

ZION RECOVERY SERVICES, INC.

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

YEARS ENDED JUNE 30, 2009 AND 2008

ZION RECOVERY SERVICES, INC.

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ZION RECOVERY SERVICES, INC.  
Officials  
June 30, 2009

Board of Directors:

Jim Richardson, Chairperson

Steve Ratcliff, Vice-Chairperson

David Dunfee, Secretary-Treasurer

Matt Wedemeyer

Brad Golightly

Cara Morgan

Address

Shenandoah, Iowa

Red Oak, Iowa

Atlantic, Iowa

Greenfield, Iowa

Adel, Iowa

Sidney, Iowa

Program Administrator:

Laurie Cooley

Anita, Iowa

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

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## 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, 2009 and 2008, 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, 2009 and 2008, 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 November 2, 2009 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  
November 2, 2009

ZION RECOVERY SERVICES, INC.  
Balance Sheets  
June 30,

ASSETS

	2009	2008
Current Assets:		
Cash and cash equivalents	\$ 197,446	\$ 163,395
Certificates of deposit	256,256	246,625
Accounts receivable, less allowance for doubtful accounts (\$42,000 in 2009 and \$45,000 in 2008)	46,082	64,654
Inventory	225	346
Prepaid expense	25,525	26,795
Total current assets	525,534	501,815
Property and Equipment, Net	23,821	20,187
Total assets	\$ 549,355	\$ 522,002

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 13,905	\$ 12,000
Accrued employee compensation	25,311	20,148
Payroll taxes withheld and accrued	12,720	4,082
Total current liabilities	51,936	36,230
Net Assets:		
Unrestricted	497,419	485,772
Total liabilities and net assets	\$ 549,355	\$ 522,002

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,

	2009	2008
Support and Revenue:		
Support:		
Iowa Department of Public Health - Comprehensive Treatment: Iowa Managed Substance Abuse Care Plan - Non-Medicaid	\$ 851,781	\$ 799,599
Plan Iowa Improving Access and Continuation Project	600	3,400
County funding	2,310	25,291
Donations	2,261	2,733
Total support	856,952	831,023
Revenue:		
Client fees, net	126,812	136,973
Medicaid fees	136,155	123,840
Access to recovery revenue	153,764	--
Interest income	7,824	11,785
Other revenues	38,404	61,196
Total revenue	462,959	333,794
 Total Support and Revenue	 1,319,911	 1,164,817
 Expenses:		
Salaries and wages	676,240	609,791
Employee benefits	201,702	195,123
Advertising and promotion	7,456	11,029
Provision for depreciation	4,984	8,831
Food costs	35,244	33,419
Insurance	12,763	11,112
Miscellaneous	10,584	6,654
Professional services	17,991	14,980
Rent	93,064	71,977
Repairs and maintenance	22,997	23,098
Supplies and other expense	148,319	45,143
Telephone	23,913	24,137
Training costs	15,236	20,415
Travel	31,177	22,190
Utilities	6,594	7,048
Total expenses	1,308,264	1,104,947
 Operating Income	 11,647	 59,870
 Other Support and Gains (Losses):		
Loss on disposal of assets	--	( 51,823)
 Increase in Unrestricted Net Assets	 11,647	 8,047
 Net Assets at Beginning of Year	 485,772	 477,725
 Net Assets at End of Year	 \$ 497,419	 \$ 485,772

The accompanying notes are an integral part of these statements.

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

	2009	2008
Cash flows from operating activities:		
Cash received from clients, third-party payors, and court system	\$ 473,707	\$ 340,411
Cash paid to suppliers and employees	( 1,284,922)	( 1,080,052)
Contract funding received	852,381	802,999
County funding received	2,310	25,291
Donations received	1,000	500
Interest received	7,824	11,785
Net cash provided by operating activities	52,300	100,934
Cash flows from investing activities:		
Capital expenditures	( 8,618)	( 13,025)
Purchase of certificates of deposit	( 9,631)	( 61,176)
Proceeds from the sale of assets	--	8,002
Net cash used in investing activities	( 18,249)	( 66,199)
Net increase in cash and cash equivalents	34,051	34,735
Cash and cash equivalents at beginning of year	163,395	128,660
Cash and cash equivalents at end of year	\$ 197,446	\$ 163,395
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 11,647	\$ 59,870
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for depreciation	4,984	8,831
Changes in assets and liabilities		
Accounts receivable	18,572	18,402
Inventory	121	4,393
Prepaid expense	1,270	( 3,931)
Accounts payable	1,905	7,067
Accrued employee compensation	5,163	3,494
Payroll taxes withheld and accrued	8,638	2,808
Total adjustments	40,653	41,064
Net cash provided by operating activities	\$ 52,300	\$ 100,934

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:

	2009	2008
Iowa Food Bank donations	\$ 1,261	\$ 2,233

The accompanying notes are an integral part of these statements.

ZION RECOVERY SERVICES, INC.  
Notes to Financial Statements  
June 30, 2009 and 2008

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 Clarinda, 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 leasehold improvements range from five to fifteen years.

ZION RECOVERY SERVICES, INC.  
Notes to Financial Statements  
June 30, 2009 and 2008

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 \$143,638 for 2009 and \$111,805 for 2008.
- b. The managed care contract revenues are recorded monthly as the payments are received. The contract requirements include minimum units of service that must be provided to earn the contract revenue. The Agency may be required to pay back a portion of the contract revenue if the minimum units of service are not met.

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 65% of its total support and revenue through this contract for the year ended June 30, 2009 (69% for 2008). The Agency's managed care contract for its current six county service area has been renewed for fiscal year ending June 30, 2010.

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:

	2009	2008
Leasehold Improvements	\$ 3,818	\$ 3,818
Equipment	63,190	54,572
	67,008	58,390
Less Accumulated Depreciation	43,187	38,203
	\$ 23,821	\$ 20,187

ZION RECOVERY SERVICES, INC.  
Notes to Financial Statements  
June 30, 2009 and 2008

NOTE D - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

	2009	2008
Outpatient and Residential Services	\$ 1,018,627	\$ 816,333
Management and General	289,637	288,614
	\$ 1,308,264	\$ 1,104,947

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, 2009 and 2008, was as follows:

	2009	2008
Medicaid	8%	9%
Other third-party payors and patients	92	91
	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 4.10% (4.30% effective July 1, 2009) of their annual covered salary and the Agency is required to contribute 6.35% (6.65% effective July 1, 2009) of annual covered payroll. Contribution requirements are established by State statute. The Agency's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007 were approximately \$39,600, \$36,700, and \$35,000, respectively, equal to the required contributions for each year.

ZION RECOVERY SERVICES, INC.  
Notes to Financial Statements  
June 30, 2009 and 2008

NOTE G - CONTINGENCIES

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.

Subsequent Events

The Agency has evaluated all subsequent events through November 2, 2009, the date the financial statements were available to be issued.

\* \* \*

ACCOMPANYING INFORMATION

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

	2009			2008	
	ATR & DUI Services	Outpatient Services	Residential Services	Total	Total
Salaries and wages	\$ 4,494	\$ 492,657	\$ 179,089	\$ 676,240	\$ 609,791
Employee benefits	889	145,789	55,024	201,702	195,123
Advertising and promotion	--	7,192	264	7,456	11,029
Provision for depreciation	--	4,984	--	4,984	8,831
Food costs	--	--	35,244	35,244	33,419
Insurance	--	7,658	5,105	12,763	11,112
Miscellaneous	729	9,394	461	10,584	6,654
Professional services	--	13,164	4,827	17,991	14,980
Rent	--	80,704	12,360	93,064	71,977
Repairs and maintenance	--	20,447	2,550	22,997	23,098
Supplies and other expense	92,028	45,627	10,664	148,319	45,143
Telephone	722	18,113	5,078	23,913	24,137
Training costs	--	13,920	1,316	15,236	20,415
Travel	7,151	20,291	3,735	31,177	22,190
Utilities	--	6,594	--	6,594	7,048
	<u>\$ 106,013</u>	<u>\$ 886,534</u>	<u>\$ 315,717</u>	<u>\$1,308,264</u>	<u>\$1,104,947</u>

See Independent Auditor's Report.

## COMMENTS AND RECOMMENDATIONS

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

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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

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, 2009, and have issued our report thereon dated November 2, 2009. 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 opinion 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.

*Granewald, Ben, Kuhlman & P.C.*

Atlantic, Iowa  
November 2, 2009

ZION RECOVERY SERVICES, INC.  
Schedule of Findings  
Year ended June 30, 2009

PART I - REPORTABLE CONDITIONS

09-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. This deficiency is common among most small organizations.

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.

\* \* \*