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

INDEPENDENT AUDITORS' REPORT
FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 and 2012



**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, 2013

Name	Title	Term Expires
Kristen Andre	Secretary	1/1/2014
Charles Bakker	Member	N/A
Stacey Bentley	Member	1/1/2014
Lori Byers	Member	1/1/2015
Laura Folkerts	Chairperson	1/1/2016
Mary Ellen Warren	Member	1/1/2016
Frank Magsamen	Member	N/A
Beatrice Wilson	Member	1/1/2013
Kyle Henderson	Member	1/1/2015
Cindy Wells	Member	1/1/2014
Lynn Smith	Member	1/1/2016
Bob Brown	Vice-Chairperson	1/1/2014
David Buck	Treasurer	1/1/2014
Linda Kemp	Member	1/1/2016
Tom Eachus	Executive Director	Indefinite



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Independent Auditors' Report

Board of Directors
Black Hawk - Grundy Mental Health Center, Inc.
Waterloo, Iowa

Report on Financial Statements

We have audited the accompanying Statements of Financial Position of Black Hawk - Grundy Mental Health Center, Inc. (a nonprofit organization) as of and for the years ended June 30, 2013 and 2012, the related Statements of Activities, Functional Expenses, and Cash Flows for the years then ended and the Notes to the Financial Statements.

Managements Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its net assets and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 29, 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 considering Black Hawk - Grundy Mental Health Center, Inc.'s internal control over financial reporting and compliance.

Other Matters

In connection with our audit for the year ended June 30, 2013, 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 years ending June 30, 2013 and 2012, the Center had negative fixed charge coverage ratios, 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 in a letter dated October 28, 2013. 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.

Carey Alexander, Russell Co., L.L.P.

October 29, 2013

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

Exhibit A

Statements of Financial Position
As of June 30, 2013 and 2012

	2013	2012
- ASSETS -		
Cash and cash equivalents	\$ 155,473	\$ 289,376
Investments	176,046	159,847
Accounts receivable, patient services, less allowance for uncollectible accounts of \$109,469 for 2013 and \$220,799 for 2012	448,445	478,061
Accounts receivable-other	391,947	459,604
Grant income receivable	77,738	47,072
Deposits	830	3,689
Prepaid expense	46,176	45,805
Prepaid bond costs	7,577	10,549
Compensation deferral fund	542,167	525,518
	<u>1,846,399</u>	<u>2,019,521</u>
Property and Equipment:		
Building	2,746,652	2,740,802
Land	67,799	67,799
Land improvements	58,498	58,498
Equipment	938,156	929,318
	<u>3,811,105</u>	<u>3,796,417</u>
Less accumulated depreciation	1,165,142	995,882
	<u>2,645,963</u>	<u>2,800,535</u>
 Total Assets	 <u>\$ 4,492,362</u>	 <u>\$ 4,820,056</u>
 - LIABILITIES -		
Accounts payable	\$ 17,229	\$ 26,196
Payroll withholdings payable	11,545	13,957
Accrued payroll	363	-
Accrued compensated absences	246,868	240,418
Accrued interest payable	750	1,040
Deferred compensation	711,118	672,735
Bonds payable	613,302	646,242
Line-of-credit	-	75,000
	<u>1,601,175</u>	<u>1,675,588</u>
 Total Liabilities	 <u>1,601,175</u>	 <u>1,675,588</u>
 - NET ASSETS -		
Unrestricted	2,727,889	3,009,348
Temporarily restricted	163,298	135,120
	<u>2,891,187</u>	<u>3,144,468</u>
 Total Net Assets	 <u>2,891,187</u>	 <u>3,144,468</u>
 Total Liabilities and Net Assets	 <u>\$ 4,492,362</u>	 <u>\$ 4,820,056</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, 2013 and 2012

	2013		
	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue:			
Public Support:			
County Social Services	\$ 1,725,135	\$ -	\$ 1,725,135
Grundy County	-	-	-
Other county and state payments	246,873	-	246,873
Federal, State and other program grants	527,386	38,248	565,634
Gifts and bequests	2,774	-	2,774
	2,502,168	38,248	2,540,416
Revenues:			
Fees from patients	1,836,449	-	1,836,449
Loss on disposal of fixed assets	-	-	-
Interest and dividends on investments	4,665	-	4,665
Realized gain on sale of investments	1,906	-	1,906
Net unrealized gain (loss) on investments	11,731	-	11,731
Other income	4,204	-	4,204
	1,858,955	-	1,858,955
Net Assets Released From Restrictions:			
Satisfaction of program restrictions	10,070	(10,070)	-
	4,371,193	28,178	4,399,371
Total Public Support and Revenues			
Expenses:			
Program services	3,696,378	-	3,696,378
Support services	954,321	-	954,321
Fundraising	1,953	-	1,953
	4,652,652	-	4,652,652
Change in Net Assets	(281,459)	28,178	(253,281)
Net Assets, Beginning of Year	3,009,348	135,120	3,144,468
Net Assets, End of Year	\$ 2,727,889	\$ 163,298	\$ 2,891,187

The accompanying notes are an integral part of these statements.

2012		
Unrestricted	Temporarily Restricted	Total
\$ 1,644,503	\$ -	\$ 1,644,503
29,188	-	29,188
239,878	-	239,878
476,469	37,335	513,804
37,458	-	37,458
<u>2,427,496</u>	<u>37,335</u>	<u>2,464,831</u>
1,588,415	-	1,588,415
(473)	-	(473)
3,958	-	3,958
4,447	-	4,447
(6,738)	-	(6,738)
173,210	-	173,210
<u>1,762,819</u>	<u>-</u>	<u>1,762,819</u>
10,470	(10,470)	-
<u>4,200,785</u>	<u>26,865</u>	<u>4,227,650</u>
3,979,302	-	3,979,302
587,759	-	587,759
2,898	-	2,898
<u>4,569,959</u>	<u>-</u>	<u>4,569,959</u>
(369,174)	26,865	(342,309)
<u>3,378,522</u>	<u>108,255</u>	<u>3,486,777</u>
<u>\$ 3,009,348</u>	<u>\$ 135,120</u>	<u>\$ 3,144,468</u>

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

Statements of Functional Expenses
For the Years Ended June 30, 2013 and 2012

	2013			
	Program Services	Support Services, Management and General	Fundraising	Total
Salaries	\$ 2,562,803	\$ 603,011	\$ 1,654	\$ 3,167,468
Payroll taxes	174,589	44,105	116	218,810
Annuity	103,851	22,650	83	126,584
Health insurance	110,558	53,184	64	163,806
Deferred compensation	-	21,735	-	21,735
Life insurance	10,588	2,682	9	13,279
Continuing education	24,181	6,043	27	30,251
Other personnel	20,738	2,976	-	23,714
Total Salaries and Related Expenses	3,007,308	756,386	1,953	3,765,647
Insurance	78,949	8,743	-	87,692
Medical consultants	77,700	-	-	77,700
Contract labor	62,390	2,958	-	65,348
Professional supplies	1,635	-	-	1,635
Medication	6,381	-	-	6,381
Dues	4,305	1,013	-	5,318
Program supplies	19,351	-	-	19,351
Office supplies	41,112	9,210	-	50,322
Equipment maintenance	101,353	23,068	-	124,421
Telephone	25,827	4,284	-	30,111
Equipment lease and rental	26,949	6,244	-	33,193
Building maintenance	15,037	3,397	-	18,434
Utilities	12,352	2,907	-	15,259
Lease of land and storage	25,758	-	-	25,758
Publicity and promotion	3,737	-	-	3,737
Travel expense	46,812	2,510	-	49,322
Attorney fees	-	9,784	-	9,784
Professional fees	-	700	-	700
Accounting fees	-	7,650	-	7,650
Bad debts	-	41,014	-	41,014
Interest expense	-	29,119	-	29,119
Investment fees	-	11,226	-	11,226
Other	-	1,298	-	1,298
	549,648	165,125	-	714,773
Total Expenses Before Depreciation and Amortization	3,556,956	921,511	1,953	4,480,420
Depreciation and amortization	139,422	32,810	-	172,232
Total Expenses	\$ 3,696,378	\$ 954,321	\$ 1,953	\$ 4,652,652

The accompanying notes are an integral part of these statements.

2012			
Program Services	Support Services, Management and General	Fundraising	Total
\$ 2,862,810	\$ 324,461	\$ 2,485	\$ 3,189,756
196,097	22,149	173	218,419
112,307	(4,646)	124	107,785
138,339	23,400	87	161,826
-	(2,127)	-	(2,127)
14,774	1,809	13	16,596
16,002	2,456	11	18,469
33,495	4,592	5	38,092
<u>3,373,824</u>	<u>372,094</u>	<u>2,898</u>	<u>3,748,816</u>
65,899	9,859	-	75,758
101,465	-	-	101,465
60,308	2,987	-	63,295
869	-	-	869
5,907	-	-	5,907
3,324	931	-	4,255
22,833	-	-	22,833
26,522	37,593	-	64,115
52,368	15,752	-	68,120
23,482	4,443	-	27,925
26,891	7,419	-	34,310
17,998	3,431	-	21,429
11,528	2,196	-	13,724
23,922	-	-	23,922
5,089	-	-	5,089
52,211	13,410	-	65,621
-	8,700	-	8,700
-	790	-	790
-	7,235	-	7,235
-	37,756	-	37,756
-	29,796	-	29,796
-	13,357	-	13,357
-	36	-	36
<u>500,616</u>	<u>195,691</u>	<u>-</u>	<u>696,307</u>
3,874,440	567,785	2,898	4,445,123
104,862	19,974	-	124,836
<u>\$ 3,979,302</u>	<u>\$ 587,759</u>	<u>\$ 2,898</u>	<u>\$ 4,569,959</u>

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

Exhibit D

Statements of Cash Flows
For the Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities:		
Change in net assets	\$ (253,281)	\$ (342,309)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation of buildings and equipment	169,260	121,417
Amortization of prepaid bond costs	2,972	3,419
Loss on disposal of fixed assets	-	473
Net unrealized (gain) loss on investments	(11,731)	6,738
Realized gain on sale of investments and property	(1,906)	(4,447)
Non-cash contributions received	(400)	(34,641)
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	100,132	633,560
Grant income receivable	(30,666)	7,802
Prepaid expenses	(371)	(1,647)
Increase (decrease) in:		
Accounts payable	(8,967)	(112,899)
Accrued withholdings	4,111	(65,603)
Compensation deferral fund	21,734	(2,126)
Net Cash Provided (Used) By Operating Activities	<u>(9,113)</u>	<u>209,737</u>
Cash Flows from Investing Activities:		
Purchase of investments	(13,064)	(55,582)
Proceeds from sale of investments	10,502	108,000
Purchase of fixed assets	(14,288)	(323,899)
Net Cash Used By Investing Activities	<u>(16,850)</u>	<u>(271,481)</u>
Cash Flows from Financing Activities:		
Proceeds on short term borrowings	185,000	75,000
Payments on short term borrowings	(260,000)	(349,353)
Proceeds on bonds payable	-	670,000
Payments on bonds payable	(32,940)	(229,537)
Net Cash Provided (Used) By Financing Activities	<u>(107,940)</u>	<u>166,110</u>
Net Change in Cash and Cash Equivalents	(133,903)	104,366
Cash and Cash Equivalents at Beginning of Year	289,376	185,010
Cash and Cash Equivalents at End of Year	<u>\$ 155,473</u>	<u>\$ 289,376</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 28,369	\$ 28,756
Non-Cash Investing and Financing Activities:		
Contributions received - computer software	\$ 590	\$ 29,271
Contributions received - donated office equipment	400	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. 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, 2013 and 2012.

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, 2013 and 2012. 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, 2013 and 2012, 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, 2010.

(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, 2013		
Cash and Equivalents	\$ 2,276	\$ 2,276
Mutual Funds	173,770	173,770
	\$ 176,046	\$ 176,046
June 30, 2012		
Cash and Equivalents	\$ 1,319	\$ 1,319
Mutual Funds	158,528	158,528
	\$ 159,847	\$ 159,847

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, 2013 and 2012 consist of mutual funds and high grade commercial notes carried at their published fair market value of \$176,046 and \$159,847, 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 2013 and 2012.

	2013			2012		
	Cost	Market Value	Unrealized Appreciation (Depreciation)	Cost	Market Value	Unrealized Appreciation (Depreciation)
Unrestricted:						
Mutual Funds:						
Stock Funds	\$ 76,073	\$ 113,270	\$ 37,197	\$ 76,296	\$ 101,396	\$ 25,100
Bond Funds	60,974	60,500	(474)	57,418	57,132	(286)
Money Market Funds	2,276	2,276	-	1,319	1,319	-
	<u>\$ 139,323</u>	<u>\$ 176,046</u>	<u>\$ 36,723</u>	<u>\$ 135,033</u>	<u>\$ 159,847</u>	<u>\$ 24,814</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	\$ 2,740,802	\$ 5,850	\$ -	\$ 2,746,652
Land	67,799	-	-	67,799
Land improvements	58,498	-	-	58,498
Equipment	929,318	8,838	-	938,156
Total	<u>3,796,417</u>	<u>14,688</u>	<u>-</u>	<u>3,811,105</u>
Less: Accumulated Depreciation	<u>995,882</u>	<u>169,260</u>	<u>-</u>	<u>1,165,142</u>
Net Book Value	<u>\$ 2,800,535</u>	<u>\$ (154,572)</u>	<u>\$ -</u>	<u>\$ 2,645,963</u>

Depreciation expense for 2013 and 2012, respectively, was \$169,260 and \$121,417.

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 two noncancelable operating leases for office equipment. The first is a postage meter with monthly payments of \$137 ending June 30, 2015. The second 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, 2013 and 2012, was \$58,951 and \$58,232, 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:	
2014	\$ 32,776
2015	9,427
2016	-
2017	-
2018	-

(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, 2013 and 2012.

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 \$542,167 and \$525,518 at June 30, 2013 and 2012, respectively. Payments made to employees totaled \$14,808 for the years ended June 30, 2013 and 2012. The corresponding present value of the deferred compensation liability was \$711,118 for 2013 and \$672,735 for 2012, 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, 2013 and 2012 totaled \$126,584 and \$107,785, respectively.

(8) Debt

Bonds Payable

On July 1, 2011 the Center issued a single tax-exempt bond for \$670,000. The proceeds were used to refund a 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, 2013 and 2012, bonds payable were \$613,302 and \$646,242, respectively.

Line-of-Credit

During the year ended June 30, 2011, 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.

During the previous fiscal 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%. The loan was originally due January 30, 2013, but was renewed for an additional year with a new maturity date of January 30, 2014. At June 30, 2013 and 2012 the balance was \$0 and \$75,000, respectively.

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

Notes to Financial Statements

(8) Debt (continued)

Total interest expense for the year ended June 30, 2013 and 2012 was \$29,119 and \$29,796, respectively.

As of June 30, 2013, maturities of the bond for the next five years are as follows:

Years ending June 30:		
2014	\$	34,815
2015		36,378
2016		38,012
2017		39,718
2018		41,502

(9) Intangible Assets

Intangible assets are recorded at cost and are amortized using the straight-line method. At June 30, 2013, the Center's intangible assets consist of bond costs, amortized over a five year period. Amortization expense for the years ending June 30, 2013 and 2012, was \$2,972 and \$3,419, respectively.

Future estimated amortization expense is as follows:

Years ending June 30:		
2014	\$	2,526
2015		2,526
2016		2,525
2017		-

(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% of its total public support and revenue for years ended June 30, 2013 and 2012 from County Social Services.

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, 2013 and 2012. 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, 2013 and 2012.

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

Notes to Financial Statements

(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:

	2013	2012
Funds placed under temporary restriction as required by grant stipulations	\$ 38,248	\$ 37,335
Funds released from temporary restriction due to satisfaction of program restrictions	<u>10,070</u>	<u>10,470</u>
Net assets placed under (released from) restriction	<u>\$ 28,178</u>	<u>\$ 26,865</u>

Temporarily restricted net assets at June 30, 2013 and 2012 consist of cash and cash equivalents and investments of \$163,298 and \$135,120, respectively.

(14) Subsequent Events

Management has evaluated subsequent events through October 29, 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 in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of Black Hawk - Grundy Mental Health Center, Inc., Waterloo, Iowa, (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Black Hawk - Grundy Mental Health Center, Inc's internal control over financial reporting to determine the audit procedures appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Black Hawk - Grundy Mental Health Center, Inc's internal control.

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 deficiency, or a 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 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.

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, 2013 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.

Black Hawk - Grundy Mental Health Center's Responses to Findings

Black Hawk - Grundy Mental Health Center's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Black Hawk - Grundy Mental Health Center's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.

Carmey, Alexander, Rosold & Co., L.L.P.

October 29, 2013

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

Schedule of Findings

Year Ended June 30, 2013

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 of 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. A similar covenant violation was noted as a result of the prior year's audit.

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. The Center will also comply with the additional liquidity covenant the bondholder has added to the existing loan agreement in consideration of the current year waiver.

Conclusion - Response accepted. The waiver was granted in a letter dated October 28, 2013.