

Alcohol and Drug Dependency Services of Southeast Iowa

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

June 30, 2009

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**Alcohol and Drug Dependency Services of Southeast Iowa
Board of Directors
June 30, 2009**

	<u>Title</u>	<u>Term Expires</u>
Robert Ritson	President	October, 2011
Mary Margaret Wagner	Vice President	October, 2009
Jeff Heland	Secretary	October, 2009
Joe Skelley	Treasurer	October, 2009
Nina Allison	Director	October, 2009
Steve Bohlen	Director	October, 2010
Michael Clark	Director	October, 2010
Brian DePriest	Director	October, 2009
Ben Diewold	Director	October, 2010
John Korb	Director	October, 2010
Russ Kuhlemeier	Director	October, 2011
Julie Solinski	Director	October, 2010
Richard Swanson	Executive Director	Indefinite



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Independent Auditor's Report

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

We have audited the accompanying financial statements, listed in the table of contents of this report, of Alcohol and Drug Dependency Services of Southeast Iowa (a nonprofit corporation) as of and for the year ended June 30, 2009. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alcohol and Drug Dependency Services of Southeast Iowa, as of June 30, 2009, and the changes in its net assets and its 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 7, 2010, on our consideration of Alcohol and Drug Dependency Services of Southeast Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and of 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 performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental information on page 11 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

CPA Associates PC

January 7, 2010

Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Financial Position
June 30, 2009

Assets

Cash	\$ 319,087
Accounts receivable	
Grants and allocations	35,196
Client fees and other services, net of allowance of \$11,528	62,440
Prepaid expenses	16,993
Certificates of deposit	524,103
Property and equipment	
Building	1,656,399
Furniture and fixtures	38,014
Equipment	245,419
Accumulated depreciation	<u>(1,199,685)</u>
	<u>\$ 1,697,966</u>

Liabilities and Net Assets

Liabilities:	
Accounts payable	\$ 22,150
Accrued salaries and paid time off	82,940
Payroll taxes payable	<u>3,357</u>
	<u>108,447</u>
Net assets	
Unrestricted:	
Board designated	101,489
Undesignated	<u>1,488,030</u>
	<u>1,589,519</u>
	<u>\$ 1,697,966</u>

See accompanying notes to financial statements.

**Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Activities
Year Ended June 30, 2009**

Public Support and Revenue

Public support	
Iowa Department of Public Health:	
Treatment program	\$ 748,728
Prevention program	111,355
Gambling treatment program	262,393
Other grants	55,617
County allocations	62,399
City allocations	1,943
United Way	25,974
Donations	<u>1,095</u>
	<u>1,269,504</u>
Revenue	
Resident recovery program fees	58,563
Client fees	256,750
Other services	85,952
Interest income	19,001
Miscellaneous	<u>25,298</u>
	<u>445,564</u>
Total public support and revenue	<u>1,715,068</u>

Expenses

Program services	1,440,867
Supporting services	<u>368,850</u>
Total expenses	<u>1,809,717</u>
Change in net assets	(94,649)
Net assets, beginning of year	<u>1,684,168</u>
Net assets, end of year	<u>\$ 1,589,519</u>

See accompanying notes to financial statements.

Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Functional Expenses
Year Ended June 30, 2009

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Total</u>
Salaries	\$ 767,026	\$ 249,912	\$ 1,016,938
Benefits and taxes	<u>183,530</u>	<u>59,613</u>	<u>243,143</u>
Total salaries and related expenses	950,556	309,525	1,260,081
Travel	65,827	9,312	75,139
Education and training	27,365	4,249	31,614
Contract services	29,062	1,281	30,343
Insurance	32,910	3,657	36,567
Occupancy	84,035	8,339	92,374
Supplies	111,649	4,287	115,936
Telephone	21,840	1,882	23,722
Equipment maintenance	15,254	1,672	16,926
Other expenses	<u>47,374</u>	<u>2,494</u>	<u>49,868</u>
Total expenses before depreciation	1,385,872	346,698	1,732,570
Depreciation	<u>54,995</u>	<u>22,152</u>	<u>77,147</u>
Total functional expenses	<u>\$ 1,440,867</u>	<u>\$ 368,850</u>	<u>\$ 1,809,717</u>

See accompanying notes to financial statements.

Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Cash Flows
Year Ended June 30, 2009

Cash Flows From Operating Activities	
Change in net assets	\$ (94,649)
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	77,147
Change in assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	66,473
Other assets	(6,054)
Decrease in:	
Accounts payable and accrued expenses	<u>23,169</u>
Net cash provided by operating activities	<u>66,086</u>
Cash Flows From Investing Activities	
Purchase of certificates of deposit	(14,657)
Capital expenditures	<u>(60,253)</u>
Net cash used by investing activities	<u>(74,910)</u>
Net decrease in cash	(8,824)
Cash, beginning of year	<u>327,911</u>
Cash, end of year	<u><u>\$ 319,087</u></u>

See accompanying notes to financial statements.

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

Note 1. Reporting Entity

Alcohol and Drug Dependency Services of Southeast Iowa (Organization) is a nonprofit corporation organized to provide education and group counseling for substance abusers and their families, in addition to providing residential care for adult substance abusers and treatment for gambling addiction. Services are provided primarily to residents of southeast Iowa.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

The Organization's financial statements are prepared on the accrual basis.

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.

Consideration of Subsequent Events

The Organization performed an evaluation of subsequent events through January 7, 2010, which is the date the financial statements were available to be issued. There have been no subsequent events that occurred that would require disclosure or recognition in the financial statements as of June 30, 2009.

Cash

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments available for current use with an original maturity of three months or less to be cash.

Accounts Receivable

Accounts receivable are for grants, allocations and services performed and are uncollateralized. Collection of accounts receivable, net of the allowance for doubtful accounts, is expected to occur within one year. The allowance for doubtful accounts is estimated based on current and prior experience with the outstanding accounts. Accounts are written off when management believes the account is uncollectible. Charged-off accounts are netted against the related revenues and totaled \$16,100 for the year ended June 30, 2009.

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

Note 2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment is stated at cost. Expenditures in excess of \$1,000 for property and equipment that provide future benefit are capitalized. Depreciation is computed by the straight-line method over the following estimated useful lives:

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

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

Income Taxes

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes.

Pending Accounting Pronouncements

In June 2006, the FASB issued Interpretation Number 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an entity's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. A nonpublic entity may elect to defer its application of FIN 48 to annual financial statements for fiscal years beginning after December 15, 2008. The Organization has determined that it meets the criteria for deferral and has elected to defer the adoption of FIN 48 until July 1, 2009. The Organization has not yet completed its analysis of the effects of FIN 48 and has not determined if the adoption of FIN 48 will have a material impact on its financial statements.

Note 3. Certificates of Deposit

The Organization has certificates of deposit totaling \$524,103. The certificates bear interest ranging from 2.13% to 4.13%, have maturity dates ranging from August 2, 2009 to September 9, 2012, and are subject to penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

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

Note 4. Leased Equipment and Facilities

The Organization leases office space in Fort Madison, Davenport and Ottumwa, Iowa under operating leases. The leases require monthly rental payments totaling \$2,426 and may be cancelled with 30 days notice. The Ottumwa office lease includes the use of support staff, furnishings, and internet and phone access. Rent expense under these leases was \$23,843 for the year ended June 30, 2009.

The Organization leases office equipment under an operating lease expiring in November 2009, with minimum payments of \$566 per month. Total office equipment rental expense under this agreement was \$6,792 for the year ended June 30, 2009. Future minimum lease payments total \$2,264 for the year ended June 30, 2010.

Note 5. Pension Plan

The Organization has a pension plan covering full-time employees who are at least 21 years of age and have completed at least one year of service. The plan states that the Organization will contribute an amount equal to two percent of each eligible employee's gross salary. In addition, if the employee elects to make a two percent contribution, the Organization will match it, making the Organization's maximum contribution four percent. Total pension expense for the year was \$27,520.

Note 6. Board-Designated Net Assets

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

Staff	\$ 40
Capital expenditures	84,044
Depreciation sinking fund	<u>17,405</u>
	<u>\$ 101,489</u>

Note 7. Concentration of Revenues and Credit Risk

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

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

Note 8. Self-Insured Unemployment Benefits

The Organization elected to self-fund unemployment benefits through participation in an unemployment savings program. The Organization has set up a reserve account that will be used to reimburse the State of Iowa for actual claims paid to former employees. The program includes excess loss insurance up to \$160,000 with a stop loss limit of \$40,000. The balance in the reserve account was \$5,465 as of June 30, 2009. Unemployment claims totaling \$1,326 were paid from the fund during the year ended June 30, 2009.

Note 9. Allocation of Expenses - Statement of Functional Expenses

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

Note 10. Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the Organization's commercial insurance. The Organization assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Alcohol and Drug Dependency Services of Southeast Iowa
Detail of Functional Expenses - Program Services
Year Ended June 30, 2009

	<u>Treatment</u>	<u>Prevention</u>	<u>Access to Recovery</u>	<u>Gambling</u>	<u>Total</u>
Salaries	\$ 472,420	\$ 131,506	\$ -	\$ 163,100	\$ 767,026
Benefits and taxes	<u>112,493</u>	<u>33,215</u>	<u>-</u>	<u>37,822</u>	<u>183,530</u>
Total salaries and related expenses	584,913	164,721	-	200,922	950,556
Travel	21,368	14,379	76	30,004	65,827
Education and training	16,062	2,580	-	8,723	27,365
Contract services	18,195	8,721	-	2,146	29,062
Insurance	23,037	4,754	-	5,119	32,910
Occupancy	47,282	6,206	-	30,547	84,035
Supplies	75,244	17,357	48	19,000	111,649
Telephone	12,459	2,345	-	7,036	21,840
Equipment maintenance	10,540	3,019	-	1,695	15,254
Other expenses	<u>17,018</u>	<u>4,203</u>	<u>17,457</u>	<u>8,696</u>	<u>47,374</u>
Total expenses before depreciation	826,118	228,285	17,581	313,888	1,385,872
Depreciation	<u>39,651</u>	<u>12,184</u>	<u>-</u>	<u>3,160</u>	<u>54,995</u>
Total functional expenses	<u>\$ 865,769</u>	<u>\$ 240,469</u>	<u>\$ 17,581</u>	<u>\$ 317,048</u>	<u>\$ 1,440,867</u>



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**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited the financial statements of Alcohol and Drug Dependency Services of Southeast Iowa (Organization) as of and for the year ended June 30, 2009, and have issued our report thereon dated January 7, 2010. 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 Organization'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 Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

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 Organization'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 that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization'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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider all of the significant deficiencies in internal control over financial reporting described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to the Board of Directors of Alcohol and Drug Dependency Services of Southeast Iowa in a separate letter dated January 7, 2010.

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Organization's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the Board of Directors of Alcohol and Drug Dependency Services of Southeast Iowa and other parties to whom the Organization may report. This report is not intended to be and should not be used by anyone other than these specified parties.

CPA Associates PC

January 7, 2010

SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2009

Part I: Findings Related to the Financial Statements

Material Weaknesses:

I-A-09 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling a transaction from its inception to its completion. Management has not separated incompatible activities of personnel, thereby creating risks to the safeguarding of assets and accuracy of the financial statements. Due to the size of your Organization, not all duties related to billing, cash receipts, cash disbursements and account reconciliation are adequately segregated.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Organization should review its control procedures to obtain the maximum internal control possible under the circumstances, and should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

I-B-09 Control Procedures over Accounts Receivable and Billing - The Organization's system of accounting for billing and accounts receivable is decentralized, with each location or department controlling its own billing, cash collection and accounts receivable. Accounts receivable balances are adjusted to subsidiary schedule balances on a monthly basis, however billings, collections and write offs are not reconciled to the subsidiary schedules.

Recommendation - We recommend that the Organization develop a system to tie out changes in accounts receivable subsidiary schedules to billings, collections and write offs.

Response - We will consider this.

Conclusion - Response acknowledged.