policies (continued)

h. Property and Equipment

Property and equipment is carried at cost, or, if donated, at the approximate fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation of buildings and equipment is computed using the straight-line method for financial reporting purposes at rates based on the following useful lives:

Building & improvements	5 – 39
Equipment & furnishings	3 – 7

Expenditures for major renewals and betterments in excess of $3,000 that extend the useful lives of buildings and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

i. Expenses Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the notes to the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon distribution of salaries and wages and usage of facilities and equipment.

j. Income Taxes

The Organization is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income.

2. Property and Equipment

Property and equipment are summarized by major classifications as follows:

Leasehold Improvements	$ 168,333
Vehicles	79,252
Furniture and fixtures	246,840
	494,425
Accumulated depreciation	(238,520)
	$ 255,905

Depreciation expense was $21,331 for the year ended June 30, 2011.

3. City of Ames Forgivable Loan

The Organization has a noninterest bearing forgivable loan with the City of Ames. The Organization has borrowed the maximum of $25,000 as of June 30, 2011.

4. Operating Leases

The Organization is the lessee of various office spaces under monthly operating leases. Total rent expense was $36,982 for the year ended June 30, 2011.

5. Restrictions/Limitations on Net Assets

Temporarily restricted net assets of $14,009 were available for the special needs program for clients with financial needs.

6. Advertising

The Organization uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. Advertising costs totaled $15,450 for the year ended June 30, 2011.

7. Concentration of Credit Risk

The Organization's credit risk for accounts receivable is concentrated because substantially all of the balances are receivable from entities or individuals within the same geographic region.

8. Unemployment Tax Liability

The Organization has elected to pay unemployment compensation upon the filing of an actual claim rather than pay state unemployment taxes to provide insurance against such claims.

9. Functional Classification of Expenses

Expenses by function for the years ended June 30 were as follows:

Program services	$ 1,795,283
Supporting services	
General and Administrative	498,417
Total Expenses	$2,293,700

9. Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization does not believe it has any income derived from unrelated business activities. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Organization's federal Return of Organization Exempt from Income Tax (Form 990) for 2008, 2009 and 2010 are subject to examination by the IRS, generally for three years after they were filed.

10. Related Party

The Richmond Center is associated with Community and Family Resources (CFR) through common management. The Richmond Center reimburses CFR for all payroll, related taxes and employee benefits. The Richmond Center also reimburses CFR for other expenses as they arise. The Richmond Center reimbursed CFR $1,821,151 during the year ended June 30, 2011.

As of June 30, 2011, the Organization owed CFR $331,323 for various reimbursements.

11. Subsequent Events

The Organization was informed on June 20, 2012, that it was not in compliance with the Provider and Program Participation agreement/contract, and that the Story County Board of Supervisors was going to be withholding payment on the April 2012 claim for services and will also be reviewing future claims until the Organization is in compliance with the agreement/contract.

On July 1, 2012, the Organization will no longer be the designated community mental health center for Story County, Iowa.

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through July 27, 2012, the date the financial statements were available to be issued.

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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 of
The Richmond Center
Ames, Iowa

We have audited the financial statements of The Richmond Center as of and for the year ended June 30, 2011 and have issued our report thereon dated July 27, 2012. 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

Management of The Richmond Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered The Richmond 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 Richmond Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 significant deficiencies, or material weaknesses and therefore, there can be no assurances that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Richmond 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, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of findings and Questoned Costs.

The Richmond Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Richmond Center's responses 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 grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Houston & Seeman, P.C.

Houston & Seeman, P.C.
Boone, Iowa

July 27, 2012

The Richmond Center
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Findings related to the Financial Statements:

Material Weakness:

A. Account Balances – The Organization was not reconciling their financial statements to subsidiary records or source documents. The Organization's source documents and subsidiary records provide the basis for the financial statements and without proper and accurate reconciliations the readers of the financial statements cannot rely on the accuracy of the financial statements. The Organization eventually hired an outside accounting firm to assist them with the reconciliations.

Recommendation – Policies need to be put in place to ensure account balances reconcile to the subsidiary records. Reconciliations need to be done on a current and regular basis, management needs to be involved in the process to ensure readers of the financial statements are getting comprehensive and accurate information.

Response – Policies are being developed and procedures are being put into place to reconcile to the general ledger and subsidiary ledgers monthly.

Conclusion – Response acknowledged.

B. Undocumented Expenditures and Adjusting Journal Entries – On at least two occasions items were charged to the Organization's credit card that had no substantiating documentation, in addition adjusting journal entries were made with no documentation or explanation other than the former accountant said they needed to be made.

Recommendation – All payments need to be supported by appropriate and adequate source documents, otherwise payments should not be approved. In addition before any adjusting journal entries are made supporting documentation which includes an adequate explanation of the adjustment should be obtained.

Response – Policies already exist that require invoices for all payments. The two occasions mentioned in this comment were verified by discussion with appropriate management before payment. During the fiscal year, the organization had a turnover within the controller position and the comment refers to occasions during the tenure of the prior controller. Policies are in place for the current controller including having supporting documentation for all entries.

Conclusion – Response acknowledged.

The Richmond Center
Schedule of Findings and Questioned Costs
Year ended June 30, 2011

Instances of Noncompliance and Other Matters:

A. Story County Contract Compliance – The Organization was informed on June 20, 2012, that it was not in compliance with the Provider and Program Participation agreement/contract, and that the Story County Board of Supervisors was going to be withholding payment on the April 2012 claim for services and will also be reviewing future claims until the Organization is in compliance with the agreement/contract.

Recommendation – The Organization should establish policies to ensure compliance with all contracts is followed.

Response – The compliance comment is in regards to the completed audit report. An extension was requested from the Auditor of the State and granted.

Conclusion – Response acknowledged. The Story County Board of Supervisors agreement/contract refer to sections 2.2 and 2.4 of the contract which refer to access to the books and records of the Organization.

B. Questionable Expenses – The Organization spent $625 on a meal for a Christmas party and in another instance spent $695 on a retirement party. In addition the Organization bought gold coins and gave them to employees for their birthdays. The Organization also gave staff who could not attend a staff retreat gift cards. The Organization needs to determine if these are appropriate expenses for an Organization with decreasing net assets. In addition, the payment of gold coins and merchant cards to staff could be characterized as additional compensation and be subject to the appropriate payroll tax liabilities.

Recommendation – The Organization should establish policies documenting the purposes for expenditures on retirement or other parties. In addition, the Organization must carefully consider the possible payroll tax consequences of giving coins, gift cards or other items to employees.

Response – The Board approves all expenditures.

Conclusion – Response acknowledged. Management and the Board should consider the potential for tax consequences of additional compensation to staff.