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BLACK HAWK - GRUNDY MENTAL  
HEALTH CENTER, INC.  
WATERLOO, IOWA

INDEPENDENT AUDITORS' REPORT  
FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 and 2003

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 **CARNEY,  
ALEXANDER,  
MAROLD & CO., L.L.P.**  
Certified Public Accountants

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.  
WATERLOO, IOWA

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BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.  
WATERLOO, IOWA

Board of Directors  
June 30, 2004

Name	Title	Term Expires
Patrick Clancy	Member	1/1/2005
Russell Curtis	Chairperson	1/1/2005
Patty Esch	Treasurer	1/1/2005
Linda Fobian	Member	1/1/2005
Lorraine Griffie	Member	1/1/2005
John Hawse	Member	1/1/2005
Wendy Henderson	Member	1/1/2005
Steve Jordan	Member	1/1/2007
Barbara Leestamper	Supervisor	
Corey Lorenzen	Member	1/1/2007
Shirley Meester	Member	1/1/2005
Bryant Mutchler	Member	1/1/2007
Lori Niebuhr	Secretary	1/1/2005
Jane Teaford	Vice-Chairperson	1/1/2005
Elmer Willms	Supervisor	

Independent Auditors' Report

Board of Directors  
Black Hawk - Grundy Mental Health Center, Inc.  
Waterloo, Iowa

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of Black Hawk - Grundy Mental Health Center, Inc., (a nonprofit organization) as of and for the years ended June 30, 2004 and 2003. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform our audits 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 audits provide 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 Black Hawk - Grundy Mental Health Center, Inc., at June 30, 2004 and 2003, and the results of its operations, 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.

In accordance with Government Auditing Standards, we have also issued our report dated September 1, 2004 on our consideration of Black Hawk - Grundy Mental Health Center, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

In connection with our audits, nothing came to our attention that caused us to believe that Black Hawk-Grundy Mental Health Center, Inc. was not in compliance with any terms, covenants, provisions, or conditions of the Black Hawk County, Iowa Revenue Bonds Series 2000 (The Black Hawk-Grundy Mental Health Center, Inc. project) dated June 20, 2000, except for the following covenant violation: for the year ending June 30, 2003, violation of the provision in Section 7.9(a), whereby the tangible net worth was \$1,447,513, which is less than the \$1,500,000 specified.

The Center contacted the bondholders and received a waiver of the default caused by the covenant violation. Further, without the necessity of a special audit, nothing came to our attention that caused us to believe that Black Hawk-Grundy Mental Health Center, Inc. was in default in the performance of any other covenant or condition imposed or assumed by it in the above bond issue, except for the covenant violations noted above. However, it should be noted that our audits were not directed primarily toward obtaining knowledge of such noncompliance.

September 1, 2004

*Cooney, Alexander, Harold G., L.L.P.*

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.  
WATERLOO, IOWA

Exhibit A

Statements of Financial Position  
As of June 30, 2004 and 2003

	2004	2003
<b>- ASSETS -</b>		
Cash and cash equivalents	\$ 56,001	\$ 50,323
Investments	975,719	927,976
Accounts receivable, patient services, less allowance for uncollectible accounts of \$88,236 for 2004 and \$57,136 for 2003	349,655	188,401
Accounts receivable-other	33,995	32,887
Grant income receivable	54,650	49,768
Inventory	1,308	1,717
Deposits	2,885	12,585
Prepaid expense	35,219	33,497
Prepaid bond costs	8,778	11,286
Compensation deferral fund	438,372	508,713
	<u>1,956,582</u>	<u>1,817,153</u>
Property and Equipment:		
Building	1,139,904	1,139,904
Land improvements	55,982	55,982
Equipment	486,581	460,174
	<u>1,682,467</u>	<u>1,656,060</u>
Less accumulated depreciation	551,782	481,176
	<u>1,130,685</u>	<u>1,174,884</u>
 Total Assets	 <u>\$ 3,087,267</u>	 <u>\$ 2,992,037</u>
 <b>- LIABILITIES -</b>		
Accounts payable	\$ 85,055	\$ 43,747
Payroll withholdings payable	4,899	5,187
Accrued compensated absences	151,397	131,115
Deferred compensation	580,316	599,636
Bonds payable	738,138	764,839
	<u>1,559,805</u>	<u>1,544,524</u>
 Total Liabilities	 <u>1,559,805</u>	 <u>1,544,524</u>
 <b>- NET ASSETS -</b>		
Unrestricted	1,372,792	1,294,994
Temporarily restricted	154,670	152,519
	<u>1,527,462</u>	<u>1,447,513</u>
 Total Net Assets	 <u>1,527,462</u>	 <u>1,447,513</u>
 Total Liabilities and Net Assets	 <u>\$ 3,087,267</u>	 <u>\$ 2,992,037</u>

The accompanying notes are an integral part of this statement.

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.  
WATERLOO, IOWA

Exhibit B

Statements of Activities  
For the Years Ended June 30, 2004 and 2003

	2004			2003		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Public Support and Revenue:</b>						
Public Support:						
Black Hawk County	\$ 1,033,095	\$ -	\$ 1,033,095	\$ 1,068,177	\$ -	\$ 1,068,177
Grundy County	41,952	-	41,952	41,398	-	41,398
Other counties	46,774	-	46,774	19,385	-	19,385
Federal and State grants	367,613	69,289	436,902	291,084	62,791	353,875
Gifts and bequests	4,188	-	4,188	4,719	-	4,719
	<u>1,493,622</u>	<u>69,289</u>	<u>1,562,911</u>	<u>1,424,763</u>	<u>62,791</u>	<u>1,487,554</u>
Revenues:						
Fees from patients	1,036,796	-	1,036,796	828,231	-	828,231
Interest and dividends on investments	68,015	-	68,015	30,352	-	30,352
Realized gain (loss) on investment	(10,489)	-	(10,489)	14,383	-	14,383
Net unrealized gain on investments	28,379	-	28,379	9,886	-	9,886
Loss on disposal of fixed assets due to site closure	-	-	-	(52,830)	-	(52,830)
Other income	5,140	-	5,140	17,067	-	17,067
	<u>1,127,841</u>	<u>-</u>	<u>1,127,841</u>	<u>847,089</u>	<u>-</u>	<u>847,089</u>
Net Assets Released From Restrictions:						
Satisfaction of program restrictions	67,138	(67,138)	-	70,366	(70,366)	-
	<u>2,688,601</u>	<u>2,151</u>	<u>2,690,752</u>	<u>2,342,218</u>	<u>(7,575)</u>	<u>2,334,643</u>
Expenses:						
Program services	2,185,679	-	2,185,679	1,955,129	-	1,955,129
Support services	422,738	-	422,738	408,767	-	408,767
Fundraising	2,386	-	2,386	2,891	-	2,891
	<u>2,610,803</u>	<u>-</u>	<u>2,610,803</u>	<u>2,366,787</u>	<u>-</u>	<u>2,366,787</u>
Increase (Decrease) in Net Assets	77,798	2,151	79,949	(24,569)	(7,575)	(32,144)
Net Assets, Beginning of Year	1,294,994	152,519	1,447,513	1,319,563	160,094	1,479,657
Net Assets, End of Year	<u>\$ 1,372,792</u>	<u>\$ 154,670</u>	<u>\$ 1,527,462</u>	<u>\$ 1,294,994</u>	<u>\$ 152,519</u>	<u>\$ 1,447,513</u>

The accompanying notes are an integral part of this statement.

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.  
WATERLOO, IOWA

Exhibit C

Statements of Functional Expenses  
For the Years Ended June 30, 2004 and 2003

	2004				2003			
	Program Services	Support Services, Management and General	Fundraising	Total	Program Services	Support Services, Management and General	Fundraising	Total
Salaries	\$ 1,410,773	\$ 271,767	\$ 781	\$ 1,683,321	\$ 1,204,224	\$ 239,422	\$ 978	\$ 1,444,624
Payroll taxes	94,039	20,790	60	114,889	83,333	18,316	75	101,724
Annuity	53,021	12,377	30	65,428	47,419	12,020	49	59,488
Deferred compensation	47,426	3,595	-	51,021	4,701	1,191	5	5,897
Health insurance	75,650	22,800	50	98,500	72,424	19,860	48	92,332
Life insurance	8,871	2,651	24	11,546	8,259	2,323	33	10,615
Continuing education	8,111	1,028	11	9,150	5,829	1,667	10	7,506
Other personnel	13,987	1,060	-	15,047	18,255	4,655	-	22,910
<b>Total Salaries and Related Expenses</b>	<b>1,711,878</b>	<b>336,068</b>	<b>956</b>	<b>2,048,902</b>	<b>1,444,444</b>	<b>299,454</b>	<b>1,198</b>	<b>1,745,096</b>
Insurance	38,758	4,306	-	43,064	42,310	4,701	-	47,011
Medical consultants	129,960	-	-	129,960	142,584	-	-	142,584
Contract labor	42,744	2,992	-	45,736	46,769	2,992	-	49,761
Professional supplies	1,208	-	-	1,208	1,239	-	-	1,239
Medication	3,630	-	-	3,630	3,989	-	-	3,989
Dues	-	3,015	298	3,313	-	2,838	291	3,129
Program supplies	55,470	-	-	55,470	73,346	-	-	73,346
Office supplies	31,011	7,753	-	38,764	29,590	7,397	-	36,987
Equipment maintenance	22,938	5,734	-	28,672	23,780	5,945	-	29,725
Microfilming	283	-	-	283	1,838	-	-	1,838
Telephone	12,960	3,240	-	16,200	12,739	3,185	-	15,924
Equipment lease and rental	9,244	2,311	-	11,555	7,498	1,874	-	9,372
Janitor supplies	-	-	-	-	36	9	-	45
Building maintenance	6,430	1,607	-	8,037	5,564	1,391	-	6,955
Utilities	7,931	1,983	-	9,914	7,578	1,895	-	9,473
Lease of land and storage	1,088	272	-	1,360	352	88	-	440
Subscriptions	137	-	-	137	219	-	-	219
Publicity and promotion	-	3,134	-	3,134	-	11,650	-	11,650
Travel expense	18,274	460	-	18,734	12,800	460	-	13,260
Attorney fees	-	3,484	-	3,484	-	2,252	-	2,252
Accounting fees	-	7,900	-	7,900	-	7,440	-	7,440
Bad debts	-	10,470	-	10,470	-	30,307	-	30,307
Interest expense	33,244	8,311	-	41,555	34,299	8,575	-	42,874
Other	-	5,075	1,132	6,207	-	46	1,402	1,448
	<b>415,310</b>	<b>72,047</b>	<b>1,430</b>	<b>488,787</b>	<b>446,530</b>	<b>93,045</b>	<b>1,693</b>	<b>541,268</b>
<b>Total Expenses Before Depreciation and Amortization</b>	<b>2,127,188</b>	<b>408,115</b>	<b>2,386</b>	<b>2,537,689</b>	<b>1,890,974</b>	<b>392,499</b>	<b>2,891</b>	<b>2,286,364</b>
Depreciation and amortization	58,491	14,623	-	73,114	64,155	16,268	-	80,423
<b>Total Expenses</b>	<b>\$ 2,185,679</b>	<b>\$ 422,738</b>	<b>\$ 2,386</b>	<b>\$ 2,610,803</b>	<b>\$ 1,955,129</b>	<b>\$ 408,767</b>	<b>\$ 2,891</b>	<b>\$ 2,366,787</b>

The accompanying notes are an integral part of this statement.

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.  
WATERLOO, IOWA

Exhibit D

Statements of Cash Flows  
For the Years Ended June 30, 2004 and 2003

	2004	2003
Cash Flows From Operating Activities:		
Increase (decrease) in net assets	\$ 79,949	\$ (32,144)
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation of buildings and equipment	70,606	77,915
Amortization of prepaid bond costs	2,508	2,508
Unrealized gain on investments	(28,379)	(9,886)
Realized (gain) loss on investments	10,489	(14,383)
Loss on disposal of fixed assets due to site closure	-	52,830
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(152,662)	(34,039)
Grant income receivable	(4,882)	15,895
Inventory	409	(1,432)
Prepaid expense	(1,722)	7,143
Increase (decrease) in:		
Accounts payable	41,308	31,202
Accrued payroll and withholdings	19,994	2,228
Compensation deferral fund	51,021	(5,197)
Net Cash Provided by Operating Activities	<u>88,639</u>	<u>92,640</u>
Cash Flows from Investing Activities:		
Purchase of investments	(504,982)	(663,191)
Proceeds from sale of investments	475,129	648,339
Purchase of fixed assets	(26,407)	(31,833)
Proceeds from sale of fixed assets	-	18,667
Net Cash Used by Investing Activities	<u>(56,260)</u>	<u>(28,018)</u>
Cash Flows from Financing Activities:		
Payments on bonds payable	(26,701)	(25,382)
Net Cash Used by Financing Activities	<u>(26,701)</u>	<u>(25,382)</u>
Net Change in Cash and Cash Equivalents	5,678	39,240
Cash and Cash Equivalents at Beginning of Year	50,323	11,083
Cash and Cash Equivalents at End of Year	<u>\$ 56,001</u>	<u>\$ 50,323</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 41,555	\$ 42,874
Income tax	-	-

The accompanying notes are an integral part of this statement.

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.  
WATERLOO, IOWA

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Center is a non-profit corporation 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 primarily to residents of Black Hawk and Grundy Counties.

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.

B. Basis of Accounting

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

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred, if measurable.

Purchases of fixed assets providing future benefits are capitalized and depreciated over the estimated useful lives.

C. Basis of Presentation

The Center has adopted SFAS No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, 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. As permitted by the statement, the Center does not use fund accounting.

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 Center and changes therein are classified and reported as follows:

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

Temporarily restricted net assets - Net assets whose use by the Center has been limited by donor-imposed restrictions, such as specified dates and/or purposes.

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.  
WATERLOO, IOWA

Notes to Financial Statements

(1) Summary of Significant Accounting Policies (continued)

C. Basis of Presentation (continued)

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.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheets:

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

Receivables - Receivables are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual patient balances. Accounts are determined to be past due based on how recently payments have been received.

Inventories - Inventories representing supplies of medications on hand at year end are valued at cost using the first-in first-out method.

Property and Equipment - Property and equipment is stated at cost if purchased or fair market value at the date of the gift if donated. Depreciation is computed by the straight-line method over the estimated useful lives of 5 - 40 years. No interest costs were capitalized since there were no qualifying assets.

Compensated Absences - Center employees accumulate a limited amount of earned but unused vacation, personal days and sick leave benefits payable to employees. Amounts representing an estimate of the cost of compensated absences are recorded as liabilities and have been computed based on rates of pay in effect at June 30, 2004.

E. Net Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, 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.

F. Contributions

Contributions to the Center which are received from the public are considered available for unrestricted use, unless specifically restricted by the donor. No amounts are reflected in these financial statements for donated services rendered for the Center since no objective basis is available to measure the value of such services.

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.  
WATERLOO, IOWA

Notes to Financial Statements

(1) Summary of Significant Accounting Policies (continued)

G. 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 certain reported amounts and disclosures. Actual results could differ from those estimates.

(2) Investments

Unrestricted - The investments at June 30, 2004 and 2003 consist of mutual funds and high grade commercial notes carried at their published fair market value of \$975,719 and \$927,976, respectively. Realized and unrealized gains and losses on investments are reflected on the statements of activities. Following is a schedule showing the change in fair value for investments for 2004 and 2003.

	2004			2003		
	Cost	Market Value	Unrealized Appreciation (Depreciation)	Cost	Market Value	Unrealized Appreciation (Depreciation)
Unrestricted:						
Mutual Funds:						
Stock Funds	\$ 318,941	\$ 305,755	\$ (13,186)	\$ 285,622	\$ 226,732	\$ (58,890)
Bond Funds	632,687	631,340	(1,347)	667,931	683,908	15,977
Money Market Funds	38,624	38,624	-	17,336	17,336	-
	<u>\$ 990,252</u>	<u>\$ 975,719</u>	<u>\$ (14,533)</u>	<u>\$ 970,889</u>	<u>\$ 927,976</u>	<u>\$ (42,913)</u>

(3) Property and Equipment

A summary of changes in property and equipment is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Buildings	\$ 1,139,904	\$ -	\$ -	\$ 1,139,904
Land improvements	55,982	-	-	55,982
Equipment	460,174	26,407	-	486,581
Total	<u>1,656,060</u>	<u>26,407</u>	<u>-</u>	<u>1,682,467</u>
Less: Accumulated Depreciation	481,176	70,606	-	551,782
Net Book Value	<u>\$ 1,174,884</u>	<u>\$ (44,199)</u>	<u>\$ -</u>	<u>\$ 1,130,685</u>

Depreciation expense for 2004 and 2003, respectively, was \$70,606 and \$77,915.

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.  
WATERLOO, IOWA

Notes to Financial Statements

(4) Leases

The land upon which the Center's building stands was leased from Covenant Medical Center for \$120 per year commencing June 2, 1965, and for twenty years thereafter. In June, 2000, the lease was extended to September 30, 2006. The lease has and will automatically continue thereafter upon the same terms and conditions, for five successive terms of ten years each, unless the lessee gives the lessor written notice of its intention to terminate at least six months prior to termination. Lessee shall, upon expiration of this lease, surrender possession of the leased premises, and if lessee shall hold over, it shall be considered a tenant under a month to month tenancy.

The Center is also obligated under two noncancelable leases for office equipment. The leases have original terms from four to five years and are being treated as operating leases.

Rent expense paid on all leases during the year ended June 30, 2004 and 2003, was \$12,915 and \$9,812, respectively. Included in expense are contingent rentals based on measured usage of some of the leased equipment.

The future minimum lease payments for the next five years required under the three leases mentioned above are as follows:

Years ending June 30:	
2005	\$ 10,640
2006	10,098
2007	9,466
2008	2,359
2009	-

(5) Compensation Deferral

The Center had entered into agreements with its employees to remit portions of their earned compensation to an insurance carrier for the purpose of deferring personal income taxes until payment by the carrier to the employees. The fund must be in the name of the Center to prevent current taxation to the employees. Contributions to the fund ceased during April, 1994. In an effort to greatly reduce or eliminate the need for future contributions to the plan, the Center has invested a portion of the plan assets in a combination of single premium annuity and life insurance policies. The annuity proceeds were used to fund the insurance premiums through November, 2000. No additional contributions have been paid by the Center since that date.

The Center also entered into agreements with its employees to pay compensation upon retirement. The monthly deferred compensation payments will be made for ten years. Upon retirement, the employees can begin drawing the payments at age 60. The employee earns increased payments based on the number of years of service and the age upon retirement or separation of service. The liability recognized is based on the present value of the expected future payments.

The cash value of the deferred compensation fund was \$438,372 and \$508,713 at June 30, 2004 and 2003, respectively. Deferred compensation payments made to employees during the years ended June 30, 2004 and 2003 were \$11,093 and \$11,092, respectively. The deferred compensation liability of the Center to the employees was \$580,316 and \$599,636 at June 30, 2004 and 2003, respectively. The current portion of the deferred compensation liability at June 30, 2004 and 2003 was \$11,093 and \$11,093, respectively.

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.  
WATERLOO, IOWA

Notes to Financial Statements

(6) Annuities

The Center contributes 5.00 percent of each participant's base salary into a 403(b) Thrift Plan. A participant is defined as a full-time employee or an employee who works greater than one thousand hours in the preceding calendar year and has reached age twenty-one. The employee may elect also to contribute to the annuity plan within the limits prescribed by law. Upon termination of employment the Center's contributions are subject to the vesting schedule in the plan document based on the number of years of service. Employer contributions under the plan for the years ended June 30, 2004 and 2003 totaled \$65,428 and \$59,488, respectively.

(7) Bonds Payable

The addition to the facility was financed through a construction loan. The construction loan was refinanced upon completion of the addition through the issuance of tax-exempt bonds of \$826,320 in January, 2001.

The Center is required to make monthly payments of \$5,688 on the bonds based on a twenty-year amortization with a final balloon payment due December 20, 2007. The bonds have an interest rate of 5.43%. Interest expense for the years ended June 30, 2004 and 2003 was \$41,555 and \$42,874.

The bonds are secured by a first mortgage lien on the facility and a security interest in the equipment, revenues and accounts of the Center. The bonds contain covenants requiring the Center to maintain certain financial ratios and levels for investments, cash flows, and net assets. The Center has requested a waiver from the bondholders when covenant defaults have occurred. At June 30, 2004 and 2003, bonds payable were \$738,138 and \$764,839.

As of June 30, 2004, the maturities of the bonds payable was as follows:

Years ending June 30:	
2005	\$ 28,887
2006	30,495
2007	32,193
2008	646,563
2009	-

(8) Financial Instruments and Credit Risk

The Center grants credit in the form of accounts receivable for services rendered. The accounts receivable are collectible from the individuals receiving service and in many cases third party payors such as insurance carriers. The Center received 40% and 46% of its total public support and revenue for the years ended June 30, 2004 and 2003 from Black Hawk and Grundy Counties.

(9) Related Party Transactions

The Center is related to Friends of the Black Hawk - Grundy Mental Health Center, Inc. through common Board members. This organization was formed to promote the Center and solicit contributions from the public for the benefit of the Center. There were no material transactions between the two organizations during the years ended June 30, 2004 and 2003.

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.  
WATERLOO, IOWA

Notes to Financial Statements

(10) Risk Management

Black Hawk - Grundy Mental Health Center, Inc. is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

(11) Reclassifications of Net Assets

Net assets were placed under temporary restrictions as follows:

	2004	2003
Funds placed under temporary restriction as required by grant stipulations	\$ 69,289	\$ 62,791
Funds released from temporary restriction due to satisfaction of program restrictions	<u>67,138</u>	<u>70,366</u>
Net assets placed under (released from) restriction	<u>\$ 2,151</u>	<u>\$ (7,575)</u>

Temporarily restricted net assets at June 30, 2004 and 2003 consist of cash and cash equivalents and investments of \$154,670 and \$152,519, respectively.

(12) Disposal of Fixed Assets Due to Site Closure

During the year ended June 30, 2003, the Center closed the site located at 907 Independence Avenue. All services were moved to the West 9th Street site except for the Drop-In Program, which was eliminated. The building at 907 Independence Avenue was originally acquired by a donation from Black Hawk County. The Center offered the building to Black Hawk County once the site was closed and the building was no longer needed. Black Hawk County paid \$16,000 to the Center to cover the depreciated value of capital improvements to the building. Various equipment from the site was also sold. A loss of \$52,830 was recognized on the disposal of the building and equipment for the year ended June 30, 2003.

Independent Auditors' Report on Compliance  
and on Internal Control Over Financial Reporting

To the Board of Directors  
Black Hawk - Grundy Mental Health Center, Inc.  
Waterloo, Iowa

We have audited the financial statements of Black Hawk - Grundy Mental Health Center, Inc. as of and for the year ended June 30, 2004, and have issued our report thereon dated September 1, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Black Hawk - Grundy Mental Health Center, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which would 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 that 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, 2004 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. Prior year statutory comments have been resolved.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered Black Hawk - Grundy Mental Health Center, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended for the information and use of the Black Hawk - Grundy Mental Health Center, Inc., and other parties to whom the Center may report. This report is not intended to be and should not be used by anyone other than those specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Black Hawk - Grundy Mental Health Center, Inc. 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.

*Carney, Alexander, Ruedel & Co., L.L.P.*

September 1, 2004

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.  
WATERLOO, IOWA

Schedule of Findings

Year Ended June 30, 2004

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

No material weaknesses in internal control over financial reporting were noted.

Other Findings Related to Statutory Requirements and Other Matters:

No matters were noted.