

SOUTHERN IOWA MENTAL HEALTH CENTER
OTTUMWA, IOWA

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS

JUNE 30, 2014 AND 2013

SOUTHERN IOWA MENTAL HEALTH CENTER

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SOUTHERN IOWA MENTAL HEALTH CENTER

BOARD OF DIRECTORS
JUNE 30, 2014

<u>Name</u>	<u>Title</u>	<u>Expires</u>
Dusty Stewart	President	October 31, 2015
Jane Cardenzana	Vice President	October 31, 2014
Jan Erhardt	Secretary/Treasurer	October 31, 2014
Jeff Logan	Director	October 31, 2016
Steve Siegel	Director	Indefinite
Dale Taylor	Director	Indefinite
Jay Allison	Director	October 31, 2018
Bev VerSteegh	Director	October 31, 2015
Deb House Deere	Director	October 31, 2019
Brianne Stuchel	Director	October 31, 2018
Susan Howard	Director	October 31, 2017
Andrew Davis	Director	October 31, 2018
Christina Scharck	Executive Director	Indefinite



ANDERSON, LARKIN & CO. P.C.
Certified Public Accountants
"Achieving your goals with our knowledge."

Kenneth E. Crosser, CPA
April D. Crosser, CPA
Michael J. Podliska, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Southern Iowa Mental Health Center

Report on the Financial Statements

We have audited the accompanying Statement of Financial Position of Southern Iowa Mental Health Center as of June 30, 2014, the related Statements of Activities, Functional Expenses and Cash Flows for the year then ended and the Notes to Financial Statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 as of June 30, 2014 and the changes in its net assets and cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2014 on our consideration of Southern Iowa Mental Health 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 in considering Southern Iowa Mental Health Center's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Southern Iowa Mental Health Center's June 30, 2013 financial statements, and our report dated October 2, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
September 17, 2014

Anderson, Larkin & Co. P.C.

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 WITH COMPARATIVE TOTALS AS OF JUNE 30, 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
<u>CURRENT ASSETS:</u>		
Cash and cash equivalents	\$ 1,064,677	\$ 339,221
Investments	130,725	330,917
Receivables:		
Accounts receivable; patient services, less allowance for doubtful accounts \$51,729	443,331	437,383
Accrued interest	393	4,883
Other receivable	29,721	273
Prepaid expenses	9,686	13,562
Total current assets	<u>1,678,533</u>	<u>1,126,239</u>
<u>FIXED ASSETS:</u>		
Furniture, fixtures and equipment	421,195	374,287
Less accumulated depreciation	<u>337,700</u>	<u>295,059</u>
Book value of fixed assets	<u>83,495</u>	<u>79,228</u>
<u>OTHER ASSETS:</u>		
Investments	<u>100,035</u>	<u>100,035</u>
TOTAL ASSETS	\$ <u>1,862,063</u>	\$ <u>1,305,502</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES:</u>		
Accounts payable	\$ 23,766	\$ 17,244
Accrued liabilities:		
Payroll	36,071	26,319
Payroll taxes	6,271	5,711
Vacation	50,539	35,887
Other	8,887	-
Current maturities of capital lease obligations	2,365	2,162
TOTAL CURRENT LIABILITIES	<u>127,899</u>	<u>87,323</u>
<u>LONG-TERM LIABILITIES:</u>		
Capital lease obligation- less current maturities	<u>3,502</u>	<u>5,866</u>
TOTAL LIABILITIES	<u>131,401</u>	<u>93,189</u>
<u>NET ASSETS:</u>		
Unrestricted	<u>1,730,662</u>	<u>1,212,313</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>1,862,063</u>	\$ <u>1,305,502</u>

See Accompanying Notes to Financial Statements

SOUTHERN IOWA MENTAL HEALTH CENTER
STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2014 WITH COMPARATIVE
TOTALS FOR THE YEAR ENDED JUNE 30, 2013

	2014			2013
	<u>Unrestricted</u>	<u>Temporality Restricted</u>	<u>Total</u>	<u>Total</u>
<u>PUBLIC SUPPORT AND REVENUES:</u>				
Public support:				
County funds and grants	\$ 398,423	\$ -	\$ 398,423	\$ 400,353
Federal funds and grants	108,049	-	108,049	56,421
United Way grant	-	25,354	25,354	12,287
Legacy Foundation grant	-	-	-	13,725
Total public support	<u>506,472</u>	<u>25,354</u>	<u>531,826</u>	<u>482,786</u>
Revenues:				
Private fees, Title XIX and other	1,567,447	-	1,567,447	1,118,039
Promise Center	74,027	-	74,027	85,646
Miscellaneous	3,060	-	3,060	6,260
Total revenues	<u>1,644,534</u>	<u>-</u>	<u>1,644,534</u>	<u>1,209,945</u>
Net assets released from restrictions:				
Satisfaction of purpose restrictions	25,354	(25,354)	-	-
TOTAL PUBLIC SUPPORT AND REVENUES	<u>2,176,360</u>	<u>-</u>	<u>2,176,360</u>	<u>1,692,731</u>
<u>EXPENSES:</u>				
Program services	1,266,048	-	1,266,048	1,187,665
Support services	391,963	-	391,963	382,798
TOTAL EXPENSES	<u>1,658,011</u>	<u>-</u>	<u>1,658,011</u>	<u>1,570,463</u>
CHANGE IN NET ASSETS FROM OPERATIONS	518,349	-	518,349	122,268
<u>OTHER CHANGES IN NET ASSETS:</u>				
Investment income	-	-	-	4,545
CHANGE IN NET ASSETS	<u>518,349</u>	<u>-</u>	<u>518,349</u>	<u>126,813</u>
<u>NET ASSETS</u> - Beginning of year, as restated	<u>1,212,313</u>	<u>-</u>	<u>1,212,313</u>	<u>1,085,500</u>
<u>NET ASSETS</u> - End of year	<u>\$ 1,730,662</u>	<u>\$ -</u>	<u>\$ 1,730,662</u>	<u>\$ 1,212,313</u>

See Accompanying Notes to Financial Statements

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014 WITH COMPARATIVE
TOTALS FOR THE YEAR ENDED JUNE 30, 2013

	2014			2013
	Program Services Mental Health Center Programs	Support Services Management and General	Total	Total
<u>EXPENSES:</u>				
Salaries	\$ 516,476	\$ 267,217	\$ 783,693	\$ 771,731
Payroll taxes	40,426	20,826	61,252	55,890
Group health insurance and employee benefits	47,743	24,595	72,338	73,948
Pension	<u>18,232</u>	<u>9,392</u>	<u>27,624</u>	<u>26,806</u>
Total salaries and related expenses	622,877	322,030	944,907	928,375
Professional fees	456,958	-	456,958	373,013
Provision for doubtful accounts	5,173	-	5,173	35,644
Accounting/Audit	-	12,439	12,439	18,026
Promise Center	24,074	-	24,074	23,999
Advertising	9,732	1,081	10,813	5,206
Office supplies	16,086	4,021	20,107	15,983
Telephone	5,643	1,411	7,054	7,054
Travel	2,073	4,208	6,281	3,322
Repairs and maintenance	24,631	6,158	30,789	34,331
Dues	4,392	488	4,880	4,245
Staff development	12,737	1,415	14,152	7,014
Insurance	18,301	2,033	20,334	18,341
Cleaning	3,605	901	4,506	4,655
Rent	22,470	5,618	28,088	25,688
Miscellaneous	2,381	21,431	23,812	17,514
Interest	<u>508</u>	<u>127</u>	<u>635</u>	<u>819</u>
Total expenses before depreciation	1,231,641	383,361	1,615,002	1,523,229
Depreciation	<u>34,407</u>	<u>8,602</u>	<u>43,009</u>	<u>47,234</u>
TOTAL EXPENSES	\$ <u>1,266,048</u>	\$ <u>391,963</u>	\$ <u>1,658,011</u>	<u>1,570,463</u>

SOUTHERN IOWA MENTAL HEALTH CENTER

STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2014 WITH COMPARATIVE
TOTALS FOR THE YEAR ENDED JUNE 30, 2013

	<u>2014</u>	<u>2013</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Cash received from Counties	\$ 398,423	\$ 400,353
Cash received from grants	133,403	101,183
Cash received from patient services and Title XIX	1,635,526	1,094,302
Cash received (used) from other operations	(26,480)	29,760
Cash paid for interest on capital lease obligation	(635)	(819)
Cash paid to employees and suppliers	<u>(1,570,118)</u>	<u>(1,519,386)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>570,119</u>	<u>105,393</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Principal payments on capital lease obligation	(2,162)	(1,977)
Purchase of fixed assets	(47,433)	(9,298)
Proceeds from sale of assets	250	-
NET CASH USED IN FINANCING ACTIVITIES	<u>(49,345)</u>	<u>(11,275)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase of certificates of deposit	(101,109)	(301,503)
Proceeds from certificates of deposit	301,301	400,004
Interest received	4,490	5,168
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>204,682</u>	<u>103,669</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	725,456	197,787
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of year	<u>339,221</u>	<u>141,434</u>
<u>CASH AND CASH EQUIVALENTS</u> - End of year	\$ <u>1,064,677</u>	\$ <u>339,221</u>
<u>RECONCILIATION OF CHANGES IN NET ASSETS FROM OPERATIONS TO NET CASH PROVIDED</u>		
<u>BY OPERATING ACTIVITIES:</u>		
Changes in net assets from operations	\$ 518,349	\$ 122,268
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	43,009	47,234
Bad debt expense	5,173	35,644
Gain on sale of asset	(92)	-
Increase in accounts receivable	(11,121)	(145,027)
Decrease (increase) in other receivable	(29,448)	23,500
Decrease in unconditional promises to give	-	18,750
Decrease (increase) in prepaid expenses	3,876	(3,894)
Increase (decrease) in accounts payable	6,522	(24,006)
Increase in accrued liabilities	<u>33,851</u>	<u>30,924</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>570,119</u>	\$ <u>105,393</u>

See Accompanying Notes to Financial Statements

SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Southern Iowa Mental Health 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 the Iowa income tax law which provide tax exemption for Corporations organized and operated exclusively for religious, charitable, or educational purposes.

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

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, 2014, the Center had no temporarily or 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, 2014, based on historical collections and management's estimate of the collectability of accounts receivable.

SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Valuation of Investments

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 reliability of 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.

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 payers 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.

SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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. Depreciation expense for the year ended June 30, 2014, totaled \$43,009.

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, 2014.

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 one year 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, 2014, totaled \$27,624.

L. Advertising

The Center expenses advertising production costs as they are incurred and advertising communication costs the first time advertising takes place. Advertising expense was \$10,813 for the year ended June 30, 2014.

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.

O. Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2013 from which summarized information was derived.

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 deposits in excess of federally insured limits of \$860,452 as of June 30, 2014.

SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 3: CAPITAL LEASE OBLIGATIONS

The Center leases a copier with terms through October 1, 2016. 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 9.00%. The capitalized cost of \$11,229 is included in furniture, fixtures and equipment in the accompanying financial statements. Amortization expense on the lease totaled \$6,176 for the year ended June 30, 2014, and is included with depreciation expense.

The future minimum lease payments required under capital leases at June 30, 2014, are as follows:

<u>Year Ended June 30,</u>		
2015	\$	2,797
2016		2,797
2017		<u>933</u>
Total		<u>6,527</u>
Less amounts representing interest		<u>660</u>
Present value of future minimum lease payments		5,867
Less current portion		<u>2,365</u>
Long-term portion	\$	<u>3,502</u>

NOTE 4: MAJOR REVENUE SOURCE

The Center provides treatment to clients that is paid for by funding from County, State and Federal sources and receives approximately 96% of its revenue from these sources.

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, 2014, 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, 2014.

NOTE 6: TEMPORARILY RESTRICTED NET ASSETS

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, 2014:

United Way sponsored programs	\$	<u>25,354</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 any of the past three years.

SOUTHERN IOWA MENTAL HEALTH CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

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, 2014 are as follows:

	<u>Level 1</u>
Certificates of deposit	\$ <u>230,760</u>

NOTE 9: PRIOR PERIOD ADJUSTMENT

Certain errors resulting in an understatement of previous reported unrestricted net assets were discovered during the current year.

	<u>Unrestricted</u>
Net assets June 30, 2012, as previously reported	\$ 912,394
Adjustment	<u>173,106</u>
Net assets June 30, 2012, as restated	\$ <u>1,085,500</u>
Net assets June 30, 2013, as previously reported	\$ 954,497
Adjustment	<u>257,816</u>
Net assets June 30, 2013, as restated	\$ <u>1,212,313</u>

NOTE 10: RECLASSIFICATION

Certain amounts for the year ended June 30, 2013 have been reclassified to conform with the June 30, 2014 presentation.

NOTE 11: OPEN TAX YEARS

The Center has open tax years for the years ended June 30, 2014, 2013, 2012 and 2011 and are subject to examination by the IRS, generally for three years after they were filed.

NOTE 12: EVALUATION OF SUBSEQUENT EVENTS

The Center has evaluated subsequent events through September 17, 2014, the date which the financial statements were available to be issued.



ANDERSON, LARKIN & CO. P.C.
Certified Public Accountants
"Achieving your goals with our knowledge."

Kenneth E. Crosser, CPA
April D. Crosser, CPA
Michael J. Podliska, CPA

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 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, the financial statements of Southern Iowa Mental Health Center, Ottumwa, Iowa, as of and for the year ended June 30, 2014, and the related notes to financial statements, and have issued our report thereon dated September 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southern Iowa Mental Health Center's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Southern Iowa Mental Health Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Southern Iowa Mental Health Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control we consider to be a material weakness.

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 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 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 which 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, non-compliance 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 non-compliance 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, 2014 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

Southern Iowa Mental Health Center's responses to findings identified in our audit are described in the accompanying Schedule of Findings. Southern Iowa Mental Health Center's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.

Anderson, Larkin & Co. P.C.

Ottumwa, Iowa
September 17, 2014

SOUTHERN IOWA MENTAL HEALTH CENTER

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2014

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 which are incompatible. 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.