

SOUTHWEST IOWA MENTAL HEALTH CENTER
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2015 AND 2014

SOUTHWEST IOWA MENTAL HEALTH CENTER

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SOUTHWEST IOWA MENTAL HEALTH CENTER
Officials
June 30, 2015

<u>Board of Directors:</u>	<u>Address</u>	<u>Term Expires</u>
Marie Rourick, President	Wiota, Iowa	September, 2017
Julie Gade, Vice-President	Atlantic, Iowa	September, 2017
Mary Jo Blunk, Secretary-Treasurer	Atlantic, Iowa	September, 2016
Maynard Hansen	Wiota, Iowa	September, 2015
Jerry Putnam	Griswold, Iowa	September, 2015
Mark Wedemeyer	Atlantic, Iowa	September, 2016
Roger Herring	Atlantic, Iowa	September, 2017
Carolyn Groves	Massena, Iowa	September, 2015
<u>Executive Director:</u>		
John Bigelow	Atlantic, Iowa	

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southwest Iowa Mental Health Center
Atlantic, Iowa

Report on the Financial Statements

We have audited the accompanying statements of financial position of Southwest Iowa Mental Health Center as of June 30, 2015 and 2014, and the related statements of activities and changes in net assets, cash flows for the years then ended, and the related notes to the 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 accounting principles generally accepted in the United States of America: 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and 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 that 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 Southwest Iowa Mental Health Center as of June 30, 2015 and 2014, and the changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
Southwest Iowa Mental Health Center

Emphasis of Matters

As discussed in Note K to the financial statements, Southwest Iowa Mental Health Center adopted new accounting guidance related to the Financial Accounting Standards Board (FASB) Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an Amendment to FASB Statements No. 87, 88, 106 and 132(R)*. Our opinion is not modified with respect to this matter.

The accompanying financial statements have been prepared assuming the Center will continue as a going concern. As indicated in Note E, the Center's continued existence is dependent on cooperation of a related entity. Should the cooperation be discontinued, it would have a significant impact on the Center's financial position and cash flows. The financial statements do not include any adjustments that might result from the outcome of the uncertainty.

Other Matter

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 1 and 20 through 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2015 on our consideration of Southwest Iowa Mental Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. 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 Southwest Iowa Mental Health Center's internal control over financial reporting and compliance.

Gmewold, Ben, Kuhn & Co. P. C.

Atlantic, Iowa
October 26, 2015

SOUTHWEST IOWA MENTAL HEALTH CENTER
 Statements of Financial Position
 June 30,

ASSETS

	2015	Not Restated 2014
Current Assets:		
Cash	\$ 557,697	\$ 594,707
Client receivables, less allowances for doubtful accounts and contractual adjustments (\$404,000 in 2015 and \$273,500 in 2014)	164,979	97,091
Other receivables	71,561	84,131
Estimated third-party payor settlements	200,000	150,000
Prepaid expense	728	1,717
Prepaid rent	51,600	--
Total current assets	1,046,565	927,646
Property and Equipment, Net	25,264	59,312
Other Asset:		
Prepaid rent	158,300	--
Investment in IBHN	40,000	40,000
	198,300	40,000
Total assets	\$ 1,270,129	\$ 1,026,958

LIABILITIES AND NET ASSETS (DEFICIT)

Current Liabilities:		
Accounts payable	\$ 4,971	\$ 1,377
Accrued employee compensation	24,956	33,965
Due to Cass County Memorial Hospital	1,151,524	882,327
Total current liabilities	1,181,451	917,669
Long-Term Liability:		
Net pension liability	146,633	--
Total liabilities	1,328,084	917,669
Net Assets (Deficit):		
Unrestricted	(57,955)	109,289
Total liabilities and net assets (deficit)	\$ 1,270,129	\$ 1,026,958

The accompanying notes are an integral part of these statements.

SOUTHWEST IOWA MENTAL HEALTH CENTER
 Statements of Activities and Changes in Net Assets
 Year ended June 30,

	<u>2015</u>	<u>Not Restated 2014</u>
Changes in Unrestricted Net Assets:		
Support and Revenue:		
Support:		
Support from Region and County	\$ 16,000	\$ 10,000
Grants	9,153	32,610
Hospital tax revenue	<u>186,442</u>	<u>158,299</u>
Total support	211,595	200,909
Revenue:		
Client fees, net	1,778,973	1,460,922
Contracted services from Hospital	213,674	267,174
Other revenue	<u>22,116</u>	<u>23,296</u>
Total revenue	<u>2,014,763</u>	<u>1,751,392</u>
Total Support and Revenue	2,226,358	1,952,301
Expenses:		
Staff salaries and benefits	288,698	344,732
Contracted staff and benefits	1,804,139	1,409,156
Other expenses	190,180	125,118
Provision for depreciation	<u>9,365</u>	<u>11,756</u>
Total expenses	<u>2,292,382</u>	<u>1,890,762</u>
Operating Income (Loss)	(66,024)	61,539
Other Support and Gains (Reductions):		
Hospital deficit funding (refunding)	(135,826)	(63,264)
Contributions	--	50
Interest income	163	210
Gain on disposal of assets	201,687	--
Capital grant	<u>--</u>	<u>1,465</u>
Other support and gains (reductions), net	<u>66,024</u>	<u>(61,539)</u>
Increase in Unrestricted Net Assets Before Other Comprehensive Income	--	--
Other Comprehensive Income:		
Net change in unrecognized pension costs	<u>99,161</u>	<u>--</u>
Increase in Unrestricted Net Assets	99,161	--
Net Assets, Beginning of Year as Restated (Note K)	<u>(157,116)</u>	<u>109,289</u>
Net Assets, End of Year	<u><u>\$ (57,955)</u></u>	<u><u>\$ 109,289</u></u>

The accompanying notes are an integral part of these statements.

SOUTHWEST IOWA MENTAL HEALTH CENTER
 Statements of Cash Flows
 Year ended June 30,

	<u>2015</u>	<u>Not Restated 2014</u>
Cash flows from operating activities:		
Cash received from clients, third party payors, contracting agencies, and public support	\$ 1,925,445	\$ 1,815,335
Cash paid to suppliers and employees	(1,958,141)	(1,787,497)
Interest income	163	210
Grant received	9,153	34,075
Contributions	--	50
Cash received for hospital support	<u> --</u>	<u>50,000</u>
Net cash provided by (used in) operating activities	(23,380)	112,173
Cash flows from investing activities:		
Cash paid for investment	--	(40,000)
Capital expenditures	<u>(13,630)</u>	<u>(1,384)</u>
Net cash used in investing activities	<u>(13,630)</u>	<u>(41,384)</u>
Net increase (decrease) in cash	(37,010)	70,789
Cash beginning of year	<u>594,707</u>	<u>523,918</u>
Cash end of year	<u>\$ 557,697</u>	<u>\$ 594,707</u>

(continued next page)

SOUTHWEST IOWA MENTAL HEALTH CENTER
Statements of Cash Flows - Continued
Year ended June 30,

	2015	Not Restated 2014
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ 99,161	\$ --
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	9,365	11,756
Rent expense	30,100	--
Gain on disposal	(201,687)	--
Change in assets and liabilities		
Accounts receivable	(55,318)	(6,057)
Estimated third-party payor settlements	(50,000)	60,000
Prepaid expense	989	(20)
Accounts payable	3,594	(1,755)
Accrued employee compensation	(9,009)	(7,343)
Due to Cass County Memorial Hospital	269,197	55,592
Net pension liability	(119,772)	--
Total adjustments	(122,541)	112,173
Net cash provided by (used in) operating activities	\$(23,380)	\$ 112,173

Non-Cash Transactions:

The Center also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of change in net assets to net cash provided by (used in) operating activities:

	2015	2014
Non-cash support from Hospital	\$ 50,616	\$ 45,035
Sale of building in exchange for rent	\$ 240,000	\$ --

The accompanying notes are an integral part of these statements.

SOUTHWEST IOWA MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2015 and 2014

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Nature of Activities

The Southwest Iowa Mental Health Center is an Iowa not-for-profit corporation operating under Chapter 230A of the Code of Iowa and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Center is 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. The Board of Directors serve three year terms and are selected by the existing Board.

The Organization received \$ - 0 - of revenue from Cass County in 2015 (\$10,000 in 2014). The Organization received \$16,000 from the Southwest Iowa MHDS Region in 2015 (\$ - 0 - in 2014). These funds are paid to the Organization for providing mental health services in the covered areas. In addition, the Organization receives funds from these entities to provide services to indigent populations in these areas on a fee-for-service basis. As of July 1, 2014, the funding for these payments changed from Cass County to the Southwest Iowa MHDS Region, of which Cass County is a member. In addition, the Center received a significant portion of its revenue through an agreement with Cass County Memorial Hospital as indicated in Note E.

2. 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.

3. Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Agency and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Support and 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 laws.

SOUTHWEST IOWA MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2015 and 2014

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

4. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

5. Client Receivables

Client 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 contractual adjustments is based on the difference between the Center's normal fees and expected program payments.

6. Property and Equipment

Property and equipment is stated at cost. The Center computes depreciation on buildings, equipment, land improvements and vehicles using the straight-line method. Lives range from twenty-five to forty years for land improvements and buildings, five to ten years for equipment and three years for vehicles.

7. Support and Revenue

- a. Fees from clients are recorded at list price with adjustments based upon ability to pay and government program limitations deducted to arrive at net fees from clients.
- b. Support from Cass County includes a predetermined amount based on the Center's annual budget.
- c. Grant revenues are for specific programs provided by the Center and are recognized as income when grant requirements have been satisfied.

8. Charity Care

The Center provides care to clients who meet certain criteria under its charity care policy at amounts less than its regular rates. Revenue from services to these clients is recorded as indicated in 7. above. These reductions are recorded as adjustments to fees from clients.

9. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Center considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents, including amounts limited as to use.

SOUTHWEST IOWA MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2015 and 2014

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicaid - Certain services are paid based on a cost reimbursement methodology. The Center is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Center and audits thereof by the fiscal intermediary. The Center's Medicaid cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2014. Finalized cost reports are subject to re-opening by the intermediary.

The Center also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NOTE C - FAIR VALUE MEASUREMENTS

The Center's investments are reported at fair value in the accompanying statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Center uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Center measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 1 or 2 inputs were available to the Center, and Level 3 inputs were only used when Level 1 or Level 2 inputs were not available.

Level 3 Fair Value Measurements

The investment in Iowa Behavioral Health Network (IBHN) will result in the Center having access to a credentialing and billing and collections service. The investment in IBHN is not actively traded and significant other observable inputs are not available. The fair value of the investment in IBHN is based on book value. Management believes this value approximates current fair value.

SOUTHWEST IOWA MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2015 and 2014

NOTE C - FAIR VALUE MEASUREMENTS - Continued

The following tables set forth, by level within the fair value hierarchy, the Center's investments at fair value as of June 30, 2015 and 2014:

<u>June 30, 2015</u>	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using: Significant Unobservable Inputs (Level 3)</u>
Investment in IBHN	\$ 40,000	\$ 40,000
 <u>June 30, 2014</u>		
Investment in IBHN	\$ 40,000	\$ 40,000

The following tables reconcile the beginning and ending balances of fair value measurements for the Center's level 3 assets using unobservable inputs for the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 40,000	\$ --
Investment in IBHN	<u>--</u>	<u>40,000</u>
Ending balance	\$ 40,000	\$ 40,000

NOTE D - PROPERTY AND EQUIPMENT

The cost and related accumulated depreciation by major category at June 30 are as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ --	\$ 1,689
Land Improvements	--	59,948
Buildings	--	162,524
Furniture and Equipment	<u>87,717</u>	<u>115,164</u>
	87,717	339,325
Less Accumulated Depreciation	<u>(62,453)</u>	<u>(280,013)</u>
	\$ 25,264	\$ 59,312

The Center sold its building to Cass County Memorial Hospital during the year ended June 30, 2015, resulting in a gain on the sale of \$201,687. See Note E.

SOUTHWEST IOWA MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2015 and 2014

NOTE E - COMMITMENT, RELATED PARTY, AND ECONOMIC DEPENDENCY

The Center participates in a sharing agreement with Cass County Memorial Hospital, pursuant to Chapter 28E of the Iowa Code, to deliver mental health services in the area. Under the agreement, the Mental Health Center purchases all non-physician services necessary for the Center's operations from the Hospital. Tax funds collected by the Hospital for a portion of the cost of the Center's non-physician personnel result in credits of \$186,442 at June 30, 2015 (\$158,299 at June 30, 2014) being passed through to the Center. These credits are recorded as Hospital support on the Statements of Activities and Changes in Net Assets. These credits represent non-cash transactions for purposes of the Statements of Cash Flows. The Hospital purchases all mental health physician services necessary for its inpatient operation from the Center.

During the year ended June 30, 2015, the Center received additional operating cash of \$ - 0 - (\$50,000 for 2014) from the Hospital to fund the operations of the Center. At June 30, 2015, the Center had a net income of \$135,826 (net income of \$63,264 at June 30, 2014) without the Hospital's funding which was recorded as Hospital deficit funding on the Statement of Activities and Changes in Net Assets. Any unused operating cash or additional deficit funding is included in or reduced from the amount owed by the Center to the Hospital.

The Center incurred losses each year between 1995 and 2007 and between 2010 and 2012. In each of the years the Hospital funded the losses of the Center. The survival of the Center remains dependent on its ability to generate profits in the future years, and the cooperation of Cass County Memorial Hospital. Should the Hospital decide to discontinue its support, the Center's survival would be in serious doubt.

Below is a summary of the activity and year end amounts due under the agreement with the Hospital:

	June 30,	
	2015	2014
Mental Health Center revenue from Hospital for physicians	\$ <u>213,674</u>	\$ <u>267,174</u>
Support and net deficit funding	\$ <u>50,616</u>	\$ <u>95,035</u>
Mental Health Center expense for personnel costs	\$ <u>1,791,075</u>	\$ <u>1,396,100</u>
Mental Health Center expense for insurance	\$ <u>14,545</u>	\$ <u>14,188</u>
Owed by Mental Health Center to Hospital	\$ <u>1,151,524</u>	\$ <u>882,783</u>

In addition, during the year ended June 30, 2015, the Center and the Hospital reached an agreement for the Center to sell its building to the Hospital in exchange for \$240,000 of prepaid rent. The Center will recognize rent expense at \$4,300/month (\$30,100 in 2015) through July, 2019.

SOUTHWEST IOWA MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2015 and 2014

NOTE E - COMMITMENT, RELATED PARTY, AND ECONOMIC DEPENDENCY -
Continued

The financial arrangements for the 2015-2016 year are based on the budgeted needs of each entity. The Hospital has agreed to pay the Mental Health Center approximately \$270,000 for physician services; and, the Center agreed to pay the Hospital approximately \$1,836,000 for non-physician services. Future financial arrangements will be determined annually based on a review of actual operations and needs.

NOTE F - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

	2015	2014
Client Services	\$ 2,134,484	\$ 1,760,187
Management and General	157,898	130,575
	\$ 2,292,382	\$ 1,890,762

NOTE G - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Center, except for those covered by another retirement system. Employees of the Center are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided by general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

SOUTHWEST IOWA MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2015 and 2014

NOTE G - PENSION PLAN - Continued

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95% of pay and the Center contributed 8.93% for a total rate of 14.88%.

SOUTHWEST IOWA MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2015 and 2014

NOTE G - PENSION PLAN - Continued

Net Pension Liabilities, Pension Expense, and Net Changes in Unrecognized Pension Costs -
At June 30, 2015, the Center reported a liability of \$169,748 for its proportionate share of the net pension liability. The Center net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date, less the Center's contribution to IPERS for the year ended June 30, 2015 of \$23,115. The Center's proportion of the net pension liability was based on the Center's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Center's proportion was 0.004194%, which was a decrease of 0.000953% from its proportion measured as of June 30, 2013. For the year ended June 30, 2015, the Center recognized pension expense of \$2,504. At June 30, 2015, the Center reported a net change in recognized pension costs:

Differences between expected and actual experience	\$(1,845)
Changes of assumptions	(7,491)
Net difference between projected and actual earnings on pension plan investments	64,737
Changes in proportion and differences between Center contributions and proportionate share of contributions	<u>43,760</u>
	<u>\$ 99,161</u>

Amounts reported as part of the net change in unrecognized pension costs will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2016	\$ 24,790
2017	24,790
2018	24,790
2019	<u>24,791</u>
	<u>\$ 99,161</u>

There were no non-employer contribution entities at IPERS.

SOUTHWEST IOWA MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2015 and 2014

NOTE G - PENSION PLAN - Continued

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00%
Salary increases (effective June 30, 2014)	4.00%, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50% per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

SOUTHWEST IOWA MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2015 and 2014

NOTE G - PENSION PLAN - Continued

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Center will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Center's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Center's proportionate share of the net pension liability	<u>\$ 320,734</u>	<u>\$ 146,633</u>	<u>\$ 42,300</u>

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan - At June 30, 2015, the Center reported payables to the defined benefit pension plan of \$ - 0 - for legally required employer contributions and \$ - 0 - for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE H - INCOME TAXES

The Center 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 Center does not believe it has any income derived from unrelated business activities. The Center 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 Center's federal Returns of Organization Exempt from Income Tax (Forms 990) are subject to examination by the IRS, generally for three years after they were filed. Management believes that returns prior to fiscal year 2012 are no longer subject to income tax examination.

SOUTHWEST IOWA MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2015 and 2014

NOTE I - CONTINGENCIES

Risk Management

The Center is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any asserted claims, therefore no related liability has been accrued. Southwest Iowa Mental Health Center is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage for the past three years.

Off-Balance Sheet Risk

The Center maintains its deposits at one bank in the area. At various times throughout the year and at year end, the deposits in the bank accounts exceeded insured deposit limits for one entity (by approximately \$334,000 at year end). Management of the Center has received no indication of any potential viability problems with the bank by the date of this report.

Subsequent Events

The Center has evaluated all subsequent events through October 26, 2015, the date the financial statements were available to be issued.

NOTE J - CONCENTRATION OF CREDIT RISK

The Center grants credit without collateral to its clients, most of whom are area residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2015 and 2014, was as follows:

	<u>2015</u>	<u>2014</u>
Medicare	11%	11%
Medicaid	35	32
Other third-party payors	28	28
Patients	<u>26</u>	<u>29</u>
	<u>100%</u>	<u>100%</u>

SOUTHWEST IOWA MENTAL HEALTH CENTER
Notes to Financial Statements
June 30, 2015 and 2014

NOTE K - ACCOUNTING CHANGE/RESTATEMENT

Financial Accounting Standards Board (FASB) Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans - an Amendment to FASB Statements No. 87, 88, 106 and 132 (R)*, was implemented during fiscal year 2015. Beginning net assets were restated to retroactively report the beginning net pension liability, as follows:

	<u>Net Position</u>
Net assets June 30, 2014, as previously reported	\$ 109,289
Net pension liability at June 30, 2014	<u>(266,405)</u>
Net assets July 1, 2014, as restated	<u>\$(157,116)</u>

* * *

SUPPLEMENTARY INFORMATION

SOUTHWEST IOWA MENTAL HEALTH CENTER
 Service Revenue - Client Fees
 Year ended June 30,

	2015			Not Restated 2014 Net
	Gross	Adjustments	Net	
3rd Party Insurance	\$ 532,595	\$ 337,018	\$ 195,577	\$ 384,238
Medicare	469,614	241,236	228,378	159,981
Title XIX	988,667	293,913	694,754	502,375
Case Management	229,056	--	229,056	398,178
Integrated Health Program	410,426	--	410,426	--
*Others	24,678	3,896	20,782	16,150
	<u>\$ 2,655,036</u>	<u>\$ 876,063</u>	<u>\$ 1,778,973</u>	<u>\$ 1,460,922</u>

* Includes consultation fees.

See Independent Auditor's Report.

SOUTHWEST IOWA MENTAL HEALTH CENTER
 Operating Expenses
 Year ended June 30,

	2015	Not Restated 2014
Program and Administrative Service Expenses:		
Professional staff salaries	\$ 249,844	\$ 272,733
Retirement benefits	140,811	132,348
Other employee benefits	347,010	285,635
Contracted support staff	276,398	260,352
Contracted professional staff	1,078,774	802,820
Behavioral health coverage	24,020	--
Professional fees	13,086	12,690
Operating supplies	28,459	17,694
Telephone	10,438	5,811
Postage	3,250	3,725
Utilities	3,109	8,429
Repairs and maintenance	11,308	14,484
Business insurance	2,132	2,100
Travel reimbursement	27,007	16,294
Conferences, conventions and meetings	6,929	8,074
Subscriptions	425	2,464
Organization dues	14,026	15,275
Rent	33,100	12,000
Public relations and miscellaneous	12,891	6,078
	2,283,017	1,879,006
Provision for Depreciation	9,365	11,756
Total Operating Expenses	\$ 2,292,382	\$ 1,890,762

See Independent Auditor's Report.

SOUTHWEST IOWA MENTAL HEALTH CENTER
Schedule of Gross Charges and Adjustments for Client Services
Year ended June 30, 2015

Client accounts receivable July 1, 2014		\$	370,591
Gross charges for client services	\$		2,655,036
Adjustments to client fees	(876,063)
Increase in allowance for doubtful accounts and contractual adjustments			130,500
Increase in cost report settlements	(<u>50,000)</u>
Total adjustments on client fees	(<u>795,563)</u>
Net charges for client services			1,859,473
Less: Payments received for client services			<u>(1,661,085)</u>
Client accounts receivable June 30, 2015		\$	<u>568,979</u>

See Independent Auditor's Report.

SOUTHWEST IOWA MENTAL HEALTH CENTER
 Clients Served - Distribution by County
 Year ended June 30,

<u>County</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cass	1,075	1,077	811	807
Audubon	185	151	123	117
Shelby	168	170	107	81
Montgomery	82	77	78	75
Pottawattamie	94	80	112	89
Other	<u>159</u>	<u>442</u>	<u>396</u>	<u>211</u>
	<u>1,763</u>	<u>1,997</u>	<u>1,627</u>	<u>1,380</u>

<u>Year Ended June 30,</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Center operating expense per client served:	<u>\$ 1,301</u>	<u>\$ 947</u>	<u>\$ 1,119</u>	<u>\$ 1,235</u>
Net fees from clients per client served:	<u>\$ 1,009</u>	<u>\$ 732</u>	<u>\$ 832</u>	<u>\$ 828</u>

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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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

To the Board of Directors
Southwest Iowa Mental Health Center
Atlantic, Iowa

We have audited, in accordance with the 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, the financial statements of Southwest Iowa Mental Health Center, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Southwest Iowa Mental Health Center's basic financial statements and have issued our report thereon dated October 26, 2015.

Internal Control Over Financial Reporting

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

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 15-I-A.

To the Board of Directors
Southwest Iowa Mental Health Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Southwest Iowa Mental Health Center's financial statements are free from 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 that are required to be reported under Government Auditing Standards.

Response to Findings

Southwest Iowa Mental Health Center's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Southwest Iowa Mental Health Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Atlantic, Iowa
October 26, 2015

SOUTHWEST IOWA MENTAL HEALTH CENTER
Schedule of Findings and Responses
Year ended June 30, 2015

PART I: REPORTABLE CONDITIONS

15-I-A Segregation of Duties: One person has the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Agency. However, this is not uncommon for businesses of this size.

Recommendation: We recognize that it may not be economically feasible for the Agency to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Agency to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *