

SOUTHERN IOWA MENTAL HEALTH CENTER
OTTUMWA, IOWA

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

SCHEDULE OF FINDINGS

JUNE 30, 2011

SOUTHERN IOWA MENTAL HEALTH CENTER

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SOUTHERN IOWA MENTAL HEALTH CENTER

BOARD OF DIRECTORS

JUNE 30, 2011

<u>Name</u>	<u>Title</u>	<u>Expires</u>
Yvonne Maxwell	President	October 31, 2011
Bev Ver Steegh	Vice President	October 31, 2012
Don Bramschreiber	Secretary/Treasurer	October 31, 2011
Curt Campbell	Board Member	October 31, 2011
Jane Cardenzana	Board Member	October 31, 2011
Tim Hotek	Board Member	October 31, 2012
Dale Taylor	Board Member	October 31, 2012
Steve Siegel	Board Member	October 31, 2012
Heidi Baker	Board Member	October 31, 2012
Jeff Logan	Board Member	October 31, 2013
Dusty Stewart	Board Member	October 31, 2013
Jan Erhardt	Board Member	October 31, 2013
Amanda Larkin	Executive Director	Indefinite

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southern Iowa Mental Health Center
Ottumwa, Iowa

We have audited the accompanying statement of financial position of Southern Iowa Mental Health Center (a non-profit organization), as of June 30, 2011 and the related statements of activities, functional expenses, and cash flows for the year 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 audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 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 Southern Iowa Mental Health Center, at June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 22, 2011 on our consideration of Southern Iowa 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.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
September 22, 2011

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2011

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 198,349
Investments	657,499
Receivables:	
Accounts receivable; patient services, less allowance for doubtful accounts \$46,298	108,029
Accrued interest	2,755
Unconditional promises to give:	
United Way Services funding	15,050
Prepaid expenses	7,817
Total current assets	<u>989,499</u>

FURNITURE & EQUIPMENT:

Furniture, fixtures and equipment	331,021
Less accumulated depreciation	<u>(201,408)</u>
Book value of property and equipment	<u>129,613</u>

TOTAL ASSETS \$ 1,119,112

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 31,414
Accrued liabilities:	
Payroll	6,718
Payroll taxes	120
Vacation	13,407
Current maturities of capital lease obligations	1,033
TOTAL CURRENT LIABILITIES	<u>52,692</u>

LONG - TERM LIABILITIES:

Capital lease obligation	
less current maturities above	<u>-</u>
TOTAL LIABILITIES	<u>52,692</u>

NET ASSETS:

Unrestricted net assets	1,051,371
Temporarily restricted net assets	15,049
Total net assets	<u>1,066,420</u>

TOTAL NET ASSETS \$ 1,119,112

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF ACTIVITIES
YEAR END JUNE 30, 2011

	<u>Unrestricted</u>	<u>Temporality Restricted</u>	<u>Total</u>
<u>PUBLIC SUPPORT AND REVENUES:</u>			
Public support:			
County funds	\$ 365,325	\$ -	\$ 365,325
Federal funds and grants	112,382	-	112,382
United Way grant	-	30,569	30,569
Total public support	<u>477,707</u>	<u>30,569</u>	<u>508,276</u>
Revenues:			
Private fees, Title XIX and other	597,187	-	597,187
Promise Center	66,415	-	66,415
Miscellaneous	<u>4,996</u>	<u>-</u>	<u>4,996</u>
Total revenues	<u>668,598</u>	<u>-</u>	<u>668,598</u>
Net assets released from restrictions:			
Satisfaction of purpose restrictions	<u>31,715</u>	<u>(31,715)</u>	<u>-</u>
TOTAL PUBLIC SUPPORT AND REVENUES	<u>1,178,020</u>	<u>(1,146)</u>	<u>1,176,874</u>
<u>EXPENSES:</u>			
Program services	989,100	-	989,100
Support services	<u>80,075</u>	<u>-</u>	<u>80,075</u>
TOTAL EXPENSES	<u>1,069,175</u>	<u>-</u>	<u>1,069,175</u>
CHANGE IN NET ASSETS FROM OPERATIONS	108,845	(1,146)	107,699
<u>OTHER CHANGES IN NET ASSETS:</u>			
Investment income	<u>6,349</u>	<u>-</u>	<u>6,349</u>
CHANGE IN NET ASSETS	<u>115,194</u>	<u>(1,146)</u>	<u>114,048</u>
<u>NET ASSETS</u> - Beginning of year	<u>936,177</u>	<u>16,195</u>	<u>952,372</u>
<u>NET ASSETS</u> - End of year	\$ <u>1,051,371</u>	\$ <u>15,049</u>	\$ <u>1,066,420</u>

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2011

	<u>Program Services</u> Mental Health Center <u>Programs</u>	<u>Support Services</u> Management and General	<u>Total</u>
<u>EXPENSES:</u>			
Salaries	\$ 498,930	\$ 34,693	\$ 533,623
Payroll taxes	34,765	4,297	39,062
Group health insurance and employee benefits	54,511	6,737	61,248
Pension	<u>17,160</u>	<u>2,121</u>	<u>19,281</u>
Total salaries and related expenses	605,366	47,848	653,214
Professional fees	247,339	-	247,339
Consultation fees	-	5,100	5,100
Directors search	-	4,857	4,857
Accounting/Audit	-	11,053	11,053
Promise Center	19,779	-	19,779
Advertising	602	602	1,204
Office supplies	14,435	1,604	16,039
Telephone	7,512	835	8,347
Travel	3,034	337	3,371
Repairs and maintenance	17,050	1,895	18,945
Dues	1,817	202	2,019
Lobbying expenses	1,800	200	2,000
Staff development	10,666	561	11,227
Insurance	14,865	-	14,865
Cleaning	3,719	413	4,132
Rent	23,119	2,569	25,688
Miscellaneous	4,978	553	5,531
Interest	<u>299</u>	<u>33</u>	<u>332</u>
Total expenses before depreciation	976,380	78,662	1,055,042
Depreciation	<u>12,720</u>	<u>1,413</u>	<u>14,133</u>
TOTAL EXPENSES	\$ <u>989,100</u>	\$ <u>80,075</u>	\$ <u>1,069,175</u>

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from Counties	\$ 365,325
Cash received from grants	144,096
Cash received from patient services and Title XIX	715,078
Cash paid to employees and suppliers	(1,043,909)
Cash from other operations	<u>4,996</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>185,586</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Principal payments on capital lease obligation	(2,867)
Purchase of fixed assets	<u>(125,612)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(128,479)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of certificates of deposit	(600,601)
Interest received	<u>4,060</u>
NET USED IN INVESTING ACTIVITIES	<u>(596,541)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (539,434)

CASH AND CASH EQUIVALENTS - Beginning of year 737,783

CASH AND CASH EQUIVALENTS - End of year \$ 198,349

RECONCILIATION OF CHANGES IN NET ASSETS FROM OPERATIONS TO NET CASH PROVIDED
BY OPERATING ACTIVITIES:

Changes in net assets from operations	\$ 107,699
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	14,133
Increase in allowance for doubtful accounts	20,144
Decrease in receivables	31,332
Decrease in unconditional promises to give	1,145
Decrease in prepaid expenses	919
Increase in accounts payable	21,276
Decrease in accrued liabilities	<u>(11,062)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 185,586</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for interest \$ 332

See Accompanying Notes to Financial Statements

SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Center is a nonprofit organization 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. Services are provided to residents of Southeastern Iowa.

The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of Iowa income tax law, which provides tax exemption for Centers organized and operated exclusively for religious, charitable, or educational purposes. The Center is classified as other than a private foundation.

The Center's financial statements are prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Financial Accounting Standards Board for non-profit organizations.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

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 the liability is incurred.

C. Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board. 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. At June 30, 2011, the Center had no permanently restricted net assets.

D. Cash and Cash Equivalents

The Center considers savings accounts and all other highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

E. Receivables

The Center grants credit to clients, most of whom are located in the Southeast Iowa area. Also, the Center has grant and contract receivables from the federal, state, and county governments. The risk of loss on these receivables is the balance owed at the time of default. Accounts receivable are considered past due after 30 days and are charged off when management determines the account is uncollectible. The Center has provided an allowance for the year ended June 30, 2011, based on historical collections and management's estimate of the collectability of accounts receivable.

F. Valuation of Investments

The Center adopted the provisions of FASB effective July 1, 2008. Under these provisions, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Valuation of Investments (Continued)

In determining fair value, the Center uses various valuation approaches. FASB establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Center. Unobservable inputs reflect the Center's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Center has the ability to access. Valuation adjustments and block discounts are not applied to level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Center only holds Level 1 securities.

G. Contributions

The Center accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Board. In accordance with FASB, contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Center reports gifts of land, buildings, and equipment as unrestricted support 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 support. Absent explicit donor stipulations about how long the long-lived assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

H. Patient Services Revenue

Patient services revenue is reported at the estimated realizable amounts from patients, third-party payors and others for services rendered.

SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Furniture, Fixtures and Equipment

Furniture, fixtures and equipment are stated at cost. Purchases of fixed assets in excess of \$500 that provide future benefits are capitalized and depreciation is computed on the straight-line basis over the estimated useful lives of 3-10 years. No interest costs were capitalized since there were no qualifying assets.

J. Compensated Absences

Center employees accumulate a limited amount of earned but unused vacation benefits payable to employees. Amounts representing the cost of accumulated compensated absences are recorded as liabilities and have been computed based on rates of pay in effect at June 30, 2011.

K. Employee Benefits

The Center has adopted a defined contribution pension plan covering substantially all employees who have completed one year of service and are at least 21 years of age. The Center contributes 4% of eligible employees' salaries into the pension plan. Employees become fully vested after six years of service. Years of service for purposes of defining plan years are those in which the employee completes at least 1000 hours of service. Pension expense for the year ended June 30, 2011, totaled \$19,281.

L. Advertising

The Center expenses advertising production costs as they are incurred and advertising communication costs the first time advertising takes place.

M. Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

N. Allocated Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 2: INSURED DEPOSITS

The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts. The Center had no deposits in excess of federally insured limits as of June 30, 2011.

NOTE 3: CAPITAL LEASE OBLIGATIONS

The Center leases a copier with terms through October 30, 2011. The obligations under the capital lease have been recorded in the accompanying financial statements at the present value of future minimum lease payments, discounted at an interest rate of 11.92%. The capitalized cost of \$10,248 is included in furniture, fixtures and equipment in the accompanying financial statements. Amortization expense on the lease totaled \$1,347 for the year ended June 30, 2011, and is included with depreciation expense.

SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

NOTE 3: CAPITAL LEASE OBLIGATIONS (Continued)

The future minimum lease payments required under capital leases at June 30, 2011, are as follows:

<u>Year Ended June 30,</u> 2012	\$ 1,058
Less amounts representing interest	<u>25</u>
Present value of future minimum lease payments	1,033
Less current portion	<u>1,033</u>
Long-term portion	\$ <u>-</u>

NOTE 4: MAJOR REVENUE SOURCE

The Center receives an annual grant from Wapello County, in return they provide treatment to residents of the County. Revenue from Wapello County totaled \$308,728 for the year ended June 30, 2011.

NOTE 5: LEASE AGREEMENT

The Center leases office space under a month to month operating lease at a monthly rental amount of \$2,141. Rent expense on this lease for the year ended June 30, 2011, totaled \$25,688. The Center leases office space for the Promise Center under a month to month operating lease at a monthly rental amount of \$700. Included in Promise Center expenses is rent expense of \$8,400 for the year ended June 30, 2011.

NOTE 6: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2011:

United Way sponsored programs	\$ <u>15,049</u>
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Temporarily restricted net assets consist of contributions received whose use has been limited by donor imposed purpose restrictions. The following is a summary of net assets released from restrictions by the satisfaction of the donor restrictions for the year ended June 30, 2011:

United Way sponsored programs	\$ <u>31,715</u>
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NOTE 7: RISK MANAGEMENT

Southern Iowa Mental Health 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 three years.

NOTE 8: FAIR VALUE MEASUREMENTS

The Center's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with FASB. See Note 1 for a discussion of the Center's policies.

The Center's assets measured at fair value as of June 30, 2011 are as follows:

	<u>Level 1</u>
Certificates of deposit, at fair value	\$ <u>657,499</u>

SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

NOTE 9: EVALUATION OF SUBSEQUENT EVENTS

The Center has evaluated subsequent events through September 22, 2011, the date which the financial statements were available to be issued.

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

Board of Directors
Southern Iowa Mental Health Center

We have audited the financial statements of Southern Iowa Mental Health Center, Ottumwa, Iowa, as of and for the year ended June 30, 2011, and have issued our report thereon dated September 22, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards, 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 Southern Iowa 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 Southern Iowa Mental Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Southern Iowa Mental Health Center's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting 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 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 a material misstatement of the Center's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in the accompanying Schedule of Findings as item (A) to be a material weakness.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Southern Iowa 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, 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 which are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Center's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Southern Iowa Mental Health Center's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we expressed our conclusions on the Center's responses, we did not audit Southern Iowa Mental Health Center's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of Southern Iowa Mental Health Center and other parties to whom the Center may report and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Southern Iowa Mental Health Center during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
September 22, 2011

SOUTHERN IOWA MENTAL HEALTH CENTER

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

- (A) Segregation of Duties - Due to the small size of your organization, one employee performs many bookkeeping duties. This is a lack of segregation of duties, a problem commonly associated with small businesses and organizations.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Center should be aware of the lack of segregation of duties and periodically review its internal policies.

Response - The internal policies will be reviewed on a regular basis.

Conclusion - Response accepted.

Other Findings Related to Required Statutory Reporting:

No matters were noted.