

Alcohol and Drug Dependency Services of Southeast Iowa

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

June 30, 2007

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**Alcohol and Drug Dependency Services of Southeast Iowa
Board of Directors
June 30, 2007**

	<u>Title</u>	<u>Term Expires</u>
Ben Diewold	President	October, 2007
Robert Ritson	Vice President	October, 2008
Mary Margaret Wagner	Secretary	October, 2009
Russ Kuhlemeier	Treasurer	October, 2008
Nina Allison	Director	October, 2009
William Bauer	Director	October, 2007
Steve Bohlen	Director	October, 2007
Adam Cates	Director	October, 2009
Jeff Heland	Director	October, 2009
Joe Skelley	Director	October, 2009
Richard Swanson	Executive Director	Indefinite



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Independent Auditor's Report

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, 2007. 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 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, 2007, and the changes in its 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 November 7, 2007, 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, 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.

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 11 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.

CPA Associates PC

November 7, 2007

Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Financial Position
June 30, 2007

Assets

Cash		\$ 587,021
Accounts receivable:		
Grants and allocations		34,224
Client fees and other services, net of allowance of \$13,614		75,965
Prepaid expenses		11,754
Certificates of deposit		191,069
Property and equipment:		
Building		1,582,813
Furniture and fixtures		20,967
Equipment		201,494
Accumulated depreciation		<u>(1,045,372)</u>
		<u>\$ 1,659,935</u>

Liabilities and Net Assets

Liabilities:		
Accounts payable		\$ 11,455
Accrued payroll		78,199
Payroll taxes payable		<u>2,943</u>
		<u>92,597</u>
Net assets:		
Unrestricted		
Board designated		215,598
Undesignated		<u>1,351,740</u>
		<u>1,567,338</u>
		<u>\$ 1,659,935</u>

See accompanying notes to financial statements.

Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Activities
Year Ended June 30, 2007

Public Support and Revenue

Public support:

Iowa Department of Public Health:

Treatment program	\$ 756,394
Prevention program	111,129
Gambling treatment program	178,493
Other grants	27,615
County allocations	61,788
City allocations	1,150
United Way	<u>45,756</u>
	<u>1,182,325</u>

Revenue:

Resident recovery program fees	54,022
Client fees	232,686
Other services	154,360
Interest income	18,297
Miscellaneous	<u>13,743</u>
	<u>473,108</u>

Total public support and revenue 1,655,433

Expenses

Program services	1,110,676
Supporting services	<u>405,447</u>

Total expenses 1,516,123

Change in net assets 139,310

Net assets, beginning of year 1,428,028

Net assets, end of year \$ 1,567,338

See accompanying notes to financial statements.

Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Functional Expenses
Year Ended June 30, 2007

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Total</u>
Salaries	\$ 597,996	\$ 241,732	\$ 839,728
Benefits and taxes	<u>165,754</u>	<u>51,069</u>	<u>216,823</u>
Total salaries and related expenses	763,750	292,801	1,056,551
Travel	42,193	23,979	66,172
Education and training	7,939	14,832	22,771
Contract services	45,868	6,396	52,264
Insurance	28,064	8,509	36,573
Occupancy	57,737	8,645	66,382
Supplies	88,229	4,082	92,311
Telephone	16,175	3,608	19,783
Equipment maintenance	8,727	9,344	18,071
Other expenses	<u>3,790</u>	<u>10,128</u>	<u>13,918</u>
	1,062,472	382,324	1,444,796
Depreciation	<u>48,204</u>	<u>23,123</u>	<u>71,327</u>
Total program services expenses	<u>\$ 1,110,676</u>	<u>\$ 405,447</u>	<u>\$ 1,516,123</u>

See accompanying notes to financial statements.

Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Cash Flows
Year Ended June 30, 2007

Cash Flows From Operating Activities

Change in net assets	\$ 139,310
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	71,327
Change in assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	(26,441)
Other assets	4,987
Decrease in:	
Accounts payable and accrued expenses	<u>(6,680)</u>
Net cash provided by operating activities	<u>182,503</u>

Cash Flows From Investing Activities

Purchase of certificates of deposit	(103,595)
Capital expenditures	<u>(32,736)</u>
Net cash used by investing activities	<u>(136,331)</u>

Net increase in cash	46,172
Cash, beginning of year	<u>540,849</u>
Cash, end of year	<u>\$ 587,021</u>

See accompanying notes to financial statements.

Alcohol and Drug Dependency Services of Southeast Iowa
Notes to Financial Statements

Note 1. 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, and treatment for gambling addiction. Services are provided primarily to residents of southeast Iowa.

Note 2. Summary of Significant Accounting Policies

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 restricted or unrestricted net assets. Unrestricted net assets are not subject to donor-imposed stipulations. There were no restricted assets at June 30, 2007.

Public support and revenue 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.

Accounts Receivable

Accounts receivable are for grants, allocations and service performed and are uncollateralized. Collection of accounts receivable, net of the allowance for doubtful account, is expected to occur within one year. 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. Charged off accounts are netted against the related revenues and totaled \$33,557 for the year ended June 30, 2007.

Alcohol and Drug Dependency Services of Southeast Iowa
Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment is 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	10-32
Furniture and fixtures	7
Equipment	5-7

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

Income Taxes

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.

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.

Note 3. Certificates of Deposit

The Organization has certificates of deposit totaling \$191,069. The certificates bear interest ranging from 4.94% to 5.47%, have maturity dates ranging from December 15, 2007 to June 30, 2008, and are subject to penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Alcohol and Drug Dependency Services of Southeast Iowa
Notes to Financial Statements

Note 4. Grants and Allocations

During the year ended June 30, 2007, the Organization received \$67,078 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, 2006 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, 2007. 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, 2007 cannot be determined.

Note 5. Leased Equipment and Facilities

The Organization is leasing office equipment under an operating lease expiring in November, 2009, with minimum payments of \$566 per month. Total office equipment rental expense under this agreement was \$6,792 for the year ended June 30, 2007. Future minimum lease payments are as follows:

Year ended June 30, 2007	\$ 6,792
Year ended June 30, 2008	6,792
Year ended June 30, 2009	6,792
Year ended June 30, 2010	<u>2,264</u>
	<u>\$ 22,640</u>

Note 6. Pension Plan

The Organization has a pension plan covering full-time employees who are at least 21 years of age and have completed at least 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. In addition, if the employee elects to make a two percent contribution, the Organization will match it, making the Organization's maximum contribution four percent. Total pension expense for the year was \$57,203.

Alcohol and Drug Dependency Services of Southeast Iowa
Notes to Financial Statements

Note 7. Board Designated Net Assets

The Board of Directors has designated net assets for future expenditures. The net assets remain unrestricted and can be used for other purposes with the approval of the Board. The current designated balances are as follows:

Staff	\$ 31,030
Capital expenditures	67,715
Depreciation sinking fund	<u>116,853</u>
	<u>\$ 215,598</u>

Note 8. Concentration of Revenues and Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of deposits held in excess of FDIC insured limits. Deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000. At June 30, 2007, the Organization's deposit balances were in excess of FDIC insured limits.

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 9. Self-Insured Unemployment Benefits

The Organization elected to self-fund unemployment benefits through participation in an unemployment savings program. The Organization has set up a reserve account that will be used to reimburse the State of Iowa for actual claims paid to former employees. The program includes excess loss insurance up to \$160,000 with a stop loss limit of \$40,000. The balance in the reserve account was \$2,470 as of June 30, 2007. No unemployment claims were paid during the year ended June 30, 2007.

Note 10. 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 11. 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.

Alcohol and Drug Dependency Services of Southeast Iowa
Detail of Functional Expenses - Program Services
Year Ended June 30, 2007

	<u>Treatment</u>	<u>Prevention</u>	<u>Gambling</u>	<u>Total</u>
Salaries	\$ 404,314	\$ 126,890	\$ 66,792	\$ 597,996
Benefits and taxes	<u>114,895</u>	<u>31,062</u>	<u>19,797</u>	<u>165,754</u>
Total salaries and related expenses	519,209	157,952	86,589	763,750
Travel	16,983	13,043	12,167	42,193
Education and training	4,406	806	2,727	7,939
Contract services	21,862	21,180	2,826	45,868
Insurance	21,433	4,868	1,763	28,064
Occupancy	43,054	7,019	7,664	57,737
Supplies	66,931	15,772	5,526	88,229
Telephone	12,583	1,820	1,772	16,175
Equipment maintenance	6,499	1,412	816	8,727
Other expenses	<u>2,133</u>	<u>751</u>	<u>906</u>	<u>3,790</u>
	715,093	224,623	122,756	1,062,472
Depreciation	<u>35,306</u>	<u>12,718</u>	<u>180</u>	<u>48,204</u>
Total program services expenses	<u>\$ 750,399</u>	<u>\$ 237,341</u>	<u>\$ 122,936</u>	<u>\$ 1,110,676</u>



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**Independent Auditor's 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**

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, 2007, and have issued our report thereon dated November 7, 2007. We conducted our audit 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.

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 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 our opinion on the effectiveness of Alcohol and Drug Dependency Services of Southeast Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Alcohol and Drug Dependency Services of Southeast Iowa's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we considered to be a significant deficiency and a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Alcohol and Drug Dependency Services of Southeast Iowa's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Alcohol and Drug Dependency Services of Southeast Iowa's financial statements that is more than inconsequential will not be prevented or detected by Alcohol and Drug Dependency Services of Southeast Iowa's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Alcohol and Drug Dependency Services of Southeast Iowa's internal control. We believe the following deficiency constitutes a material weakness:

The Organization does not have adequate internal accounting control because of an inadequate segregation of duties. A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. Due to the size of your organization, the present system may become inadequate during times of unexpected employee absences.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

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, contracts and grant agreements, non-compliance 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 non-compliance that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to the management of Alcohol and Drug Dependency Services of Southeast Iowa in a separate letter dated November 7, 2007.

This report is intended solely for the information and use of the management and Board of Directors 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.

CPA Associates PC

November 7, 2007