

**MENTAL HEALTH CENTER OF NORTH IOWA, INC.**

**FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Mental Health Center of North Iowa, Inc.  
Mason City, Iowa

We have audited the accompanying statements of financial position of the Mental Health Center of North Iowa, Inc. (a nonprofit organization) as of June 30, 2011 and 2010, and the related statements of activities, cash flows and functional expenses 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 audi

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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mental Health Center of North Iowa, Inc. as of June 30, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Potter & Brant, P.L.C.*

Potter & Brant, P.L.C.  
Certified Public Accountants  
Clear Lake, Iowa  
March 20, 2012

**MENTAL HEALTH CENTER OF NORTH IOWA, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2011 and 2010**

<b>ASSETS</b>	<b>2011</b>	<b>2010</b>
<b>CURRENT ASSETS</b>		
Cash:		
Cash on hand	\$ 100	\$ 100
Cash in bank	323,510	211,055
Receivables:		
Patient fees	388,164	775,032
Less allowance for doubtful accounts	(200,000)	(300,000)
Grants	20,895	64,570
Contractual receivables from counties	74,653	193,737
Service projects	9,260	62,126
Interest	2,979	4,308
Miscellaneous	-	48,144
Prepaid expenses	25,926	33,963
Investments	709,865	750,441
<b>Total current assets</b>	<b>1,355,352</b>	<b>1,843,476</b>
<b>PROPERTY AND EQUIPMENT, at cost</b>		
Land	2,000	2,000
Land improvements	35,161	35,161
Buildings	806,020	798,022
Furniture, fixtures and equipment	659,347	632,789
	<b>1,502,528</b>	<b>1,467,972</b>
Less accumulated depreciation	(1,226,117)	(1,153,133)
<b>Property and equipment - net</b>	<b>276,411</b>	<b>314,839</b>
<b>OTHER ASSETS</b>		
Investments	125,185	109,484
<b>Total other assets</b>	<b>125,185</b>	<b>109,484</b>
<b>TOTAL ASSETS</b>	<b>\$ 1,756,948</b>	<b>\$ 2,267,799</b>

See accompanying notes and auditor's report.

<b>LIABILITIES AND NET ASSETS</b>	<b>2011</b>	<b>2010</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 103,016	\$ 78,619
Accrued expenses	<u>49,847</u>	<u>58,763</u>
<b>Total current liabilities/total liabilities</b>	<u><b>152,863</b></u>	<u>137,382</u>
<b>NET ASSETS</b>		
Unrestricted:		
Board designated for property and equipment	334,060	280,931
Board designated for special projects	124,097	145,337
Board designated for emergency services	114,493	111,117
Board designated for MHC/CSS projects	91,511	88,812
Board designated for Peer Helper	825	800
Undesignated	<u>880,590</u>	<u>1,443,935</u>
<b>Total unrestricted</b>	<b>1,545,576</b>	2,070,932
Temporarily restricted	57,245	58,227
Permanently restricted	<u>1,264</u>	<u>1,258</u>
<b>Total net assets</b>	<u><b>1,604,085</b></u>	<u>2,130,417</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u><b>\$ 1,756,948</b></u>	 <u><b>\$ 2,267,799</b></u>

See accompanying notes and auditor's report.

MENTAL HEALTH CENTER OF NORTH IOWA, INC.

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2011 and 2010

	2011	2010
<b>UNRESTRICTED NET ASSETS</b>		
Unrestricted public support and revenue:		
Unrestricted public support:		
Counties:		
Cerro Gordo	\$ 240,276	\$ 233,750
Floyd	50,700	51,842
Franklin	6,850	29,126
Hancock	34,390	33,626
Mitchell	32,622	38,427
Winnebago	27,213	38,311
Worth	23,727	20,484
Grants	134,424	112,119
United Way	17,603	21,500
Contributions	262	164
<b>Total unrestricted public support</b>	<b>568,067</b>	<b>579,349</b>
Unrestricted revenue:		
Third-party reimbursements	1,407,534	1,958,928
Net investment income	27,541	42,641
Gain on disposal of fixed assets	-	359
Medicaid cost report settlement	6,703	143,369
Other	13,733	9,459
<b>Total unrestricted revenue</b>	<b>1,455,511</b>	<b>2,154,756</b>
<b>Total unrestricted public support and revenue</b>	<b>2,023,578</b>	<b>2,734,105</b>
Net assets released from restrictions	1,177	-
<b>Total unrestricted public support and revenue and net assets released from restrictions</b>	<b>2,024,755</b>	<b>2,734,105</b>
Expenses:		
Program services	1,739,851	1,958,098
Management and general	810,260	984,825
Fundraising	-	-
<b>Total expenses</b>	<b>2,550,111</b>	<b>2,942,923</b>
<b>Decrease in unrestricted net assets</b>	<b>(525,356)</b>	<b>(208,818)</b>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Net investment income	195	226
Contributions	-	1,175
Net assets released from restrictions	(1,177)	-
<b>Increase (decrease) in temporarily restricted net assets</b>	<b>(982)</b>	<b>1,401</b>
<b>PERMANENTLY RESTRICTED NET ASSETS</b>		
Net investment income	6	7
<b>Increase in permanently restricted net assets</b>	<b>6</b>	<b>7</b>
<b>Decrease in net assets</b>	<b>(526,332)</b>	<b>(207,410)</b>
Net assets, beginning of year	2,130,417	2,337,827
Net assets, end of year	<b>\$ 1,604,085</b>	<b>\$ 2,130,417</b>

See accompanying notes and auditor's report.

**MENTAL HEALTH CENTER OF NORTH IOWA, INC.**

**STATEMENTS OF CASH FLOWS**

**Years Ended June 30, 2011 and 2010**

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Decrease in net assets	\$ (526,332)	\$ (207,410)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	72,982	55,058
Provision for doubtful accounts	(100,000)	65,000
Gain on disposal of fixed assets	-	(359)
Unrealized gain on investments	(8,131)	(13,453)
Change in assets and liabilities:		
(Increase) decrease in receivables	651,966	(530,118)
(Increase) decrease in prepaid expenses	8,037	(5,559)
Increase in accounts payable	24,397	25,779
Increase (decrease) in accrued expenses	(8,916)	13,189
<b>Net cash provided by (used in) operating activities</b>	<b>114,003</b>	<b>(597,873)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of property and equipment	-	1,798
Sale of investments	766,196	1,435,281
Purchase of property and equipment	(34,554)	(40,087)
Purchase of investments	(733,190)	(919,646)
<b>Net cash provided by (used in) investing activities</b>	<b>(1,548)</b>	<b>477,346</b>
<b>Net increase (decrease) in cash</b>	<b>112,455</b>	<b>(120,527)</b>
<b>CASH</b>		
Beginning of year	211,155	331,682
End of year	\$ 323,610	\$ 211,155

See accompanying notes and auditor's report.

MENTAL HEALTH CENTER OF NORTH IOWA, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2011 and 2010

	2011			
	Program Services	Management and General	Fundraising	Total
Salaries	\$ 785,392	\$ 451,662	\$ -	\$ 1,237,054
Payroll taxes	66,792	38,051	-	104,843
Employee benefits	150,391	111,634	-	262,025
<b>Total salaries and related expenses</b>	<b>1,002,575</b>	<b>601,347</b>	<b>-</b>	<b>1,603,922</b>
Professional fees	761	78,058	-	78,819
Anasazi training	-	9,538	-	9,538
ProFiler training	-	31,026	-	31,026
Continued education	61,110	1,170	-	62,280
Insurance	15,713	3,624	-	19,337
Office supplies and postage	29,472	13,404	-	42,876
Program supplies	1,548	-	-	1,548
Rent	37,611	-	-	37,611
Telephone and utilities	40,448	11,027	-	51,475
Repairs and maintenance	65,450	8,963	-	74,413
Depreciation	55,423	17,559	-	72,982
Service and outreach travel	13,773	4,416	-	18,189
Provision for doubtful accounts	-	(7,081)	-	(7,081)
Staff recruiting	2,196	2,080	-	4,276
Psychiatric services	391,829	-	-	391,829
Contract services	762	26,283	-	27,045
Periodicals, publications and miscellaneous services	1,202	-	-	1,202
C.M.H.C. Association dues	-	-	-	-
Meetings and forums	-	3,370	-	3,370
Miscellaneous	19,978	5,476	-	25,454
<b>Total expenses</b>	<b>\$ 1,739,851</b>	<b>\$ 810,260</b>	<b>\$ -</b>	<b>\$ 2,550,111</b>

See accompanying notes and auditor's report.

## 2010

Program Services	Management and General	Fundraising	Total
\$ 867,218	\$ 488,042	\$ -	\$ 1,355,260
79,210	36,674	-	115,884
150,508	104,386	-	254,894
1,096,936	629,102	-	1,726,038
1,328	46,707	-	48,035
-	35,786	-	35,786
-	29,851	-	29,851
15,244	2,065	-	17,309
16,559	5,394	-	21,953
40,857	15,525	-	56,382
7,812	-	-	7,812
31,923	-	-	31,923
38,513	9,451	-	47,964
75,262	9,608	-	84,870
42,816	12,242	-	55,058
19,591	174	-	19,765
-	175,812	-	175,812
563	1,434	-	1,997
550,474	-	-	550,474
-	-	-	-
565	-	-	565
2,105	234	-	2,339
-	3,138	-	3,138
17,550	8,302	-	25,852
\$ 1,958,098	\$ 984,825	\$ -	\$ 2,942,923

See accompanying notes and auditor's report.

**MENTAL HEALTH CENTER OF NORTH IOWA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011 and 2010**

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**Note 1. Summary of Significant Accounting Policies**

Organization and Nature of Activities: Mental Health Center of North Iowa, Inc. (the Center) is a nonprofit organization providing diagnosis and treatment of general psychiatric and psychological disorders in Cerro Gordo, Floyd, Franklin, Hancock, Mitchell, Winnebago, and Worth Counties in Iowa. Franklin County discontinued services January 31, 2011.

Principles of Combination: The financial statements include the accounts of the Center and its service projects, Community Support Programs. All intercompany balances and transactions are eliminated.

Cash and Cash Equivalents: The Center considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash and cash equivalents. The Center had no cash equivalents as of June 30, 2011 and 2010.

Allowance for Doubtful Accounts: The Center maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments on the outstanding accounts receivable. The allowance is maintained at a level considered appropriate based on past experience in the collection of accounts receivable and analysis of outstanding balances. The Center's credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts. Write-offs are recorded when, in the judgment of management, a receivable is considered uncollectible.

Investments: Investments are carried at market value. Realized and unrealized gains and losses on investments are recorded in the statement of activities.

Depreciation: Depreciation of property and equipment is computed by the straight-line method, with a half-year's depreciation charged in the year of acquisition and in the year of disposal. Estimated useful lives were assigned as follows:

	<u>Years</u>
Land improvements	10 - 40
Buildings	7 - 50
Furniture, fixtures and equipment	3 - 15

The Center's policy is to capitalize items exceeding \$500 with a life expectancy of three or more years, unless they are clearly repair and maintenance items.

Basis of Presentation: Net assets and revenues, expenses, gains and losses are classified as unrestricted, temporarily restricted, or permanently restricted, based on the existence and/or nature of any donor-imposed restrictions. Accordingly, the net assets of the Center and changes therein are classified and reported as follows:

Unrestricted - all amounts over which the Board of Directors and management have discretionary control. The Board of Directors has designated funds for property and equipment to cover future costs for remodeling and expansion of facilities. Special project savings are designated by the Board of Directors for financing deficit budgets, building and equipment capital expenditures and hiring of a full-time psychiatrist. Furniture and fixtures savings are designated by the Board of Directors for purchases of furniture and fixtures.

## MENTAL HEALTH CENTER OF NORTH IOWA, INC.

### NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

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Temporarily Restricted - The Miles Pothast Memorial savings account is restricted by an agreement with the donor's wife that she will make the final decisions as to the use of the money. Plans for the proceeds include sponsoring continuing education workshops. Excess donations received for the 50th Anniversary Celebration have been temporarily restricted for educational materials for the Center. Also, several donations were received for specific program expenses. As of June 30, 2011, unused grant proceeds from Magellan were temporarily restricted. Also, the Center received funds in 1997 that were restricted for the purchase of a van. See the following schedule for temporarily restricted balances as of:

	06/30/11	06/30/10
Memorials	\$ 5,546	\$ 5,351
50th Anniversary Celebration - education materials	572	572
Survivor of Suicide and Columbia Teen Screen	1,000	1,000
Suicide Prevention	1,800	1,800
Magellan Telehealth Grant	42,327	43,504
Van	6,000	6,000
	<u>\$ 57,245</u>	<u>\$ 58,227</u>

Permanently Restricted - The Hayward Goodspeed Memorial savings account is restricted by the donor's will for the purchase of psychological books with 90% of the income earned each year. The remaining 10% is to be added to the savings account balance and cannot be distributed until such time as the Center should cease operations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Contributions: The Center has adopted FASB *Accounting Standards Codification* 958 (Formerly SFAS No. 116), *Accounting for Contributions Received and Contributions Made*. Gifts of cash and other assets are reflected as contributions in the accompanying statements at their estimated fair market value at the date of receipt. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

The Center also receives the use of donated facilities for various programs, which have not been valued as of June 30, 2011 or June 30, 2010.

Contributions of services are recognized as revenues if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by persons possessing those skills, and would typically need to be purchased if not provided by donation. No amounts have been reflected in the financial statements for contributed services, since they are not significant to the Center.

Income Recognition: Income from grants and the United Way is recognized at the time the Center has done everything necessary to establish its rights to the income.

**MENTAL HEALTH CENTER OF NORTH IOWA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011 and 2010**

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Functional Allocation of Expenses: The costs of providing various programs and support services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated to the programs and supporting services receiving benefit from the expenditures.

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 and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax Status: There is no provision for income tax expense or liability since the organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

**Note 2. Investments**

Investments as of June 30, 2010 are stated at fair value and consist of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Certificates of Deposit	\$ 620,707	\$ 620,707	\$ -
Money Market Fund	129,734	129,734	-
Mutual Funds	<u>113,282</u>	<u>109,484</u>	<u>(3,798)</u>
	<u>\$ 863,723</u>	<u>\$ 859,925</u>	(3,798)
Plus: Prior Years' Unrealized Loss			<u>17,251</u>
Current Year Unrealized Gain			<u>\$ 13,453</u>

Investments as of June 30, 2011 are stated at fair value and consist of the following:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Certificates of Deposit	\$ 434,388	\$ 434,388	\$ -
Money Market Fund	275,477	275,477	-
Mutual Funds	<u>120,852</u>	<u>125,185</u>	<u>4,333</u>
	<u>\$ 830,717</u>	<u>\$ 835,050</u>	4,333
Plus: Prior Years' Unrealized Loss			<u>3,798</u>
Current Year Unrealized Gain			<u>\$ 8,131</u>

**MENTAL HEALTH CENTER OF NORTH IOWA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011 and 2010**

A summary of the investments as of June 30, 2011 and 2010 is as follows:

	Certificates of Deposit	Money Market Fund	Mutual Funds	Total
End of year balance, June 30, 2009	848,592	424,615	88,900	1,362,107
Purchases and donations	620,706	266,852	-	887,558
Unrealized gain on investments	-	-	13,453	13,453
Interest and dividends	22,452	2,504	7,131	32,087
Redemptions and transfers	(871,044)	(564,237)	-	(1,435,281)
End of year balance, June 30, 2010	620,707	129,734	109,484	859,925
Purchases and donations	434,388	282,304	-	716,692
Unrealized gain on investments	-	-	8,131	8,131
Interest and dividends	7,627	1,301	7,570	16,498
Redemptions and transfers	(628,334)	(137,862)	-	(766,196)
End of year balance, June 30, 2011	<u>\$ 434,388</u>	<u>\$ 275,477</u>	<u>\$ 125,185</u>	<u>\$ 835,050</u>

Investments are presented in the financial statements in these categories as of:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Investments, current	\$ 709,865	\$ 750,441
Investments, long term	<u>125,185</u>	<u>109,484</u>
Total investments	<u>\$ 835,050</u>	<u>\$ 859,925</u>

**Note 3. Fair Value Measurements**

FASB *Accounting Standards Codification* 820, Fair Value Measurements, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB *Accounting Standards Codification* 820 are described below:

**Basis of Fair Value Measurement**

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

**MENTAL HEALTH CENTER OF NORTH IOWA, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011 and 2010**

The following tables present by level, within the fair value hierarchy, the Center's investments at fair value, as of June 30, 2011 and June 30, 2010. As required by FASB *Accounting Standards Codification* 820, investment assets are classified in their entirety based upon the lowest level of input that is significant to the fair value measurement.

<u>Description</u>	<u>6/30/2011</u> Quoted Prices in Active Markets for Identical Assets (Level 1)	<u>6/30/2010</u> Quoted Prices in Active Markets for Identical Assets (Level 1)
Short-term Investments	\$ 709,865	\$ 750,441
Long-term Investments	<u>125,185</u>	<u>109,484</u>
Total	<u>\$ 835,050</u>	<u>\$ 859,925</u>

The Center recognizes transfers of assets into and out of levels as of the date an event or change in circumstances causes the transfer. There were no transfers between levels in the years ended June 30, 2011 and 2010.

Short-term and long-term Level 1 assets are reported at fair value on a recurring basis determined by reference to quoted market prices and other relevant information generated by market transactions.

**Note 4. Net Investment Income**

Investment return is summarized as follows:

	<u>Period Ending June 30,</u>	
	<u>2011</u>	<u>2010</u>
Interest income	\$ 12,042	\$ 22,299
Dividend income	7,569	7,132
Unrealized gain (loss) on investments	8,131	13,453
Investment fees	-	(10)
	<u>\$ 27,742</u>	<u>\$ 42,874</u>

**Note 5. Commitments and Contingencies**

The Center leases office space in Cerro Gordo County with minimum lease obligations as follows:

<u>Period Ending</u> <u>June 30,</u>	
2012	26,400
2013	26,400
2014	26,400
2015	15,400

Rent expenses under all leases for the years ended June 30, 2011 and 2010 were \$40,191 and \$31,923, respectively.

## **MENTAL HEALTH CENTER OF NORTH IOWA, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2011 and 2010**

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During 2011, a former employee filed a complaint with the Iowa Civil Rights Commission claiming age discrimination. During 2012, the former employee requested a right to sue letter from the Iowa Civil Rights Commission and has recently filed a lawsuit in Federal Court. The Center has not yet seen the complaint, but feels confident in defending the claim. It is management's opinion that no significant financial loss will result from this complaint.

#### **Note 6. Pension Plan**

The Center has a defined contribution plan covering all employees who have completed at least one full year of continuous service and worked more than 1,000 hours. The Center contributes, on behalf of each of the employees who are members of the plan, an amount equal to 6% of the annual compensation of these employees and reflects this as an operating expense which amounted to \$63,229 and \$57,962 for the years ended June 30, 2011 and 2010, respectively.

#### **Note 7. Self-Insurance**

The Center is required by Iowa law to have its employees covered by unemployment insurance. The Iowa Workforce Development has granted the Center the privilege of funding its own unemployment benefits. Total unemployment benefits paid for the years ended June 30, 2011 and 2010, were \$11,305 and \$15,156, respectively.

#### **Note 8. Concentration of Credit Risk**

The Center is required by the Statement of Financial Accounting Standards No. 105, "Disclosure of Information About Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk," to disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments that potentially subject the Center to concentration of credit risk consist primarily of temporary cash investments. The Center has funds deposited with First Citizens National Bank in amounts exceeding federally insured limits.

#### **Note 9. Evaluation of Subsequent Events**

The Center has evaluated subsequent events through March 20, 2012, the date which the financial statements were available to be issued.