

Alcohol and Drug Dependency Services of Southeast Iowa

**Independent Auditor's Reports
Financial Statements and Supplemental Information**

June 30, 2004

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**Alcohol and Drug Dependency Services of Southeast Iowa
Board of Directors
June 30, 2004**

	<u>Title</u>	<u>Term Expires</u>
Russ Kuhlemeier	President	October, 2006
Donna Matheney	Vice President	October, 2006
Nina Allison	Secretary	October, 2006
Robert Ritson	Treasurer	October, 2005
William Bauer	Director	October, 2004
Ben Diewold	Director	October, 2004
Edgar Blow	Director	October, 2005
Greg Moore	Director	October, 2006
Christine Niggemeyer	Director	October, 2006
Steve Tiemeier	Director	October, 2006
Margaret Wagner	Director	October, 2006
Richard Swanson	Executive Director	Indefinite

James Walker, CPA
James Egerton, CPA
Kimberly Hunsaker, CPA
Melodee Walker, CPA
Stephanie Hoschek, CPA
William Hesse, LPA



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Independent Auditor's Report

To the Board of Directors
Alcohol and Drug Dependency Services of Southeast Iowa
Burlington, Iowa

We have audited the accompanying financial statements, listed in the table of contents of this report, of Alcohol and Drug Dependency Services of Southeast Iowa (a nonprofit corporation) as of and for the year ended June 30, 2004. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides 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 Alcohol and Drug Dependency Services of Southeast Iowa, as of June 30, 2004, and the results of its operations and changes in net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2004, on our consideration of Alcohol and Drug Dependency Services of Southeast Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental information on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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October 26, 2004

Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Financial Position
June 30, 2004

Assets

Cash	\$ 424,371
Accounts receivable:	
Grants and allocations	82,668
Client fees and other services, net of allowance of \$12,546	11,192
Other assets	18,490
Property and equipment:	
Building	1,562,425
Furniture and fixtures	19,413
Equipment	146,502
Accumulated depreciation	<u>(832,195)</u>
	<u>\$ 1,432,866</u>

Liabilities and Net Assets

Liabilities:	
Accounts payable	\$ 25,568
Accrued payroll	65,315
Payroll taxes payable	5,377
Mortgage payable	<u>29,425</u>
	<u>125,685</u>
Net assets:	
Board designated	177,368
Unrestricted	<u>1,129,813</u>
	<u>1,307,181</u>
	<u>\$ 1,432,866</u>

See accompanying independent auditor's report.

**Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Activities
Year Ended June 30, 2004**

Public Support and Revenue:

Public support:

Iowa Department of Public Health:

Treatment program	\$ 654,637
Prevention program	112,348
Gambling treatment program	71,522
Other grants	209,165
County allocations	64,374
City allocations	3,855
United Way	<u>29,783</u>
	<u>1,145,684</u>

Revenues:

Resident recovery program fees	84,928
Client fees	174,069
Other services	69,327
Interest on investments	3,871
Gain on disposition of fixed assets	3,423
Miscellaneous	<u>10,416</u>
	<u>346,034</u>

Total public support and revenue	<u>1,491,718</u>
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Expenses:

Program services	1,068,047
Supporting services	<u>408,373</u>
Total expenses	<u>1,476,420</u>

Change in net assets	15,298
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Net assets, beginning of year	<u>1,291,883</u>
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Net assets, end of year	<u>\$ 1,307,181</u>
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See accompanying independent auditor's report.

**Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Functional Expenses
Year Ended June 30, 2004**

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Total</u>
Salaries	\$ 586,535	\$ 220,561	\$ 807,096
Benefits and taxes	<u>138,217</u>	<u>55,025</u>	<u>193,242</u>
Total salaries and related expenses	724,752	275,586	1,000,338
Travel	24,822	24,785	49,607
Education and training	4,746	17,832	22,578
Contract services	86,312	10,373	96,685
Insurance	15,522	15,351	30,873
Occupancy	47,579	3,110	50,689
Supplies	95,452	5,274	100,726
Telephone	13,439	3,772	17,211
Equipment maintenance	140	17,384	17,524
Interest expense	-	391	391
Other expenses	<u>6,218</u>	<u>10,154</u>	<u>16,372</u>
Total expenses before depreciation	1,018,982	384,012	1,402,994
Depreciation	<u>49,065</u>	<u>24,361</u>	<u>73,426</u>
Total expenses	<u>\$ 1,068,047</u>	<u>\$ 408,373</u>	<u>\$ 1,476,420</u>

See accompanying independent auditor's report.

**Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Cash Flows
Year Ended June 30, 2004**

Cash flows from operating activities:	
Increase in net assets	\$ 15,298
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Gain on disposition of fixed asset	(3,423)
Depreciation	73,426
Change in assets and liabilities:	
(Increase) in:	
Accounts receivable	(29,794)
Other assets	(10,646)
Increase in	
Accounts payable and accrued expenses	<u>6,047</u>
Net cash provided by operating activities	<u>50,908</u>
 Cash flows from investing activities:	
Proceeds from disposition of fixed asset	17,121
Capital expenditures	<u>(93,674)</u>
Net cash (used) by investing activities	<u>(76,553)</u>
 Cash flows from financing activities:	
Proceeds from issuance of long-term debt	30,000
Reduction of long-term debt	<u>(575)</u>
Net cash provided by financing activities	<u>29,425</u>
Net increase in cash	3,780
Cash, beginning of year	<u>420,591</u>
Cash, end of year	<u>\$ 424,371</u>
 Supplemental disclosure of cash flow information:	
Cash paid during the year for interest	<u>\$ 391</u>

See accompanying independent auditor's report.

Alcohol and Drug Dependency Services of Southeast Iowa
Notes to Financial Statements
June 30, 2004

Note 1. Summary of Significant Accounting Policies

Reporting Entity - Alcohol and Drug Dependency Services of Southeast Iowa is a nonprofit corporation organized to provide education and group counseling for substance abusers and their families in addition to providing residential care for adult substance abusers. Services are provided primarily to residents of southeast Iowa.

The Organization 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 provides tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes.

The Organization's financial statements are prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Financial Accounting Standards Board for non-profit corporations.

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 U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Basis of Presentation - 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 Organization and changes therein are classified and reported as unrestricted net assets. Unrestricted net assets are not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of 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.

Cash and Equivalents - The Organization considers cash held in checking, money market accounts, savings accounts and all other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Alcohol and Drug Dependency Services of Southeast Iowa
Notes to Financial Statements
June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

Accounts Receivable - Accounts receivable are primarily for service performed. The allowance for doubtful accounts is estimated based on current and prior experience with the outstanding accounts. Accounts are written off when management believes the account is uncollectible.

Property and Equipment - Property and equipment are stated at cost. Expenditures in excess of \$500 for property and equipment that provide future benefit are capitalized. Depreciation is computed by the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings	15-32
Furniture and fixtures	7
Equipment	5-7

Property and equipment that were acquired with government funds must be offered back to the related agency prior to any disposition.

Public Support - United Way - Support from United Way represents amounts actually received or due, net of related fund-raising expenses. Accordingly, such related fund-raising expenses are not included in these statements.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Alcohol and Drug Dependency Services of Southeast Iowa
Notes to Financial Statements
June 30, 2004

Note 2. Grants and Allocations

Revenues were received from the following agencies for the year ended June 30, 2004, and the accounts receivable - grants and allocations include the following balances with those agencies as of June 30, 2004:

	<u>Grants and Allocations</u>	<u>Accounts Receivable</u>
Iowa Department of Public Health and related organizations	\$ 838,507	\$ 31,428
Counties	64,374	-
Cities	3,855	-
Other grants	209,165	51,240
United Way allocations	<u>29,783</u>	<u>-</u>
	<u>\$1,145,684</u>	<u>\$ 82,668</u>

The Organization received \$60,560 for services performed in prior years as part of the allocation from the Iowa Department of Public Health for the Treatment program. The third party contracts with the Iowa Department of Public Health are to provide a minimum number of units of service state wide. The organization exceeded its minimum for the year ended June 30, 2003 and was not paid for the excess units served. It was determined by the third party that its excess funds received from the Department of Public Health should have been reallocated to the organization providing the excess units of service and the funds were remitted during the year ended June 30, 2004. U.S. generally accepted accounting standards require the funds to be reported in the current year rather than as a prior period adjustment. Any amounts the Organization may receive for services performed during the year ended June 30, 2004 cannot be determined.

Note 3. Leased Equipment and Facilities

The Organization is leasing office equipment under an operating lease expiring in March, 2005 with payments of \$464 per month. Future minimum lease payments are \$4,176 payable during the year ended June 30, 2005. Total office equipment rental expense under this agreement was \$5,568 for the year ended June 30, 2004.

The Organization leased a facility in Wapello, Iowa which it purchased during the year ended June 30, 2004. The Wapello facility was leased on a month-to-month basis, at \$150 per month. Total rent expense for the Wapello facility was \$1,350 for the year ended June 30, 2004.

Alcohol and Drug Dependency Services of Southeast Iowa
Notes to Financial Statements
June 30, 2004

Note 4. Concentration of Revenues and Credit Risk

The Organization receives the majority of its funding through various state and federal grants. If these funding sources were removed, the organization could have difficulty meeting its functional obligations.

Note 5. Allocation of Expenses - Statement of Functional Expenses

The allocation of expenses on the Statement of Functional Expenses is based on actual amounts when identifiable with a particular program, or allocated based on estimates furnished by management of the Organization.

Note 6. Pension Plan

The Organization has a pension plan covering full-time employees who have one year of service. The plan states that the organization will contribute an amount equal to two percent of each eligible employee's gross salary. If the employee elects to make a two percent contribution, the organization will match it, making the organization's total contribution four percent. Total pension expense for the year was \$45,212. There is no past service cost.

Note 7. Risk Management

Alcohol and Drug Dependency Services of Southeast Iowa 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 the purchase of commercial insurance. The Organization assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Note 8. Board Designated Net Assets

The Board of Directors has designated net assets for future expenditures as follows:

Staff	\$ 2,595
Capital expenditures	49,672
Depreciation sinking fund	<u>125,101</u>
	\$ <u><u>177,368</u></u>

Alcohol and Drug Dependency Services of Southeast Iowa
Notes to Financial Statements
June 30, 2004

Note 9. Mortgage Payable

The organization has a mortgage payable that is secured by the Wapello office building and has principal outstanding of \$29,425 at June 30, 2004. The note is payable in monthly installments of \$322, including interest at 5.25%. The note matures in March, 2009, but was paid in full in August, 2004.

**Alcohol and Drug Dependency Services of Southeast Iowa
Detail of Functional Expenses - Program Services
Year Ended June 30, 2004**

	<u>Treatment</u>	<u>Prevention</u>	<u>JAIGB</u>	<u>Gambling</u>	<u>DECAT</u>	<u>SIG</u>	<u>Total</u>
Salaries	\$ 412,098	\$ 102,179	\$ 19,813	\$ 24,146	\$ -	\$28,299	\$ 586,535
Benefits and taxes	<u>95,407</u>	<u>24,950</u>	<u>4,914</u>	<u>6,072</u>	<u>-</u>	<u>6,874</u>	<u>138,217</u>
Total salaries and related expenses	507,505	127,129	24,727	30,218	-	35,173	724,752
Travel	9,195	8,141	3,046	3,034	-	1,406	24,822
Education and training	3,438	577	-	151	-	580	4,746
Contract services	17,947	28,723	2,972	2,262	8,321	26,087	86,312
Insurance	11,651	2,526	-	657	-	688	15,522
Occupancy	46,017	1,467	-	93	-	2	47,579
Supplies	57,794	9,277	586	1,012	20	26,763	95,452
Telephone	10,002	1,404	194	1,344	66	429	13,439
Equipment maintenance	-	-	-	-	-	140	140
Interest expense	-	-	-	-	-	-	-
Other expenses	<u>3,577</u>	<u>1,349</u>	<u>-</u>	<u>244</u>	<u>-</u>	<u>1,048</u>	<u>6,218</u>
Total expenses before depreciation	667,126	180,593	31,525	39,015	8,407	92,316	1,018,982
Depreciation	<u>34,961</u>	<u>14,104</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,065</u>
Total expenses	<u>\$ 702,087</u>	<u>\$ 194,697</u>	<u>\$ 31,525</u>	<u>\$ 39,015</u>	<u>\$ 8,407</u>	<u>\$92,316</u>	<u>\$ 1,068,047</u>

See accompanying independent auditor's report.

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Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

To the Board of Directors
Alcohol and Drug Dependency Services of Southeast Iowa
Burlington, Iowa

We have audited the financial statements of Alcohol and Drug Dependency Services of Southeast Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 26, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Alcohol and Drug Dependency Services of Southeast Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Alcohol and Drug Dependency Services of Southeast Iowa's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of Alcohol and Drug Dependency Services of Southeast Iowa in a separate letter dated October 26, 2004.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Alcohol and Drug Dependency Services of Southeast Iowa and other parties to whom the Organization 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 Alcohol and Drug Dependency Services of Southeast Iowa 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.

October 26, 2004