



AREA SUBSTANCE ABUSE COUNCIL, INC.
AND ITS AFFILIATES
Cedar Rapids, Iowa

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008



TABLE OF CONTENTS

	PAGE
BOARD OF DIRECTORS AND MANAGEMENT	1
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS	4
Consolidated Statement of Financial Position	5
Consolidated Statement of Activities	7
Statement of Functional Expenses	8
Consolidated Statement of Cash Flows	9
Notes to Consolidated Financial Statements	10
SUPPLEMENTAL INFORMATION	22
Consolidating Statement of Financial Position	23
Consolidating Statement of Activities	27
Schedule of Expenditures of Federal Awards	29
Schedule of Revenue and Expenses - I.D.P.H. Contracts	31
Schedule of Revenue and Expenses - Other Contracts	32
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 <i>GOVERNMENT AUDITING STANDARDS</i>	33
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	35
SCHEDULE OF FINDINGS AND RESPONSES	37
CORRECTIVE ACTION PLAN	40
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS	41

AREA SUBSTANCE ABUSE COUNCIL, INC.
BOARD OF DIRECTORS AND MANAGEMENT
June 30, 2008

BOARD OF DIRECTORS

<u>Name</u>	<u>Title</u>	<u>Term Expires December</u>
James Sines	President	2008
JC Engel	Vice President	2008
Ann Stoner	Secretary	2010
Dan Allison	Treasurer	2010
Keith Dirks	Member	2009
Nicole Pizzini	Member	2009
Rosanne Matuszek	Member	2009
Samm Randall	Member	2008
Don Davis	Member	2009
Al Rathje	Member	2009
Jason Sanders	Member	2010
Allen Bell	Member	2008
Thomas Levy	Member	2008
Joan Craig	Member	2010
Lu Barron	Member	2009
Norman Griser	Member	2009
Larry Carstensen	Member	2010

MANAGEMENT

<u>Name</u>	<u>Title</u>
John Garringer	Executive Director



Independent Auditor's Report

Board of Directors
Area Substance Abuse Council, Inc.
Cedar Rapids, Iowa

We have audited the accompanying consolidated statement of financial position of the Area Substance Abuse Council, Inc. (the Council) and its affiliates as of June 30, 2008 and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Area Substance Abuse Council, Inc. and its affiliates as of June 30, 2008, and the changes in their net assets and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2009, on our consideration of the Council's internal control over financial reporting and on 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 audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplemental information, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. The accompanying consolidating statements of financial position and activities are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

Clifton Gunderson LLP

Cedar Rapids, Iowa
January 9, 2009

FINANCIAL STATEMENTS

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2008

ASSETS

CURRENT ASSETS

Cash	\$ 507,421
Cash, restricted	250,183
Accounts receivable	1,249,826
Unconditional promises to give - United Way	424,911
Prepaid expenses	33,829
Prepaid rent	197,980
Deposits	<u>14,263</u>
Total current assets	<u>2,678,413</u>

ESCROW DEPOSITS

14,642

PROPERTY AND EQUIPMENT

Land	915,664
Buildings and improvements	8,856,276
Furniture, fixtures and equipment	<u>928,856</u>
Total	10,700,796
Less accumulated depreciation	<u>2,283,084</u>
Net property and equipment	<u>8,417,712</u>

OTHER ASSETS

Loan origination fees, net of accumulated amortization	40,517
Tax credit fees, net of accumulated amortization	<u>32,917</u>
Total other assets	<u>73,434</u>

TOTAL ASSETS

\$ 11,184,201

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 275,070
Accrued vacation pay	228,643
Accrued expenses	10,265
Accrued interest payable	2,751
Tenants' security deposits	15,047
Current maturities of long-term debt	<u>155,064</u>

Total current liabilities 686,840

LONG-TERM DEBT, less current maturities above 3,517,807

Total liabilities 4,204,647

NET ASSETS

Unrestricted:	
Unrestricted	3,719,949
Controlling interest of affiliate	<u>2,834,694</u>
Total unrestricted	6,554,643
Temporarily restricted:	
Subsequent year's operations	<u>424,911</u>

Total net assets 6,979,554

TOTAL LIABILITIES AND NET ASSETS \$ 11,184,201

The accompanying notes are an integral part of the consolidated financial statements.

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Iowa Department of Public Health:			
Prevention programs	\$ 536,762	\$ -	\$ 536,762
Other government fees and grants	2,005,427	-	2,005,427
Medicaid	2,394,186	-	2,394,186
Non-medicaid	2,780,246	-	2,780,246
United Way	278,103	424,911	703,014
Donations	53,830	-	53,830
Donated goods and services	10,500	-	10,500
Client and resident fees	763,388	-	763,388
Contract services	306,005	-	306,005
Interest	18,313	-	18,313
Net gain from disposal of property and equipment	3,126	-	3,126
Other revenue	17,231	-	17,231
	<hr/>	<hr/>	<hr/>
Total public support and revenue	9,167,117	424,911	9,592,028
NET ASSETS RELEASED FROM RESTRICTIONS			
Expiration of time restrictions	189,265	(189,265)	-
	<hr/>	<hr/>	<hr/>
Total public support, revenue and net assets released from restrictions	9,356,382	235,646	9,592,028
	<hr/>	<hr/>	<hr/>
EXPENSES AND LOSSES			
Program services	8,868,008	-	8,868,008
Supporting activities:			
Management and general	645,791	-	645,791
Fund raising	23,375	-	23,375
	<hr/>	<hr/>	<hr/>
Total supporting activities	669,166	-	669,166
	<hr/>	<hr/>	<hr/>
Total expenses	9,537,174	-	9,537,174
Loss due to flood	446,801	-	446,801
	<hr/>	<hr/>	<hr/>
Total expenses and losses	9,983,975	-	9,983,975
	<hr/>	<hr/>	<hr/>
CHANGE IN NET ASSETS - ASAC	(627,593)	235,646	(391,947)
NET LOSS OF AFFILIATES	(382,072)	-	(382,072)
	<hr/>	<hr/>	<hr/>
CHANGE IN NET ASSETS	(1,009,665)	235,646	(774,019)
NET ASSETS, BEGINNING OF YEAR	6,863,362	189,265	7,052,627
CAPITAL CONTRIBUTIONS - AFFILIATES	700,946	-	700,946
	<hr/>	<hr/>	<hr/>
NET ASSETS, END OF YEAR	<u>\$ 6,554,643</u>	<u>\$ 424,911</u>	<u>\$ 6,979,554</u>

The accompanying notes are an integral part of the consolidated financial statements.

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2008

	SUPPORTING ACTIVITIES				<u>Total Expenses</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>	
Salaries	\$ 5,322,517	\$ 414,126	\$ 17,500	\$ 431,626	\$ 5,754,143
Fringe benefits	1,297,763	98,643	4,375	103,018	1,400,781
Contracted services	848,782	49,754	-	49,754	898,536
Supplies and office expenses	524,658	33,975	1,500	35,475	560,133
Telephone	49,757	4,773	-	4,773	54,530
Occupancy	396,154	6,972	-	6,972	403,126
Staff training and education	65,495	945	-	945	66,440
Travel	67,455	4,174	-	4,174	71,629
Equipment maintenance and rental	40,525	734	-	734	41,259
Insurance	40,179	6,137	-	6,137	46,316
Other	17,500	8,147	-	8,147	25,647
	8,670,785	628,380	23,375	651,755	9,322,540
Total expenses before depreciation					
Depreciation	197,223	17,411	-	17,411	214,634
Total expenses	\$ 8,868,008	\$ 645,791	\$ 23,375	\$ 669,166	\$ 9,537,174

The accompanying notes are an integral part of the consolidated financial statements.

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES
CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (774,019)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	481,378
Amortization	7,804
Loss on disposition of property and equipment	618,419
Effects of changes in operating assets and liabilities:	
Receivables	(634,048)
Prepaid expenses	(16,277)
Escrow deposits	(12,782)
Deposits	557
Accounts payable	(216,542)
Accrued vacation pay	5,970
Accrued expenses	(1,706)
Tenants' security deposits	5,330
Deferred income	<u>(4,833)</u>
Net cash used in operating activities	<u>(540,749)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(22,369)
Proceeds from disposal of equipment	<u>3,710</u>
Net cash used in investing activities	<u>(18,659)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from long-term debt	171,800
Payments on long-term debt	(141,871)
Capital contributions	<u>620,475</u>
Net cash provided by financing activities	<u>650,404</u>
NET INCREASE IN CASH	90,996
CASH, BEGINNING OF YEAR	<u>666,608</u>
CASH, END OF YEAR	<u>\$ 757,604</u>

The accompanying notes are an integral part of the consolidated financial statements.

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Area Substance Abuse Council, Inc. is a non-profit corporation created in 1978 to provide services for the identification, screening, treatment, education and prevention for the individual substance abuser and the community at large. The Council serves Benton, Jackson, Jones and Linn County from offices in Vinton, Maquoketa, Anamosa, and Cedar Rapids. Effective July 1, 2000, the activities of New Directions, Inc., a substance abuse treatment center, were merged into the Council. New Directions, Inc. was created in 1967 and provides services to citizens of Clinton County. The Council is primarily a fee-based provider of services. Clients pay if they are able, but a majority of the client fees are paid by third parties, such as Medicaid and insurance companies. The Council's fiscal year ends on June 30.

These consolidated financial statements include the activity of the following affiliates, which are accounted for by the Council using the equity method:

ASAC Housing Corporation, Inc. ASAC Housing Corporation, Inc. (the Corporation) was incorporated in October 2005 as a for-profit entity and was originally owned equally by the Council and the Council's executive director. During the current fiscal year, the Council became the sole owner of the Corporation. The Corporation is the general partner for the following two limited partnerships.

Transitional Housing Projects. In October 2005, ASAC Housing Corporation, Inc. entered into limited partnership agreements with N.D. Housing, LLLP and The Way Home, LLLP (the Partnerships). These limited partnerships were created to obtain financing for, construct and manage transitional housing apartments in Cedar Rapids, Iowa (The Way Home, LLLP) and in Clinton, Iowa (N.D. Housing, LLLP).

The Corporation is the general partner in these two limited partnerships and, until December 2006, the Council's executive director was the limited partner. The partnership agreements for both partnerships were amended in December 2006 and another, unrelated, entity became the limited partner for both entities.

Significant accounting policies followed by the Council are presented below.

Use of Estimates in Preparing Financial Statements

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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Council and its affiliates. Intercompany transactions and balances have been eliminated in consolidation.

Net Assets

Net assets are classified based on the existence or absence of donor-imposed restrictions. The following is a description of each class:

Unrestricted net assets includes all net assets which are neither temporarily or permanently restricted.

Temporarily restricted net assets includes contributed net assets for which donor imposed time and purpose restrictions have not been met and the ultimate purpose of the contribution is not permanently restricted.

Accounts Receivable

Accounts receivable represents uncollateralized obligations due from clients, insurance companies, funding agencies and other providers. Accounts receivable are stated at the invoice amount. Payments of accounts receivable are applied to specific invoices or to the earliest unpaid invoice.

The carrying amount of accounts receivable is reduced to reflect management's best estimate of amounts that will ultimately be collected. Revenue is reduced for accounts or portions thereof deemed to be uncollectible.

Property and Equipment

Property and equipment which were purchased are stated at their original cost and donated furniture and equipment are recorded at fair market value at the date of receipt. All fixed assets are depreciated over their estimated useful lives of five to forty years, generally using the straight-line method of depreciation. The Council follows the practice of capitalizing at cost, or at fair market value if donated, all expenditures for property and equipment in excess of \$1,000 and a useful life greater than one year.

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

The Council reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

Loan Origination Fees

Loan origination fees are being amortized using the straight-line method over the terms of the related debt.

Tax Credit Fees

Tax credit fees are being amortized using the straight-line method over the ten-year tax credit period, coinciding with the reporting of tax credits on the Partnerships' tax returns.

Compensated Absences

Council employees accumulate vacation and sick leave hours for subsequent use or, in the case of vacation leave, for payment upon retirement, death or termination. The Council has accrued a liability for compensated absences from accrued vacation at June 30, 2008, based on rates of pay on that date.

Revenue Recognition

Revenue from client services is recognized, at estimated net collectable amounts, in the period the services are performed. A substantial portion of such revenue will not be collectable and the adjustment between standardized and collectable rates is treated as an adjustment to net fee revenue.

Revenue from grants and contracts is recognized as the services are performed if the contract is based on units of service or as costs are incurred if the contract is a cost reimbursement arrangement.

Rents received by the Partnerships are recognized in income monthly as earned under the terms of the lease agreements. Rent income received in advance is deferred and classified as a liability until earned.

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued)

Recognition of Contribution Revenue

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Amounts received which are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the organization reports the support as unrestricted. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributed Goods and Services

Contributions of donated goods are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Contributed property and equipment are recorded at estimated fair value at the date of gift. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Income Taxes

The Council is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides income tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes. The Council is not classified as a private foundation.

The transitional housing limited partnerships are taxed as partnerships in which all elements of income and deductions are included in the tax returns of the general and limited partners. Therefore, no income tax provision is recorded by the partnerships.

Functional Expenses

The costs of providing various programs and supporting activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

NOTE 2 - PARTNERSHIPS' REQUIRED RESERVES - RESTRICTED CASH

Pursuant to the Partnership Agreements (the Agreements) for N.D. Housing, LLLP and The Way Home, LLLP, a replacement reserve is to be funded in the amount of \$3,000 and \$7,200 per year, respectively, increasing by 3% annually, beginning in 2007. Withdrawals from such reserves shall be utilized solely to fund capital repairs and improvements deemed necessary by the general partner, with approval from the limited partner for disbursements of \$5,000 or more. As of June 30, 2008, \$3,001 and \$8,833, respectively, were funded to the Partnerships' replacement reserves with no withdrawals.

Pursuant to the Partnership Agreements for N.D. Housing, LLLP and The Way Home LLLP, a lease-up reserve is to be established in an initial amount of \$1,000 and \$25,000, respectively, from the capital contribution of the limited partners. Funds may be used to pay operating expenses, to the extent funds are not available from other sources, from the completion date until the stabilization date. At the stabilization date, any balance remaining in the lease-up reserve shall be transferred to the operating reserve. During the year ended June 30, 2008, \$1,000 and \$25,000, respectively, were funded to the lease-up reserve and was used for operating expenses.

Pursuant to the Partnership Agreements for N.D. Housing, LLLP and The Way Home LLLP, an operating reserve is to be established in an initial amount of \$26,300 and \$68,000, respectively, from the proceeds of the fourth installment of the capital contributions of the limited partner. Funds may be used to pay operating expenses with the consent of the limited partner after the stabilization date. As of June 30, 2008, \$0 and \$68,135 were funded to the Partnerships' operating reserves.

Pursuant to The Way Home, LLLP Partnership Agreement, a real estate tax reserve of \$65,000 is to be funded from the proceeds of the fourth installment of the limited partner's capital contribution. Withdrawals from such reserve shall be utilized solely to pay for the Project's real estate taxes after the end of the credit period, with approval from the limited partner. During the year ended June 30, 2008, \$65,000 was funded to the partnership's real estate tax reserve.

Pursuant to The Way Home, LLLP Partnership Agreement, a tenant rental subsidy reserve of \$99,000 is to be funded from the proceeds of the fourth installment of the capital contribution. Withdrawals from such reserve shall be utilized solely to meet its subsidy payment requirement. During the year ended June 30, 2008, \$99,000 was funded to the Partnership's tenant rental subsidy reserve.

NOTE 3 - PREPAID RENT

The Way Home, LLLP entered into a ground lease agreement for the use of land for its apartment complex. The lease term is 99 years and required a one-time upfront payment of \$200,000. The payment is being amortized over the term of the lease.

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

NOTE 4 - LONG-TERM DEBT

Long-term debt consists of the following:

Area Substance Abuse Council, Inc.

Industrial Revenue Bond issued by Linn County, Iowa, payable to US Bank. Principal and interest payments are required to be made on a monthly basis, with the principal payments based on a twenty-year amortization. Interest is computed at 80% of the Bank's prime rate (5% at June 30, 2008). Final payment is due September 1, 2016. The bond is secured by a first mortgage on the Council's land and building.	\$ 286,079
Industrial Revenue Bond issued by Linn County, Iowa, payable to US Bank, requiring monthly installments of \$4,335 including interest at 5.45% per year, with final payment due April 25, 2011. The bond is secured by the Bowling Street land and building.	137,823
Note payable to US Bank, requiring monthly installments of \$1,250, including interest at 4.15%, with final payment due January 2, 2018. The note is secured by the mortgage/deed of trust.	142,500
Industrial Revenue Bond issued by Linn County, Iowa, payable to US Bank. A monthly principal and interest payment totaling \$7,473 is required to be made. The principal amount is based on a twenty-five year amortization. Interest is charged at 3.35% per year and a final balloon payment is due December 1, 2008. The bond is secured by a first mortgage on property located on Bowling Street. The bond agreement contains various restrictive covenants. The Council was in compliance or received a bank waiver for all of the covenants as of June 30, 2008. Subsequent to fiscal year-end, the Council entered into an agreement with US Bank to extend the maturity date ten years.	<u>1,328,264</u> <u>1,894,666</u>

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

NOTE 4 - LONG-TERM DEBT (CONTINUED)

The Way Home, LLLP

Note payable, Iowa Finance Authority (IFA), bearing interest at 1%, with monthly payments of \$2,251 through June 2037 when all unpaid principal and interest are due. 678,205

Mortgage note payable, Iowa Department of Economic Development, HOME Investment Partnership Program, bearing interest at 1%, due in annual interest-only payments beginning March 2010 increasing from \$2,000 to \$8,000, with all unpaid principal and interest due March 2026. 600,000

1,278,205

N.D. Housing, LLLP

Mortgage note payable, Iowa Department of Economic Development, HOME Investment Partnership Program, bearing interest at 1%, due in annual interest-only payments beginning March 2009, increasing from \$1,000 to \$3,000, with all unpaid principal and interest due March 2028. 500,000

Total 3,672,871
Less current portion 155,064

Long-term portion \$ 3,517,807

The Partnerships' notes are nonrecourse and are secured by the rental property and equipment.

The IFA loan agreement requires monthly deposits, as determined by IFA, into tax and insurance escrow accounts. Funds in the reserve may be used only for the payment of real estate tax and insurance expenses.

Future maturities of long-term debt for the years ending June 30, are as follows:

2009	\$ 155,064
2010	160,915
2011	160,341
2012	119,602
2013	36,051
Thereafter	<u>3,040,898</u>
Total	<u>\$ 3,672,871</u>

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

NOTE 5 - COMMITMENTS AND RENT EXPENSE

The Council leases office space at various locations under noncancelable operating leases. Three of these leases extend beyond a one-year period, expiring between September 2008 and December 2010, respectively.

Future minimum lease payments under these leases for the years ending June 30 are as follows:

2009	\$ 64,673
2010	33,366
2011	<u>14,219</u>
Total	<u>\$ 112,258</u>

Total rental expense was \$77,106 for the year ended June 30, 2008.

NOTE 6 - DONATED GOODS AND SERVICES

The Council receives a significant amount of donated services from unpaid volunteers who assist with various projects. No amounts have been recognized in the statements of activities for these donated services because the criteria for recognition under SFAS No. 116 have not been satisfied. The Council maintains a record of volunteer hours and calculates an estimated fair value based on the number of hours worked by each individual. For the year ended June 30, 2008, the Council received volunteer services for the tobacco coalition grant totaling \$115,801.

NOTE 7 - RETIREMENT PLAN

Effective March 1, 1998, the Council implemented a defined contribution retirement plan for its full- and part-time employees. An employee is eligible to participate upon hire but is not eligible to receive the Council's match until six months after hire. Participation is voluntary, and the Council contributes 50% of the employees' contribution, up to a maximum of 3% of their pay. The contribution charged to expense for the year ended June 30, 2008, was \$75,661.

NOTE 8 - CASH FLOW DISCLOSURE AND INTEREST EXPENSE

The Council had the following noncash operating and investing activity:

Cash paid for interest, net of interest capitalized of \$2,917, totaled \$81,639.

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

NOTE 8 - CASH FLOW DISCLOSURE AND INTEREST EXPENSE (CONTINUED)

The Partnerships had the following noncash investing and financing transaction:

- Developer fees paid of \$279,952 and \$115,257 were capitalized to rental property and equipment for The Way Home, LLLP and N.D. Housing, LLLP, respectively. The developer fees were paid to the Council and were eliminated in consolidation.

NOTE 9 - RELATED PARTY TRANSACTIONS

Property management fees. The Partnerships entered into management agreements with ASAC Housing Corporation, Inc. (Corporation) for property management and bookkeeping services. The management fees are based on 5% of effective gross income. Property management fees were waived during the year ended June 30, 2008.

Investor services fee. The Partnerships each entered into an agreement with their limited partner to pay a cumulative investor services fee equal to \$2,500 per year, increasing annually by 3%. Investor services fees of \$2,500 for each Partnership were incurred during the year ended June 30, 2008.

Partnership administration fee. N.D. Housing, LLLP and The Way Home, LLLP entered into agreements with the Corporation to pay a cumulative annual partnership administration fee equal to \$4,320 and \$11,000, respectively, commencing in 2008 and increasing annually by 3%. No partnership administrative fees were earned during the year ended June 30, 2008.

Developer fee. N.D. Housing, LLLP and The Way Home, LLLP entered into agreements with the Corporation for a developer fee of \$179,635 and \$419,927, respectively, which was capitalized to the rental property. The developer fee is to be paid from the limited partners' capital installments. Any unpaid balance (the deferred developer fee) is payable from cash flow, but in no event later than December 31, 2016. Developer fee payable by N.D. Housing, LLLP as of June 30, 2008, is \$55,379.

Operating deficit loans. The Corporation is obligated to fund all operating deficits after the completion date and through the stabilization date, as defined in the N.D. Housing, LLLP and The Way Home Partnership Agreements up to a maximum of \$179,635 and 419,927, respectively. After the stabilization date and for five years thereafter, operating deficits not funded by the operating reserve are to be funded by loans from the Corporation, up to a maximum of \$26,300 and \$63,500, respectively. This noninterest-bearing obligation is guaranteed by the Council. There were no advances at June 30, 2008.

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

NOTE 9 - RELATED PARTY TRANSACTIONS (CONTINUED)

Subsidy payments. Pursuant to the Agreements, the Corporation is to provide an operating rental subsidy to the Partnerships equal to the difference between the actual tenant rent paid per month and the established rental rate. During the year ended June 30, 2008, subsidy income of \$22,821 and \$66,158 was earned by N.D. Housing, LLLP and The Way Home, LLLP, respectively, under these agreements.

Intercompany loans. The Council has loaned \$200,000 to The Way Home, LLLP, with payment of principal and accrued interest due in December 2056. Interest is charged at 3% and the loan is unsecured. Accrued interest at June 30, 2008 totals \$8,786.

The Council has loaned \$181,000 to the Corporation, with payment of principal and accrued interest due in June 2057. Interest is charged at 3% and the loan is unsecured. Accrued interest at June 30, 2008 totals \$5,471.

NOTE 10 - CONTINGENCIES

Concentration of Credit Risk

The Council maintains bank account balances in excess of the \$100,000 federally insured amount (insured amount increased to \$250,000 effective October 3, 2008). The maximum loss that could have resulted from that risk totaled \$413,900 at June 30, 2008 for the excess of the deposit liabilities reported by the bank over the amount that would have been covered by federal insurance. It is management's belief that the credit risk related to these aforementioned assets is minimal.

Concentrations

The Council is subject to a certain degree of vulnerability due to concentrations of accounts receivable and revenue from major funding agencies. Revenue from these funding agencies represented the following percentages of total revenue for the year ended June 30, 2008:

MBC of Iowa - non-medicaid	27%
MBC of Iowa - Medicaid	24%

A substantial portion of the Council's accounts receivable and revenue is from governmental entities under reimbursement and purchase-of-service type contracts.

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

NOTE 10 - CONTINGENCIES (CONTINUED)

Hightower Place Loan and Grant

In conjunction with the purchase of a facility (Hightower Place) in the year ended June 30, 2002, the Council is contingently liable to the U.S. Department of Housing and Urban Development (HUD) and the Iowa Finance Authority under loan and grant agreements. The HUD grant agreement requires that the facility be used for low income housing through April 2019 or the portion of the grant which was used for the original acquisition and rehabilitation of the property, which was \$100,000, will be refunded to HUD. Agreements with the Iowa Finance Authority included both a \$50,000 forgivable loan and a \$25,000 grant. The loan and grant agreements require that the Council continue to use the facility for low income housing through December 7, 2009 and November 10, 2009, respectively. The \$50,000 forgivable loan is secured by a mortgage on the facility. A liability has not been recorded for these amounts as it is anticipated that the facility will be used for the required purpose and time period.

Transitional Housing Projects

The principal asset of each of the two limited partnerships is a low-income housing apartment complex and, therefore, the Partnerships' operations are concentrated in the multifamily real estate market. The Partnerships operate in a heavily regulated environment. The operations of the Partnerships are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies. Such administrative directives, rules and regulations are subject to change by an act of Congress or administrative changes. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Risk Management

The Area Substance Abuse Council, 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 Council 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 fiscal years.

NOTE 11 - CAPITAL CONTRIBUTIONS

The limited partners for N.D. Housing, LLLP and The Way Home, LLLP shall contribute capital to the Partnerships of \$986,000 and \$2,267,000, respectively, payable in four installments. During the year ended June 30, 2008, the limited partners contributed capital to the Partnerships totaling \$60,878 and \$640,068, respectively.

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2008

NOTE 12 - PARTNERSHIPS' ALLOCATIONS OF CASH DISTRIBUTIONS, NET INCOME (LOSS), DISTRIBUTION PREFERENCES AND RESTRICTED CASH

In accordance with the Partnership Agreements, all net profits, net losses and tax credits shall be allocated 99.99% to the limited partners and 0.01% to the general partner.

Proceeds from the sale of capital assets are allocated to the partners according to the Agreements.

Net cash flow is defined by the Agreements as excess of gross operating revenues, including amounts released from reserves, over project expenses paid and accrued, including required deposits to the replacement reserves and debt service. Cash flow is to be calculated and distributed annually in accordance with terms specified in the Agreements.

Proceeds upon dissolution and termination of the Partnerships are to be distributed in accordance with terms specified in the Agreements.

NOTE 13 - SIGNIFICANT EVENT

During June 2008, certain facilities, equipment, and operations of the Council sustained significant damage as a result of the flooding that occurred in Iowa. Certain facilities owned by the Council were damaged, certain equipment were damaged or destroyed and substantial costs were incurred to remove water and sediment and restore working operations. The Council has filed insurance claims related to such damages and has concluded that it is probable it will recover a portion of the carrying value of the equipment and facilities. The following is the detail of the amounts aggregated in the line item entitled "loss due to flood" in the consolidated statement of activities:

Insurance recovery recognized	\$ 257,829
Buildings and equipment write-off	(621,545)
Clean-up costs	<u>(83,085)</u>
Loss due to flood	<u>\$ (446,801)</u>

This information is an integral part of the consolidated financial statements.

SUPPLEMENTAL INFORMATION

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2008

ASSETS

	<u>ASAC</u>	<u>ASAC Housing Corporation</u>	<u>The Way Home, LLLP</u>
CURRENT ASSETS			
Cash	\$ 463,793	\$ -	\$ 38,870
Cash, restricted	-	-	242,994
Accounts receivable	1,300,494	-	3,320
Accounts receivable - affiliated companies	-	-	-
Unconditional promises to give - United Way	424,911	-	-
Prepaid expenses	30,177	-	-
Prepaid rent	-	-	197,980
Deposits	14,263	-	-
	<hr/>	<hr/>	<hr/>
Total current assets	2,233,638	-	483,164
	<hr/>	<hr/>	<hr/>
ESCROW DEPOSITS	-	-	14,642
	<hr/>	<hr/>	<hr/>
INVESTMENTS AND LONG-TERM RECEIVABLES			
Notes receivable - affiliated companies	381,000	-	-
Accrued interest receivable - affiliated companies	14,256	-	-
Investment in affiliate	(5,471)	180,965	-
	<hr/>	<hr/>	<hr/>
Total investments and long-term receivables	389,785	180,965	-
	<hr/>	<hr/>	<hr/>
PROPERTY AND EQUIPMENT			
Land	736,079	-	-
Buildings and improvements	4,850,234	-	3,040,605
Furniture, fixtures and equipment	735,953	-	142,362
Total	6,322,266	-	3,182,967
Less accumulated depreciation	2,016,340	-	215,125
	<hr/>	<hr/>	<hr/>
Net property and equipment	4,305,926	-	2,967,842
	<hr/>	<hr/>	<hr/>
OTHER ASSETS			
Loan origination fees, net of accumulated amortization	1,492	-	39,025
Tax credit fees, net of accumulated amortization	-	-	22,262
	<hr/>	<hr/>	<hr/>
Total other assets	1,492	-	61,287
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 6,930,841</u>	<u>\$ 180,965</u>	<u>\$ 3,526,935</u>

<u>N.D.</u>				
<u>Housing, LLLP</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>	
\$ 4,758	\$ 507,421	\$ -	\$ 507,421	
7,189	250,183	-	250,183	
1,391	1,305,205	(55,379)	1,249,826	
2,000	2,000	(2,000)	-	
-	424,911	-	424,911	
3,652	33,829	-	33,829	
-	197,980	-	197,980	
-	14,263	-	14,263	
<u>18,990</u>	<u>2,735,792</u>	<u>(57,379)</u>	<u>2,678,413</u>	
<u>-</u>	<u>14,642</u>	<u>-</u>	<u>14,642</u>	
-	381,000	(381,000)	-	
-	14,256	(14,256)	-	
-	175,494	(175,494)	-	
<u>-</u>	<u>570,750</u>	<u>(570,750)</u>	<u>-</u>	
179,585	915,664	-	915,664	
1,360,646	9,251,485	(395,209)	8,856,276	
50,541	928,856	-	928,856	
<u>1,590,772</u>	<u>11,096,005</u>	<u>(395,209)</u>	<u>10,700,796</u>	
65,938	2,297,403	(14,319)	2,283,084	
<u>1,524,834</u>	<u>8,798,602</u>	<u>(380,890)</u>	<u>8,417,712</u>	
-	40,517	-	40,517	
<u>10,655</u>	<u>32,917</u>	<u>-</u>	<u>32,917</u>	
<u>10,655</u>	<u>73,434</u>	<u>-</u>	<u>73,434</u>	
<u>\$ 1,554,479</u>	<u>\$ 12,193,220</u>	<u>\$ (1,009,019)</u>	<u>\$ 11,184,201</u>	

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2008

LIABILITIES AND NET ASSETS

	<u>ASAC</u>	<u>ASAC Housing Corporation</u>	<u>The Way Home, LLLP</u>
CURRENT LIABILITIES			
Accounts payable	\$ 271,482	\$ -	\$ 4,993
Accrued vacation pay	228,643	-	-
Accrued expenses	10,265	-	-
Accrued interest payable	-	5,471	10,286
Tenants' security deposits	-	-	10,859
Current maturities of long-term debt	<u>134,834</u>	<u>-</u>	<u>20,230</u>
Total current liabilities	645,224	5,471	46,368
 LONG-TERM DEBT , less current maturities above	 <u>1,759,832</u>	 <u>181,000</u>	 <u>1,457,975</u>
Total liabilities	<u>2,405,056</u>	<u>186,471</u>	<u>1,504,343</u>
 NET ASSETS			
Unrestricted:			
Unrestricted	4,100,874	(5,506)	2,022,592
Majority interest of affiliates	<u>-</u>	<u>-</u>	<u>-</u>
Total unrestricted	<u>4,100,874</u>	<u>(5,506)</u>	<u>2,022,592</u>
Temporarily restricted:			
Subsequent year's operations	<u>424,911</u>	<u>-</u>	<u>-</u>
Total net assets	<u>4,525,785</u>	<u>(5,506)</u>	<u>2,022,592</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 6,930,841</u>	 <u>\$ 180,965</u>	 <u>\$ 3,526,935</u>

N.D.				
<u>Housing, LLLP</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>	
\$ 55,974	\$ 332,449	\$ (57,379)	\$ 275,070	
-	228,643	-	228,643	
-	10,265	-	10,265	
1,250	17,007	(14,256)	2,751	
4,188	15,047	-	15,047	
-	155,064	-	155,064	
<u>61,412</u>	<u>758,475</u>	<u>(71,635)</u>	<u>686,840</u>	
<u>500,000</u>	<u>3,898,807</u>	<u>(381,000)</u>	<u>3,517,807</u>	
<u>561,412</u>	<u>4,657,282</u>	<u>(452,635)</u>	<u>4,204,647</u>	
993,067	7,111,027	(3,391,078)	3,719,949	
-	-	2,834,694	2,834,694	
<u>993,067</u>	<u>7,111,027</u>	<u>(556,384)</u>	<u>6,554,643</u>	
-	424,911	-	424,911	
<u>993,067</u>	<u>7,535,938</u>	<u>(556,384)</u>	<u>6,979,554</u>	
<u>\$ 1,554,479</u>	<u>12,193,220</u>	<u>\$ (1,009,019)</u>	<u>11,184,201</u>	

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES
CONSOLIDATING STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

	<u>ASAC</u>	<u>ASAC Housing Corporation</u>	<u>The Way Home, LLP</u>
PUBLIC SUPPORT AND REVENUE			
Iowa Department of Public Health:			
Prevention programs	\$ 536,762	\$ -	\$ -
Other government fees and grants	2,005,427	-	-
Medicaid	2,394,186	-	-
Non-medicaid	2,780,246	-	-
United Way	703,014	-	-
Donations	53,830	-	-
Donated goods and services	10,500	-	-
Client and resident fees	763,388	-	-
Contract services	701,214	-	-
Interest	32,569	-	-
Interest in net income (loss) of affiliate	(5,471)	-	-
Net gain from disposal of property and equipment	3,126	-	-
Other revenue	17,231	-	-
	<u>9,996,022</u>	<u>-</u>	<u>-</u>
Total public support and revenue			
	<u>9,996,022</u>	<u>-</u>	<u>-</u>
EXPENSES AND LOSSES			
Program services	8,956,987	-	-
Supporting activities:			
Management and general	645,791	-	-
Fund raising	23,375	-	-
	<u>669,166</u>	<u>-</u>	<u>-</u>
Total supporting activities			
	<u>669,166</u>	<u>-</u>	<u>-</u>
Total expenses	9,626,153	-	-
Loss due to flood	446,801	-	-
	<u>10,072,954</u>	<u>-</u>	<u>-</u>
Total expenses and losses			
	<u>10,072,954</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS - ASAC	<u>(76,932)</u>	<u>-</u>	<u>-</u>
ACTIVITIES OF AFFILIATES			
Revenue	-	-	150,280
Expenses	-	(5,503)	(388,181)
	<u>-</u>	<u>(5,503)</u>	<u>(237,901)</u>
Net loss of affiliates			
	<u>-</u>	<u>(5,503)</u>	<u>(237,901)</u>
CHANGE IN NET ASSETS	(76,932)	(5,503)	(237,901)
NET ASSETS, BEGINNING OF YEAR	4,602,717	(3)	1,620,425
CAPITAL CONTRIBUTIONS - AFFILIATES	<u>-</u>	<u>-</u>	<u>640,068</u>
NET ASSETS, END OF YEAR	<u>\$ 4,525,785</u>	<u>\$ (5,506)</u>	<u>\$ 2,022,592</u>

<u>N.D.</u>				
<u>Housing, LLLP</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>	
\$ -	\$ 536,762	\$ -	\$ 536,762	
-	2,005,427	-	2,005,427	
-	2,394,186	-	2,394,186	
-	2,780,246	-	2,780,246	
-	703,014	-	703,014	
-	53,830	-	53,830	
-	10,500	-	10,500	
-	763,388	-	763,388	
-	701,214	(395,209)	306,005	
-	32,569	(14,256)	18,313	
-	(5,471)	5,471	-	
-	3,126	-	3,126	
-	17,231	-	17,231	
-	<u>9,996,022</u>	<u>(403,994)</u>	<u>9,592,028</u>	
-	<u>8,956,987</u>	<u>(88,979)</u>	<u>8,868,008</u>	
-	645,791	-	645,791	
-	23,375	-	23,375	
-	<u>669,166</u>	<u>-</u>	<u>669,166</u>	
-	9,626,153	(88,979)	9,537,174	
-	446,801	-	446,801	
-	<u>10,072,954</u>	<u>(88,979)</u>	<u>9,983,975</u>	
-	<u>(76,932)</u>	<u>(315,015)</u>	<u>(391,947)</u>	
51,853	202,133	(88,979)	113,154	
<u>(130,149)</u>	<u>(523,833)</u>	<u>28,607</u>	<u>(495,226)</u>	
<u>(78,296)</u>	<u>(321,700)</u>	<u>(60,372)</u>	<u>(382,072)</u>	
(78,296)	(398,632)	(375,387)	(774,019)	
938,146	7,161,285	(108,658)	7,052,627	
<u>133,217</u>	<u>773,285</u>	<u>(72,339)</u>	<u>700,946</u>	
<u>\$ 993,067</u>	<u>\$ 7,535,938</u>	<u>\$ (556,384)</u>	<u>\$ 6,979,554</u>	

AREA SUBSTANCE ABUSE COUNCIL, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant Number	Federal Expenditures
U.S. Department of Health and Human Services:			
Passed Through City of Cedar Rapids:			
Targeted Capacity Expansion Grant	93.243	N/A	\$ <u>540,113</u>
Passed Through Magellan Behavioral Care of Iowa:			
Substance Abuse Prevention and Treatment			
Block Grant Program:			
Behavioral Care	93.959	N/A	673,599
Women and Children	93.959	N/A	349,155
STAR-SI	93.243	N/A	<u>11,500</u>
Total			<u>1,034,254</u>
Passed Through Iowa Department of Public Health:			
Substance Abuse Prevention and Treatment			
Block Grant Program:			
Comprehensive Prevention	93.959	5888CP06	246,954
Comprehensive Prevention	93.959	5888CP08	46,772
Access to Recovery	93.275	N/A	<u>1,839</u>
Total			<u>295,565</u>
Total U.S. Department of Health and Human Services			<u>1,869,932</u>
U.S. Department of Housing and Urban Development			
Direct Awards:			
Supportive Housing Program	14.235	IA26B701012	34,767
Supportive Housing Program	14.235	IA26B601005	<u>71,019</u>
Total CFDA # 14.235			<u>105,786</u>
Emergency Shelter Grants Program	14.231	07-II-57001	32,000
Emergency Shelter Grants Program	14.231	07-II-23003	23,500
Emergency Shelter Grants Program	14.231	07-II-23019	<u>23,500</u>
Total CFDA # 14.231			<u>79,000</u>
Total U.S. Department of Housing and Urban Development			<u>184,786</u>
U.S. Department of Justice			
Passed Through Clinton County Board of Supervisors:			
Byrne Formula Grant Program	16.738	07JAG-E29	<u>23,118</u>
Passed Through Benton County Board of Supervisors:			
Juvenile Justice and Delinquency Prevention	16.540	CJJP-07-C2-002	<u>4,404</u>

(continued)

AREA SUBSTANCE ABUSE COUNCIL, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant Number	Federal Expenditures
Enforcing Underage Drinking Laws Program	16.727	N/A	<u>1,224</u>
Passed Through Linn County Board of Supervisors:			
Byrne Formula Grant Program	16.738	07JAG-C24	27,578
Juvenile Justice and Delinquency Prevention	16.540	CJJP-04-C6-002	<u>9,969</u>
Total			<u>37,547</u>
Passed Through Office of Probation and Pretrial Services, Administrative Office of U.S. Courts	N/A	N/A	<u>8,485</u>
Total U.S. Department of Justice			<u>74,778</u>
U.S. Department of Agriculture			
Passed Through Iowa Department of Education:			
National School Lunch Program	10.555	N/A	16,568
Snack Program	10.555	N/A	<u>3,386</u>
Total CFDA # 10.555			19,954
Breakfast Program	10.553	N/A	10,914
Child and Adult Care Food Program	10.558	N/A	5,959
Food Distribution Program (Commodities)	10.550	N/A	<u>1,165</u>
Total U.S. Department of Agriculture			<u>37,992</u>
Total Federal Awards			<u>\$ 2,167,488</u>

Basis of Presentation. The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Area Substance Abuse Council, Inc. and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

AREA SUBSTANCE ABUSE COUNCIL, INC.
SCHEDULE OF REVENUE AND EXPENSES - I.D.P.H. CONTRACTS
Year Ended June 30, 2008

	Comprehensive Prevention <u>5888CP06</u>	Clinton Comprehensive Prevention <u>5888CP08</u>	Tobacco Community Partnerships <u>5888TS02</u>	Community Coalition Grant
REVENUE				
Iowa Department of Public Health	\$ 260,319	\$ 51,089	\$ 222,354	\$ 3,000
Other government fees and grants	1,825	2,500	-	-
Contract services	3,745	-	-	-
United Way	122,835	-	-	-
Donations	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	<u>388,724</u>	<u>53,589</u>	<u>222,354</u>	<u>3,000</u>
EXPENSES				
Salaries	191,147	35,333	145,097	-
Fringe benefits	63,545	9,768	38,806	-
Contracted services	674	1,144	1,051	-
Supplies and office expenses	10,306	4,104	8,185	2,498
Telephone	3,412	625	1,300	-
Occupancy	8,391	5,043	7,509	-
Staff training and education	3,432	1,734	2,171	-
Travel	8,544	7,861	4,069	-
Equipment maintenance and rental	476	38	-	-
Insurance	2,148	168	1,074	-
Depreciation	12,756	-	-	-
Other	616	36	-	502
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	<u>305,447</u>	<u>65,854</u>	<u>209,262</u>	<u>3,000</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES				
	83,277	(12,265)	13,092	-
Indirect expense allocation	<hr/>	<hr/>	<hr/>	<hr/>
	21,588	4,654	14,790	-
NET				
	<u>\$ 61,689</u>	<u>\$ (16,919)</u>	<u>\$ (1,698)</u>	<u>\$ -</u>

AREA SUBSTANCE ABUSE COUNCIL, INC.
SCHEDULE OF REVENUE AND EXPENSES - OTHER CONTRACTS
Year Ended June 30, 2008

	<u>Meth Tx Linn Grant</u>	<u>Jones County School District</u>	<u>Rural Linn Prevention</u>	<u>Linn County JAG</u>
REVENUE				
Other government fees and grants	\$ 540,113	\$ 140,709	\$ 170,967	\$ 27,578
Client and resident fees	22,037	2,599	-	-
Donations	3,000	-	-	-
Medicaid	31,351	21,817	-	-
United Way	-	-	-	13,789
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	596,501	165,125	170,967	41,367
EXPENSES				
Salaries	307,756	96,619	129,209	31,710
Fringe benefits	73,017	33,189	23,463	6,659
Contracted services	85,911	474	2,756	73
Residential treatment services	90,041	-	-	-
Supplies and office expenses	15,073	2,534	2,282	975
Telephone	1,268	1,398	961	31
Occupancy	28,451	2,316	-	-
Staff training and education	5,648	2,937	5,012	500
Travel	2,218	6,599	8,333	296
Equipment maintenance and rental	-	-	-	21
Insurance	1,706	436	505	119
Depreciation	1,516	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	612,605	146,502	172,521	40,384
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES				
	(16,104)	18,623	(1,554)	983
Indirect expense allocation	-	10,355	12,194	2,854
	<hr/>	<hr/>	<hr/>	<hr/>
NET	<u>\$ (16,104)</u>	<u>\$ 8,268</u>	<u>\$ (13,748)</u>	<u>\$ (1,871)</u>

**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
Area Substance Abuse Council, Inc.
Cedar Rapids, Iowa

We have audited the financial statements of the Area Substance Abuse Council, Inc. as of and for the year ended June 30, 2008, and have issued our report thereon dated January 9, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Area Substance Abuse Council, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity'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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency and 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 the entity'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 the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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 entity'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 internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe finding 2008-1 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Area Substance Abuse Council, 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 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 or other matters that are required to be reported under *Government Auditing Standards*. However we did note certain immaterial instances of non-compliance, which we have reported to management of the Area Substance Abuse Council, Inc. in a letter dated January 9, 2009.

Area Substance Abuse Council, Inc.'s response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusion on the Council's response, we did not audit the Area Substance Abuse Council, Inc.'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 Area Substance Abuse Council, Inc. and other parties to whom the Council 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.

Clifton Gunderson LLP

Cedar Rapids, Iowa
January 9, 2009

**Independent Auditor's Report on Compliance with
Requirements Applicable to the Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

Board of Directors
Area Substance Abuse Council, Inc.
Cedar Rapids, Iowa

Compliance

We have audited the compliance of Area Substance Abuse Council, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. Area Substance Abuse Council, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on Area Substance Abuse Council, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Area Substance Abuse Council, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Area Substance Abuse Council, Inc.'s compliance with those requirements.

In our opinion, Area Substance Abuse Council, Inc. complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Area Substance Abuse Council, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Area Substance Abuse Council, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Area Substance Abuse Council, Inc.'s internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the Area Substance Abuse Council, Inc. and other parties to whom the Council 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Area Substance Abuse Council, 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.

Clifton Henderson LLP

Cedar Rapids, Iowa
January 9, 2009

**AREA SUBSTANCE ABUSE COUNCIL, INC.
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2008**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

AREA SUBSTANCE ABUSE COUNCIL, INC.
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS

2008- 1: Preparation of Financial Statements and Audit Adjustment

Criteria:

The Board of Directors and management share the ultimate responsibility for the accuracy and reliability of the Council's trial balance and for the preparation of their financial statements, including disclosures.

Condition:

The Council has not implemented procedures, to the degree necessary, to perform a review and assume responsibility for the Council's financial statements and related disclosures to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected. Also, a misstatement that had a material effect on the Council's financial statements was discovered. An adjusting journal entry was made to correct this misstatement.

Context:

While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced. The independent auditor cannot be considered part of the Council's internal control system. The Council has implemented procedures to review the financial statements and disclosures but has not utilized review aids, such as a disclosure checklist, and may not have monitored recent accounting developments to the extent necessary to provide a high level of assurance that financial statement omissions or other errors would be identified and corrected.

Effect:

As a result of this condition, there is a higher risk that financial statement omissions or other errors or misstatements could occur and not be detected.

Cause:

The Council has relied on the independent auditor to some degree to provide assurance that the financial statements, including disclosures, are not materially misstated.

Recommendation:

We recommend that sufficient financial statement and disclosure review procedures be performed by an individual possessing a thorough understanding of applicable generally accepted accounting principles and knowledge of the Council's activities and operations.

Management's Response:

The Council will consider our recommendation to improve this situation.

Conclusion:

Response accepted.

AREA SUBSTANCE ABUSE COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

SECTION III - FEDERAL AWARD FINDINGS

No matters were reported.

AREA SUBSTANCE ABUSE COUNCIL, INC.
CORRECTIVE ACTION PLAN
Year Ended June 30, 2008

<u>Comment Number</u>	<u>Comment Title</u>	<u>Corrective Action Plan</u>	<u>Contact Person, Title, Phone Number</u>	<u>Anticipated Date of Completion</u>
2008-1	Preparation of Financial Statements and Audit Adjustment	Recruit individual(s) possessing a thorough understanding of GAAP and knowledge of the Council's activities and operations to assist with financial statement preparation and review.	John Garringer, Executive Director (319) 390-4611	6/30/2009

AREA SUBSTANCE ABUSE COUNCIL, INC.
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2008

FINDING 2007- 1: Audit Adjustments

Condition:

This finding was a material weakness stating that there were material misstatements identified during the audit procedures.

Recommendation:

We recommended that management establish internal procedures to identify and correct all material financial statement misstatements.

Current Status:

One misstatement was discovered during the course of the current audit.

FINDING 2007- 2: Preparation of Financial Statements

Condition:

This finding was a material weakness stating that the Council had not implemented procedures, to the degree necessary, to perform a review and assume responsibility for the Council's financial statements and related disclosures to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected.

Recommendation:

We recommended that sufficient financial statement and disclosure review procedures be performed by an individual possessing a thorough understanding of applicable generally accepted accounting principles and knowledge of the Council's activities and operations.

Current Status:

Recommendation has not been implemented during the year ended June 30, 2008.