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

INDEPENDENT AUDITORS' REPORT  
FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2005 and 2004

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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, 2005

Name	Title	Term Expires
Charles Baker	Supervisor	
Patrick Clancy	Treasurer	1/1/2008
Steven Eilers	Member	1/1/2008
Patty Esch	Vice-Chairperson	1/1/2008
Linda Fobian	Member	1/1/2007
Kyle Henderson	Member	1/1/2008
Wendy Henderson	Secretary	1/1/2008
Cathy Hopkins	Member	1/1/2008
Steve Jordan	Member	1/1/2007
Corey Lorenzen	Member	1/1/2007
Bryant Mutchler	Member	1/1/2007
Lori Byers	Chairperson	1/1/2008
Lynn Smith	Member	1/1/2008



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### 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, 2005 and 2004. 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, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform 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, 2005 and 2004, 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.

As discussed in Note 12 to the financial statements, the previously reported accounts receivable, patient services as of June 30, 2004 was determined to be overstated. Accordingly, the June 30, 2004 financial statements have been restated and an adjustment has been made to net assets as of July 1, 2004 to correct the overstatement.

In accordance with Government Auditing Standards, we have also issued our report dated September 1, 2005 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 and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing 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 violations: for the year ending June 30, 2005, violation of the provision in Section 7.9(a), whereby the tangible net worth was \$1,175,352, which is less than the \$1,500,000 specified and violation of the provision in Section 7.9(b), whereby the ratio of cash flow to total debt service was -2.07:1, which is less than the 1.05:1 specified.

The Center contacted the bondholders and received a waiver of the default caused by the covenant violations. 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.

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

September 1, 2005

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

Exhibit A

Statements of Financial Position  
As of June 30, 2005 and 2004

	2005	2004
<b>- ASSETS -</b>		
Cash and cash equivalents	\$ 450	\$ 56,001
Investments	801,475	975,719
Accounts receivable, patient services, less allowance for uncollectible accounts of \$67,941 for 2005 and \$88,236 for 2004	290,152	247,409
Accounts receivable-other	10,894	33,995
Grant income receivable	54,345	54,650
Inventory	5,147	1,308
Deposits	3,385	2,885
Prepaid expense	43,405	35,219
Prepaid bond costs	6,270	8,778
Compensation deferral fund	408,650	438,372
	<u>1,624,173</u>	<u>1,854,336</u>
Property and Equipment:		
Building	1,139,904	1,139,904
Land improvements	55,982	55,982
Equipment	515,346	486,581
	<u>1,711,232</u>	<u>1,682,467</u>
Less accumulated depreciation	618,188	551,782
	<u>1,093,044</u>	<u>1,130,685</u>
 Total Assets	 <u>\$ 2,717,217</u>	 <u>\$ 2,985,021</u>
 <b>- LIABILITIES -</b>		
Cash overdraft	\$ 5,181	\$ -
Accounts payable	44,953	85,055
Payroll withholdings payable	4,412	4,899
Accrued compensated absences	173,149	151,397
Deferred compensation	604,355	580,316
Bonds payable	709,815	738,138
	<u>1,541,865</u>	<u>1,559,805</u>
 Total Liabilities	 <u>1,541,865</u>	 <u>1,559,805</u>
 <b>- NET ASSETS -</b>		
Unrestricted	1,031,385	1,270,546
Temporarily restricted	143,967	154,670
	<u>1,175,352</u>	<u>1,425,216</u>
 Total Net Assets	 <u>1,175,352</u>	 <u>1,425,216</u>
 Total Liabilities and Net Assets	 <u>\$ 2,717,217</u>	 <u>\$ 2,985,021</u>

The accompanying notes are an integral part of these statements.

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

Statements of Activities  
For the Years Ended June 30, 2005 and 2004

	2005		
	Unrestricted	Temporarily Restricted	Total
<b>Public Support and Revenue:</b>			
<b>Public Support:</b>			
Black Hawk County	\$ 1,113,746	\$ -	\$ 1,113,746
Grundy County	43,304	-	43,304
Other counties	61,729	-	61,729
Federal and State grants	435,179	75,998	511,177
Gifts and bequests	4,282	-	4,282
	1,658,240	75,998	1,734,238
<b>Revenues:</b>			
Fees from patients	923,533	-	923,533
Interest and dividends on investments	37,361	-	37,361
Realized gain (loss) on investment	423	-	423
Net unrealized gain on investments	21,633	-	21,633
Other income	2,753	-	2,753
	985,703	-	985,703
<b>Net Assets Released From Restrictions:</b>			
Satisfaction of program restrictions	86,701	(86,701)	-
	2,730,644	(10,703)	2,719,941
<b>Expenses:</b>			
Program services	2,555,601	-	2,555,601
Support services	412,233	-	412,233
Fundraising	1,971	-	1,971
	2,969,805	-	2,969,805
Change in Net Assets	(239,161)	(10,703)	(249,864)
Net Assets, Beginning of Year, as restated	1,270,546	154,670	1,425,216
Net Assets, End of Year	\$ 1,031,385	\$ 143,967	\$ 1,175,352

The accompanying notes are an integral part of these statements.

2004		
Unrestricted	Temporarily Restricted	Total
\$ 1,033,095	\$ -	\$ 1,033,095
41,952	-	41,952
46,774	-	46,774
367,613	69,289	436,902
4,188	-	4,188
<u>1,493,622</u>	<u>69,289</u>	<u>1,562,911</u>
934,550	-	934,550
68,015	-	68,015
(10,489)	-	(10,489)
28,379	-	28,379
5,140	-	5,140
<u>1,025,595</u>	<u>-</u>	<u>1,025,595</u>
67,138	(67,138)	-
<u>2,586,355</u>	<u>2,151</u>	<u>2,588,506</u>
2,185,679	-	2,185,679
422,738	-	422,738
2,386	-	2,386
<u>2,610,803</u>	<u>-</u>	<u>2,610,803</u>
(24,448)	2,151	(22,297)
<u>1,294,994</u>	<u>152,519</u>	<u>1,447,513</u>
<u>\$ 1,270,546</u>	<u>\$ 154,670</u>	<u>\$ 1,425,216</u>

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

Statements of Functional Expenses  
For the Years Ended June 30, 2005 and 2004

	2005			
	Program Services	Support Services, Management and General	Fundraising	Total
Salaries	\$ 1,716,715	\$ 257,671	\$ 1,275	\$ 1,975,661
Payroll taxes	116,949	19,712	98	136,759
Annuity	63,439	11,499	48	74,986
Deferred compensation	74,252	-	-	74,252
Health insurance	94,339	19,675	72	114,086
Life insurance	10,593	2,394	10	12,997
Continuing education	11,904	3,285	15	15,204
Other personnel	18,021	4,655	-	22,676
<b>Total Salaries and Related Expenses</b>	<b>2,106,212</b>	<b>318,891</b>	<b>1,518</b>	<b>2,426,621</b>
Insurance	46,607	5,178	-	51,785
Medical consultants	99,628	-	-	99,628
Contract labor	14,121	2,992	-	17,113
Professional supplies	2,782	-	-	2,782
Medication	4,797	-	-	4,797
Dues	-	3,275	328	3,603
Program supplies	67,487	-	-	67,487
Office supplies	34,788	8,697	-	43,485
Equipment maintenance	27,771	6,943	-	34,714
Microfilming	538	-	-	538
Telephone	13,003	3,251	-	16,254
Equipment lease and rental	8,949	2,237	-	11,186
Building maintenance	7,482	1,870	-	9,352
Utilities	8,075	2,019	-	10,094
Lease of land and storage	1,056	264	-	1,320
Subscriptions	143	-	-	143
Publicity and promotion	-	4,970	-	4,970
Travel expense	25,085	460	-	25,545
Attorney fees	-	6,255	-	6,255
Accounting fees	-	7,775	-	7,775
Bad debts	-	4,556	-	4,556
Interest expense	31,946	7,987	-	39,933
Other	-	10,830	125	10,955
	<b>394,258</b>	<b>79,559</b>	<b>453</b>	<b>474,270</b>
<b>Total Expenses Before Depreciation and Amortization</b>	<b>2,500,470</b>	<b>398,450</b>	<b>1,971</b>	<b>2,900,891</b>
Depreciation and amortization	55,131	13,783	-	68,914
<b>Total Expenses</b>	<b>\$ 2,555,601</b>	<b>\$ 412,233</b>	<b>\$ 1,971</b>	<b>\$ 2,969,805</b>

The accompanying notes are an integral part of these statements.

2004				
	Program Services	Support Services, Management and General	Fundraising	Total
\$	1,410,773	\$ 271,767	\$ 781	\$ 1,683,321
	94,039	20,790	60	114,889
	53,021	12,377	30	65,428
	47,426	3,595	-	51,021
	75,650	22,800	50	98,500
	8,871	2,651	24	11,546
	8,111	1,028	11	9,150
	13,987	1,060	-	15,047
	<u>1,711,878</u>	<u>336,068</u>	<u>956</u>	<u>2,048,902</u>
	38,758	4,306	-	43,064
	129,960	-	-	129,960
	42,744	2,992	-	45,736
	1,208	-	-	1,208
	3,630	-	-	3,630
	-	3,015	298	3,313
	55,470	-	-	55,470
	31,011	7,753	-	38,764
	22,938	5,734	-	28,672
	283	-	-	283
	12,960	3,240	-	16,200
	9,244	2,311	-	11,555
	6,430	1,607	-	8,037
	7,931	1,983	-	9,914
	1,088	272	-	1,360
	137	-	-	137
	-	3,134	-	3,134
	18,274	460	-	18,734
	-	3,484	-	3,484
	-	7,900	-	7,900
	-	10,470	-	10,470
	33,244	8,311	-	41,555
	-	5,075	1,132	6,207
	<u>415,310</u>	<u>72,047</u>	<u>1,430</u>	<u>488,787</u>
	2,127,188	408,115	2,386	2,537,689
	58,491	14,623	-	73,114
\$	<u>2,185,679</u>	<u>\$ 422,738</u>	<u>\$ 2,386</u>	<u>\$ 2,610,803</u>

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

Exhibit D

Statements of Cash Flows  
For the Years Ended June 30, 2005 and 2004

	2005	2004
<b>Cash Flows From Operating Activities:</b>		
Decrease in net assets	\$ (249,864)	\$ (22,297)
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation of buildings and equipment	66,406	70,606
Amortization of prepaid bond costs	2,508	2,508
Unrealized gain on investments	(21,633)	(28,379)
Realized (gain) loss on investments	(423)	10,489
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(20,142)	(50,416)
Grant income receivable	305	(4,882)
Inventory	(3,839)	409
Prepaid expense	(8,186)	(1,722)
Increase (decrease) in:		
Accounts payable	(40,102)	41,308
Accrued payroll and withholdings	21,265	19,994
Compensation deferral fund	53,761	51,021
	<u>(199,944)</u>	<u>88,639</u>
<b>Net Cash Provided (Used) by Operating Activities</b>		
<b>Cash Flows from Investing Activities:</b>		
Purchase of investments	(282,061)	(504,982)
Proceeds from sale of investments	478,361	475,129
Purchase of fixed assets	(28,765)	(26,407)
	<u>167,535</u>	<u>(56,260)</u>
<b>Net Cash Provided (Used) by Investing Activities</b>		
<b>Cash Flows from Financing Activities:</b>		
Payments on bonds payable	(28,323)	(26,701)
	<u>(28,323)</u>	<u>(26,701)</u>
<b>Net Cash Used by Financing Activities</b>		
Net Change in Cash and Cash Equivalents	(60,732)	5,678
Cash and Cash Equivalents at Beginning of Year	56,001	50,323
Cash and Cash Equivalents at End of Year	<u>\$ (4,731)</u>	<u>\$ 56,001</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the period for:		
Interest	\$ 39,933	\$ 41,555
Income tax	-	-

The accompanying notes are an integral part of these statements.

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, 2005.

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 restricted contributions were received for the years ended June 30, 2005 and 2004. 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, 2005 and 2004 consist of mutual funds and high grade commercial notes carried at their published fair market value of \$801,475 and \$975,719, 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 2005 and 2004.

	2005			2004		
	Cost	Market Value	Unrealized Appreciation (Depreciation)	Cost	Market Value	Unrealized Appreciation (Depreciation)
<b>Unrestricted:</b>						
<b>Mutual Funds:</b>						
Stock Funds	\$ 348,524	\$ 351,698	\$ 3,174	\$ 318,941	\$ 305,755	\$ (13,186)
Bond Funds	443,051	446,976	3,925	632,687	631,340	(1,347)
Money Market Funds	2,801	2,801	-	38,624	38,624	-
	<u>\$ 794,376</u>	<u>\$ 801,475</u>	<u>\$ 7,099</u>	<u>\$ 990,252</u>	<u>\$ 975,719</u>	<u>\$ (14,533)</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	486,581	28,765	-	515,346
<b>Total</b>	<u>1,682,467</u>	<u>28,765</u>	<u>-</u>	<u>1,711,232</u>
Less: Accumulated Depreciation	551,782	66,406	-	618,188
<b>Net Book Value</b>	<u>\$ 1,130,685</u>	<u>\$ (37,641)</u>	<u>\$ -</u>	<u>\$ 1,093,044</u>

Depreciation expense for 2005 and 2004, respectively, was \$66,406 and \$70,606.

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 rents office space from Grundy County for \$1,200 per year. The lease expires June 30, 2006.

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, 2005 and 2004, was \$12,506 and \$12,915, 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:	
2006	\$ 13,880
2007	12,590
2008	12,560
2009	12,560
2010	12,560

(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. Premiums of \$20,492 were contributed by the Center during the year ended June 30, 2005.

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 \$408,650 and \$438,372 at June 30, 2005 and 2004, respectively. Deferred compensation payments made to employees during the years ended June 30, 2005 and 2004 were \$11,093 and \$11,093, respectively. The deferred compensation liability of the Center to the employees was \$604,355 and \$580,316 at June 30, 2005 and 2004, respectively. The current portion of the deferred compensation liability at June 30, 2005 and 2004 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, 2005 and 2004 totaled \$74,986 and \$65,428, 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, 2005 and 2004 was \$39,933 and \$41,555.

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, 2005 and 2004, bonds payable were \$709,815 and \$738,138.

As of June 30, 2005, the maturities of the bonds payable was as follows:

Years ending June 30:	
2006	\$ 30,464
2007	32,160
2008	647,191
2009	-
2010	-

(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 43% and 42% of its total public support and revenue for the years ended June 30, 2005 and 2004 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, 2005 and 2004.

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:

	2005	2004
Funds placed under temporary restriction as required by grant stipulations	\$ 75,998	\$ 69,289
Funds released from temporary restriction due to satisfaction of program restrictions	<u>86,701</u>	<u>67,138</u>
Net assets placed under (released from) restriction	<u>\$ (10,703)</u>	<u>\$ 2,151</u>

Temporarily restricted net assets at June 30, 2005 and 2004 consist of cash and cash equivalents and investments of \$143,967 and \$154,670, respectively.

(12) Prior Period Adjustment

During the year ended June 30, 2005, the Center determined the amount recognized for the accounts receivable, patient services asset in a prior period was overstated. As a result, the prior period amounts were restated. At June 30, 2004, the accounts receivable, patient services asset was decreased and fees from patients revenues were decreased by \$102,246. The restatement resulted in a decrease of net assets of \$102,246 as of June 30, 2004.

Independent Auditors' 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  
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, 2005, and have issued our report thereon dated September 1, 2005. We conducted our audit in accordance with 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.

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 reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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, contracts, and grant agreements, 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 instances of non-compliance that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Center's operations for the year ended June 30, 2005 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.

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, Rosenthal & Co., L.L.P.*

September 1, 2005

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

Schedule of Findings

Year Ended June 30, 2005

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:

- (1) Bond Covenant Violations - The Center violated two covenants for the Black Hawk County, Iowa Revenue Bonds Series 2000 (The Black Hawk-Grundy Mental Health Center, Inc. project) dated June 20, 2000. The first covenant violation is for the provision in Section 7.9(a), whereby the tangible net worth was \$1,175,352, which is less than the \$1,500,000 specified. The second covenant violation is for the provision in Section 7.9(b), whereby the ratio of cash flow to total debt service was -2.07:1, which is less than the 1.05:1 specified.

Recommendation - The Center should contact the bondholders and request a waiver for the event of default caused by the covenant violations, as allowed by Section 9.10 of the Bond Purchase Agreement and Assignment.

Response - The Center has contacted the bondholders and requested a waiver of the default caused by the covenant violations. The Center has provided the bondholders with current financial statements, projections and cash flow statements at their request.

Conclusion - Response accepted.