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

INDEPENDENT AUDITORS' REPORT
FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 and 2011

 **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 - 16
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>		17 - 18
Schedule of Findings		19

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

Board of Directors
June 30, 2012

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	1/1/2015
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



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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, 2012 and 2011. 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, 2012 and 2011, 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 January 28, 2013 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 audit for the year ended June 30, 2011, 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.

In connection with our audit for the year ended June 30, 2012, 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 Community Provider Revenue Note, Series 2011 (Black Hawk - Grundy Mental Health Center Project) dated July 1, 2011, except for the following covenant violation: for the year ending June 30, 2012, the Center had a negative fixed charge coverage ratio, which is not within the specified range defined within the requirements of Section 4.05 of the loan agreement.

The Center contacted the bondholders and received a waiver of the default caused by the covenant violations. Further, without the necessity of a special audit, nothing came to our attention that caused us to believe that Black Hawk-Grundy Mental Health Center, Inc. was in default in the performance of any other covenant or condition imposed or assumed by it in the above bond issue, except for the covenant violation noted above. However, it should be noted that our audits were not directed primarily towards obtaining knowledge of such noncompliance.

Caimey, Alexander, Karsel & Co., L.L.P.

January 28, 2013

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

Exhibit A

Statements of Financial Position
As of June 30, 2012 and 2011

	2012	2011
- ASSETS -		
Cash and cash equivalents	\$ 289,376	\$ 185,010
Investments	159,847	214,556
Accounts receivable, patient services, less allowance for uncollectible accounts of \$220,799 for 2012 and \$107,145 for 2011	478,061	399,644
Accounts receivable-other	459,604	1,173,270
Grant income receivable	47,072	54,874
Deposits	3,689	2,000
Prepaid expense	45,805	55,235
Prepaid bond costs	10,549	2,891
Compensation deferral fund	525,518	506,802
	<u>2,019,521</u>	<u>2,594,282</u>
Property and Equipment:		
Building	2,740,802	2,716,800
Land	67,799	67,799
Land improvements	58,498	56,323
Equipment	929,318	623,677
	<u>3,796,417</u>	<u>3,464,599</u>
Less accumulated depreciation	995,882	900,714
	<u>2,800,535</u>	<u>2,563,885</u>
Total Assets	<u>\$ 4,820,056</u>	<u>\$ 5,158,167</u>
- LIABILITIES -		
Accounts payable	\$ 26,196	\$ 139,095
Payroll withholdings payable	13,957	11,479
Accrued payroll	-	84,844
Accrued compensated absences	240,418	224,695
Accrued interest payable	1,040	-
Deferred compensation	672,735	656,145
Bonds payable	646,242	205,779
Line-of-credit	75,000	-
Construction line-of-credit	-	349,353
	<u>1,675,588</u>	<u>1,671,390</u>
Total Liabilities	<u>1,675,588</u>	<u>1,671,390</u>
- NET ASSETS -		
Unrestricted	3,009,348	3,378,522
Temporarily restricted	135,120	108,255
	<u>3,144,468</u>	<u>3,486,777</u>
Total Net Assets	<u>3,144,468</u>	<u>3,486,777</u>
Total Liabilities and Net Assets	<u>\$ 4,820,056</u>	<u>\$ 5,158,167</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, 2012 and 2011

	2012		
	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue:			
Public Support:			
County Social Services	\$ 1,644,503	\$ -	\$ 1,644,503
Grundy County	29,188	-	29,188
Other county and state payments	239,878	-	239,878
Federal, State and other program grants	476,469	37,335	513,804
Gifts and bequests	37,458	-	37,458
Black Hawk Gaming Association donation	-	-	-
	2,427,496	37,335	2,464,831
Revenues:			
Fees from patients	1,588,415	-	1,588,415
Loss on disposal of fixed assets	(473)	-	(473)
Interest and dividends on investments	3,958	-	3,958
Realized gain on sale of investments	4,447	-	4,447
Net unrealized gain (loss) on investments	(6,738)	-	(6,738)
Other income	173,210	-	173,210
	1,762,819	-	1,762,819
Net Assets Released From Restrictions:			
Satisfaction of program restrictions	10,470	(10,470)	-
	4,200,785	26,865	4,227,650
Expenses:			
Program services	3,979,302	-	3,979,302
Support services	587,759	-	587,759
Fundraising	2,898	-	2,898
	4,569,959	-	4,569,959
Change in Net Assets	(369,174)	26,865	(342,309)
Net Assets, Beginning of Year	3,378,522	108,255	3,486,777
Net Assets, End of Year	\$ 3,009,348	\$ 135,120	\$ 3,144,468

The accompanying notes are an integral part of these statements.

2011		
Unrestricted	Temporarily Restricted	Total
\$ 1,812,170	\$ -	\$ 1,812,170
76,976	-	76,976
221,906	-	221,906
529,170	36,885	566,055
25,129	-	25,129
750,000	-	750,000
<u>3,415,351</u>	<u>36,885</u>	<u>3,452,236</u>
1,890,025	-	1,890,025
-	-	-
6,400	-	6,400
23,428	-	23,428
33,170	-	33,170
2,539	-	2,539
<u>1,955,562</u>	<u>-</u>	<u>1,955,562</u>
<u>11,901</u>	<u>(11,901)</u>	<u>-</u>
<u>5,382,814</u>	<u>24,984</u>	<u>5,407,798</u>
3,938,792	-	3,938,792
494,871	-	494,871
4,191	-	4,191
<u>4,437,854</u>	<u>-</u>	<u>4,437,854</u>
944,960	24,984	969,944
<u>2,433,562</u>	<u>83,271</u>	<u>2,516,833</u>
<u>\$ 3,378,522</u>	<u>\$ 108,255</u>	<u>\$ 3,486,777</u>

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

Statements of Functional Expenses
For the Years Ended June 30, 2012 and 2011

	2012			
	Program Services	Support Services, Management and General	Fundraising	Total
Salaries	\$ 2,862,810	\$ 324,461	\$ 2,485	\$ 3,189,756
Payroll taxes	196,097	22,149	173	218,419
Annuity	112,307	(4,646)	124	107,785
Health insurance	138,339	23,400	87	161,826
Deferred compensation	-	(2,127)	-	(2,127)
Life insurance	14,774	1,809	13	16,596
Continuing education	16,002	2,456	11	18,469
Other personnel	33,495	4,592	5	38,092
Total Salaries and Related Expenses	3,373,824	372,094	2,898	3,748,816
Insurance	65,899	9,859	-	75,758
Medical consultants	101,465	-	-	101,465
Contract labor	60,308	2,987	-	63,295
Professional supplies	869	-	-	869
Medication	5,907	-	-	5,907
Dues	3,324	931	-	4,255
Program supplies	22,833	-	-	22,833
Office supplies	26,522	37,593	-	64,115
Equipment maintenance	52,368	15,752	-	68,120
Telephone	23,482	4,443	-	27,925
Equipment lease and rental	26,891	7,419	-	34,310
Building maintenance	17,998	3,431	-	21,429
Utilities	11,528	2,196	-	13,724
Lease of land and storage	23,922	-	-	23,922
Publicity and promotion	5,089	-	-	5,089
Travel expense	52,211	13,410	-	65,621
Attorney fees	-	8,700	-	8,700
Professional fees	-	790	-	790
Accounting fees	-	7,235	-	7,235
Bad debts	-	37,756	-	37,756
Interest expense	-	29,796	-	29,796
Investment fees	-	13,357	-	13,357
Other	-	36	-	36
Total Expenses Before Depreciation and Amortization	500,616	195,691	-	696,307
Depreciation and amortization	3,874,440	567,785	2,898	4,445,123
Total Expenses	3,979,302	587,759	2,898	4,569,959

The accompanying notes are an integral part of these statements.

2011			
Program Services	Support Services, Management and General	Fundraising	Total
\$ 2,853,166	\$ 323,291	\$ 3,576	\$ 3,180,033
197,458	23,679	241	221,378
106,763	14,432	179	121,374
145,253	18,343	148	163,744
(10,266)	-	-	(10,266)
14,008	2,143	25	16,176
14,226	1,723	15	15,964
34,471	833	7	35,311
<u>3,355,079</u>	<u>384,444</u>	<u>4,191</u>	<u>3,743,714</u>
62,171	8,209	-	70,380
112,515	-	-	112,515
58,542	1,800	-	60,342
6,471	-	-	6,471
6,227	-	-	6,227
4,482	508	-	4,990
23,255	-	-	23,255
52,059	5,547	-	57,606
54,033	9,739	-	63,772
22,853	2,571	-	25,424
19,983	2,264	-	22,247
9,873	1,918	-	11,791
13,196	2,575	-	15,771
21,227	-	-	21,227
4,400	-	-	4,400
48,608	382	-	48,990
-	6,302	-	6,302
-	-	-	-
-	7,175	-	7,175
-	24,220	-	24,220
-	14,877	-	14,877
-	9,788	-	9,788
-	96	-	96
<u>519,895</u>	<u>97,971</u>	<u>-</u>	<u>617,866</u>
3,874,974	482,415	4,191	4,361,580
63,818	12,456	-	76,274
<u>\$ 3,938,792</u>	<u>\$ 494,871</u>	<u>\$ 4,191</u>	<u>\$ 4,437,854</u>

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

Exhibit D

Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities:		
Change in net assets	\$ (342,309)	\$ 969,944
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation of buildings and equipment	121,417	75,380
Amortization of prepaid bond costs	3,419	894
Loss on disposal of fixed assets	473	-
Net unrealized (gain) loss on investments	6,738	(33,170)
Realized gain on sale of investments and property	(4,447)	(23,428)
Non-cash contributions received	(34,641)	(19,748)
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	633,560	(325,316)
Grant income receivable	7,802	22,124
Prepaid expenses	(1,647)	(2,870)
Increase (decrease) in:		
Accounts payable	(112,899)	99,867
Accrued withholdings	(65,603)	89,975
Deferred revenue	-	(21,855)
Compensation deferral fund	(2,126)	(10,266)
Net Cash Provided By Operating Activities	<u>209,737</u>	<u>821,531</u>
Cash Flows from Investing Activities:		
Purchase of investments	(55,582)	(565,733)
Proceeds from sale of investments	108,000	1,041,476
Purchase of fixed assets	(323,899)	(1,511,793)
Net Cash Used By Investing Activities	<u>(271,481)</u>	<u>(1,036,050)</u>
Cash Flows from Financing Activities:		
Proceeds on short term borrowings	75,000	349,353
Payments on short term borrowings	(349,353)	-
Proceeds on bonds payable	670,000	-
Payments on bonds payable	(229,537)	(13,248)
Net Cash Provided By Financing Activities	<u>166,110</u>	<u>336,105</u>
Net Change in Cash and Cash Equivalents	104,366	121,586
Cash and Cash Equivalents at Beginning of Year	185,010	63,424
Cash and Cash Equivalents at End of Year	<u>\$ 289,376</u>	<u>\$ 185,010</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 28,756	\$ 14,877
Income tax	-	-
Non-Cash Investing and Financing Activities:		
Contributions received - computer software	\$ 29,271	\$ 19,748
Contributions received - donated artwork	5,370	-

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 Accounting Standards Codification (ASC) 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 restrictions.

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 restrictions 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 prior 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. Construction was completed during the current fiscal year. 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, 2012 and 2011.

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, 2012 and 2011. 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, 2012 and 2011, 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, 2009.

(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, 2012		
Cash and Equivalents	\$ 1,319	\$ 1,319
Mutual Funds	158,528	158,528
	\$ 159,847	\$ 159,847
June 30, 2011		
Cash and Equivalents	\$ 1,929	\$ 1,929
Mutual Funds	212,627	212,627
	\$ 214,556	\$ 214,556

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 stock, corporate bonds and U.S. Government securities, if any, are based on quoted market prices.

(3) Investments

Unrestricted - The investments at June 30, 2012 and 2011 consist of mutual funds and high grade commercial notes carried at their published fair market value of \$159,847 and \$214,556, 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 2012 and 2011.

	2012			2011		
	Cost	Market Value	Unrealized Appreciation (Depreciation)	Cost	Market Value	Unrealized Appreciation (Depreciation)
Unrestricted:						
Mutual Funds:						
Stock Funds	\$ 76,296	\$ 101,396	\$ 25,100	\$ 85,732	\$ 116,615	\$ 30,883
Bond Funds	57,418	57,132	(286)	95,343	96,012	669
Money Market Funds	1,319	1,319	-	1,929	1,929	-
	<u>\$ 135,033</u>	<u>\$ 159,847</u>	<u>\$ 24,814</u>	<u>\$ 183,004</u>	<u>\$ 214,556</u>	<u>\$ 31,552</u>

(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
Building	\$ 2,716,800	\$ 24,002	\$ -	\$ 2,740,802
Land	67,799	-	-	67,799
Land improvements	56,323	2,175	-	58,498
Equipment	623,677	332,363	26,722	929,318
Total	<u>3,464,599</u>	<u>358,540</u>	<u>26,722</u>	<u>3,796,417</u>
Less: Accumulated Depreciation	<u>900,714</u>	<u>121,417</u>	<u>26,249</u>	<u>995,882</u>
Net Book Value	<u>\$ 2,563,885</u>	<u>\$ 237,123</u>	<u>\$ 473</u>	<u>\$ 2,800,535</u>

Depreciation expense for 2012 and 2011, respectively, was \$121,417 and \$75,380.

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 was rented in the Black's Building in Waterloo, Iowa for \$1,143 per month. The lease began February 1, 2011 and expired January 31, 2012. The lease did not have any automatic renewal provisions, and as of expiration was not renewed. The Center continues to rent the office space on a month to month basis.

The Center made payments during the year under three noncancelable operating leases for office equipment. The first, for a copier, with monthly payments of \$1,088 per month ended July 31, 2011. This lease was not renewed upon its expiration. 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 \$2,594 ending 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, 2012 and 2011, was \$58,232 and \$45,118, respectively. Included in rent 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:	
2013	\$ 32,776
2014	32,776
2015	9,427
2016	-
2017	-

(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, 2012 and 2011.

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

Notes to Financial Statements

(6) Compensation Deferral (continued)

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.

The cash value of the deferred compensation fund was \$525,518 and \$506,802 at June 30, 2012 and 2011, respectively. Payments made to employees totaled \$14,808 and \$25,901 for the years ended June 30, 2012 and 2011, respectively. The corresponding present value of the deferred compensation liability was \$672,735 for 2012 and \$656,145 for 2011, of which \$14,808 and \$14,408, 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, 2012 and 2011 totaled \$107,785 and \$121,374, respectively.

(8) Debt

Bonds Payable

On December 20, 2007, the Center issued a single tax-exempt bond for \$250,000 to partially extend a previous bond issue for an addition to the facility in 2001. The bond was secured by a first mortgage lien on the facility and a security interest in certain personal property, machinery and equipment. The bond contained covenants requiring the Center to maintain certain levels for investments and profitability, and restricted the pledging of assets to secure other debt. The bond was payable based on a five-year amortization, with monthly payments of \$1,911, using an interest rate of 4.485%.

On July 1, 2011 the Center issued an additional single tax-exempt bond for \$670,000. The proceeds were used to refund the prior outstanding bond, repay the construction line-of-credit (see paragraph below), and fund the remainder of the facility addition. 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 requires the Center to meet certain covenants on an annual basis. The loan carries a twenty year term, requires monthly payments of \$5,092, with an interest rate of 4.40%. At June 30, 2012 and 2011, bonds payable were \$646,242 and \$205,779, respectively.

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

Notes to Financial Statements

(8) Debt (continued)

Line-of-Credit

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

During the current year, the Center obtained a line-of-credit from US Bank N.A. for cash management purposes. Borrowings are not to exceed \$100,000. The loan is secured by a security interest in certain personal property, inventory, and equipment, dated March 2, 2012. Interest payments are due monthly at a rate of .25% above US Bank's prime lending rate but, not less than 4.00%, and is due January 30, 2013. At June 30, 2012 the balance was \$75,000.

Total interest expense for the year ended June 30, 2012 and 2011 was \$29,796 and \$14,877, respectively.

As of June 30, 2012, maturities of the new bond for the next five years are as follows:

Years ending June 30:	
2013	\$ 33,336
2014	34,833
2015	36,397
2016	38,031
2017	39,739

(9) Intangible Assets

Intangible assets are recorded at cost and are amortized using the straight-line method. At June 30, 2012, the Center's intangible assets consist of bond costs, amortized over a five year period. Amortization expense for the years ending June 30, 2012 and 2011, was \$3,419 and \$894, respectively.

Future estimated amortization expense is as follows:

Years ending June 30:	
2013	\$ 2,972
2014	2,526
2015	2,526
2016	2,525

(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 39% and 35% of its total public support and revenue for years ended June 30, 2012 and 2011, respectively, from County Social Services and Grundy County.

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

Notes to Financial Statements

(10) Financial Instruments and Credit Risk (continued)

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, 2012 and 2011. 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, 2012 and 2011.

(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.

(13) Reclassifications of Net Assets

Net assets were placed under temporary restrictions as follows:

	2012	2011
Funds placed under temporary restriction as required by grant stipulations	\$ 37,335	\$ 36,885
Funds released from temporary restriction due to satisfaction of program restrictions	<u>10,470</u>	<u>11,901</u>
Net assets placed under (released from) restriction	<u>\$ 26,865</u>	<u>\$ 24,984</u>

Temporarily restricted net assets at June 30, 2012 and 2011 consist of cash and cash equivalents and investments of \$135,120 and \$108,255, respectively.

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

Notes to Financial Statements

(14) Commitments

Construction Commitment

At June 30, 2011 the Center's current liabilities included a construction commitment to Peters Construction of \$14,000 and a 5% retainage of \$70,977, from a construction contract for \$1,433,544. Construction was completed during the year with the commitment remitted by the Center at completion, leaving the Center with no future obligation.

(15) Subsequent Events

Management has evaluated subsequent events through January 28, 2013, 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, 2012, and have issued our report thereon dated January 28, 2013. 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

Management of Black Hawk - Grundy Mental Health Center, Inc. is responsible for establishing and maintaining effective 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 an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings.

Comments involving statutory and other legal matters about the Center's operations for the year ended June 30, 2012 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 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 these 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.

January 28, 2013

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

Schedule of Findings

Year Ended June 30, 2012

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:

- (1) Bond Covenant Violation - The Center violated a covenant for the Black Hawk County, Iowa Community Provider Revenue Note, Series 2011 (The Black Hawk-Grundy Mental Health Center, Inc. project) dated July 30, 2011. The covenant violation is for the provision in Section 4.05, whereby the Center had a negative fixed charge coverage ratio, which is not within the specified range defined within the loan agreement.

Recommendation - The Center should contact the bondholders and request a waiver for the event of default caused by the covenant violation, as allowed by Section 6.05 of the loan agreement.

Response - The Center has contacted the bondholders and requested a waiver of the default caused by the covenant violation. The Center has provided and/or will provide the bondholders with current financial statements, projections and cash flow statements as requested.

Conclusion - Response accepted. The waiver was granted January 28, 2013.