# ZION RECOVERY SERVICES, INC.

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION
COMMENTS AND RECOMMENDATIONS

YEARS ENDED JUNE 30, 2007 AND 2006

ZION RECOVERY SERVICES, INC.

CONTENTS


| | Page |
|---|---|
| OFFICIALS | 1 |
| INDEPENDENT AUDITOR'S REPORT | 2 |
| FINANCIAL STATEMENTS: | |
| Balance Sheets | 3 |
| Statements of Activities and Changes in Net Assets | 4 |
| Statements of Cash Flows | 5 |
| Notes to Financial Statements | 6 |
| ACCOMPANYING INFORMATION: | |
| Schedule of Expenditures by Activity | 10 |
| COMMENTS AND RECOMMENDATIONS: | |
| 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 | 11 |
| Schedule of Findings | 13 |

ZION RECOVERY SERVICES, INC.
Officials
June 30, 2007

| Board of Directors: | Address |
| --- | --- |
| Jim Richardson, Chairperson | Shenandoah, Iowa |
| Richard Dolan, Vice-Chairperson | Casey, Iowa |
| David Dunfee, Secretary-Treasurer | Atlantic, Iowa |
| Steve Ratcliff | Red Oak, Iowa |
| Brad Golightly | Adel, Iowa |
| John Whipple | Shenandoah, Iowa |

| Program Administrator: | |
| --- | --- |
| Laurie Cooley | Anita, Iowa |

# Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER


## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Zion Recovery Services, Inc.
Atlantic, Iowa

We have audited the accompanying balance sheets of Zion Recovery Services, Inc. as of June 30, 2007 and 2006, and the related statements of activities and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Agency'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 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 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 Zion Recovery Services, Inc. as of June 30, 2007 and 2006, and the results of its operations, changes in net assets, and 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 September 12, 2007 on our consideration of Zion Recovery Services, 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 on 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 audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information (shown on page 10) 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 audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gronewold, Bell, Kyhnn & Co. P.C.

Atlantic, Iowa
September 12, 2007

ZION RECOVERY SERVICES, INC.
Balance Sheets
June 30,

## ASSETS

| | 2007 | 2006 |
|---|---|---|
| Current Assets: | | |
| Cash and cash equivalents | $ 128,660 | $ 95,628 |
| Certificates of deposit | 185,449 | 123,268 |
| Accounts receivable, less allowance for doubtful accounts ($31,000 in 2007 and $22,000 in 2006) | 83,056 | 46,279 |
| Inventory | 4,739 | 5,210 |
| Prepaid expense | 22,864 | 19,666 |
| Total current assets | 424,768 | 290,051 |
| Property and Equipment, Net | 74,792 | 77,709 |
| Construction in Progress | 1,026 | -- |
| Total assets | $ 500,586 | $ 367,760 |

## LIABILITIES AND NET ASSETS

| | | |
|---|---|---|
| Current Liabilities: | | |
| Accounts payable | $ 4,933 | $ 3,965 |
| Accrued employee compensation | 16,654 | 17,571 |
| Payroll taxes withheld and accrued | 1,274 | 4,604 |
| Deferred revenue | -- | 3,750 |
| Total current liabilities | 22,861 | 29,890 |
| Net Assets: | | |
| Unrestricted | 477,725 | 337,870 |
| Total liabilities and net assets | $ 500,586 | $ 367,760 |

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Statements of Activities and Changes in Net Assets
Year ended June 30,

| | 2007 | 2006 |
|---|---|---|
| Support and Revenue: | | |
| Support: | | |
| Iowa Department of Public Health - Comprehensive Treatment: | | |
| Iowa Managed Substance Abuse Care Plan - Non-Medicaid | $ 775,123 | $ 729,203 |
| Plan Iowa Improving Access and Continuation Project | 28,250 | 3,750 |
| County funding | 24,689 | 19,903 |
| Donations | 37,276 | 33,355 |
| Total support | 865,338 | 786,211 |
| Revenue: | | |
| Client fees, net | 154,874 | 136,900 |
| Medicaid fees | 189,788 | 141,427 |
| Interest income | 5,312 | 3,267 |
| Other revenues | 44,932 | 41,546 |
| Total revenue | 394,906 | 323,140 |
| Total Support and Revenue | 1,260,244 | 1,109,351 |
| Expenses: | | |
| Salaries and wages | 607,201 | 605,905 |
| Employee benefits | 184,203 | 180,359 |
| Advertising and promotion | 6,674 | 4,443 |
| Provision for depreciation | 14,786 | 15,293 |
| Food costs | 66,831 | 58,730 |
| Insurance | 9,730 | 9,369 |
| Miscellaneous | 10,163 | 5,209 |
| Professional services | 16,826 | 17,671 |
| Rent | 59,373 | 59,308 |
| Repairs and maintenance | 21,570 | 16,860 |
| Supplies and other expense | 36,832 | 33,960 |
| Telephone | 22,758 | 20,916 |
| Training costs | 9,808 | 6,043 |
| Travel | 15,855 | 11,461 |
| Utilities | 37,779 | 35,584 |
| Total expenses | 1,120,389 | 1,081,111 |
| Increase in Unrestricted Net Assets | 139,855 | 28,240 |
| Net Assets at Beginning of Year | 337,870 | 309,630 |
| Net Assets at End of Year | $ 477,725 | $ 337,870 |

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.
Statements of Cash Flows
Year ended June 30,

| | 2007 | 2006 |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from clients, third-party payors, and court system | $ 352,817 | $ 317,283 |
| Cash paid to suppliers and employees | ( 1,074,433) | ( 1,045,780) |
| Contract funding received | 799,623 | 736,703 |
| County funding received | 24,689 | 19,903 |
| Donations received | 100 | -- |
| Interest received | 5,312 | 3,267 |
| Net cash provided by operating activities | 108,108 | 31,376 |
| Cash flows from investing activities: | | |
| Capital expenditures | ( 12,895) | ( 8,616) |
| Purchase of certificates of deposit | ( 62,181) | ( 3,057) |
| Net cash used in investing activities | ( 75,076) | ( 11,673) |
| Net increase in cash and cash equivalents | 33,032 | 19,703 |
| Cash and cash equivalents at beginning of year | 95,628 | 75,925 |
| Cash and cash equivalents at end of year | $ 128,660 | $ 95,628 |
| Reconciliation of change in net assets to net cash provided by operating activities: | | |
| Change in net assets | $ 139,855 | $ 28,240 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Provision for depreciation | 14,786 | 15,293 |
| Changes in assets and liabilities | | |
| Accounts receivable | ( 36,777) | ( 2,590) |
| Inventory | 471 | ( 1,063) |
| Prepaid expense | ( 3,198) | ( 13,007) |
| Accounts payable | 968 | 3,398 |
| Accrued employee compensation | ( 917) | 5,169 |
| Payroll taxes withheld and accrued | ( 3,330) | ( 7,814) |
| Deferred revenue | ( 3,750) | 3,750 |
| Total adjustments | ( 31,747) | 3,136 |
| Net cash provided by operating activities | $ 108,108 | $ 31,376 |

The accompanying notes are an integral part of these statements.

## NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 1. Nature of Activities

Zion Recovery Services, Inc. (formerly known as Alcohol and Drug Assistance Agency, Inc.) was created in 1973 as a non-profit corporation under the provisions of the Iowa Non-Profit Corporation Act, Chapter 504A of the Code of Iowa. The Agency is a not for profit corporation and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The purpose of the Agency is to provide for the care, maintenance, education and treatment of the substance abuser. The Agency presently serves the six-county area of Adair, Cass, Dallas, Fremont, Montgomery and Page Counties and maintains a residential facility for intermediate care in Orient, Iowa. The Board of Directors is made up of a representative from the County Board of Supervisors of each of the six counties in the service area. Each member serves an annual term.

### 2. Basis of Accounting and Presentation

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. Revenues are recognized when earned and expenses are recorded when the liability is incurred. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

### 3. Use of 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 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.

### 4. Inventory

The Agency values the food donations received and food inventory at its estimated wholesale cost to show a realistic cost of providing meals to the patients of the residential treatment center.

### 5. Property and Equipment

Property and equipment is stated at cost. Property and equipment donated for Agency operations are recorded at fair value. The Agency computes depreciation using the straight-line method. Useful lives of equipment range from three to seven years. The useful lives of the building and improvements range from five to fifteen years.

## NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Unrestricted Revenues and Support

   a. Client fees are recorded net of adjustments for uncollectible accounts. The adjustments for uncollectible accounts are $90,576 for 2007 and $67,528 for 2006.

   b. Contract revenues are recognized as income when contract requirements have been satisfied.

7. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Agency considers all highly liquid debt instruments purchased with a maturity of three months or less and food stamps received for payment of client services to be cash equivalents.

## NOTE B - MANAGED CARE CONTRACT

The Agency's substance abuse treatment and rehabilitation services are being reimbursed under a managed care contract administered by Magellan Behavioral Health, Inc. The Agency received approximately 62% of its total support and revenue through this contract for the year ended June 30, 2007 (66% for 2006). The Agency's managed care contract for its current six county service area has been renewed for fiscal year ending June 30, 2008.

## NOTE C - PROPERTY AND EQUIPMENT

Property and equipment is stated at acquisition cost. The cost by major category and accumulated depreciation at June 30 are as follows:

| | 2007 | 2006 |
|---|---|---|
| Land | $ 2,000 | $ 2,000 |
| Land Improvements | 144,324 | 141,314 |
| Building | 27,388 | 26,420 |
| Equipment | 95,151 | 126,528 |
| | 268,863 | 296,262 |
| Less Accumulated Depreciation | 194,071 | 218,553 |
| | $ 74,792 | $ 77,709 |

Title to the land, building and improvements is in the names of the corporation and the six counties listed in Note A. In the event of dissolution of the corporation, these assets would belong to the counties.

Equipment includes items purchased with state funds. In the event of dissolution of the corporation, these assets would belong to the State of Iowa.

## NOTE D - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

| | 2007 | 2006 |
|---|---|---|
| Outpatient and Residential Services | $ 850,057 | $ 833,524 |
| Management and General | 270,332 | 247,587 |
| | $ 1,120,389 | $ 1,081,111 |

## NOTE E - CONCENTRATION OF CREDIT RISK

The Agency grants credit without collateral to its clients, most of whom are area residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2007 and 2006, was as follows:

| | 2007 | 2006 |
|---|---|---|
| Medicaid | 20% | 4% |
| Other third-party payors and patients | 80 | 96 |
| | 100% | 100% |

## NOTE F - PENSION AND RETIREMENT BENEFITS

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Agency is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. Contributions will increase as of July 1, 2007. Plan members will be required to contribute 3.90% of their annual salary and the Agency is required to contribute 6.05% of annual covered payroll. The Agency's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were approximately $35,000, $35,000, and $36,000 respectively, equal to the required contributions for each year.

## NOTE G - CONTINGENCY AND SUBSEQUENT EVENT

Risk Management

The Agency is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Zion Recovery Services, Inc. is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Sale of Assets

Subsequent to year end, the Agency sold its residential facility and most of its related assets for approximately $10,000. The Agency has leased suitable space located in Clarinda, Iowa from the Iowa Department of Human Services and continues to provide residential services. The lease is for a period of three years ending June 30, 2010 and calls for lease payments of $1,000 per month. The lease is cancelable with sixty days notice by either party.

## NOTE H - NON-CASH TRANSACTIONS

The cash transactions of the Agency are presented on the statements of cash flows. The Agency also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of change in net assets to net cash provided by operating activities.

| | 2007 | 2006 |
|---|---|---|
| Iowa Food Bank donations | $ 37,176 | $ 33,355 |

* * *

ACCOMPANYING INFORMATION

ZION RECOVERY SERVICES, INC.
Schedule of Expenditures by Activity
Year ended June 30,

| | 2007 | | | | 2006 |
|---|---|---|---|---|---|
| | DUI Services | Outpatient Services | Residential Services | Total | Total |
| Salaries and wages | $ 6,355 | $ 405,561 | $ 195,285 | $ 607,201 | $ 605,905 |
| Employee benefits | 920 | 118,741 | 64,542 | 184,203 | 180,359 |
| Advertising and promotion | -- | 6,150 | 524 | 6,674 | 4,443 |
| Provision for depreciation | -- | 14,786 | -- | 14,786 | 15,293 |
| Food costs | -- | -- | 66,831 | 66,831 | 58,730 |
| Insurance | -- | 5,838 | 3,892 | 9,730 | 9,369 |
| Miscellaneous | 1,380 | 8,344 | 439 | 10,163 | 5,209 |
| Professional services | -- | 10,346 | 6,480 | 16,826 | 17,671 |
| Rent | -- | 59,373 | -- | 59,373 | 59,308 |
| Repairs and maintenance | -- | 11,932 | 9,638 | 21,570 | 16,860 |
| Supplies and other expense | 2,520 | 26,775 | 7,537 | 36,832 | 33,960 |
| Telephone | -- | 17,153 | 5,605 | 22,758 | 20,916 |
| Training costs | -- | 6,080 | 3,728 | 9,808 | 6,043 |
| Travel | 454 | 9,942 | 5,459 | 15,855 | 11,461 |
| Utilities | -- | 5,677 | 32,102 | 37,779 | 35,584 |
| | $ 11,629 | $ 706,698 | $ 402,062 | $1,120,389 | $1,081,111 |

See Independent Auditor's Report.

# COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER


## 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

To the Board of Directors
Zion Recovery Services, Inc.
Atlantic, Iowa

We have audited the financial statements of Zion Recovery Services, Inc. as of and for the year ended June 30, 2007, and have issued our report thereon dated September 12, 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 Zion Recovery Services, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Zion Recovery Services, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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

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 the Agency's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood a misstatement of the Agency's financial statements, that is more than inconsequential, will not be prevented or detected by the Agency's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

To the Board of Directors
Zion Recovery Services, Inc.

A material weakness is a significant deficiency, or 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 the Agency's internal control.

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 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 Zion Recovery Services, 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, 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 or other matters that are required to be reported under Government Auditing Standards.

Zion Recovery Services, Inc.'s response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Agency's response, we did not audit the Agency's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Zion Recovery Services, Inc. and other parties to whom the Agency may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Grosewold, Bell, Kyhnn & Co. P.C.

Atlantic, Iowa
September 12, 2007

ZION RECOVERY SERVICES, INC.
Schedule of Findings
Year ended June 30, 2007

## PART I - REPORTABLE CONDITIONS

07-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Agency.

Recommendation: We recognize that it may not be economically feasible for the Agency to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Agency to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *