

CROSSROADS MENTAL HEALTH CENTER
CRESTON, IOWA

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

Years Ended June 30, 2006 and 2005

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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, 2006 and 2005, 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 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, 2006 and 2005, 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 our report dated October 26, 2006, 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, 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.

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

October 26, 2006

LIABILITIES AND NET ASSETS	<u>2006</u>	<u>2005</u>
CURRENT LIABILITIES		
Accounts payable	\$ 2,179	\$ 1,161
Accrued vacation pay	55,970	48,283
Accrued interest payable	750	750
Accrued flex pay payable	2,263	-
Deferred revenue	52,174	-
Current portion long-term debt	5,500	5,200
Total current liabilities	<u>\$ 118,836</u>	<u>\$ 55,394</u>
LONG-TERM LIABILITIES		
Note payable - Farmers Home Administration	\$ 315,683	\$ 322,662
Less current portion	(5,500)	(5,200)
Total long-term liabilities	<u>\$ 310,183</u>	<u>\$ 317,462</u>
Total liabilities	<u>\$ 429,019</u>	<u>\$ 372,856</u>
NET ASSETS		
Unrestricted net assets		
Designated for unemployment compensation	\$ 20,716	\$ 20,716
Designated for capital expenditures	9,357	7,397
Undesignated	193,809	180,129
Unrestricted net assets	\$ 223,882	\$ 208,242
Temporarily restricted net assets		
Loan reserve account	<u>21,216</u>	<u>21,216</u>
Total net assets	<u>\$ 245,098</u>	<u>\$ 229,458</u>
Total liabilities and net assets	<u><u>\$ 674,117</u></u>	<u><u>\$ 602,314</u></u>

CROSSROADS MENTAL HEALTH CENTER
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
County funding grants	\$ 334,020	\$ 334,020
Client fees:		
Mental health	341,660	350,926
IDSA, Action Now	239,811	255,811
Special grants, Action Now	69,098	-
Consultation	4,267	13,470
Federal block grant	46,374	32,612
Other income	63,724	51,864
	<u>\$ 1,098,954</u>	<u>\$ 1,038,703</u>
EXPENSES		
Program services	\$ 744,176	\$ 688,092
Support services	339,138	357,537
	<u>\$ 1,083,314</u>	<u>\$ 1,045,629</u>
Increase (Decrease) in unrestricted net assets	\$ 15,640	\$ (6,926)
NET ASSETS AT BEGINNING OF YEAR	<u>229,458</u>	<u>236,384</u>
NET ASSETS AT END OF YEAR	<u>\$ 245,098</u>	<u>\$ 229,458</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, 2006

	<u>Program Services</u>	<u>Support Services</u>	<u>Total</u>
EXPENSES			
Salaries	\$ 501,362	\$ 223,183	\$ 724,545
Payroll tax	34,007	16,750	50,757
Work comp insurance	1,974	972	2,946
Fringe benefits	68,467	33,722	102,189
IPERS	27,617	13,603	41,220
Continuing education	11,410	3,804	15,214
Accounting and audit	-	7,728	7,728
Advertising	4,187	-	4,187
Community support	218	-	218
Program material	635	-	635
Computer expense	2,031	6,092	8,123
Equipment repairs	1,159	3,478	4,637
Insurance	12,044	4,015	16,059
Interest	10,678	3,559	14,237
Miscellaneous	43	14	57
Office	-	7,527	7,527
Postage	-	2,301	2,301
Dues	1,324	442	1,766
Psychiatric testing	1,417	-	1,417
Rent	6,694	2,231	8,925
Telephone	8,477	446	8,923
Travel	27,074	1,425	28,499
Grounds maintenance	1,864	621	2,485
Depreciation	12,407	4,136	16,543
Janitorial	3,445	1,149	4,594
Utilities	4,801	1,600	6,401
Miscellaneous	841	280	1,121
Legal fees	-	60	60
	<u> </u>	<u> </u>	<u> </u>
Total expense	<u><u>\$ 744,176</u></u>	<u><u>\$ 339,138</u></u>	<u><u>\$ 1,083,314</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, 2005

	<u>Program Services</u>	<u>Support Services</u>	<u>Total</u>
EXPENSES			
Salaries	\$ 474,733	\$ 230,467	\$ 705,200
Payroll tax	32,904	23,155	56,059
Work comp insurance	2,179	1,539	3,718
Fringe benefits	49,097	35,305	84,402
IPERS	22,257	15,608	37,865
Continuing education	4,734	1,578	6,312
Accounting and audit	-	9,848	9,848
Advertising	8,595	-	8,595
Community support	1,733	-	1,733
Program material	389	-	389
Computer expense	1,910	5,730	7,640
Equipment repairs	962	2,885	3,847
Insurance	12,285	4,095	16,380
Interest	12,163	4,054	16,217
Miscellaneous	1,326	441	1,767
Office	-	7,898	7,898
Postage	-	2,513	2,513
Dues	3,227	1,076	4,303
Psychiatric testing	1,447	-	1,447
Rent	6,525	2,175	8,700
Telephone	7,619	401	8,020
Travel	21,544	1,134	22,678
Grounds maintenance	2,285	762	3,047
Depreciation	12,685	4,228	16,913
Janitorial	3,316	1,105	4,421
Utilities	4,211	1,404	5,615
Miscellaneous	(34)	-	(34)
Legal fees	-	136	136
	<u> </u>	<u> </u>	<u> </u>
Total expense	<u>\$ 688,092</u>	<u>\$ 357,537</u>	<u>\$ 1,045,629</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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 15,640	\$ (6,926)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	16,543	16,913
(Increase) decrease in operating assets:		
Accounts receivable	15,956	(3,572)
Flex plan receivable	1,316	257
Prepaid expenses	269	(5,175)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	<u>63,142</u>	<u>4,888</u>
Net cash provided by operating activities	\$ 112,866	\$ 6,385
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(2,180)	(7,524)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on long term debt	<u>(6,979)</u>	<u>(4,999)</u>
NET INCREASE (DECREASE) IN CASH	\$ 103,707	\$ (6,138)
CASH AT BEGINNING OF YEAR	<u>150,618</u>	<u>156,756</u>
CASH AT END OF YEAR	<u><u>\$ 254,325</u></u>	<u><u>\$ 150,618</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during year for interest	<u><u>\$ 14,237</u></u>	<u><u>\$ 16,217</u></u>

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

CROSSROADS MENTAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

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, 2006 and 2005

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.

CROSSROADS MENTAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

Note 2. Significant Accounting Policies (continued)

Concentrations of Credit Risk

The Company maintains its cash balance in three financial institutions where the balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. As of June 30, 2006 and 2005, the Company had uninsured cash balances of \$18,659 and \$0, respectively.

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 \$8,100 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 5½ year period from July 1, 2006 to December 31, 2011 is \$44,550.

Note 4. Long-Term Debt

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

	<u>6-30-2006</u>	<u>6-30-2005</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.	\$ 315,683	\$ 322,662
Less: Current portion	<u>5,500</u>	<u>5,200</u>
Total long-term debt	<u>\$ 310,183</u>	<u>\$ 317,462</u>

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

CROSSROADS MENTAL HEALTH CENTER
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2006 and 2005

Note 4. Long-Term Debt (continued)

Year Ended June 30,	<u>USDA</u>		Total USDA
	Principal	Interest	
2007	\$ 5,558	\$ 15,658	\$ 21,216
2008	5,842	15,374	21,216
2009	6,141	15,075	21,216
2010	6,455	14,761	21,216
2011	6,786	14,430	21,216
Thereafter	<u>284,901</u>	<u>188,352</u>	<u>473,253</u>
Total	<u>\$ 315,683</u>	<u>\$ 263,650</u>	<u>\$ 579,333</u>

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>6-30-2006</u>	<u>6-30-2005</u>
Tax sheltered annuities	\$ 52,807	\$ 38,799
Other benefits	<u>49,382</u>	<u>50,518</u>
Total	<u>\$102,189</u>	<u>\$ 89,317</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 years ended June 30, 2006 and June 30, 2005, was \$41,220 and \$37,865.

CROSSROADS MENTAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

Note 6. Restricted Cash

The restricted cash balance of \$21,216 on June 30, 2006 and 2005, 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 year ended June 30, 2006.

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, 2006, and have issued our report thereon dated October 26, 2006. 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.

October 26, 2006