

CROSSROADS MENTAL HEALTH CENTER
CRESTON, IOWA

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS
ADDITIONAL AUDITOR'S REPORT

Years Ended June 30, 2004 and 2003

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Crossroads Mental Health Center
1003 Cottonwood Road
Creston, IA

We have audited the accompanying statements of financial position of Crossroads Mental Health Center (a nonprofit organization) as of June 30, 2004 and 2003, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, 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 the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Crossroads Mental Health Center as of June 30, 2004 and 2003, the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated September 13, 2004, on our consideration of Crossroads Mental Health Center'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.

Draper, Snodgrass, Mikkelsen & Co., P.C.

September 13, 2004

CROSSROADS MENTAL HEALTH CENTER
STATEMENT OF FINANCIAL POSITION
June 30, 2004 and 2003

ASSETS	<u>2004</u>	<u>2003</u>
CURRENT ASSETS		
Cash, including certificates of deposit (2004 \$10,489; 2003 \$10,352)	\$ 156,756	\$ 96,477
Accounts receivable, client fees, net of allowance for doubtful accounts and billing adjustments (2004 \$28,763; 2003 \$33,626)	64,021	74,845
Accounts receivable, other	2,794	11,207
Flex plan receivable	1,573	-
Prepaid expenses	5,529	4,001
Total current assets	<u>\$ 230,673</u>	<u>\$ 186,530</u>
 PROPERTY AND EQUIPMENT, at cost		
Building	\$ 441,960	\$ 441,960
Furniture and equipment	132,417	122,399
Land	15,000	15,000
	<u>\$ 589,377</u>	<u>\$ 579,359</u>
Less accumulated depreciation	(231,915)	(211,729)
Net property and equipment	<u>\$ 357,462</u>	<u>\$ 367,630</u>
 OTHER ASSETS		
Restricted cash	<u>\$ 21,216</u>	<u>\$ 21,216</u>
 Total assets	 <u><u>\$ 609,351</u></u>	 <u><u>\$ 575,376</u></u>

The Notes to Financial Statements are an integral part of this statement.

LIABILITIES AND NET ASSETS	<u>2004</u>	<u>2003</u>
CURRENT LIABILITIES		
Accounts payable	\$ 1,436	\$ 1,301
Accrued vacation pay	43,120	47,372
Accrued interest payable	750	750
Current portion long-term debt	4,950	4,707
Total current liabilities	<u>\$ 50,256</u>	<u>\$ 54,130</u>
LONG-TERM LIABILITIES		
Note payable - Farmers Home Administration	\$ 327,661	\$ 332,332
Less current portion	(4,950)	(4,707)
Total long-term liabilities	<u>\$ 322,711</u>	<u>\$ 327,625</u>
Total liabilities	<u>\$ 372,967</u>	<u>\$ 381,755</u>
NET ASSETS		
Unrestricted net assets		
Designated for unemployment compensation	\$ 20,716	\$ 20,716
Designated for capital expenditures	5,597	3,740
Undesignated	188,855	147,949
Unrestricted net assets	\$ 215,168	\$ 172,405
Temporarily restricted net assets		
Loan reserve account	<u>21,216</u>	<u>21,216</u>
Total net assets	<u>\$ 236,384</u>	<u>\$ 193,621</u>
Total liabilities and net assets	<u>\$ 609,351</u>	<u>\$ 575,376</u>

CROSSROADS MENTAL HEALTH CENTER
STATEMENT OF ACTIVITIES
Year Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
County funding grants	\$ 348,695	\$ 331,525
Client fees:		
Mental health	279,719	282,414
Action Now	62,799	76,546
IDSA, Action Now	250,957	235,396
Consultation	21,279	26,737
Federal block grant	32,612	30,567
Other income		
Mental health	22,009	36,179
Action Now	14,559	18,634
	<u>\$ 1,032,629</u>	<u>\$ 1,037,998</u>
Total support and revenue		
EXPENSES		
Program services		
Mental health	\$ 451,997	\$ 491,365
Action Now	177,224	172,168
Support services		
Mental health	239,593	234,630
Action Now	121,052	118,038
	<u>\$ 989,866</u>	<u>\$ 1,016,201</u>
Total expenses		
Increase in unrestricted net assets	\$ 42,763	\$ 21,797
NET ASSETS AT BEGINNING OF YEAR	<u>193,621</u>	<u>171,824</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 236,384</u></u>	<u><u>\$ 193,621</u></u>

The Notes to Financial Statements are an integral part of this statement.

CROSSROADS MENTAL HEALTH CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2004

	PROGRAM SERVICES			SUPPORT SERVICES		
	Mental Health	Action NOW	Total	Mental Health	Action NOW	Total
EXPENSES						
Salaries	\$ 317,154	\$ 107,185	\$ 424,339	\$ 164,298	\$ 77,427	\$ 241,725
Payroll tax	20,311	7,472	27,783	13,543	6,108	19,651
Work comp insurance	1,428	534	1,962	952	436	1,388
Fringe benefits	27,781	16,963	44,744	18,520	13,879	32,399
IPERS	16,654	5,835	22,489	11,103	4,774	15,877
Continuing education	2,834	2,447	5,281	945	816	1,761
Psychiatric services	-	-	-	-	-	-
Accounting and audit	-	-	-	4,908	2,305	7,213
Advertising	4,748	3,164	7,912	529	353	882
Community support	3,249	-	3,249	-	-	-
Program material	565	105	670	-	-	-
Computer expense	1,113	738	1,851	3,338	2,213	5,551
Equipment repairs	566	371	937	1,697	1,114	2,811
Insurance	8,580	3,312	11,892	2,860	1,104	3,964
Interest	8,933	3,476	12,409	2,978	1,159	4,137
Miscellaneous	1,181	308	1,489	394	103	497
Office	-	-	-	3,968	3,724	7,692
Postage	-	-	-	1,555	1,020	2,575
Dues	1,469	119	1,588	490	40	530
Psychiatric testing	1,742	62	1,804	-	-	-
Rent	3,915	2,610	6,525	1,305	870	2,175
Telephone	4,459	3,241	7,700	235	171	406
Travel	8,959	11,638	20,597	472	613	1,085
Grounds maintenance	1,354	884	2,238	451	295	746
Depreciation	11,051	4,089	15,140	3,684	1,363	5,047
Janitorial	1,669	1,112	2,781	556	371	927
Utilities	2,282	1,521	3,803	761	507	1,268
Child care	-	38	38	-	-	-
Legal fees	-	-	-	51	287	338
Total expense	<u>\$ 451,997</u>	<u>\$ 177,224</u>	<u>\$ 629,221</u>	<u>\$ 239,593</u>	<u>\$ 121,052</u>	<u>\$ 360,645</u>

The Notes to Financial Statements are an integral part of this statement.

CROSSROADS MENTAL HEALTH CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2003

	PROGRAM SERVICES			SUPPORT SERVICES		
	Mental Health	Action NOW	Total	Mental Health	Action NOW	Total
EXPENSES						
Salaries	\$ 236,797	\$ 89,437	\$ 326,234	\$ 157,783	\$ 74,115	\$ 231,898
Payroll tax	20,126	6,991	27,117	13,417	5,721	19,138
Work comp insurance	971	348	1,319	648	284	932
Fringe benefits	31,992	19,551	51,543	21,327	15,994	37,321
IPERS	12,110	4,125	16,235	8,074	3,375	11,449
Continuing education	3,194	1,564	4,758	1,065	522	1,587
Psychiatric services	114,782	12,753	127,535	-	-	-
Accounting and audit	-	-	-	4,932	2,205	7,137
Advertising	4,515	3,425	7,940	-	-	-
Community support	2,471	-	2,471	-	-	-
Program material	1,576	42	1,618	-	-	-
Computer expense	1,207	756	1,963	3,620	2,267	5,887
Equipment repairs	576	384	960	1,727	1,152	2,879
Insurance	7,454	2,766	10,220	2,485	922	3,407
Interest	9,049	3,519	12,568	3,016	1,173	4,189
Miscellaneous	595	227	822	198	76	274
Office	-	-	-	4,819	4,023	8,842
Postage	-	-	-	1,565	1,028	2,593
Dues	1,853	695	2,548	618	232	850
Psychiatric testing	194	197	391	-	-	-
Rent	4,118	2,745	6,863	1,373	915	2,288
Telephone	4,646	3,210	7,856	245	169	414
Travel	12,231	9,424	21,655	644	496	1,140
Grounds maintenance	2,363	1,575	3,938	788	525	1,313
Depreciation	14,527	5,649	20,176	4,842	1,883	6,725
Janitorial	1,730	1,154	2,884	577	385	962
Utilities	2,288	1,521	3,809	763	507	1,270
Child care	-	110	110	-	-	-
Legal fees	-	-	-	104	69	173
Total expense	<u>\$ 491,365</u>	<u>\$ 172,168</u>	<u>\$ 663,533</u>	<u>\$ 234,630</u>	<u>\$ 118,038</u>	<u>\$ 352,668</u>

The Notes to Financial Statements are an integral part of this statement.

CROSSROADS MENTAL HEALTH CENTER
STATEMENT OF CASH FLOWS
Year Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 42,763	\$ 21,797
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	20,186	26,901
(Increase) decrease in operating assets:		
Accounts receivable	19,237	(5,700)
Flex plan receivable	(1,573)	-
Prepaid expenses	(1,528)	179
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	<u>(4,117)</u>	<u>(3,941)</u>
Net cash provided by operating activities	\$ 74,968	\$ 39,236
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(10,018)	(994)
Transfer from reserve account	-	952
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on long term debt	<u>(4,671)</u>	<u>(8,679)</u>
NET INCREASE IN CASH	\$ 60,279	\$ 30,515
CASH AT BEGINNING OF YEAR	<u>96,477</u>	<u>65,962</u>
CASH AT END OF YEAR	<u>\$ 156,756</u>	<u>\$ 96,477</u>
Supplemental disclosure of cash flow information:		
Cash paid during year for interest	<u>\$ 16,546</u>	<u>\$ 16,757</u>

The Notes to Financial Statements are an integral part of this statement.

CROSSROADS MENTAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

Note 1. Organization and Function

The Crossroads Mental Health Center was organized in 1975 under the Non-profit Corporation Act, Code of Iowa, 1973, Chapter 504A and is exempt from income taxes under IRS Code Section 501(c)(3).

The purposes of the Corporation are:

- To prevent mental and emotional disability;
- To provide evaluation of mental and emotional disabilities in children, adults and the community at large;
- To treat mental and emotional disabilities when they occur;
- To raise the level of mental hygiene and emotional health in the community;
- To serve as a resource to Physicians, Clergy, Educators, Attorneys, Law Enforcement and other Service Agencies, etc; and
- To provide leadership in community planning and education for mental health.

The Crossroads Mental Health Center is divided into two divisions as follows:

1. The Mental Health Division provides services for citizens with mental and emotional disabilities who reside in Adams, Clarke, Taylor and Union Counties. The counties provide funding grants in addition to revenues provided from Department of Human Services - State Block Grant and Title XIX and other third party and individual payors.
2. Action Now Chemical Dependence Treatment Services is the division of Crossroads Mental Health Center which provides alcohol and drug abuse treatment services in Adams, Clarke, Taylor, Ringgold, Decatur, and Union Counties.

Note 2. Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and include all material accounts receivable and payables and all significant liabilities.

CROSSROADS MENTAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

Note 2. Significant Accounting Policies (continued)

Financial Statement Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Organization 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.

Property and Depreciation

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterment are capitalized. When items of property or equipment is sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in revenue and expense.

Billing Adjustments and Uncollectible Accounts

The allowance for doubtful accounts is established to allow for estimated billing adjustments and uncollectible accounts.

Income Tax Status

Crossroads Mental Health Center is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, and is classified by the Internal Revenue Service as other than a private foundation.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk Arising From Cash Deposits in Excess of Insured Limits

The Company had cash accounts in one bank totaling \$131,990 on June 30, 2004. The accounts are insured by the FDIC up to \$100,000.

CROSSROADS MENTAL HEALTH CENTER
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004 and 2003

Note 3. Operating Lease

Crossroads Mental Health Center entered into a 10 year lease agreement on January 1, 2002, for office space in Osceola. The lease calls for a payment of \$5,400 per year payable in equal monthly installments. Future payments will be adjusted for increases in property taxes and insurance. The lease expires December 31, 2011. The remaining commitment under the lease for the 7½ year period from July 1, 2004 to December 31, 2011 is \$40,500.

Note 4. Long-Term Debt

The Center's long-term debt consisted of the following:

	<u>6-30-2004</u>	<u>6-30-2003</u>
Mortgage payable to U.S. Department of Agriculture with an interest rate of 5%, to be repaid over 40 years with interest only the first two years. The note is secured by a mortgage on the property and building of the Center. Monthly payments of \$1,768 are to be made beginning May 15, 1996, with a maturity date of February 15, 2034.	\$ 327,661	\$ 332,332
Less: Current portion	<u>4,950</u>	<u>4,707</u>
Total long-term debt	<u>\$ 322,711</u>	<u>\$ 327,625</u>

Payments for the next five years and thereafter are as follows:

Year Ended June 30,	USDA		Total USDA
	Principal	Interest	
2005	\$ 4,948	\$ 16,268	\$ 21,216
2006	5,201	16,015	21,216
2007	5,467	15,749	21,216
2008	5,747	15,469	21,216
2009	6,041	15,175	21,216
Thereafter	<u>300,257</u>	<u>222,506</u>	<u>522,763</u>
Total	<u>\$ 327,661</u>	<u>\$ 301,182</u>	<u>\$ 628,843</u>

CROSSROADS MENTAL HEALTH CENTER
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004 and 2003

Note 5. Employee Benefit Plan & Retirement Benefits

The Center provides full time employees with monies equal to a percentage of their gross salary to purchase health insurance, disability insurance, life insurance and/or payments into a tax sheltered annuity. Under the plan, the Center made contributions to the plan as follows:

	<u>6-30-2004</u>	<u>6-30-2003</u>
Tax sheltered annuities	\$ 34,192	\$ 42,419
Other benefits	<u>42,951</u>	<u>46,449</u>
Total	<u>\$ 77,143</u>	<u>\$ 88,868</u>

The Company contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. Plan members are required to contribute 3.70% of their annual salary and the Company is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Company's contribution to IPERS for the year ended June 30, 2004 was \$38,366.

Note 6. Restricted Cash

The restricted cash balance of \$21,216 on June 30, 2004 and 2003, is established to comply with the mortgage loan agreement with the Farmers Home Administration. With approval of Farmers Home Administration, the funds may be withdrawn for repairs or improvements to the facility.

Note 7. Contingencies

The Center maintains a self-insured plan for the coverage of unemployment compensation claims. An estimated amount of \$20,716 has been designated as an unrestricted net asset for future unemployment claims. No claims were paid during the years ended June 30, 2004 and 2003.

SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors
Crossroads Mental Health Center
P.O. Box 166
Creston, IA

We have audited the financial statements of Crossroads Mental Health Center as of and for the year ended June 30, 2004, and have issued our report thereon dated September 13, 2004. 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 Controller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Crossroads Mental Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Crossroads Mental Health Center'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.

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 in a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Crossroads Mental Health Center 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 these specific parties.

Draper, Snodgrass, Mikkelsen & Co., P.C.

September 13, 2004