

CROSSROADS MENTAL HEALTH CENTER
CRESTON, IOWA

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

Years Ended June 30, 2007 and 2006

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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, 2007 and 2006, 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, 2007 and 2006, 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 22, 2007, 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 22, 2007

| LIABILITIES AND NET ASSETS | <u>2007</u> | <u>2006</u> |
|--|-------------------|-------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 11,551 | \$ 2,179 |
| Accrued vacation pay | 60,870 | 55,970 |
| Accrued interest payable | 750 | 750 |
| Accrued flex pay payable | - | 2,263 |
| Deferred revenue | 4,507 | 52,174 |
| Current portion long-term debt | 5,747 | 5,500 |
| Total current liabilities | <u>\$ 83,425</u> | <u>\$ 118,836</u> |
| LONG-TERM LIABILITIES | | |
| Note payable - Farmers Home Administration | \$ 311,995 | \$ 315,683 |
| Less current portion | (5,747) | (5,500) |
| Total long-term liabilities | <u>\$ 306,248</u> | <u>\$ 310,183</u> |
| Total liabilities | <u>\$ 389,673</u> | <u>\$ 429,019</u> |
| NET ASSETS | | |
| Unrestricted net assets | | |
| Designated for unemployment compensation | \$ 20,716 | \$ 20,716 |
| Designated for capital expenditures | 10,502 | 9,357 |
| Undesignated | 226,937 | 193,809 |
| Unrestricted net assets | <u>\$ 258,155</u> | <u>\$ 223,882</u> |
| Temporarily restricted net assets | | |
| Loan reserve account | <u>21,216</u> | <u>21,216</u> |
| Total net assets | <u>\$ 279,371</u> | <u>\$ 245,098</u> |
| Total liabilities and net assets | <u>\$ 669,044</u> | <u>\$ 674,117</u> |

CROSSROADS MENTAL HEALTH CENTER
STATEMENT OF ACTIVITIES
Year Ended June 30, 2007 and 2006

| | <u>2007</u> | <u>2006</u> |
|-------------------------------------|--------------------------|--------------------------|
| UNRESTRICTED NET ASSETS | | |
| SUPPORT AND REVENUE | | |
| County funding grants | \$ 360,595 | \$ 334,020 |
| Client fees: | | |
| Mental health | 379,037 | 341,660 |
| IDSA, Action Now | 320,176 | 239,811 |
| Special grants, Action Now | 52,174 | 69,098 |
| Consultation | 1,800 | 4,267 |
| Federal block grant | 45,398 | 46,374 |
| Other income | <u>72,578</u> | <u>63,724</u> |
| Total support and revenue | <u>\$ 1,231,758</u> | <u>\$ 1,098,954</u> |
| EXPENSES | | |
| Program services | \$ 836,327 | \$ 744,176 |
| Support services | <u>361,158</u> | <u>339,138</u> |
| Total expenses | <u>\$ 1,197,485</u> | <u>\$ 1,083,314</u> |
| Increase in unrestricted net assets | \$ 34,273 | \$ 15,640 |
| NET ASSETS AT BEGINNING OF YEAR | <u>245,098</u> | <u>229,458</u> |
| NET ASSETS AT END OF YEAR | <u><u>\$ 279,371</u></u> | <u><u>\$ 245,098</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, 2007

| | <u>Program Services</u> | <u>Support Services</u> | <u>Total</u> |
|--------------------------------|-----------------------------|-----------------------------|---------------------|
| EXPENSES | | | |
| Salaries | \$ 568,148 | \$ 231,845 | \$ 799,993 |
| Payroll tax | 39,477 | 16,110 | 55,587 |
| Work comp insurance | 2,301 | 939 | 3,240 |
| Fringe benefits | 62,647 | 41,866 | 104,513 |
| IPERS | 32,355 | 13,203 | 45,558 |
| Continuing education | 4,307 | 1,435 | 5,742 |
| Accounting and audit | - | 7,302 | 7,302 |
| Advertising | 2,764 | - | 2,764 |
| Community support | 31 | - | 31 |
| Program material | 1,099 | - | 1,099 |
| Computer expense | 2,719 | 8,158 | 10,877 |
| Equipment repairs | 1,148 | 3,443 | 4,591 |
| Insurance | 11,950 | 3,984 | 15,934 |
| Interest | 13,146 | 4,382 | 17,528 |
| Miscellaneous | 12 | 4 | 16 |
| Office | - | 11,933 | 11,933 |
| Postage | - | 2,511 | 2,511 |
| Dues | 2,827 | 942 | 3,769 |
| Psychiatric testing | 353 | - | 353 |
| Rent | 8,400 | 2,800 | 11,200 |
| Telephone | 8,788 | 463 | 9,251 |
| Travel | 28,940 | 1,523 | 30,463 |
| Grounds maintenance | 1,677 | 559 | 2,236 |
| Depreciation | 12,737 | 4,245 | 16,982 |
| Janitorial | 3,551 | 1,184 | 4,735 |
| Utilities | 5,638 | 1,879 | 7,517 |
| Miscellaneous | 1,152 | 384 | 1,536 |
| Legal fees | - | 64 | 64 |
| Contract services - psychology | 20,001 | - | 20,001 |
| Child care | 159 | - | 159 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total expense | <u>\$ 836,327</u> | <u>\$ 361,158</u> | <u>\$ 1,197,485</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>\$ 744,176</u> | <u>\$ 339,138</u> | <u>\$ 1,083,314</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, 2007 and 2006

| | 2007 | 2006 |
|--|-------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase (decrease) in net assets | \$ 34,273 | \$ 15,640 |
| Adjustments to reconcile decrease in net assets to net cash provided by operating activities: | | |
| Depreciation | 16,982 | 16,543 |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | (28,514) | 15,956 |
| Flex plan receivable | (5,450) | 1,316 |
| Prepaid expenses | 616 | 269 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable and accrued expenses | (35,658) | 63,142 |
| Net cash provided by operating activities | \$ (17,751) | \$ 112,866 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of equipment | (5,328) | (2,180) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payment on long term debt | (3,688) | (6,979) |
| NET INCREASE (DECREASE) IN CASH | \$ (26,767) | \$ 103,707 |
| CASH AT BEGINNING OF YEAR | 254,325 | 150,618 |
| CASH AT END OF YEAR | \$ 227,558 | \$ 254,325 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during year for interest | \$ 17,528 | \$ 14,237 |

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

CROSSROADS MENTAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

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, 2007 and 2006

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: un-restricted 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 are 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, 2007 and 2006

Note 2. Significant Accounting Policies (continued)

Concentrations of Credit Risk

The Center maintains its cash balances in two financial institutions where the balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. In addition to FDIC coverage deposits in one financial institution have been covered by a \$100,000 bank deposit surety bond since December 6, 2006. As of June 30, 2007 and 2006, the Center had uninsured cash balances of \$0 and \$18,659, respectively.

Note 3. Operating Leases

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 4 year period from July 1, 2007 to December 31, 2011 is \$36,450.

The Center also has two month to month leases that call for payments of \$150 and \$125 a month.

Note 4. Long-Term Debt

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

| | <u>6-30-2007</u> | <u>6-30-2006</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. | \$ 311,995 | \$ 315,683 |
| Less: Current portion | <u>5,747</u> | <u>5,500</u> |
| Total long-term debt | <u>\$ 306,248</u> | <u>\$ 310,183</u> |

CROSSROADS MENTAL HEALTH CENTER
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2007 and 2006

Note 4. Long-Term Debt (continued)

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

| Year Ended June 30, | <u>USDA</u> | | Total USDA |
|------------------------|-------------------|-------------------|-------------------|
| | Principal | Interest | |
| 2008 | \$ 5,747 | \$ 15,469 | \$ 21,216 |
| 2009 | 6,041 | 15,175 | 21,216 |
| 2010 | 6,350 | 14,866 | 21,216 |
| 2011 | 6,675 | 14,541 | 21,216 |
| 2012 | 7,016 | 14,200 | 21,216 |
| Thereafter | <u>280,166</u> | <u>178,889</u> | <u>459,055</u> |
| Total | <u>\$ 311,995</u> | <u>\$ 253,140</u> | <u>\$ 565,135</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>6-30-2007</u> | <u>6-30-2006</u> |
|-------------------------|------------------|------------------|
| Tax sheltered annuities | \$ 58,115 | \$ 52,807 |
| Other benefits | <u>46,398</u> | <u>49,382</u> |
| Total | <u>\$104,513</u> | <u>\$102,189</u> |

The Center 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 Center is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Center's contribution to IPERS for the years ended June 30, 2007 and June 30, 2006, was \$45,558 and \$41,220.

CROSSROADS MENTAL HEALTH CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

Note 6. Restricted Cash

The restricted cash balance of \$21,216 on June 30, 2007 and 2006, 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, 2007.

The Center provides services that are covered by Medicare and Medicaid. Reimbursement for these services has been made based on a fee schedule for the services performed. Effective October 1, 2006 these services are to be reimbursed based on actual costs. The Center has submitted a cost report for the purpose of establishing actual costs for the period from October 1, 2006 thru June 30, 2007. A final settlement for the difference between actual costs and reimbursed costs will be made at some time in the future. The amount of the settlement and whether the Center will be receiving additional payment or repaying for excess reimbursement is not known at this time.

SUPPLEMENTAL INFORMATION

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

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

We have audited the financial statements of Crossroads Mental Health Center (a nonprofit organization) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 22, 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 Controller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Crossroads Mental Health Center'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 Crossroads Mental Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center'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 combination of control deficiencies, that adversely affects the Center'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 Center's financial statements that is more than inconsequential will not be prevented or detected by the Center'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 Center's internal control.

Our consideration of 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 Crossroads Mental Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Crossroads Mental Health Center in a separate letter dated October 22, 2007.

This report is intended solely for the information and use of management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

Drapier, Smolgrass, Mikkelsen + Co., P.C.

October 22, 2007