

Alcohol and Drug Dependency Services of Southeast Iowa

**Independent Auditor's Reports
Financial Statements and Supplemental Information
Schedule of Findings**

June 30, 2010

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**Alcohol and Drug Dependency Services of Southeast Iowa
Board of Directors
June 30, 2010**

	<u>Title</u>	<u>Term Expires</u>
Russ Kuhlemeier	President	October, 2011
Julie Solinski	Vice President	October, 2010
Joe Skelley	Secretary	October, 2012
Robert Ritson	Treasurer	October, 2011
Steve Bohlen	Director	October, 2010
Michael Clark	Director	October, 2010
Brian DePriest	Director	October, 2012
Ben Diewold	Director	October, 2010
Jeff Heland	Director	October, 2012
John Korb	Director	October, 2010
Kathy Rashid	Director	October, 2012
Mary Margaret Wagner	Director	October, 2012
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, 2010. 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, 2010, 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 December 21, 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 conducted 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

December 21, 2010

Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Financial Position
June 30, 2010

Assets	
Cash	\$ 376,061
Accounts receivable	
Grants and allocations	68,015
Client fees and other services, net of allowance of \$12,073	139,876
Prepaid expenses	16,384
Certificates of deposit	537,677
Property and equipment	
Building	1,690,131
Furniture and fixtures	38,014
Equipment	260,484
Accumulated depreciation	<u>(1,275,456)</u>
	<u>\$ 1,851,186</u>
 Liabilities and Net Assets 	
Liabilities	
Accounts payable	\$ 21,641
Accrued salaries and paid time off	85,364
Payroll taxes payable	<u>12,818</u>
	<u>119,823</u>
Net assets	
Unrestricted:	
Board designated	55,133
Undesignated	<u>1,676,230</u>
	<u>1,731,363</u>
	<u>\$ 1,851,186</u>

See accompanying notes to financial statements.

**Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Activities
Year Ended June 30, 2010**

Public Support and Revenue

Public support	
Iowa Department of Public Health:	
Treatment program	\$ 906,926
Prevention program	129,912
Gambling treatment program	352,559
Other grants	96,540
County allocations	43,953
City allocations	2,775
United Way	27,616
Donations	<u>4,053</u>
	<u>1,564,334</u>
Revenue	
Resident recovery program fees	73,294
Client fees	231,733
Other services	73,809
Interest income	15,632
Miscellaneous	<u>18,073</u>
	<u>412,541</u>
 Total public support and revenue	 <u>1,976,875</u>

Expenses

Program services	1,439,676
Supporting services	<u>395,355</u>
 Total expenses	 <u>1,835,031</u>
 Change in net assets	 141,844
 Net assets, beginning of year	 <u>1,589,519</u>
 Net assets, end of year	 <u><u>\$ 1,731,363</u></u>

See accompanying notes to financial statements.

Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Functional Expenses
Year Ended June 30, 2010

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Total</u>
Salaries	\$ 763,081	\$ 261,292	\$ 1,024,373
Benefits and taxes	<u>188,510</u>	<u>60,857</u>	<u>249,367</u>
Total salaries and related expenses	951,591	322,149	1,273,740
Travel	60,200	12,150	72,350
Education and training	29,787	2,847	32,634
Contract services	44,911	604	45,515
Insurance	21,930	13,471	35,401
Occupancy	76,225	9,104	85,329
Supplies	148,731	4,843	153,574
Telephone	18,603	3,527	22,130
Equipment maintenance	16,572	892	17,464
Other expenses	<u>16,892</u>	<u>4,231</u>	<u>21,123</u>
Total expenses before depreciation	1,385,442	373,818	1,759,260
Depreciation	<u>54,234</u>	<u>21,537</u>	<u>75,771</u>
Total functional expenses	<u>\$ 1,439,676</u>	<u>\$ 395,355</u>	<u>\$ 1,835,031</u>

See accompanying notes to financial statements.

Alcohol and Drug Dependency Services of Southeast Iowa
Statement of Cash Flows
Year Ended June 30, 2010

Cash Flows From Operating Activities	
Change in net assets	\$ 141,844
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	75,771
Change in assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	(110,255)
Other assets	609
Decrease in:	
Accounts payable and accrued expenses	<u>11,376</u>
Net cash provided by operating activities	<u>119,345</u>
Cash Flows From Investing Activities	
Purchase of certificates of deposit	(13,574)
Capital expenditures	<u>(48,797)</u>
Net cash used by investing activities	<u>(62,371)</u>
Net decrease in cash	56,974
Cash, beginning of year	<u>319,087</u>
Cash, end of year	<u>\$ 376,061</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.

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. Accounts written off are netted against the related revenues and totaled \$15,647 for the year ended June 30, 2010.

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 straightline 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.

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

Note 2. Summary of Significant Accounting Policies (continued)

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. The Agency has open tax years for three years prior to June 30, 2010.

Evaluation of Subsequent Events

The Organization performed an evaluation of subsequent events through December 21, 2010, which is the date the financial statements were available to be issued. There were no subsequent events that would require disclosure or recognition in the financial statements as of June 30, 2010.

Recently Adopted Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation Number 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* (FASB Accounting Standards Codification 740-10), which 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 professional standards. The standard also 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 this professional standard to annual financial statements for fiscal years beginning after December 15, 2008. The Organization elected to defer the adoption of this professional standard until July 1, 2009. The Organization completed its analysis of the effects of this professional standard during the year and did not identify any uncertain tax positions. Accordingly, the adoption of the standard did not have a material impact on its financial statements.

Note 3. Certificates of Deposit

The Organization has certificates of deposit totaling \$537,677. The certificates bear interest ranging from .75% to 3.85%, have maturity dates ranging from November 2, 2010 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.

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 \$2,366 and may be cancelled with 30 days notice. The Ottumwa office lease includes the use of support staff, furnishings, and internet and phone access. The Organization cancelled the Fort Madison lease in June 2010. Rent expense under these leases was \$30,833 for the year ended June 30, 2010.

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

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 \$30,917.

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		52,754
Depreciation sinking fund		<u>2,339</u>
	\$	<u>55,133</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.

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 \$6,268 as of June 30, 2010. Unemployment claims totaling \$917 were paid from the fund during the year ended June 30, 2010.

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.

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

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, 2010**

	<u>Treatment</u>	<u>Prevention</u>	<u>Access to Recovery</u>	<u>Gambling</u>	<u>Total</u>
Salaries	\$ 467,207	\$ 121,670	\$ -	\$ 174,204	\$ 763,081
Benefits and taxes	<u>115,239</u>	<u>30,214</u>	<u>-</u>	<u>43,057</u>	<u>188,510</u>
Total salaries and related expenses	582,446	151,884	-	217,261	951,591
Travel	20,650	15,978	-	23,572	60,200
Education and training	22,380	904	-	6,503	29,787
Contract services	20,586	11,612	-	12,713	44,911
Insurance	15,253	2,758	-	3,919	21,930
Occupancy	31,085	7,863	-	37,277	76,225
Supplies	75,377	19,065	43,195	11,094	148,731
Telephone	10,036	2,521	-	6,046	18,603
Equipment maintenance	10,249	3,750	-	2,573	16,572
Other expenses	<u>8,379</u>	<u>2,093</u>	<u>-</u>	<u>6,420</u>	<u>16,892</u>
Total expenses before depreciation	796,441	218,428	43,195	327,378	1,385,442
Depreciation	<u>39,229</u>	<u>11,845</u>	<u>-</u>	<u>3,160</u>	<u>54,234</u>
Total functional expenses	<u>\$ 835,670</u>	<u>\$ 230,273</u>	<u>\$ 43,195</u>	<u>\$ 330,538</u>	<u>\$ 1,439,676</u>



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

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

We have audited the financial statements of Alcohol and Drug Dependency Services of Southeast Iowa (Organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 21, 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 the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described at I-A-10 in the accompanying Schedule of Findings to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting. We consider the deficiency described at I-B-10 in the accompanying Schedule of Findings to be a significant deficiency.

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, 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 that are required to be reported under *Government Auditing Standards*.

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

December 21, 2010

Alcohol and Drug Dependency Services of Southeast Iowa
Schedule of Findings
Year Ended June 30, 2010

Part I: Findings Related to the Financial Statements

Material Weaknesses:

I-A-10 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-10 Accounts Receivable - The Organization was unable to provide a list of accounts receivable by grantor/client (subsidiary listing) that reconciled to the general ledger.

Recommendation - We recommend that the Organization develop a process to reconcile the accounts receivable subsidiary listing to the general ledger.

Response - We will consider this.

Conclusion - Response acknowledged.