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

INDEPENDENT AUDITORS' REPORT
FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 and 2006



**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, 2007

Name	Title	Term Expires
Charles Baker	Supervisor	1/1/2008
Lori Byers	Treasurer	1/1/2008
Patrick Clancy	Chairperson	1/1/2008
Steven Eilers	Member	1/1/2008
Patty Esch	Member	1/1/2008
Linda Fobian	Member	1/1/2010
Kyle Henderson	Vice-Chairperson	1/1/2008
Wendy Henderson	Member	1/1/2008
Steve Jordan	Member	1/1/2010
Corey Lorenzen	Member	1/1/2010
Frank Magsamen	Member	N/A
Debbie Patton	Member	1/1/2008
Sharon Samec	Member	1/1/2010
Lynn Smith	Secretary	1/1/2008

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, 2007 and 2006. 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, 2007 and 2006, 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 October 24, 2007 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, 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 violation: for the year ending June 30, 2006, violation of the provision in Section 7.9, whereby the Center had a negative change in net assets of \$140,814, which is less than the positive change in net assets 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 violation noted above. However, it should be noted that our audits were not directed primarily toward obtaining knowledge of such noncompliance.

Carey, Alexander Kauld & Co., L.L.P.

October 24, 2007

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

Exhibit A

Statements of Financial Position
As of June 30, 2007 and 2006

	2007	2006
- ASSETS -		
Cash and cash equivalents	\$ 4,602	\$ 22,834
Investments	849,919	732,893
Accounts receivable, patient services, less allowance for uncollectible accounts of \$57,547 for 2007 and \$109,995 for 2006	273,672	209,120
Accounts receivable-other	26,502	42,146
Grant income receivable	48,016	61,944
Inventory	-	495
Deposits	2,450	4,575
Prepaid expense	37,228	32,326
Prepaid bond costs	1,254	3,762
Compensation deferral fund	437,635	421,919
	<u>1,681,278</u>	<u>1,532,014</u>
Property and Equipment:		
Building	1,164,897	1,141,154
Land improvements	59,446	59,446
Equipment	424,180	473,418
	<u>1,648,523</u>	<u>1,674,018</u>
Less accumulated depreciation	632,119	626,354
	<u>1,016,404</u>	<u>1,047,664</u>
Total Assets	<u><u>\$ 2,697,682</u></u>	<u><u>\$ 2,579,678</u></u>
- LIABILITIES -		
Accounts payable	\$ 26,621	\$ 21,349
Accrued bonuses	43,093	-
Payroll withholdings payable	10,505	5,617
Accrued compensated absences	170,117	160,627
Deferred revenue	12,405	51,619
Deferred compensation	630,558	626,036
Bonds payable	648,280	679,892
	<u>1,541,579</u>	<u>1,545,140</u>
Total Liabilities	<u>1,541,579</u>	<u>1,545,140</u>
- NET ASSETS -		
Unrestricted	1,022,391	857,656
Temporarily restricted	133,712	176,882
	<u>1,156,103</u>	<u>1,034,538</u>
Total Net Assets	<u>1,156,103</u>	<u>1,034,538</u>
Total Liabilities and Net Assets	<u><u>\$ 2,697,682</u></u>	<u><u>\$ 2,579,678</u></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, 2007 and 2006

	2 0 0 7		
	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue:			
Public Support:			
Black Hawk County	\$ 1,392,477	\$ -	\$ 1,392,477
Grundy County	44,296	-	44,296
Other county and state payments	111,288	-	111,288
Federal and State grants	322,382	74,538	396,920
Gifts and bequests	7,102	-	7,102
	1,877,545	74,538	1,952,083
Revenues:			
Fees from patients	1,035,862	-	1,035,862
Interest and dividends on investments	53,485	-	53,485
Realized gain (loss) on sale of investments	(19,854)	-	(19,854)
Net unrealized gain on investments	63,935	-	63,935
Loss on disposal of fixed assets	(8,137)	-	(8,137)
Other income	3,497	-	3,497
	1,128,788	-	1,128,788
Net Assets Released From Restrictions:			
Satisfaction of program restrictions	117,708	(117,708)	-
	3,124,041	(43,170)	3,080,871
Expenses:			
Program services	2,545,663	-	2,545,663
Support services	410,495	-	410,495
Fundraising	3,148	-	3,148
	2,959,306	-	2,959,306
Change in Net Assets	164,735	(43,170)	121,565
Net Assets, Beginning of Year	857,656	176,882	1,034,538
Net Assets, End of Year	\$ 1,022,391	\$ 133,712	\$ 1,156,103

The accompanying notes are an integral part of these statements.

2006		
Unrestricted	Temporarily Restricted	Total
\$ 1,185,536	\$ -	\$ 1,185,536
54,587	-	54,587
72,527	-	72,527
372,742	82,989	455,731
6,572	-	6,572
<u>1,691,964</u>	<u>82,989</u>	<u>1,774,953</u>
970,796	-	970,796
38,998	-	38,998
7,674	-	7,674
586	-	586
(969)	-	(969)
4,151	-	4,151
<u>1,021,236</u>	<u>-</u>	<u>1,021,236</u>
50,074	(50,074)	-
<u>2,763,274</u>	<u>32,915</u>	<u>2,796,189</u>
2,540,443	-	2,540,443
393,884	-	393,884
2,676	-	2,676
<u>2,937,003</u>	<u>-</u>	<u>2,937,003</u>
(173,729)	32,915	(140,814)
<u>1,031,385</u>	<u>143,967</u>	<u>1,175,352</u>
<u>\$ 857,656</u>	<u>\$ 176,882</u>	<u>\$ 1,034,538</u>

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

Statements of Functional Expenses
For the Years Ended June 30, 2007 and 2006

	2 0 0 7			
	Program Services	Support Services, Management and General	Fundraising	Total
Salaries	\$ 1,851,370	\$ 246,299	\$ 1,530	\$ 2,099,199
Payroll taxes	121,985	18,842	117	140,944
Annuity	73,429	12,314	77	85,820
Health insurance	88,155	17,034	60	105,249
Deferred compensation	(11,195)	-	-	(11,195)
Life insurance	10,552	2,039	9	12,600
Continuing education	13,534	1,139	9	14,682
Other personnel	21,795	1,077	10	22,882
	2,169,625	298,744	1,812	2,470,181
Total Salaries and Related Expenses				
Insurance	44,932	4,992	-	49,924
Medical consultants	63,410	-	-	63,410
Contract labor	10,377	2,992	-	13,369
Professional supplies	3,642	-	-	3,642
Medication	4,582	-	-	4,582
Dues	-	3,447	323	3,770
Program supplies	20,045	-	1,013	21,058
Office supplies	39,182	9,796	-	48,978
Equipment maintenance	27,618	6,904	-	34,522
Microfilming	1,305	-	-	1,305
Telephone	13,854	3,464	-	17,318
Equipment lease and rental	9,270	2,318	-	11,588
Building maintenance	7,410	1,853	-	9,263
Utilities	7,862	1,966	-	9,828
Lease of land and storage	9,270	2,317	-	11,587
Subscriptions	149	-	-	149
Board expense	-	-	-	-
Publicity and promotion	-	3,820	-	3,820
Travel expense	28,856	-	-	28,856
Attorney fees	-	3,049	-	3,049
Accounting fees	-	7,460	-	7,460
Bad debts	-	30,862	-	30,862
Interest expense	29,315	7,329	-	36,644
Investment fees	-	4,404	-	4,404
Other	-	1,038	-	1,038
	321,079	98,011	1,336	420,426
Total Expenses Before Depreciation and Amortization	2,490,704	396,755	3,148	2,890,607
Depreciation and amortization	54,959	13,740	-	68,699
Total Expenses	\$ 2,545,663	\$ 410,495	\$ 3,148	\$ 2,959,306

The accompanying notes are an integral part of these statements.

2006			
Program Services	Support Services, Management and General	Fundraising	Total
\$ 1,772,387	\$ 235,964	\$ 1,342	\$ 2,009,693
118,085	18,051	103	136,239
74,388	11,798	67	86,253
95,896	16,872	54	112,822
8,412	-	-	8,412
10,208	2,098	8	12,314
8,591	1,929	16	10,536
24,417	5,505	-	29,922
<u>2,112,384</u>	<u>292,217</u>	<u>1,590</u>	<u>2,406,191</u>
46,372	5,153	-	51,525
99,450	-	-	99,450
14,348	2,992	-	17,340
1,797	-	-	1,797
4,964	-	-	4,964
-	3,433	280	3,713
38,033	-	-	38,033
33,386	8,346	-	41,732
27,823	6,956	-	34,779
1,089	-	-	1,089
13,674	3,419	-	17,093
8,817	2,204	-	11,021
8,810	2,202	-	11,012
8,569	2,142	-	10,711
4,250	1,062	-	5,312
213	-	-	213
-	706	-	706
-	3,992	-	3,992
28,839	-	-	28,839
-	6,194	-	6,194
-	7,420	-	7,420
-	13,239	-	13,239
30,667	7,667	-	38,334
-	3,456	-	3,456
-	6,844	806	7,650
<u>371,101</u>	<u>87,427</u>	<u>1,086</u>	<u>459,614</u>
2,483,485	379,644	2,676	2,865,805
56,958	14,240	-	71,198
<u>\$ 2,540,443</u>	<u>\$ 393,884</u>	<u>\$ 2,676</u>	<u>\$ 2,937,003</u>

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

Exhibit D

Statements of Cash Flows
For the Years Ended June 30, 2007 and 2006

	2007	2006
Cash Flows from Operating Activities:		
Change in net assets	\$ 121,565	\$ (140,814)
Adjustments to reconcile change in net assets net cash provided by operating activities:		
Depreciation of buildings and equipment	66,191	68,690
Amortization of prepaid bond costs	2,508	2,508
Net unrealized gain on investments	(63,935)	(586)
Realized (gain) loss on sale of investments	19,854	(7,674)
Loss on disposal of fixed assets	8,137	969
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(46,783)	48,590
Grant income receivable	13,928	(7,599)
Inventory	495	4,652
Prepaid expense	(4,902)	11,079
Increase (decrease) in:		
Accounts payable	5,272	(23,604)
Accrued bonuses and withholdings	57,471	(11,317)
Deferred revenue	(39,214)	51,619
Compensation deferral fund	(11,194)	8,412
Net Cash Provided By Operating Activities	<u>129,393</u>	<u>4,925</u>
Cash Flows from Investing Activities:		
Purchase of investments	(250,450)	(144,614)
Proceeds from sale of investments	177,505	221,456
Proceeds from sale of fixed assets	-	3,868
Purchase of fixed assets	(43,068)	(28,147)
Net Cash Provided (Used) By Investing Activities	<u>(116,013)</u>	<u>52,563</u>
Cash Flows from Financing Activities:		
Payments on bonds payable	(31,612)	(29,923)
Net Cash Used By Financing Activities	<u>(31,612)</u>	<u>(29,923)</u>
Net Change in Cash and Cash Equivalents	(18,232)	27,565
Cash and Cash Equivalents at Beginning of Year	22,834	(4,731)
Cash and Cash Equivalents at End of Year	<u>\$ 4,602</u>	<u>\$ 22,834</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 36,644	\$ 38,334
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 Net Assets

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, 2007.

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, 2007 and 2006. 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, 2007 and 2006 consist of mutual funds and high grade commercial notes carried at their published fair market value of \$849,919 and \$732,893, 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 2007 and 2006.

	2007			2006		
	Cost	Market Value	Unrealized Appreciation (Depreciation)	Cost	Market Value	Unrealized Appreciation (Depreciation)
Unrestricted:						
Mutual Funds:						
Stock Funds	\$ 318,341	\$ 401,846	\$ 83,505	\$ 319,649	\$ 340,776	\$ 21,127
Bond Funds	407,759	395,874	(11,885)	377,759	364,317	(13,442)
Money Market Funds	52,199	52,199	-	27,800	27,800	-
	<u>\$ 778,299</u>	<u>\$ 849,919</u>	<u>\$ 71,620</u>	<u>\$ 725,208</u>	<u>\$ 732,893</u>	<u>\$ 7,685</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	\$ 1,141,154	\$ 34,534	\$ 10,791	\$ 1,164,897
Land improvements	59,446	-	-	59,446
Equipment	473,418	8,534	57,772	424,180
Total	<u>1,674,018</u>	<u>43,068</u>	<u>68,563</u>	<u>1,648,523</u>
Less: Accumulated Depreciation	626,354	66,191	60,426	632,119
Net Book Value	<u>\$ 1,047,664</u>	<u>\$ (23,123)</u>	<u>\$ 8,137</u>	<u>\$ 1,016,404</u>

Depreciation expense for 2007 and 2006, respectively, was \$66,191 and \$68,690.

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 current lease term extends through September 30, 2016.

The Center rents office space from Grundy County Memorial Hospital for \$100 per day or \$50 per four hours. The lease began May 1, 2006 and expired June 30, 2007. The lease has and will automatically continue thereafter for each additional one year period at the same terms and conditions, unless terminated by either party upon sixty days written notice. The current lease term extends through June 30, 2007 and was automatically renewed for another one year period.

The Center rents office space in the Black's Building in Waterloo, Iowa for \$550 per month. The lease began January 15, 2007 and expires January 14, 2008. The lease does not have any automatic renewal provisions.

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, 2007 and 2006, was \$23,175 and \$16,333, 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 leases mentioned above are as follows:

Years ending June 30:	
2008	\$ 16,871
2009	13,021
2010	13,021
2011	2,291
2012	120

(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 \$-0- were contributed by the Center during both years ended June 30, 2007 and 2006.

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

Notes to Financial Statements

(5) Compensation Deferral (continued)

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 \$437,635 and \$421,919 at June 30, 2007 and 2006, respectively. Deferred compensation payments made to employees during the years ended June 30, 2007 and 2006 were \$18,103 and \$11,093, respectively. The deferred compensation liability of the Center to the employees was \$630,558 and \$626,036 at June 30, 2007 and 2006, respectively. The current portion of the deferred compensation liability at June 30, 2007 and 2006 was \$18,103 and \$18,103, respectively.

(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, 2007 and 2006 totaled \$85,820 and \$86,253, 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 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 and profitability. The Center has requested a waiver from the bondholders when covenant defaults have occurred. At June 30, 2007 and 2006, bonds payable were \$648,280 and \$679,892.

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, 2007 and 2006 was \$36,644 and \$38,334.

The Center is currently in negotiations to pay down the bond balance to \$250,000, lower the monthly payments, and extend the due dates. Terms are expected to be finalized before the balloon payment is due in December, 2007.

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

Notes to Financial Statements

(7) Bonds Payable (continued)

As of June 30, 2007, the maturities of the bonds payable was as follows:

Years ending June 30:	
2008	\$ 648,280
2009	-
2010	-
2011	-
2012	-

(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 47% and 44% of its total public support and revenue for the years ended June 30, 2007 and 2006 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, 2007 and 2006.

(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:

	2007	2006
Funds placed under temporary restriction as required by grant stipulations	\$ 74,538	\$ 82,989
Funds released from temporary restriction due to satisfaction of program restrictions	<u>117,708</u>	<u>50,074</u>
Net assets placed under (released from) restriction	<u>\$ (43,170)</u>	<u>\$ 32,915</u>

Temporarily restricted net assets at June 30, 2007 and 2006 consist of cash and cash equivalents and investments of \$133,712 and \$176,882, respectively.

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, 2007, and have issued our report thereon dated October 24, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Black Hawk - Grundy Mental Health Centers, Inc.'s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 no instances of non-compliance or other matters 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, 2007 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.

Carmy Alexander Arnold & Co., L.L.P.

October 24, 2007

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

Schedule of Findings

Year Ended June 30, 2007

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.