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

INDEPENDENT AUDITORS' REPORT
FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 and 2007



**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, 2008

Name	Title	Term Expires
Kristen Andre	Member	1/1/2011
Charles Baker	Supervisor	1/1/2011
Stacey Bentley	Member	1/2/2011
Linda Fobian	Member	1/1/2010
Kyle Henderson	Chairperson	1/1/2011
Steve Jordan	Secretary	1/1/2010
Corey Lorenzen	Member	1/1/2010
Frank Magsamen	Member	N/A
Debbie Patton	Treasurer	1/1/2011
Todd Rickert	Member	1/1/2011
Sharon Samec	Member	1/1/2010
Lynn Smith	Vice Chairperson	1/1/2011
Cora Turner	Member	1/1/2011
Cindy Wells	Member	1/1/2011



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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, 2008 and 2007. 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, 2008 and 2007, 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 November 5, 2008 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 and December 20, 2007. 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 covenant or condition imposed or assumed by it in the above bond issue. However, it should be noted that our audits were not directed primarily toward obtaining knowledge of such noncompliance.

Corney, Alexander, Harold & Co., L.L.P.

November 5, 2008

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

Exhibit A

Statements of Financial Position
As of June 30, 2008 and 2007

	2008	2007
- ASSETS -		
Cash and cash equivalents	\$ 13,972	\$ 4,602
Investments	441,664	849,919
Accounts receivable, patient services, less allowance for uncollectible accounts of \$53,824 for 2008 and \$57,547 for 2007	183,660	273,672
Accounts receivable-other	685,577	339,691
Grant income receivable	42,473	48,016
Deposits	3,533	2,450
Prepaid expense	44,742	37,228
Prepaid bond costs	4,018	1,254
Compensation deferral fund	453,160	437,635
	<u>1,872,799</u>	<u>1,994,467</u>
Property and Equipment:		
Building	1,164,897	1,164,897
Land improvements	59,446	59,446
Equipment	453,422	424,180
	<u>1,677,765</u>	<u>1,648,523</u>
Less accumulated depreciation	699,948	632,119
	<u>977,817</u>	<u>1,016,404</u>
 Total Assets	 <u>\$ 2,850,616</u>	 <u>\$ 3,010,871</u>
 - LIABILITIES -		
Accounts payable	\$ 15,098	\$ 26,621
Accrued bonuses	-	43,093
Payroll withholdings payable	6,881	10,505
Accrued compensated absences	177,252	170,117
Deferred revenue	51,278	12,405
Deferred compensation	635,877	630,558
Bonds payable	243,787	648,280
	<u>1,130,173</u>	<u>1,541,579</u>
 Total Liabilities	 <u>1,130,173</u>	 <u>1,541,579</u>
 - NET ASSETS -		
Unrestricted	1,572,833	1,335,580
Temporarily restricted	147,610	133,712
	<u>1,720,443</u>	<u>1,469,292</u>
 Total Net Assets	 <u>1,720,443</u>	 <u>1,469,292</u>
 Total Liabilities and Net Assets	 <u>\$ 2,850,616</u>	 <u>\$ 3,010,871</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, 2008 and 2007

	2008		
	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue:			
Public Support:			
Black Hawk County	\$ 1,375,036	\$ -	\$ 1,375,036
Grundy County	37,012	-	37,012
Other county and state payments	136,844	-	136,844
Federal, State and other program grants	227,829	163,678	391,507
Gifts and bequests	18,805	-	18,805
	1,795,526	163,678	1,959,204
Revenues:			
Fees from patients	1,396,621	-	1,396,621
Interest and dividends on investments	38,980	-	38,980
Realized gain (loss) on sale of investments	60,679	-	60,679
Net unrealized gain (loss) on investments	(83,192)	-	(83,192)
Loss on disposal of fixed assets	-	-	-
Other income	4,990	-	4,990
	1,418,078	-	1,418,078
Net Assets Released From Restrictions:			
Satisfaction of program restrictions	149,780	(149,780)	-
	3,363,384	13,898	3,377,282
Expenses:			
Program services	2,702,542	-	2,702,542
Support services	419,924	-	419,924
Fundraising	3,665	-	3,665
	3,126,131	-	3,126,131
Change in Net Assets	237,253	13,898	251,151
Net Assets, Beginning of Year	1,335,580	133,712	1,469,292
Net Assets, End of Year	\$ 1,572,833	\$ 147,610	\$ 1,720,443

The accompanying notes are an integral part of these statements.

2007

Unrestricted	Temporarily Restricted	Total
\$ 1,392,477	\$ -	\$ 1,392,477
44,296	-	44,296
111,288	-	111,288
322,382	74,538	396,920
7,102	-	7,102
<u>1,877,545</u>	<u>74,538</u>	<u>1,952,083</u>
1,349,051	-	1,349,051
53,485	-	53,485
(19,854)	-	(19,854)
63,935	-	63,935
(8,137)	-	(8,137)
3,497	-	3,497
<u>1,441,977</u>	<u>-</u>	<u>1,441,977</u>
117,708	(117,708)	-
<u>3,437,230</u>	<u>(43,170)</u>	<u>3,394,060</u>
2,545,663	-	2,545,663
410,495	-	410,495
3,148	-	3,148
<u>2,959,306</u>	<u>-</u>	<u>2,959,306</u>
477,924	(43,170)	434,754
<u>857,656</u>	<u>176,882</u>	<u>1,034,538</u>
<u>\$ 1,335,580</u>	<u>\$ 133,712</u>	<u>\$ 1,469,292</u>

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

Statements of Functional Expenses
For the Years Ended June 30, 2008 and 2007

	2008			
	Program Services	Support Services, Management and General	Fundraising	Total
Salaries	\$ 1,951,410	\$ 264,288	\$ 2,048	\$ 2,217,746
Payroll taxes	130,508	20,282	137	150,927
Annuity	82,457	13,132	83	95,672
Health insurance	102,718	17,057	87	119,862
Deferred compensation	(10,205)	-	-	(10,205)
Life insurance	12,115	2,108	13	14,236
Continuing education	13,661	2,524	21	16,206
Other personnel	30,025	977	10	31,012
Total Salaries and Related Expenses	2,312,689	320,368	2,399	2,635,456
Insurance	43,778	7,553	-	51,331
Medical consultants	64,695	-	-	64,695
Contract labor	11,082	2,982	-	14,064
Professional supplies	2,630	259	-	2,889
Medication	2,879	-	-	2,879
Dues	3,619	478	-	4,097
Program supplies	16,021	-	1,226	17,247
Office supplies	40,136	5,296	40	45,472
Equipment maintenance	28,669	3,898	-	32,567
Microfilming	1,331	-	-	1,331
Telephone	15,595	1,021	-	16,616
Equipment lease and rental	10,385	1,412	-	11,797
Building maintenance	10,195	2,743	-	12,938
Utilities	8,959	2,411	-	11,370
Lease of land and storage	16,365	25	-	16,390
Subscriptions	216	-	-	216
Publicity and promotion	2,866	390	-	3,256
Travel expense	36,945	451	-	37,396
Attorney fees	-	11,366	-	11,366
Accounting fees	-	7,385	-	7,385
Bad debts	-	19,779	-	19,779
Interest expense	18,698	5,030	-	23,728
Investment fees	-	10,685	-	10,685
Other	-	1,651	-	1,651
	335,064	84,815	1,266	421,145
Total Expenses Before Depreciation and Amortization	2,647,753	405,183	3,665	3,056,601
Depreciation and amortization	54,789	14,741	-	69,530
Total Expenses	\$ 2,702,542	\$ 419,924	\$ 3,665	\$ 3,126,131

The accompanying notes are an integral part of these statements.

2007				
	Program Services	Support Services, Management and General	Fundraising	Total
\$	1,851,370	\$ 246,299	\$ 1,530	\$ 2,099,199
	121,985	18,842	117	140,944
	73,429	12,314	77	85,820
	88,155	17,034	60	105,249
	(11,195)	-	-	(11,195)
	10,552	2,039	9	12,600
	13,534	1,139	9	14,682
	21,795	1,077	10	22,882
	<u>2,169,625</u>	<u>298,744</u>	<u>1,812</u>	<u>2,470,181</u>
	44,932	4,992	-	49,924
	63,410	-	-	63,410
	10,377	2,992	-	13,369
	3,642	-	-	3,642
	4,582	-	-	4,582
	-	3,447	323	3,770
	20,045	-	1,013	21,058
	39,182	9,796	-	48,978
	27,618	6,904	-	34,522
	1,305	-	-	1,305
	13,854	3,464	-	17,318
	9,270	2,318	-	11,588
	7,410	1,853	-	9,263
	7,862	1,966	-	9,828
	9,270	2,317	-	11,587
	149	-	-	149
	-	3,820	-	3,820
	28,856	-	-	28,856
	-	3,049	-	3,049
	-	7,460	-	7,460
	-	30,862	-	30,862
	29,315	7,329	-	36,644
	-	4,404	-	4,404
	-	1,038	-	1,038
	<u>321,079</u>	<u>98,011</u>	<u>1,336</u>	<u>420,426</u>
	2,490,704	396,755	3,148	2,890,607
	54,959	13,740	-	68,699
\$	<u>2,545,663</u>	<u>\$ 410,495</u>	<u>\$ 3,148</u>	<u>\$ 2,959,306</u>

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

Exhibit D

Statements of Cash Flows
For the Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows from Operating Activities:		
Change in net assets	\$ 251,151	\$ 434,754
Adjustments to reconcile change in net assets net cash provided by operating activities:		
Depreciation of buildings and equipment	67,829	66,191
Amortization of prepaid bond costs	1,701	2,508
Net unrealized (gain) loss on investments	83,192	(63,935)
Realized (gain) loss on sale of investments	(60,679)	19,854
Loss on disposal of fixed assets	-	8,137
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(256,957)	(359,972)
Grant income receivable	5,543	13,928
Inventory	-	495
Prepaid expense	(7,514)	(4,902)
Prepaid bond costs	(4,465)	-
Increase (decrease) in:		
Accounts payable	(11,523)	5,272
Accrued bonuses and withholdings	(39,582)	57,471
Deferred revenue	38,873	(39,214)
Compensation deferral fund	(10,206)	(11,194)
Net Cash Provided By Operating Activities	<u>57,363</u>	<u>129,393</u>
Cash Flows from Investing Activities:		
Purchase of investments	(1,422,043)	(250,450)
Proceeds from sale of investments	1,807,785	177,505
Purchase of fixed assets	(29,242)	(43,068)
Net Cash Provided (Used) By Investing Activities	<u>356,500</u>	<u>(116,013)</u>
Cash Flows from Financing Activities:		
Payments on bonds payable	(404,493)	(31,612)
Net Cash Used By Financing Activities	<u>(404,493)</u>	<u>(31,612)</u>
Net Change in Cash and Cash Equivalents	9,370	(18,232)
Cash and Cash Equivalents at Beginning of Year	4,602	22,834
Cash and Cash Equivalents at End of Year	<u>\$ 13,972</u>	<u>\$ 4,602</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 23,728	\$ 36,644
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 their 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.

Property and Equipment - Property and equipment are 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, 2008.

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, 2008 and 2007. 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, 2008 and 2007 consist of mutual funds and high grade commercial notes carried at their published fair market value of \$441,664 and \$849,919, 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 2008 and 2007.

	2008			2007		
	Cost	Market Value	Unrealized Appreciation (Depreciation)	Cost	Market Value	Unrealized Appreciation (Depreciation)
Unrestricted:						
Mutual Funds:						
Stock Funds	\$ 158,818	\$ 156,335	\$ (2,483)	\$ 318,341	\$ 401,846	\$ 83,505
Bond Funds	244,731	240,529	(4,202)	407,759	395,874	(11,885)
Money Market Funds	44,800	44,800	-	52,199	52,199	-
	\$ 448,349	\$ 441,664	\$ (6,685)	\$ 778,299	\$ 849,919	\$ 71,620

(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	\$ 1,164,897	\$ -	\$ -	\$ 1,164,897
Land improvements	59,446	-	-	59,446
Equipment	424,180	29,242	-	453,422
Total	1,648,523	29,242	-	1,677,765
Less: Accumulated Depreciation	632,119	67,829	-	699,948
Net Book Value	\$ 1,016,404	\$ (38,587)	\$ -	\$ 977,817

Depreciation expense for 2008 and 2007, respectively, was \$67,829 and \$66,191.

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, 2007 and expired June 30, 2008. 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 extended through June 30, 2008 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, 2008 and expires January 14, 2009. The lease does not have any automatic renewal provisions.

The Center entered into an agreement to rent an additional 233 square feet of the Black's Building in Waterloo, Iowa for \$350 per month. The lease began May 1, 2008 and expires April 30, 2009. The lease does not have any automatic renewal provisions.

The Center entered into an agreement to rent office space in the KWVL Building in Waterloo, Iowa. The office space is shared with another party. The rent is \$150 per month, in which the Center is responsible for half. The lease began October 1, 2007 and expires October 1, 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, 2008 and 2007, was \$28,187 and \$23,175, 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:	
2009	\$ 20,385
2010	13,360
2011	2,322
2012	120
2013	120

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

Notes to Financial Statements

(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. No additional premiums were contributed by the Center during the years ended June 30, 2008 and 2007.

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 \$453,160 and \$437,635 at June 30, 2008 and 2007, respectively. Deferred compensation payments made to employees for the years ended June 30, 2008 and 2007 were \$18,103 and \$18,103, respectively. The deferred compensation liability of the Center to the employees was \$635,877 and \$630,558 at June 30, 2008 and 2007, respectively. The current portion of the deferred compensation liability at June 30, 2008 and 2007 was \$18,103 for both years.

(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, 2008 and 2007 totaled \$95,672 and \$85,820, respectively.

(7) Bonds Payable

An addition to the facility was financed through the issuance of tax-exempt bonds of \$826,320 in January, 2001. The bonds were secured by a first mortgage lien on the facility and a security interest in the equipment, revenues and accounts of the Center. Monthly payments of \$5,688 were required on the bonds based on a twenty-year amortization with a final balloon payment due December 20, 2007. The bonds had an interest rate of 5.43%.

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

Notes to Financial Statements

(7) Bonds Payable (continued)

On December 20, 2007, the Center issued a single tax-exempt bond of \$250,000 to partially continue the previous bond issue. The bond is secured by a first mortgage lien on the facility and a security interest in certain personal property, machinery and equipment. The bond contains covenants requiring the Center to maintain certain levels for investments and profitability and restricts the pledging of assets to secure other debt. The single bond payable is based on a five-year amortization with a final payment due December 20, 2012. The Center is required to make monthly payments of \$1,911 and the bond has an interest rate of 4.485%.

At June 30, 2008 and 2007, bonds payable were \$243,787 and \$648,280, respectively. Interest expense for the years ended June 30, 2008 and 2007 was \$23,728 and \$36,644, respectively.

As of June 30, 2008, the maturities of the bonds payable was as follows:

Years ending June 30:	
2009	\$ 12,252
2010	12,812
2011	13,399
2012	14,012
2013	191,312

(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 42% and 47% of its total public support and revenue for the years ended June 30, 2008 and 2007 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, 2008 and 2007.

(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.

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

Notes to Financial Statements

(11) Reclassifications of Net Assets

Net assets were placed under temporary restrictions as follows:

	2008	2007
Funds placed under temporary restriction as required by grant stipulations	\$ 163,678	\$ 74,538
Funds released from temporary restriction due to satisfaction of program restrictions	<u>149,780</u>	<u>117,708</u>
Net assets placed under (released from) restriction	<u>\$ 13,898</u>	<u>\$ (43,170)</u>

Temporarily restricted net assets at June 30, 2008 and 2007 consist of cash and cash equivalents and investments of \$147,610 and \$133,712, respectively.

(12) Accounting Change

For the the year ended June 30, 2007, the Center had recorded reimbursements for services from Iowa Medicaid payors on a cash basis because sufficient information was not available to properly determine the amount of reimbursement that would be due. After settlement of the cost report for 2007 was complete, the Center decided the accrual method of recording the reimbursement was preferable to properly reflect income for 2007 and 2008. The adjustment from the cash basis to the accrual basis of recording the reimbursements has been accounted for as a change in accounting principle.

Accordingly, an adjustment has been made to increase accounts receivable-other by \$313,189 for the year ended June 30, 2007. A corresponding entry for \$313,189 was made to increase fees from patients. This adjustment ultimately increased end of year net assets from \$1,022,391 to \$1,335,580. There was no cumulative effect for years prior to 2007 as this was a new reimbursement method beginning in 2007.

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, 2008, and have issued our report thereon dated October 7, 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, 2008 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, Arnold & Co., L.L.P.

November 5, 2008

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

Schedule of Findings

Year Ended June 30, 2008

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.