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

INDEPENDENT AUDITORS' REPORT
FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 and 2010

 **CARNEY,**
ALEXANDER,
MAROLD & CO., L.L.P.
Certified Public Accountants

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

Table of Contents

	Page
Board of Directors	1
Independent Auditors' Report	2 - 3
Financial Statements:	Exhibit
Statements of Financial Position	A 4
Statements of Activities	B 5
Statements of Functional Expenses	C 6
Statements of Cash Flows	D 7
Notes to Financial Statements	8 - 15
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 <u>Government Auditing Standards</u>	16 - 17
Schedule of Findings	18

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

Board of Directors
June 30, 2011

Name	Title	Term Expires
Kristen Andre	Member	1/1/2014
Charles Bakker	Member	N/A
Stacey Bentley	Chairperson	1/1/2014
Lori Byers	Vice-Chairperson	1/1/2012
Laura Folkerts	Member	1/1/2013
Mary Ellen Warren	Member	1/1/2013
Frank Magsamen	Member	N/A
Beatrice Wilson	Member	1/1/2013
Cora Turner	Member	1/1/2014
Cindy Wells	Secretary	1/1/2014
Sharon Samec	Treasurer	1/1/2013
Bob Brown	Member	1/1/2014
David Buck	Member	1/1/2014
Travis Fell	Member	1/1/2013
Linda Kemp	Member	1/1/2013

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, 2011 and 2010. 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 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 Black Hawk - Grundy Mental Health Center, Inc., at June 30, 2011 and 2010, and the 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 31, 2011 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 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.

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

October 31, 2011

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

Exhibit A

Statements of Financial Position
As of June 30, 2011 and 2010

	2011	2010
- ASSETS -		
Cash and cash equivalents	\$ 185,010	\$ 63,424
Investments	214,556	633,701
Accounts receivable, patient services, less allowance for uncollectible accounts of \$107,145 for 2011 and \$81,206 for 2010	399,644	384,428
Accounts receivable-other	1,173,270	862,236
Grant income receivable	54,874	76,998
Deposits	2,000	2,934
Prepaid expense	55,235	53,918
Prepaid bond costs	2,891	2,232
Compensation deferral fund	506,802	489,841
	<u>2,594,282</u>	<u>2,569,712</u>
Property and Equipment:		
Building	2,716,800	1,266,767
Land	67,799	67,799
Land improvements	56,323	56,323
Equipment	623,677	542,169
	<u>3,464,599</u>	<u>1,933,058</u>
Less accumulated depreciation	900,714	825,334
	<u>2,563,885</u>	<u>1,107,724</u>
 Total Assets	 <u>\$ 5,158,167</u>	 <u>\$ 3,677,436</u>
 - LIABILITIES -		
Accounts payable	\$ 139,095	\$ 39,228
Payroll withholdings payable	11,479	10,475
Accrued payroll	84,844	-
Accrued compensated absences	224,695	220,568
Deferred revenue	-	21,855
Deferred compensation	656,145	649,450
Bonds payable	205,779	219,027
Construction line-of-credit	349,353	-
	<u>1,671,390</u>	<u>1,160,603</u>
 Total Liabilities	 <u>1,671,390</u>	 <u>1,160,603</u>
 - NET ASSETS -		
Unrestricted	3,378,522	2,433,562
Temporarily restricted	108,255	83,271
	<u>3,486,777</u>	<u>2,516,833</u>
 Total Net Assets	 <u>3,486,777</u>	 <u>2,516,833</u>
 Total Liabilities and Net Assets	 <u>\$ 5,158,167</u>	 <u>\$ 3,677,436</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, 2011 and 2010

	2011		
	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue:			
Public Support:			
Black Hawk County	\$ 1,812,170	\$ -	\$ 1,812,170
Grundy County	76,976	-	76,976
Other county and state payments	221,906	-	221,906
Federal, State and other program grants	529,170	36,885	566,055
Gifts and bequests	25,129	-	25,129
Black Hawk Gaming Association donation	750,000	-	750,000
	3,415,351	36,885	3,452,236
Revenues:			
Fees from patients	1,890,025	-	1,890,025
Loss on disposal of fixed assets	-	-	-
Interest and dividends on investments	6,400	-	6,400
Realized gain on sale of investments	23,428	-	23,428
Net unrealized gain on investments	33,170	-	33,170
Other income	2,539	-	2,539
	1,955,562	-	1,955,562
Net Assets Released From Restrictions:			
Satisfaction of program restrictions	11,901	(11,901)	-
	5,382,814	24,984	5,407,798
Expenses:			
Program services	3,938,792	-	3,938,792
Support services	494,871	-	494,871
Fundraising	4,191	-	4,191
	4,437,854	-	4,437,854
Change in Net Assets	944,960	24,984	969,944
Net Assets, Beginning of Year	2,433,562	83,271	2,516,833
Net Assets, End of Year	\$ 3,378,522	\$ 108,255	\$ 3,486,777

The accompanying notes are an integral part of these statements.

2010		
Unrestricted	Temporarily Restricted	Total
\$ 1,680,672	\$ -	\$ 1,680,672
65,037	-	65,037
215,228	-	215,228
394,399	122,882	517,281
31,715	-	31,715
-	-	-
<u>2,387,051</u>	<u>122,882</u>	<u>2,509,933</u>
1,852,439	-	1,852,439
(1,271)	-	(1,271)
24,343	-	24,343
19,067	-	19,067
48,747	-	48,747
2,372	-	2,372
<u>1,945,697</u>	<u>-</u>	<u>1,945,697</u>
135,333	(135,333)	-
<u>4,468,081</u>	<u>(12,451)</u>	<u>4,455,630</u>
3,509,028	-	3,509,028
441,637	-	441,637
3,076	-	3,076
<u>3,953,741</u>	<u>-</u>	<u>3,953,741</u>
514,340	(12,451)	501,889
<u>1,919,222</u>	<u>95,722</u>	<u>2,014,944</u>
<u>\$ 2,433,562</u>	<u>\$ 83,271</u>	<u>\$ 2,516,833</u>

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

Statements of Functional Expenses
For the Years Ended June 30, 2011 and 2010

	2011			
	Program Services	Support Services, Management and General	Fundraising	Total
Salaries	\$ 2,853,166	\$ 323,291	\$ 3,576	\$ 3,180,033
Payroll taxes	197,458	23,679	241	221,378
Annuity	106,763	14,432	179	121,374
Health insurance	145,253	18,343	148	163,744
Deferred compensation	(10,266)	-	-	(10,266)
Life insurance	14,008	2,143	25	16,176
Continuing education	14,226	1,723	15	15,964
Other personnel	34,471	833	7	35,311
Total Salaries and Related Expenses	3,355,079	384,444	4,191	3,743,714
Insurance	62,171	8,209	-	70,380
Medical consultants	112,515	-	-	112,515
Contract labor	58,542	1,800	-	60,342
Professional supplies	6,471	-	-	6,471
Medication	6,227	-	-	6,227
Dues	4,482	508	-	4,990
Program supplies	23,255	-	-	23,255
Office supplies	52,059	5,547	-	57,606
Equipment maintenance	54,033	9,739	-	63,772
Microfilming	-	-	-	-
Telephone	22,853	2,571	-	25,424
Equipment lease and rental	19,983	2,264	-	22,247
Building maintenance	9,873	1,918	-	11,791
Utilities	13,196	2,575	-	15,771
Lease of land and storage	21,227	-	-	21,227
Publicity and promotion	4,400	-	-	4,400
Travel expense	48,608	382	-	48,990
Attorney fees	-	6,302	-	6,302
Professional fees	-	-	-	-
Accounting fees	-	7,175	-	7,175
Bad debts	-	24,220	-	24,220
Interest expense	-	14,877	-	14,877
Investment fees	-	9,788	-	9,788
Other	-	96	-	96
Total Expenses Before Depreciation and Amortization	519,895	97,971	-	617,866
Depreciation and amortization	63,818	12,456	-	76,274
Total Expenses	\$ 3,938,792	\$ 494,871	\$ 4,191	\$ 4,437,854

The accompanying notes are an integral part of these statements.

2010			
Program Services	Support Services, Management and General	Fundraising	Total
\$ 2,515,320	\$ 286,022	\$ 2,633	\$ 2,803,975
176,996	19,954	173	197,123
87,658	13,781	129	101,568
138,900	18,357	111	157,368
(13,295)	-	-	(13,295)
12,894	1,713	14	14,621
16,014	918	11	16,943
22,111	390	5	22,506
<u>2,956,598</u>	<u>341,135</u>	<u>3,076</u>	<u>3,300,809</u>
55,864	7,429	-	63,293
116,147	-	-	116,147
47,039	5,045	-	52,084
8,661	-	-	8,661
8,948	-	-	8,948
3,130	360	-	3,490
23,077	-	-	23,077
51,895	5,851	-	57,746
52,702	9,917	-	62,619
845	-	-	845
20,274	2,026	-	22,300
11,465	1,315	-	12,780
12,391	2,418	-	14,809
9,722	1,898	-	11,620
18,952	73	-	19,025
4,135	-	-	4,135
43,639	428	-	44,067
-	7,300	-	7,300
-	5,583	-	5,583
-	7,000	-	7,000
-	8,054	-	8,054
-	10,275	-	10,275
-	12,604	-	12,604
-	520	-	520
<u>488,886</u>	<u>88,096</u>	<u>-</u>	<u>576,982</u>
3,445,484	429,231	3,076	3,877,791
63,544	12,406	-	75,950
<u>\$ 3,509,028</u>	<u>\$ 441,637</u>	<u>\$ 3,076</u>	<u>\$ 3,953,741</u>

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

Exhibit D

Statements of Cash Flows
For the Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities:		
Change in net assets	\$ 969,944	\$ 501,889
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation of buildings and equipment	75,380	75,057
Amortization of prepaid bond costs	894	893
Net unrealized gain on investments	(33,170)	(48,747)
Realized gain on sale of investments and property	(23,428)	(17,796)
Non-cash contributions received	(19,748)	(30,869)
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(325,316)	(609,751)
Grant income receivable	22,124	125
Prepaid expenses	(2,870)	(5,678)
Increase (decrease) in:		
Accounts payable	99,867	20,476
Accrued withholdings	89,975	26,504
Deferred revenue	(21,855)	(7,036)
Compensation deferral fund	(10,266)	(13,294)
Net Cash Provided (Used) By Operating Activities	<u>821,531</u>	<u>(108,227)</u>
Cash Flows from Investing Activities:		
Purchase of investments	(565,733)	(964,866)
Proceeds from sale of investments	1,041,476	1,301,137
Purchase of fixed assets	(1,511,793)	(216,582)
Net Cash Provided (Used) By Investing Activities	<u>(1,036,050)</u>	<u>119,689</u>
Cash Flows from Financing Activities:		
Proceeds on short-term borrowings	349,353	-
Payments on bonds payable	(13,248)	(12,661)
Net Cash Provided (Used) By Financing Activities	<u>336,105</u>	<u>(12,661)</u>
Net Change in Cash and Cash Equivalents	121,586	(1,199)
Cash and Cash Equivalents at Beginning of Year	63,424	64,623
Cash and Cash Equivalents at End of Year	<u>\$ 185,010</u>	<u>\$ 63,424</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 14,877	\$ 10,275
Income tax	-	-
Non-Cash Investing and Financing Activities:		
Contributions received - computer software	\$ 19,748	\$ 30,869

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.

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 for not for profit organizations. 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 the Financial Accounting Standards Board (FASB) reporting requirements for not for profit organizations. Under those standards, 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 standards, 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.

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.

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

Notes to Financial Statements

(1) Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the statement of financial positions:

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. During the current fiscal year, the Center began construction on a building addition, partially financed through a construction loan. Construction period interest was not capitalized as the applicable amount was not significant. Any property and equipment purchased with a cost of \$1,000 or higher will be capitalized and depreciated.

Compensated Absences - Center employees accumulate a limited amount of earned but unused vacation 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, 2011 and 2010.

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, 2011 and 2010. 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.

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.

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

Notes to Financial Statements

(1) Summary of Significant Accounting Policies (continued)

H. Income Taxes

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. Accordingly, no provision for income taxes is reflected in the financial statements.

The Center adopted accounting standards which require evaluation of the impact of uncertain tax positions taken or expected to be taken in a tax return. In some instances, the Center may be required to recognize a liability related to those tax positions. At June 30, 2011 and 2010, the Center had no uncertain tax positions requiring recognition in the financial statements. The Center is no longer subject to federal and state income tax examinations by tax authorities for years before June 30, 2008.

(2) Fair Value Measurements

The Center's investments are reported at fair value as required by professional standards. Those standards established a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy consists of three broad levels as follows:

Level 1 - Quoted prices in active markets for identical financial instruments that are accessible at the measurement date.

Level 2 - Quoted prices in active markets for similar financial instruments, quoted prices for identical or similar financial instruments in markets that are not active, and models and other valuation methodologies using inputs other than quoted prices that are observable.

Level 3 - Models and other valuation methodologies using significant inputs that are unobservable for financial instruments.

	Fair Value	Fair Value Measurements Using Quoted Markets for Identical Assets (Level 1)
June 30, 2011		
Cash and Equivalents	\$ 1,929	\$ 1,929
Mutual Funds	212,627	212,627
	\$ 214,556	\$ 214,556
June 30, 2010		
Cash and Equivalents	\$ 11,698	\$ 11,698
Mutual Funds	622,003	622,003
	\$ 633,701	\$ 633,701

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

Notes to Financial Statements

(2) Fair Value Measurements (continued)

The fair value of mutual funds is based on quoted net asset value of the shares held by the Center at year-end. The fair values of common stocks, corporate bonds and U.S. Government securities, if any, are based on quoted market prices.

(3) Investments

Unrestricted - The investments at June 30, 2011 and 2010 consist of mutual funds and high grade commercial notes carried at their published fair market value of \$214,556 and \$633,701, respectively. Realized and unrealized gains and losses on investments are reflected on the statements of activities. Values have not been adjusted for market fluctuations subsequent to June 30. Accounting principles generally accepted in the United States of America require adjustment of year end values only when the value has been permanently impaired. Management does not feel market fluctuations have caused permanent impairment to its investment portfolio. Following is a schedule showing the change in fair value for investments for 2011 and 2010.

	2011			2010		
	Cost	Market Value	Unrealized Appreciation (Depreciation)	Cost	Market Value	Unrealized Appreciation (Depreciation)
Unrestricted:						
Mutual Funds:						
Stock Funds	\$ 85,732	\$ 116,615	\$ 30,883	\$ 214,237	\$ 207,053	\$ (7,184)
Bond Funds	95,343	96,012	669	414,965	414,950	(15)
Money Market Funds	1,929	1,929	-	11,698	11,698	-
	\$ 183,004	\$ 214,556	\$ 31,552	\$ 640,900	\$ 633,701	\$ (7,199)

(4) 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	\$ 1,266,767	\$ 1,450,033	\$ -	\$ 2,716,800
Land	67,799	-	-	67,799
Land improvements	56,323	-	-	56,323
Equipment	542,169	81,508	-	623,677
Total	1,933,058	1,531,541	-	3,464,599
Less: Accumulated Depreciation	825,334	75,380	-	900,714
Net Book Value	\$ 1,107,724	\$ 1,456,161	\$ -	\$ 2,563,885

Depreciation expense for 2011 and 2010, respectively, was \$75,380 and \$75,057.

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

Notes to Financial Statements

(5) Leases

The Center rents office space in the Grundy County Memorial Hospital and Waverly Health Center. Both leases are for a term of one year. Rent is based per time utilized, either full or half day. The leases have 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.

Additional office space is rented in the Black's Building in Waterloo, Iowa for \$1,143 per month. The lease began February 1, 2011 and expires January 31, 2012. The lease does not have any automatic renewal provisions.

The Center is also obligated under three noncancelable operating leases for office equipment. The first is a copier with monthly payments of \$1,088 per month ending July 31, 2011. The second is a postage meter with monthly payments of \$137 ending June 30, 2015. The third is a phone system with monthly payments of \$970 for the first 12 months and \$1,940 thereafter. The lease expires September 15, 2015 with an option to renew for an additional three year period.

Rent expense paid on all leases during the year ended June 30, 2011 and 2010, was \$45,118 and \$31,805, 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:	
2012	\$ 32,897
2013	25,821
2014	25,821
2015	25,821
2016	6,044

(6) 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, 2011 and 2010.

The Center previously entered into agreements with certain 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.

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

Notes to Financial Statements

(6) Compensation Deferral (continued)

The cash value of the deferred compensation fund was \$506,802 and \$489,841 at June 30, 2011 and 2010, respectively. Payments made to employees totaled \$25,901 and \$18,103 for the years ended June 30, 2011 and 2010, respectively. The corresponding present value of the deferred compensation liability was \$656,145 for 2011 and \$649,450 for 2010, of which \$14,408 and \$25,901, respectively, is considered current.

(7) Annuities

The Center contributes 5% 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, 2011 and 2010 totaled \$121,374 and \$101,568, respectively.

(8) Debt

On December 20, 2007, the Center issued a single tax-exempt bond of \$250,000 to partially continue the previous bond issue for the addition of the facility in 2001. 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, 2011 and 2010, bonds payable were \$205,779 and \$219,027, respectively.

During the year, the Center partially financed a building addition through a construction line-of-credit obtained from US Bank. Borrowings were not to exceed \$1,500,000. The loan is secured by a mortgage on the West 9th property. Interest payments were due monthly at a rate of 4.00%. At June 30, 2011 the balance was \$349,353.

Subsequent to year-end, the Center rolled existing debt into a new loan in the amount of \$670,000. The loan proceeds will be financed through issuance of a single tax-exempt bond. The loan carries a twenty year term, calculates interest at a rate of 4.4% and calls for monthly payments of \$5,092. The bond is secured by a first mortgage lien on the facility and a security interest in certain personal property, machinery and equipment.

Total interest expense for the year ended June 30, 2011 was \$14,877. Interest expense for the bond was \$10,275 for the year ended June 30, 2010.

As of June 30, 2011, maturities of the new and old loan were as follows:

Years ending June 30:	
2012	\$ 30,638
2013	33,595
2014	35,104
2015	36,680
2016	38,327

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

Notes to Financial Statements

(9) Intangible Assets

Intangible assets are recorded at cost and are amortized using the straight-line method. At June 30, 2011, the Center's intangible assets consist of bond costs, amortized over a five year period. Additional bond costs were paid during the year and will begin amortizing during the next fiscal year. Amortization expense for the years ending June 30, 2011 and 2010, was \$894 and \$893, respectively.

Future estimated amortization expense is as follows:

Years ending June 30:	
2012	\$ 1,177
2013	756
2014	311
2015	311
2016	311

(10) Financial Instruments and Credit Risk

The Center grants credit in the form of accounts receivable for services rendered. The accounts receivable are collectible from individuals receiving service and in many cases third party payors such as insurance carriers. The Center received 35% and 39% of its total public support and revenue for years ended June 30, 2011 and 2010, respectively, from Black Hawk and Grundy Counties.

The Center's financial instruments consist of cash and short-term receivables and payables. The carrying value for all such instruments, considering the terms, approximated fair value at June 30, 2011 and 2010. At various dates during the year, the Center had balances in excess of federally insured limits. Management believes the Center is not exposed to any significant credit risk related to these balances.

(11) 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, 2011 and 2010.

(12) 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

(13) Reclassifications of Net Assets

Net assets were placed under temporary restrictions as follows:

	2011	2010
Funds placed under temporary restriction as required by grant stipulations	\$ 36,885	\$ 122,882
Funds released from temporary restriction due to satisfaction of program restrictions	<u>11,901</u>	<u>135,333</u>
Net assets placed under (released from) restriction	<u>\$ 24,984</u>	<u>\$ (12,451)</u>

Temporarily restricted net assets at June 30, 2011 and 2010 consist of cash and cash equivalents and investments of \$108,255 and \$83,271, respectively.

(14) Commitments

A. Construction Commitment

During the year ended June 30, 2010, the Center entered into a construction contract with Peters Construction for a building addition totaling \$1,433,544. Completed construction at June 30, 2011 was \$1,419,544, leaving a commitment of \$14,000. Upon completion of the building addition, the Center will remit the 5% retainage, totaling \$70,977, to Peters Construction.

B. Purchase Commitment

The Center entered into a commitment to purchase electronic medical records (EMR) software in May 2011. Total cost of the software is \$165,850. The Center plans to subsidize the software purchase with government funds. To receive assistance, the Center must meet and maintain certain conditions. During the year of implementation, the Center must provide proof of a certified EMR software purchase, enroll each eligible professional on the Medicare website and prove that 30% of clients seen over a 90 day period received Medicaid. Each additional year, the Center must demonstrate meaningful use by meeting required measurements set up by Medicare.

(15) Subsequent Events

Management has evaluated subsequent events through October 31, 2011, the date on which the financial statements were available to be issued.

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, 2011, and have issued our report thereon dated October 31, 2011. 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 Center, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Black Hawk - Grundy Mental Health Center's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a significant deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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, noncompliance 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 noncompliance 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, 2011 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.

October 31, 2011

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

Schedule of Findings

Year Ended June 30, 2011

Findings Related to the Financial Statements:

No material weaknesses in internal control over financial reporting were noted.

Other Findings Related to Statutory Requirements and Other Matters:

No matters were noted.