

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

CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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AREA SUBSTANCE ABUSE COUNCIL, INC.  
BOARD OF DIRECTORS AND MANAGEMENT  
June 30, 2011

**BOARD OF DIRECTORS**

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<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Term Expires December</u></b>
Nicole Pizzini	President	2012
Rosanne Van Cura	Vice President	2012
Dan Romont	Secretary	2013
Samm Randall	Treasurer	2011
Keith Dirks	Member	2012
John Harris	Member	2012
Jason Sanders	Member	2013
Thomas Levi	Member	2011
Don Davis	Member	2012
Al Rathje	Member	2012
Norman Griser	Member	2012
Mark Zaiger	Member	2011
Malinda Lamb	Member	2012
Nancylee Ziese	Member	2013
Hesta Stoffel	Member	2013
Nancy Lowenberg	Member	2013

**MANAGEMENT**

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



CliftonLarsonAllen LLP  
www.cliftonlarsonallen.com

## Independent Auditor's Report

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

We have audited the accompanying consolidated statements of financial position of the Area Substance Abuse Council, Inc. (the Council) and its affiliates as of June 30, 2011 and 2010 and the related consolidated statements of activities, functional expenses and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide 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, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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 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.

*CliftonLarsonAllen LLP*

Cedar Rapids, Iowa  
January 6, 2012

## FINANCIAL STATEMENTS

**AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
June 30, 2011 and 2010

**ASSETS**

	<u>2011</u>	<u>2010</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 415,723	\$ 705,096
Cash, restricted	127,363	123,252
Accounts receivable	1,576,367	1,031,600
Unconditional promises to give:		
Contributions receivable - United Way	474,252	465,077
Contributions receivable - other	-	33,700
Current portion of contributed lease, less discount to present value of \$13,924	27,464	-
Prepaid expenses	139,078	24,801
Prepaid rent	191,442	196,697
Deposits	<u>5,300</u>	<u>5,163</u>
Total current assets	<u>2,956,989</u>	<u>2,585,386</u>
<b>ESCROW DEPOSITS</b>	<u>43,468</u>	<u>28,206</u>
<b>INVESTMENTS AND LONG-TERM RECEIVABLES</b>		
Certificates of deposit, restricted, long-term	175,364	175,364
Present value of contributed lease, less current portion above, less discount to present value of \$147,876	<u>617,802</u>	<u>-</u>
Total investments and long-term receivables	<u>793,166</u>	<u>175,364</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land	961,764	961,764
Buildings and improvements	9,727,054	9,449,357
Construction-in-progress	448,618	-
Furniture, fixtures and equipment	<u>885,871</u>	<u>936,215</u>
Total	12,023,307	11,347,336
Less accumulated depreciation	<u>3,273,516</u>	<u>2,965,459</u>
Net property and equipment	<u>8,749,791</u>	<u>8,381,877</u>
<b>OTHER ASSETS</b>		
Loan origination fees, net of accumulated amortization	34,917	36,725
Tax credit fees, net of accumulated amortization	<u>21,476</u>	<u>25,290</u>
Total other assets	<u>56,393</u>	<u>62,015</u>
<b>TOTAL ASSETS</b>	<u>\$ 12,599,807</u>	<u>\$ 11,232,848</u>

## LIABILITIES AND NET ASSETS

	<u>2011</u>	<u>2010</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 510,578	\$ 165,673
Accrued vacation pay	265,349	250,654
Accrued expenses	5,433	9,819
Accrued interest payable	32,159	24,915
Tenants' security deposits	18,908	18,445
Current maturities of long-term debt	<u>112,566</u>	<u>156,680</u>
Total current liabilities	944,993	626,186
<b>LONG-TERM DEBT</b> , less current maturities above	<u>3,098,751</u>	<u>3,210,546</u>
Total liabilities	<u>4,043,744</u>	<u>3,836,732</u>
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated and controlling interest	5,092,121	4,239,925
Non-controlling interest of affiliates	<u>2,341,740</u>	<u>2,560,401</u>
Total unrestricted	<u>7,433,861</u>	<u>6,800,326</u>
Temporarily restricted:		
Subsequent years' operations	1,092,055	460,752
Purpose restricted	<u>30,147</u>	<u>135,038</u>
Total temporarily restricted	<u>1,122,202</u>	<u>595,790</u>
Total net assets	<u>8,556,063</u>	<u>7,396,116</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u>\$ 12,599,807</u>	 <u>\$ 11,232,848</u>

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

**AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**Years Ended June 30, 2011 and 2010**

	2011		
	Unrestricted	Temporarily Restricted	Total
<b>PUBLIC SUPPORT AND REVENUE</b>			
Iowa Department of Public Health:			
Prevention programs	\$ 683,469	\$ -	\$ 683,469
Other government fees and grants	2,031,295	-	2,031,295
Medicaid	2,593,948	-	2,593,948
Non-medicaid	2,884,262	-	2,884,262
United Way	10,861	474,253	485,114
Donations	166,587	30,147	196,734
Donated goods and services	50,884	617,802	668,686
Client and resident fees	1,282,846	-	1,282,846
Contract services	253,942	-	253,942
Interest	1,032	-	1,032
Other revenue	95,602	-	95,602
	10,054,728	1,122,202	11,176,930
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>			
Expiration of time and purpose restrictions	595,790	(595,790)	-
	10,650,518	526,412	11,176,930
<b>EXPENSES</b>			
Program services	9,000,799	-	9,000,799
Supporting activities:			
Management and general	816,315	-	816,315
Fund raising	27,958	-	27,958
	844,273	-	844,273
Total supporting activities			
	9,845,072	-	9,845,072
<b>CHANGE IN NET ASSETS - ASAC</b>	805,446	526,412	1,331,858
<b>NET LOSS OF AFFILIATES</b>	(171,911)	-	(171,911)
<b>CHANGE IN NET ASSETS</b>	633,535	526,412	1,159,947
<b>NET ASSETS, BEGINNING OF YEAR</b>	6,800,326	595,790	7,396,116
<b>CAPITAL CONTRIBUTIONS (DISTRIBUTIONS) - AFFILIATES</b>	-	-	-
<b>TOTAL NET ASSETS, END OF YEAR</b>	\$ 7,433,861	\$ 1,122,202	\$ 8,556,063

2010		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 578,874	\$ -	\$ 578,874
1,914,452	-	1,914,452
2,548,755	-	2,548,755
3,500,556	-	3,500,556
17,592	460,753	478,345
79,951	135,037	214,988
4,065	-	4,065
658,548	-	658,548
234,594	-	234,594
1,351	-	1,351
13,040	-	13,040
<u>9,551,778</u>	<u>595,790</u>	<u>10,147,568</u>
<u>463,996</u>	<u>(463,996)</u>	<u>-</u>
<u>10,015,774</u>	<u>131,794</u>	<u>10,147,568</u>
<u>9,295,122</u>	<u>-</u>	<u>9,295,122</u>
716,982	-	716,982
27,113	-	27,113
<u>744,095</u>	<u>-</u>	<u>744,095</u>
<u>10,039,217</u>	<u>-</u>	<u>10,039,217</u>
(23,443)	131,794	108,351
<u>(150,319)</u>	<u>-</u>	<u>(150,319)</u>
(173,762)	131,794	(41,968)
6,977,591	463,996	7,441,587
<u>(3,503)</u>	<u>-</u>	<u>(3,503)</u>
<u>\$ 6,800,326</u>	<u>\$ 595,790</u>	<u>\$ 7,396,116</u>

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

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended June 30, 2011

	<u>SUPPORTING ACTIVITIES</u>				<u>Total Expenses</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>	
Salaries	\$ 5,339,592	\$ 536,088	\$ 12,500	\$ 548,588	\$ 5,888,180
Fringe benefits	1,423,977	134,449	3,308	137,757	1,561,734
Contracted services	837,372	66,365	10,000	76,365	913,737
Supplies and office expenses	451,321	18,747	2,150	20,897	472,218
Telephone	41,187	6,115	-	6,115	47,302
Occupancy	442,626	6,928	-	6,928	449,554
Staff training and education	39,816	2,000	-	2,000	41,816
Travel	54,338	2,262	-	2,262	56,600
Equipment maintenance and rental	32,015	13,910	-	13,910	45,925
Insurance	47,534	2,742	-	2,742	50,276
Other	106,915	9,358	-	9,358	116,273
	<u>8,816,693</u>	<u>798,964</u>	<u>27,958</u>	<u>826,922</u>	<u>9,643,615</u>
Total expenses before depreciation					
Depreciation	184,106	17,351	-	17,351	201,457
	<u>184,106</u>	<u>17,351</u>	<u>-</u>	<u>17,351</u>	<u>201,457</u>
<b>Total expenses</b>	<b><u>\$ 9,000,799</u></b>	<b><u>\$ 816,315</u></b>	<b><u>\$ 27,958</u></b>	<b><u>\$ 844,273</u></b>	<b><u>\$ 9,845,072</u></b>

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

**AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended June 30, 2010

SUPPORTING ACTIVITIES

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>	<u>Total Expenses</u>
Salaries	\$ 5,708,556	\$ 468,478	\$ 12,000	\$ 480,478	\$ 6,189,034
Fringe benefits	1,452,917	110,789	3,038	113,827	1,566,744
Contracted services	684,308	60,806	10,000	70,806	755,114
Supplies and office expenses	480,035	25,040	2,075	27,115	507,150
Telephone	48,918	4,894	-	4,894	53,812
Occupancy	440,464	5,728	-	5,728	446,192
Staff training and education	44,657	1,666	-	1,666	46,323
Travel	69,170	3,592	-	3,592	72,762
Equipment maintenance and rental	42,413	686	-	686	43,099
Insurance	50,944	2,284	-	2,284	53,228
Other	90,961	10,663	-	10,663	101,624
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses before depreciation	9,113,343	694,626	27,113	721,739	9,835,082
Depreciation	181,779	22,356	-	22,356	204,135
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total expenses</b>	<b><u>\$ 9,295,122</u></b>	<b><u>\$ 716,982</u></b>	<b><u>\$ 27,113</u></b>	<b><u>\$ 744,095</u></b>	<b><u>\$ 10,039,217</u></b>

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

**AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,159,947	\$ (41,968)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	386,162	388,705
Amortization	5,622	5,708
In-kind rent contribution	(645,266)	-
Loss on disposition of property and equipment	36	-
Effects of changes in operating assets and liabilities:		
Receivables	(520,242)	26,801
Prepaid expenses	(109,022)	11,477
Escrow deposits	(15,262)	(5,758)
Deposits	(137)	-
Accounts payable	37,256	30,360
Accrued vacation pay	14,695	9,188
Accrued expenses	2,858	4,102
Tenants' security deposits	463	485
	<u>317,110</u>	<u>429,100</u>
Net cash provided by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of certificates of deposit	-	(175,364)
Purchases of property and equipment	(446,463)	(60,530)
	<u>(446,463)</u>	<u>(235,894)</u>
Net cash used in investing activities		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term debt	(155,909)	(206,059)
Capital distributions	-	(3,503)
	<u>(155,909)</u>	<u>(209,562)</u>
Net cash used in financing activities		
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(285,262)	(16,356)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>828,348</u>	<u>844,704</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 543,086</u>	<u>\$ 828,348</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, 2011 and 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Area Substance Abuse Council, Inc. (the Council) 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 counties 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 is wholly owned by the Council. The Corporation owns a .01% interest in and 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 another, unrelated, entity is the limited partner for both entities. As the general partner, the Corporation controls the activity of the limited partnerships. The investment in affiliates are recorded using the equity method of accounting and reflect the capital originally invested less allocated losses. In general, these balances are not expected to be fully or partially realized in cash unless there is the occurrence of a significant liquidity event, such as a sale of the partnership property, a refinancing of the property debt, or a termination of the partnership.

Significant accounting policies followed by the Council and its affiliated organizations 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, 2011 and 2010

**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.

**Cash Equivalents**

The Council considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**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.

**Significant Estimate**

The Council is provided space under a below market rate lease. The value of the in-kind rent expense and recorded asset are considered a significant estimate.

**AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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, 2011 and 2010, based on rates of pay on those dates.

**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.

**AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition (continued)**

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.

**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 consolidated 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 Council files information returns in the U.S. federal jurisdiction. The Council and affiliates have determined that they were not required to record a liability related to uncertain tax positions. The federal information returns of the Council for the year ended June 30, 2008, and thereafter are subject to examination by the IRS, generally for three years after they were filed.

**AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Taxes (continued)**

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 consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

**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, 2011, \$11,992 and \$32,855, respectively, was funded to the Partnerships' replacement reserves with no withdrawals. As of June 30, 2010, \$8,736 and \$24,605, respectively, was funded to the Partnerships' replacement reserves with no withdrawals.

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, 2011, \$26,741 and \$69,724 was funded to the Partnerships' operating reserves. As of June 30, 2010, \$26,646 and \$69,425 was 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. As of June 30, 2011 and 2010, \$69,504 was held in 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. As of June 30, 2011 and 2010, \$105,860 was held in the Partnership's tenant rental subsidy reserve.

**AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 3 - CONTRIBUTED LEASE**

The Council has entered into a long-term lease agreement for office space. The lease term is from December 15, 2010 through December 31, 2015, with three five-year renewal options. Management anticipates at this point that the renewal options will be exercised. An in-kind donation has been recognized as the monthly rent amount of \$1,857 is below market rates.

The Council has recorded an asset for the present value of the donated portion of the long-term lease. The rent value and discount to present value were determined based on estimates of the fair value of the space, its annual lease value, and a discount rate of 2.4%. Management believes the present value of the contributed lease and discount to present value are appropriate based on information currently known. However, circumstances impacting these estimates could occur which could significantly change these calculations.

Contributed lease receivable	\$ 807,066
Less discount to present value	<u>(161,800)</u>
<b>Net present value of contributed lease receivable</b>	<b><u>\$ 645,266</u></b>
Contributed lease amounts due in:	
Less than one year	\$ 41,388
One to five years	165,556
More than five years	<u>600,122</u>
<b>Total</b>	<b><u>\$ 807,066</u></b>

**NOTE 4 - 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, 2011 and 2010**

**NOTE 5 - DEBT**

**Long-term debt consists of the following:**

	<u>2011</u>	<u>2010</u>
<b>Area Substance Abuse Council, Inc.</b>		
Industrial Revenue Bond issued by Linn County, Iowa, payable to US Bank. A monthly principal and interest payment totaling \$3,573 is required to be made. Interest is charged at 5% per year, with final payment due September 1, 2016. The bond is secured by Bowling Street land and building. The bond agreement contains various restrictive covenants, all of which were complied with as of June 30, 2011.	\$ 194,406	\$ 226,520
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 made April 25, 2011. The bond was secured by the Bowling Street land and building.	-	44,190
Note payable to US Bank, requiring monthly principal payments of \$1,250, plus interest at the bank's prime lending rate less 0.85% (2.40% at June 30, 2011 and 2010), with final payment due January 2, 2018. The note is secured by land on 16th Avenue.	97,500	112,500
Industrial Revenue Bond issued by the City of Marion, Iowa, payable to US Bank. A monthly principal and interest payment totaling \$8,436 is required to be made. The principal amount is based on a twenty-five year amortization. Interest is charged at 4.61% per year and a final balloon payment is due December 1, 2018. The bond is secured by a first mortgage on property located on Bowling Street. The bond agreement contains various restrictive covenants, all of which were complied with as of June 30, 2011.	<u>1,202,807</u>	<u>1,246,672</u>
	<u>1,494,713</u>	<u>1,629,882</u>

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2011 and 2010

NOTE 5 - DEBT (CONTINUED)

	<u>2011</u>	<u>2010</u>
<b>The Way Home, LLLP</b>		
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.	616,604	637,344
Mortgage note payable, Iowa Department of Economic Development, HOME Investment Partnership Program, bearing interest at 1%, due in annual interest-only payments of \$2,000 beginning in March 2011, with all unpaid principal and interest due March 2038.	<u>600,000</u>	<u>600,000</u>
	<u>1,216,604</u>	<u>1,237,344</u>
<b>N.D. Housing, LLLP</b>		
Mortgage note payable, Iowa Department of Economic Development, HOME Investment Partnership Program, bearing interest at 1%, due in annual interest-only payments of \$2,000 beginning in March 2011, with all unpaid principal and interest due March 2038.	<u>500,000</u>	<u>500,000</u>
Total	3,211,317	3,367,226
Less current portion	<u>112,566</u>	<u>156,680</u>
<b>Long-term portion</b>	<u>\$3,098,751</u>	<u>\$3,210,546</u>

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.

**AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2011 and 2010

**NOTE 5 - DEBT (CONTINUED)**

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

2012	\$ 112,566
2013	120,504
2014	124,836
2015	129,373
2016	134,122
Thereafter	<u>2,589,916</u>
<b>Total</b>	<b><u>\$3,211,317</u></b>

**Line of credit agreement**

The Council has a \$500,000 line of credit available at a bank. Amounts drawn against the line of credit bear interest at the bank's prime rate less .25%, but not less than 3.75%, with final payment due January 5, 2012. The note is secured by the Council's assets. As of June 30, 2011 and 2010, there were no amounts outstanding on the line of credit.

**NOTE 6 - CHANGES IN CONSOLIDATED UNRESTRICTED NET ASSETS**

Changes in the Council's unrestricted net assets are as follows:

	<u>Total</u>	<u>Undesignated and Controlling Interest</u>	<u>Non- controlling Interest</u>
Balance, June 30, 2009	\$ 6,977,591	\$ 4,219,172	\$ 2,758,419
Change in net assets	(173,762)	20,753	(194,515)
Partnership distributions	<u>(3,503)</u>	<u>-</u>	<u>(3,503)</u>
Balance, June 30, 2010	6,800,326	4,239,925	2,560,401
Change in net assets	<u>633,535</u>	<u>852,196</u>	<u>(218,661)</u>
<b>Balance, June 30, 2011</b>	<b><u>\$ 7,433,861</u></b>	<b><u>\$ 5,092,121</u></b>	<b><u>\$ 2,341,740</u></b>

**AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 7 - COMMITMENTS AND RENT EXPENSE**

The Council leases office space at various locations under noncancelable operating leases. Five of these leases extend beyond a one-year period, expiring between September 2011 and December 2015. Monthly payments on these leases range from \$675 to \$2,370.

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

2012	\$ 77,034
2013	44,605
2014	27,686
2015	22,286
2016	<u>11,143</u>
<b>Total</b>	<b><u>\$ 182,754</u></b>

Total rental expense was \$103,235 and \$88,445 for the years ended June 30, 2011 and 2010, respectively, including \$20,694 of in-kind rent recorded for the year ended June 30, 2011.

The Council is in the process of renovating its facility located in Clinton, Iowa. Total cost of the renovation is estimated at \$1,995,000 and as of June 30, 2011, \$448,618 has been expended. Management plans to fund the renovation with grants, contributions and bank financing. Funding for the renovation includes a \$600,000 grant awarded by the City of Clinton. The grant is conditional upon the Council obtaining matching contributions totaling \$1,029,395. Subsequent to June 30, 2011, the grant amount was increased to \$800,000.

**NOTE 8 - 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 FASB ASC Topic 958-605-30-10 (*Not-for-Profit Entities – Receivables – Initial Measurement – Contributed Services*) 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 years ended June 30, 2011 and 2010, the Council received volunteer services for the tobacco coalition grant which they value at \$53,363 and \$55,307, respectively. For the years ended June 30, 2011 and 2010, the Council also received volunteer services for the Jones DFC grant which they value at \$123,852 and \$68,565, respectively.

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2011 and 2010

**NOTE 9 - RETIREMENT PLAN**

The Council offers 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 years ended June 30, 2011 and 2010, was \$84,041 and \$84,075, respectively.

**NOTE 10 - CASH FLOW DISCLOSURE AND INTEREST EXPENSE**

Total interest cost incurred and charged to expense was \$89,315 and \$96,503 and the interest actually paid was \$82,071 and \$96,974 for the years ended June 30, 2011 and 2010, respectively.

Non-cash investing and financing transactions during the year ended June 30, 2011 included the purchase of \$307,648 of property and equipment that was accrued in accounts payable at June 30, 2011.

**NOTE 11 - RELATED PARTY TRANSACTIONS**

**Property management fees.** The Partnerships entered into management agreements with ASAC Housing Corporation, Inc. (the "Corporation") for property management and bookkeeping services. The management fees are based on 5% of effective gross income. During the years ended June 30, 2011 and 2010, property management fees were \$10,805 and \$10,977, respectively. These fees were eliminated in the consolidation.

**On-site management fees.** The Partnerships entered into management agreements with the Council for on-site personnel to manage the properties. Pursuant to the management agreements, the Council requires quarterly payments in the amount \$3,000 from N.D. Housing, LLLP and monthly payments in the amount of \$1,667 from The Way Home, LLLP. During the year ended June 30, 2011, on-site management fees paid totaled \$9,000 and \$20,000 for N.D. Housing, LLLP and The Way Home, LLLP, respectively. During the year ended June 30, 2010, on-site management fees paid totaled \$6,000 and \$20,004 for N.D. Housing, LLLP and The Way Home, LLLP, respectively.

**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 \$2,652 and \$2,575 for each Partnership were incurred during the years ended June 30, 2011 and 2010, respectively.

AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2011 and 2010

**NOTE 11 - RELATED PARTY TRANSACTIONS (CONTINUED)**

**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%. Partnership administrative fees of \$4,583 and \$11,670 were incurred by N.D. Housing, LLLP and The Way Home, LLLP, respectively, during the year ended June 30, 2011 and \$4,450 and \$11,330 for the year ended June 30, 2010, respectively. These fees were eliminated in the consolidation.

**Operating deficits.** The Corporation is obligated to fund all operating deficits of the Partnerships as a capital contribution after the completion date and through the date the Partnerships have reached a 1.15 debt service coverage ratio for three consecutive years and the balance of the operating reserve equals or exceeds \$26,300 each for both Partnerships. The Corporation's obligation is limited to the amount of the developer fee through the stabilization date as defined in the Partnership Agreements. After the stabilization date, the Corporation's obligation is limited to \$26,300 each for both Partnerships. The obligation is guaranteed by the Council and is only to be repaid through available cash flows in accordance with the terms of the Partnership Agreements. No operating deficit capital contributions were made during the years ended June 30, 2011 and 2010.

**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, 2011, subsidy income of \$875 and \$15,134 was earned by N.D. Housing, LLLP and The Way Home, LLLP, respectively, under these agreements. During the year ended June 30, 2010, subsidy income of \$4,408 and \$15,503 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, 2011 and 2010 totals \$28,346 and \$21,622, respectively.

The Council has loaned \$187,500 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, 2011 and 2010 totals \$23,535 and \$17,344, respectively.

**NOTE 12 - CONCENTRATIONS AND CONTINGENCIES**

**Cash**

The Council maintains deposits in one bank account in excess of the federally insured amount. Total amount on deposit was \$540,467 at June 30, 2011. It is management's belief that the credit risk related to the aforementioned asset is minimal.

**AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 12 - CONCENTRATIONS AND CONTINGENCIES (CONTINUED)**

**Revenue**

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 years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
MBC of Iowa - non-medicaid	26%	34%
MBC of Iowa - Medicaid	23%	25%

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

**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.

**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.

**AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011 and 2010**

**NOTE 13 - 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 the 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 14 - SUBSEQUENT EVENTS**

Management evaluated subsequent events through January 6, 2012, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2011, but prior to January 6, 2012, that provided additional evidence about conditions that existed at June 30, 2011, have been recognized in the consolidated financial statements for the year ended June 30, 2011. Events or transactions that provided evidence about conditions that did not exist at June 30, 2011, but arose before the consolidated financial statements were available to be issued, have not been recognized in the consolidated financial statements for the year ended June 30, 2011.

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, 2011

**ASSETS**

	<u>ASAC</u>	<u>ASAC Housing Corporation</u>	<u>The Way Home, LLLP</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 389,457	\$ -	\$ 11,002
Cash, restricted	-	-	82,905
Accounts receivable	1,572,703	-	5,342
Unconditional promises to give:			
Contributions receivable - United Way	474,252	-	-
Current portion of contributed lease	27,464	-	-
Prepaid expenses	139,078	-	-
Prepaid rent	-	-	191,442
Deposits	5,300	-	-
	<u>2,608,254</u>	<u>-</u>	<u>290,691</u>
Total current assets			
	<u>-</u>	<u>-</u>	<u>43,468</u>
<b>ESCROW DEPOSITS</b>			
	<u>-</u>	<u>-</u>	<u>43,468</u>
<b>INVESTMENTS AND LONG-TERM RECEIVABLES</b>			
Notes receivable - affiliated companies	387,500	-	-
Accounts receivable - affiliated companies	60,481	57,317	-
Accrued interest receivable - affiliated companies	51,881	-	-
Present value of contributed lease, less current current portion above	617,802	-	-
Certificates of deposit, restricted	-	-	175,364
Investment in affiliate	(30,138)	177,394	-
	<u>1,087,526</u>	<u>234,711</u>	<u>175,364</u>
Total investments and long-term receivables			
	<u>1,087,526</u>	<u>234,711</u>	<u>175,364</u>
<b>PROPERTY AND EQUIPMENT</b>			
Land	762,179	-	20,000
Buildings and improvements	5,937,366	-	3,020,605
Construction-in-progress	448,618	-	-
Furniture, fixtures and equipment	692,968	-	142,362
Total	<u>7,841,131</u>	<u>-</u>	<u>3,182,967</u>
Less accumulated depreciation	<u>2,469,552</u>	<u>-</u>	<u>649,108</u>
Net property and equipment	<u>5,371,579</u>	<u>-</u>	<u>2,533,859</u>
<b>OTHER ASSETS</b>			
Loan origination fees, net of accumulated amortization	-	-	34,917
Tax credit fees, net of accumulated amortization	-	-	14,405
	<u>-</u>	<u>-</u>	<u>49,322</u>
Total other assets			
	<u>-</u>	<u>-</u>	<u>49,322</u>
<b>TOTAL ASSETS</b>	<u>\$ 9,067,359</u>	<u>\$ 234,711</u>	<u>\$ 3,092,704</u>

<u>N.D.</u>				
<u>Housing, LLLP</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>	
\$ 15,264	\$ 415,723	\$ -	\$ 415,723	
44,458	127,363	-	127,363	
(1,678)	1,576,367	-	1,576,367	
-	474,252	-	474,252	
-	27,464	-	27,464	
-	139,078	-	139,078	
-	191,442	-	191,442	
-	5,300	-	5,300	
<u>58,044</u>	<u>2,956,989</u>	<u>-</u>	<u>2,956,989</u>	
<u>-</u>	<u>43,468</u>	<u>-</u>	<u>43,468</u>	
-	387,500	(387,500)	-	
-	117,798	(117,798)	-	
-	51,881	(51,881)	-	
-	617,802	-	617,802	
-	175,364	-	175,364	
-	147,256	(147,256)	-	
<u>-</u>	<u>1,497,601</u>	<u>(704,435)</u>	<u>793,166</u>	
179,585	961,764	-	961,764	
1,360,646	10,318,617	(591,563)	9,727,054	
-	448,618	-	448,618	
50,541	885,871	-	885,871	
<u>1,590,772</u>	<u>12,614,870</u>	<u>(591,563)</u>	<u>12,023,307</u>	
<u>248,537</u>	<u>3,367,197</u>	<u>(93,681)</u>	<u>3,273,516</u>	
<u>1,342,235</u>	<u>9,247,673</u>	<u>(497,882)</u>	<u>8,749,791</u>	
-	34,917	-	34,917	
<u>7,071</u>	<u>21,476</u>	<u>-</u>	<u>21,476</u>	
<u>7,071</u>	<u>56,393</u>	<u>-</u>	<u>56,393</u>	
<u>\$ 1,407,350</u>	<u>\$ 13,802,124</u>	<u>\$ (1,202,317)</u>	<u>\$ 12,599,807</u>	

**AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**June 30, 2011**

**LIABILITIES AND NET ASSETS**

	<u>ASAC</u>	<u>ASAC Housing Corporation</u>	<u>The Way Home, LLLP</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 495,988	\$ 53,814	\$ 53,678
Accrued vacation pay	265,349	-	-
Accrued expenses	5,433	-	-
Accrued interest payable	-	23,535	46,067
Tenants' security deposits	-	-	13,182
Current maturities of long-term debt	<u>91,720</u>	<u>-</u>	<u>20,846</u>
Total current liabilities	858,490	77,349	133,773
<b>LONG-TERM DEBT, less current maturities above</b>	<u>1,402,993</u>	<u>187,500</u>	<u>1,395,758</u>
Total liabilities	<u>2,261,483</u>	<u>264,849</u>	<u>1,529,531</u>
<b>NET ASSETS</b>			
Unrestricted:			
Undesignated and controlling interest	5,683,674	(30,138)	1,563,173
Non-controlling interest of affiliates	<u>-</u>	<u>-</u>	<u>-</u>
Total unrestricted	<u>5,683,674</u>	<u>(30,138)</u>	<u>1,563,173</u>
Temporarily restricted:			
Subsequent years' operations	1,092,055	-	-
Purpose restricted	<u>30,147</u>	<u>-</u>	<u>-</u>
Total temporarily restricted	<u>1,122,202</u>	<u>-</u>	<u>-</u>
Total net assets	<u>6,805,876</u>	<u>(30,138)</u>	<u>1,563,173</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <u>\$ 9,067,359</u>	 <u>\$ 234,711</u>	 <u>\$ 3,092,704</u>

<u>N.D.</u> <u>Housing, LLLP</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ 24,896	\$ 628,376	\$ (117,798)	\$ 510,578
-	265,349	-	265,349
-	5,433	-	5,433
14,438	84,040	(51,881)	32,159
5,726	18,908	-	18,908
-	112,566	-	112,566
45,060	1,114,672	(169,679)	944,993
<u>500,000</u>	<u>3,486,251</u>	<u>(387,500)</u>	<u>3,098,751</u>
<u>545,060</u>	<u>4,600,923</u>	<u>(557,179)</u>	<u>4,043,744</u>
862,290	8,078,999	(2,986,878)	5,092,121
-	-	2,341,740	2,341,740
<u>862,290</u>	<u>8,078,999</u>	<u>(645,138)</u>	<u>7,433,861</u>
-	1,092,055	-	1,092,055
-	30,147	-	30,147
<u>-</u>	<u>1,122,202</u>	<u>-</u>	<u>1,122,202</u>
<u>862,290</u>	<u>9,201,201</u>	<u>(645,138)</u>	<u>8,556,063</u>
<u>\$ 1,407,350</u>	<u>13,802,124</u>	<u>\$ (1,202,317)</u>	<u>\$ 12,599,807</u>

**AREA SUBSTANCE ABUSE COUNCIL, INC. AND ITS AFFILIATES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2011

	<u>ASAC</u>	<u>ASAC Housing Corporation</u>	<u>The Way Home, LLP</u>
<b>PUBLIC SUPPORT AND REVENUE</b>			
Iowa Department of Public Health:			
Prevention programs	\$ 683,469	\$ -	\$ -
Other government fees and grants	2,031,295	-	-
Medicaid	2,593,948	-	-
Non-medicaid	2,884,262	-	-
United Way	485,114	-	-
Donations	196,734	-	-
Donated goods and services	668,686	-	-
Client and resident fees	1,282,846	-	-
Contract services	310,000	-	-
Interest	13,947	-	-
Interest in net loss of affiliate	(6,215)	-	-
Other revenue	95,602	-	-
	<u>11,239,688</u>	<u>-</u>	<u>-</u>
Total public support and revenue			
<b>EXPENSES</b>			
Program services	9,028,305	-	-
Supporting activities:			
Management and general	816,315	-	-
Fund raising	27,958	-	-
Total supporting activities	844,273	-	-
Total expenses	9,872,578	-	-
<b>CHANGE IN NET ASSETS - ASAC</b>	<u>1,367,110</u>	<u>-</u>	<u>-</u>
<b>ACTIVITIES OF AFFILIATES</b>			
Revenue	-	27,058	146,923
Expenses	-	(33,273)	(308,665)
Net loss of affiliates	<u>-</u>	<u>(6,215)</u>	<u>(161,742)</u>
<b>CHANGE IN NET ASSETS</b>	1,367,110	(6,215)	(161,742)
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>5,438,766</u>	<u>(23,923)</u>	<u>1,724,915</u>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<u>\$ 6,805,876</u>	<u>\$ (30,138)</u>	<u>\$ 1,563,173</u>

<u>N.D.</u> <u>Housing, LLLP</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated</u>
\$ -	\$ 683,469	\$ -	\$ 683,469
-	2,031,295	-	2,031,295
-	2,593,948	-	2,593,948
-	2,884,262	-	2,884,262
-	485,114	-	485,114
-	196,734	-	196,734
-	668,686	-	668,686
-	1,282,846	-	1,282,846
-	310,000	(56,058)	253,942
-	13,947	(12,915)	1,032
-	(6,215)	6,215	-
-	95,602	-	95,602
-	<u>11,239,688</u>	<u>(62,758)</u>	<u>11,176,930</u>
-	9,028,305	(27,506)	9,000,799
-	816,315	-	816,315
-	27,958	-	27,958
-	<u>844,273</u>	<u>-</u>	<u>844,273</u>
-	9,872,578	(27,506)	9,845,072
-	<u>1,367,110</u>	<u>(35,252)</u>	<u>1,331,858</u>
61,408	235,389	(43,067)	192,322
<u>(139,861)</u>	<u>(481,799)</u>	<u>117,566</u>	<u>(364,233)</u>
<u>(78,453)</u>	<u>(246,410)</u>	<u>74,499</u>	<u>(171,911)</u>
(78,453)	1,120,700	39,247	1,159,947
<u>940,743</u>	<u>8,080,501</u>	<u>(684,385)</u>	<u>7,396,116</u>
<u>\$ 862,290</u>	<u>\$ 9,201,201</u>	<u>\$ (645,138)</u>	<u>\$ 8,556,063</u>

AREA SUBSTANCE ABUSE COUNCIL, INC.  
SCHEDULE OF REVENUE AND EXPENSES - I.D.P.H. CONTRACTS  
Year Ended June 30, 2011

	Comprehensive Prevention <u>5881CP06</u>	Clinton Comprehensive Prevention <u>5881CP08</u>	Tobacco Community Partnerships <u>5881TS28</u>	Multi- Cultural <u>5881CP45</u>
<b>REVENUE</b>				
Iowa Department of Public Health	\$ 258,573	\$ 50,657	\$ 200,329	\$ 65,475
Other government fees and grants	-	3,000	-	-
Medicaid	-	-	-	942
United Way	41,396	6,700	26,234	7,900
Donations	-	-	-	2,647
Client and resident fees	-	-	-	20,108
Contract services	6,846	-	-	-
Other revenue	-	-	-	11,142
	<u>306,815</u>	<u>60,357</u>	<u>226,563</u>	<u>108,214</u>
Total revenue				
<b>EXPENSES</b>				
Salaries	172,606	40,554	142,725	56,638
Fringe benefits	58,635	16,856	42,340	13,344
Contracted services	1,407	367	1,290	978
Supplies and office expenses	8,787	2,082	3,755	6,295
Telephone	2,212	590	1,084	831
Occupancy	13,476	4,731	8,432	11,388
Staff training and education	2,366	350	1,560	483
Travel	3,781	1,653	5,464	23
Equipment maintenance and rental	567	37	-	120
Insurance	1,589	273	773	254
Depreciation	12,062	-	-	1,516
Other	168	-	-	1,180
	<u>277,656</u>	<u>67,493</u>	<u>207,423</u>	<u>93,050</u>
Total expenses				
<b>EXCESS (DEFICIT) OF REVENUE OVER (UNDER) EXPENSES</b>				
	29,159	(7,136)	19,140	15,164
Indirect expense allocation	<u>25,338</u>	<u>6,159</u>	<u>18,929</u>	<u>8,492</u>
<b>NET</b>	<u>\$ 3,821</u>	<u>\$ (13,295)</u>	<u>\$ 211</u>	<u>\$ 6,672</u>

**AREA SUBSTANCE ABUSE COUNCIL, INC.**  
**SCHEDULE OF REVENUE AND EXPENSES - OTHER CONTRACTS**  
Year Ended June 30, 2011

	<u>Rural Linn Prevention</u>	<u>Linn County JAG</u>	<u>Clinton County JAG</u>	<u>Rural Linn DFC</u>
<b>REVENUE</b>				
Other government fees and grants	\$ 47,380	\$ 36,588	\$ 23,118	\$ 27,525
Client and resident fees	-	-	-	-
Medicaid	-	-	-	-
United Way	-	16,988	-	9,300
Donations	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	47,380	53,576	23,118	36,825
<b>EXPENSES</b>				
Salaries	31,474	41,627	25,529	30,079
Fringe benefits	8,600	5,497	3,940	6,184
Contracted services	147	185	143	-
Supplies and office expenses	43	930	694	119
Telephone	97	71	37	-
Occupancy	-	-	600	450
Staff training and education	-	5	-	200
Travel	1,987	329	-	2,030
Equipment maintenance and rental	68	-	-	-
Insurance	124	156	95	-
Other	-	250	-	725
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	42,540	49,050	31,038	39,787
<b>EXCESS (DEFICIT) OF REVENUE OVER (UNDER) EXPENSES</b>				
	4,840	4,526	(7,920)	(2,962)
Indirect expense allocation	<hr/>	<hr/>	<hr/>	<hr/>
	3,882	4,476	2,832	3,631
<b>NET</b>				
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 958	\$ 50	\$ (10,752)	\$ (6,593)

<u>Jones DFC</u>	<u>Jones DFC Match</u>	<u>Jackson Schools</u>
\$ 138,319	\$ 14,000	\$ 234,778
-	15,925	-
-	21,631	-
-	15,463	-
-	735	-
<u>138,319</u>	<u>67,754</u>	<u>234,778</u>
61,711	43,990	172,159
22,321	14,252	44,107
6,886	-	774
9,937	56	356
1,630	-	-
5,987	-	-
12,766	-	331
6,600	1,436	3,870
56	-	-
772	-	647
9,303	-	-
<u>137,969</u>	<u>59,734</u>	<u>222,244</u>
350	8,020	12,534
<u>12,591</u>	<u>5,451</u>	<u>20,281</u>
<u>\$ (12,241)</u>	<u>\$ 2,569</u>	<u>\$ (7,747)</u>

**AREA SUBSTANCE ABUSE COUNCIL, INC.**  
Cedar Rapids, Iowa

**INDEPENDENT AUDITOR'S REPORTS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
June 30, 2011

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## CliftonLarsonAllen

**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, 2011, and have issued our report thereon dated January 6, 2012. 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**

Management of the Area Substance Abuse Council, Inc. is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses 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.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2011-II-A to be a material weakness in internal control over financial reporting.

## 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*.

Area Substance Abuse Council, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Area Substance Abuse Council, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*CliftonLarsonAllen LLP*

Cedar Rapids, Iowa  
January 6, 2012



## CliftonLarsonAllen

### **Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on the Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards 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 the Area Substance Abuse Council, Inc. (the Council) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2011. 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 questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Council'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, the Area Substance Abuse Council, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-III-B, 2011-III-C, 2011-III-D, and 2011-III-E.

## **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 to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-II-A to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2011-III-B, 2011-III-C, 2011-III-D, and 2011-III-E to be significant deficiencies.

## **Schedule of Expenditures of Federal Awards**

We have audited the basic financial statements of the Area Substance Abuse Council, Inc. as of and for the year ended June 30, 2011, and have issued our report thereon dated January 6, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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.

Area Substance Abuse Council, Inc.'s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Council's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*CliftonLarsonAllen LLP*

Cedar Rapids, Iowa  
March 30, 2012  
except for the Schedule of Expenditures of Federal Awards,  
as to which the date is January 6, 2012

**AREA SUBSTANCE ABUSE COUNCIL, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2011**

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant Number	Federal Expenditures
<b>U.S. Department of Health and Human Services:</b>			
Passed Through Iowa Department of Public Health:			
Substance Abuse Prevention and Treatment Block Grant Program:			
Strategic Prevention Framework State Incentive Grant	93.243	5881CP06	\$ 54,000
Strategic Prevention Framework State Incentive Grant	93.243	5881CP08	18,000
Strategic Prevention Framework State Incentive Grant	93.243	5881IP02	12,500
Total CFDA # 93.243			<u>84,500</u>
Tobacco Community Partnerships	93.520	5881TS28	<u>3,100</u>
Passed Through Iowa Department of Public Health:			
Substance Abuse Prevention and Treatment			
Access to Recovery	93.275	N/A	<u>18,040</u>
Direct Awards:			
Jones County Safe and Healthy Youth Coalition	93.276	5H79SP014744-03	89,943
Jones County Safe and Healthy Youth Coalition	93.276	5H79SP014744-02	48,376
Total CFDA # 93.276			<u>138,319</u>
Passed Through Magellan Behavioral Care of Iowa:			
Substance Abuse Prevention and Treatment Block Grant Program:			
Behavioral Care	93.959*	N/A	818,230
Women and Children	93.959*	N/A	367,056
Passed Through Iowa Department of Public Health:			
Substance Abuse Prevention and Treatment Block Grant Program:			
Comprehensive Prevention	93.959*	5881CP06	249,748
Comprehensive Prevention	93.959*	5881CP08	49,294
Total CFDA # 93.959			<u>1,484,328</u>
Total U.S. Department of Health and Human Services			<u>1,728,287</u>
<b>U.S. Department of Housing and Urban Development:</b>			
Direct Awards:			
Emergency Shelter Grants Program	14.231	11-HAP-001/57001	18,267
Emergency Shelter Grants Program	14.231	11-HAP-001/23003	17,212
Emergency Shelter Grants Program	14.231	11-HAP-001/23019	21,000
Emergency Shelter Grants Program	14.231	11-HAP-001/57200	13,586
Emergency Shelter Grants Program	14.231	10-ES-001/57001	19,500
Emergency Shelter Grants Program	14.231	10-ES-001/23003	19,500
Emergency Shelter Grants Program	14.231	10-ES-001/23019	22,500
Total CFDA # 14.231			<u>131,565</u>
McKinney Vento Homeless Assistance Act	14.235	IA0009B7D010802	67,961
McKinney Vento Homeless Assistance Act	14.235	IA0009B7D010803	29,510
Total CFDA # 14.235			<u>97,471</u>
Passed Through City of Clinton:			
Community Development Block Grant	14.218	10-CF-004-09	<u>224,691</u>
Total U.S. Department of Housing and Urban Development			<u>453,727</u>

(continued)

**AREA SUBSTANCE ABUSE COUNCIL, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2011**

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>CFDA Number</b>	<b>Grant Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Justice:</b>			
Passed Through Benton County Board of Supervisors: Juvenile Justice and Delinquency Prevention	16.540	DCAT7-10-014	<u>15,000</u>
Passed Through Kirkwood Community College: ARRA - Byrne Formula Grant Program	16.738	09JAG-ARRA-3310-B	36,588
Passed Through Clinton County Board of Supervisors: ARRA - Byrne Formula Grant Program	16.738	09JAG-ARRA-3924-B	<u>23,118</u>
Total CFDA # 16.738			<u>59,706</u>
Total U.S. Department of Justice			<u>74,706</u>
<b>U.S. Department of Agriculture:</b>			
Passed Through Iowa Department of Education: Breakfast Program	10.553	N/A	11,005
National School Lunch Program	10.555	N/A	17,670
Snack Program	10.555	N/A	<u>4,793</u>
Total Cluster CFDA # 10.553 and CFDA # 10.555			33,468
Child and Adult Care Food Program	10.558	578051	6,102
Food Distribution Program (Commodities)	10.550	N/A	<u>794</u>
Total U.S. Department of Agriculture			<u>40,364</u>
<b>U.S. Department of Energy:</b>			
Passed Through Iowa Office of Energy Independence: ARRA - State Energy Program	81.041	SEP10-8952	<u>155,403</u>
Total Federal Expenditures			<u>\$ 2,452,487</u>

\* This program was tested as a major program at June 30, 2011.

This information should be read only in connection with the  
notes to schedule of expenditures of federal awards.

**AREA SUBSTANCE ABUSE COUNCIL, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The Schedule of Expenditures of Federal Awards (the schedule) 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.

**Nonmonetary Assistance**

Nonmonetary assistance is reported in the schedule at the fair market value of the nonmonetary assistance received and disbursed.

**NOTE 2 - SUB-RECIPIENT PAYMENTS, LOANS OR LOAN GUARANTEES OUTSTANDING**

There were no payments passed through to sub-recipient agencies during the year ended June 30, 2011. In addition, there were no non-cash assistance, insurance, loans or loan guarantees outstanding as of and for the year ended June 30, 2011.

This information is an integral part of the accompanying  
schedule of expenditures of federal awards.

**AREA SUBSTANCE ABUSE COUNCIL, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2011**

**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?   X   Yes        No
- Deficiencies identified that are not considered to be material weaknesses?   X   Yes        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?   X   Yes        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 QUESTIONED COSTS**  
**Year Ended June 30, 2011**

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**INTERNAL CONTROL DEFICIENCIES:**

**2011-II-A: Audit Adjustment**

Criteria:

The Board of Directors and management share the ultimate responsibility for the accuracy and reliability of the Council's trial balance.

Condition:

The Council has not implemented procedures, to the degree necessary, to perform a review and assume responsibility for the accuracy of financial statement amounts. During the current audit, a misstatement in the reporting of in-kind rent receivable and related revenue that had a material effect on the Council's financial statements was discovered.

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 but not to the extent necessary to provide a high level of assurance that financial statement errors would be identified and corrected.

Effect:

As a result of this condition, there is a higher risk that financial statement 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 are not materially misstated.

Recommendation:

We recommend that sufficient financial statement 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 the recommendation to improve this situation.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**AREA SUBSTANCE ABUSE COUNCIL, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2011**

**SECTION III - FEDERAL AWARD FINDINGS**

**Finding 2011-III-A Audit Adjustment**

U.S. Department of Health and Human Services

Passed through Iowa Department of Public Health and Magellan Behavioral Care of Iowa Substance Abuse Prevention and Treatment Block Grant Program, CFDA #93.959

As discussed at Finding 2011-II-A, a misstatement in the reporting of in-kind rent receivable and related revenue that had a material effect on the Council's financial statements was identified during the audit. An account adjustment was made to correct this misstatement. As a result of this deficiency in internal control, there is a higher risk that errors or misstatements on the schedule of expenditures of federal awards could occur and not be detected. Sufficient financial review procedures should be performed by an individual possessing a thorough understanding of applicable generally accepted accounting principles and knowledge of the Council's activities and operations.

**AREA SUBSTANCE ABUSE COUNCIL, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2011**

**SECTION III - FEDERAL AWARD FINDINGS**

**Finding 2011-III-B Income Verification**

U.S. Department of Health and Human Services

Passed through Iowa Department of Public Health and Magellan Behavioral Care of Iowa Substance Abuse Prevention and Treatment Block Grant Program, CFDA #93.959

Passed through Magellan Behavioral Care of Iowa, Behavioral Care and Women and Children grants

Criteria: The individual case files for recipients receiving program assistance must support their eligibility.

Condition: Documentation of verification of low income status could not be located for two selected case files.

Context: For 2 of 25 recipients tested, the case files did not include income verification documents for determining eligibility.

Effect: Failure to adequately document eligibility information can result in grant overpayments. However, this finding did not result in questioned costs since grant payments are based on total minimum participant numbers, rather than individual cases, and the Council well-exceeded the minimum participant numbers.

Cause: The Council did not always follow its policies and procedures to document the basis for eligibility determinations.

Recommendation: The Council should enforce its policies and procedures to help ensure compliance with documentation of eligibility requirements.

Management's Response: The Council will address the issue noted in the finding with the appropriate staff.

**AREA SUBSTANCE ABUSE COUNCIL, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2011**

**SECTION III - FEDERAL AWARD FINDINGS**

**Finding 2011-III-C Level-of-Effort Reporting**

U.S. Department of Health and Human Services

Passed through Iowa Department of Public Health and Magellan Behavioral Care of Iowa Substance Abuse Prevention and Treatment Block Grant Program, CFDA #93.959

Passed through Magellan Behavioral Care of Iowa, Behavioral Care and Women and Children grants

**Criteria:**

The total number of eligible individuals served, for which level-of-effort units are claimed, must be reported to the grantor.

**Condition:**

The Council was unable to support the eligibility of one individual who was included in the level-of-effort units reported.

**Context:**

For 1 of 25 individuals tested, the income guidelines were not met for inclusion as a unit in the level-of-effort reporting.

**Effect:**

Level-of-effort units were over reported to the grantor. However, this finding did not result in questioned costs since grant payments are based on total minimum participant numbers, rather than individual cases, and the Council well-exceeded the minimum participant numbers.

**Cause:**

Procedures in place for supervisory approval of documentation before program eligibility is authorized, were not followed correctly.

**Recommendation:**

The Council should enforce its policies and procedures to help ensure compliance with documentation of level-of-effort reporting.

**Management's Response:**

The Council will address the issue noted in the finding with the appropriate staff.

**AREA SUBSTANCE ABUSE COUNCIL, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2011**

**SECTION III - FEDERAL AWARD FINDINGS**

**Finding 2011-III-D Problem Gambling Screening**

U.S. Department of Health and Human Services

Passed through Iowa Department of Public Health and Magellan Behavioral Care of Iowa Substance Abuse Prevention and Treatment Block Grant Program, CFDA #93.959

Passed through Magellan Behavioral Care of Iowa, Behavioral Care and Women and Children grants

**Criteria:**

The Council is required to complete a problem gambling screening with all grant participants during the intake process.

**Condition:**

Documentation of the screening could not be located for one selected case file.

**Context:**

For 1 of 40 individuals tested, the case files did not include documentation of the problem gambling screening.

**Effect:**

Potential referrals to the Iowa gambling treatment program may have been missed.

**Cause:**

The Council did not always follow its policies and procedures to document the problem gambling screening.

**Recommendation:**

The Council should enforce its policies and procedures to help ensure compliance with documentation of problem gambling screening.

**Management's Response:**

The Council will address the issue noted in the finding with the appropriate staff.

**AREA SUBSTANCE ABUSE COUNCIL, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2011**

**SECTION III - FEDERAL AWARD FINDINGS**

**Finding 2011-III-E Time Card Approval**

U.S. Department of Health and Human Services

Passed through Iowa Department of Public Health and Magellan Behavioral Care of Iowa  
Substance Abuse Prevention and Treatment Block Grant Program, CFDA #93.959

**Criteria:**

Wages and salary costs charged to the program should be supported by time card preparation and supervisory approval.

**Condition:**

The Council was unable to support supervisory approval of one payroll disbursement.

**Context:**

For 1 of 25 payroll disbursements tested, there was no verifying signature on the time card indicating supervisory approval.

**Effect:**

While it appears the personnel were authorized to work under the grant, the charges noted cannot be verified as supporting the grant program. There is a risk that federal funds may have been misapplied under the program.

**Cause:**

Procedures in place for supervisory approval of time cards, were not followed correctly.

**Recommendation:**

The Council should enforce its policies and procedures to help ensure compliance with documentation of supervisory approval of time cards.

**Management's Response:**

The Council will address the issue noted in the finding with the appropriate staff.

**AREA SUBSTANCE ABUSE COUNCIL, INC.  
CORRECTIVE ACTION PLAN  
Year Ended June 30, 2011**

**FINDING 2011-II-A AND 2011-III-A: AUDIT ADJUSTMENT**

The Council will consider the recommendation to improve the situation and assistance will be sought when unusual, nonrecurring accounting situations arise to determine the transactions have been properly recorded.

Contact person: John Garringer, Executive Director  
Anticipated completion date: June 30, 2012

**FINDING 2011-III-B: INCOME VERIFICATION**

The Council will address the issue noted in the finding with the appropriate staff.

Contact person: John Garringer, Executive Director  
Anticipated completion date: June 30, 2012

**FINDING 2011-III-C: LEVEL-OF-EFFORT REPORTING**

The Council will address the issue noted in the finding with the appropriate staff.

Contact person: John Garringer, Executive Director  
Anticipated completion date: June 30, 2012

**FINDING 2011-III-D: PROBLEM GAMBLING SCREENING**

The Council will address the issue noted in the finding with the appropriate staff.

Contact person: John Garringer, Executive Director  
Anticipated completion date: June 30, 2012

**FINDING 2011-III-E: TIME CARD APPROVAL**

The Council will address the issue noted in the finding with the appropriate staff.

Contact person: John Garringer, Executive Director  
Anticipated completion date: June 30, 2012

**AREA SUBSTANCE ABUSE COUNCIL, INC.**  
**SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS**  
**Year Ended June 30, 2011**

**FINDING 2010-1: Preparation of Financial Statements and Audit Adjustment**

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. A prior period adjustment was made to correct this misstatement.

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.

Current Status:

For the year ended June 30, 2011, the Council has recruited a qualified individual to review their financial statements, including disclosures. During the current audit, a material misstatement was again discovered during the audit process.