

**Area Substance Abuse Council, Inc.
and Its Affiliates**

Consolidated Financial Statements

June 30, 2012 and 2011

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**Area Substance Abuse Council, Inc.
Board of Directors and Management
June 30, 2012**

BOARD OF DIRECTORS

<u>Name</u>	<u>Title</u>	<u>Term Expires December</u>
Rosanne Van Cura	President	2012
Nicole Pizzini	Vice President	2012
David Romont	Secretary	2013
Nancy Lowenberg	Treasurer	2013
Keith Dirks	Member	2012
John Harris	Member	2012
Jason Sanders	Member	2013
Don Davis	Member	2012
Al Rathje	Member	2012
Norman Griser	Member	2012
Mark Zaiger	Member	2014
Malinda Lamb	Member	2012
Nancylee Ziese	Member	2013
Hesta Stoffel	Member	2013
Sue Wilber	Member	2014
Sharon Hallstoos	Member	2014
LaSheila Yates	Member	2014

MANAGEMENT

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



Independent Auditor's Report

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

We have audited the accompanying consolidated statement of financial position of the Area Substance Abuse Council, Inc. (the "Council") and its affiliates as of June 30, 2012, 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 audit. The consolidated financial statements of the Area Substance Abuse Council, Inc. and its affiliates as of June 30, 2011, were audited by other auditors whose report dated January 6, 2012, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

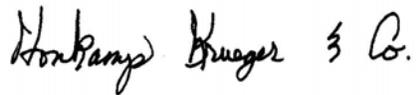
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Area Substance Abuse Council, Inc. and its affiliates as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended, in conformity 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 6, 2012, on our consideration of Area Substance Abuse Council, Inc. and its affiliates' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

HONKAMP KRUEGER & CO., P.C.

A handwritten signature in cursive script that reads "Honkamp Krueger & Co.".

Dubuque, Iowa
December 6, 2012

**Area Substance Abuse Council, Inc.
and Its Affiliates
Consolidated Statements of Financial Position
June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 531,944	\$ 415,723
Cash, Restricted	117,131	127,363
Accounts Receivable	1,191,673	1,576,367
Unconditional Promises to Give:		
Contributions Receivable - United Way	476,125	474,252
Current Portion of Contributed Lease, Less Discount to Present Value 2012: \$14,533 and 2011: \$13,924	26,855	27,464
Prepaid Expenses	146,971	139,078
Prepaid Rent	188,980	191,442
Deposits	5,300	5,300
Total Current Assets	<u>2,684,979</u>	<u>2,956,989</u>
Escrow Deposits	<u>47,347</u>	<u>43,468</u>
Investments and Long-Term Receivables		
Certificates of Deposit, Restricted, Long-Term	194,290	175,364
Present Value of Contributed Lease, Less Current Portion Above, Less Discount to Present Value 2012: \$133,343 and 2011: \$147,876	590,947	617,802
Total Investments and Long-Term Receivables	<u>785,237</u>	<u>793,166</u>
Property and Equipment		
Land	1,068,558	961,764
Buildings and Improvements	11,835,691	9,727,054
Construction-in-Progress	-	448,618
Furniture, Fixtures, and Equipment	818,937	885,871
Total	13,723,186	12,023,307
Less Accumulated Depreciation	3,581,747	3,273,516
Net Property and Equipment	<u>10,141,439</u>	<u>8,749,791</u>
Other Assets		
Loan Origination Fees, Net of Accumulated Amortization	33,548	34,917
Tax Credit Fees, Net of Accumulated Amortization	17,662	21,476
Total Other Assets	<u>51,210</u>	<u>56,393</u>
Total Assets	<u>\$ 13,710,212</u>	<u>\$ 12,599,807</u>

	<u>2012</u>	<u>2011</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 163,256	\$ 510,578
Accrued Vacation Pay	290,608	265,349
Accrued Expenses	10,690	5,433
Accrued Interest Payable	39,487	32,159
Tenants' Security Deposits	20,428	18,908
Current Maturities of Long-Term Debt	<u>135,980</u>	<u>112,566</u>
Total Current Liabilities	<u>660,449</u>	<u>944,993</u>
Long-Term Debt, Less Current Maturities Above	<u>3,703,458</u>	<u>3,098,751</u>
Total Liabilities	<u>4,363,907</u>	<u>4,043,744</u>
Net Assets		
Unrestricted:		
Undesignated and Controlling Interest	6,090,899	5,092,121
Non-Controlling Interest of Affiliates	<u>2,186,834</u>	<u>2,341,740</u>
Total Unrestricted	<u>8,277,733</u>	<u>7,433,861</u>
Temporarily Restricted:		
Subsequent Years' Operations	1,067,072	1,092,055
Purpose Restricted	<u>1,500</u>	<u>30,147</u>
Total Temporarily Restricted	<u>1,068,572</u>	<u>1,122,202</u>
Total Net Assets	<u>9,346,305</u>	<u>8,556,063</u>
Total Liabilities and Net Assets	<u>\$ 13,710,212</u>	<u>\$ 12,599,807</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
For the Years Ended June 30, 2012 and 2011**

	2012		
	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUE			
Iowa Department of Public Health:			
Prevention Programs	\$ 1,116,106	\$ -	\$ 1,116,106
Other Government Fees and Grants	1,781,714	-	1,781,714
Medicaid	2,796,162	-	2,796,162
Non-Medicaid	2,729,243	-	2,729,243
United Way	17,316	476,125	493,441
Donations	81,140	1,500	82,640
Donated Goods and Services	19,654	-	19,654
Client and Resident Fees	1,721,553	-	1,721,553
Contract Services	188,935	-	188,935
Interest	440	-	440
Other Revenue	363,769	-	363,769
Total Public Support and Revenue	<u>10,816,032</u>	<u>477,625</u>	<u>11,293,657</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Expiration of Time and Purpose Restrictions	531,255	(531,255)	-
Total Public Support, Revenue, and Net Assets Released from Restrictions	<u>11,347,287</u>	<u>(53,630)</u>	<u>11,293,657</u>
EXPENSES			
Program Services	9,666,021	-	9,666,021
Supporting Activities:			
Management and General	706,631	-	706,631
Fund Raising	28,609	-	28,609
Total Supporting Activities	<u>735,240</u>	<u>-</u>	<u>735,240</u>
Total Expenses	<u>10,401,261</u>	<u>-</u>	<u>10,401,261</u>
CHANGE IN NET ASSETS - ASAC	946,026	(53,630)	892,396
NET LOSS OF AFFILIATES	<u>(102,154)</u>	<u>-</u>	<u>(102,154)</u>
CHANGE IN NET ASSETS	843,872	(53,630)	790,242
NET ASSETS, BEGINNING OF YEAR	<u>7,433,861</u>	<u>1,122,202</u>	<u>8,556,063</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 8,277,733</u>	<u>\$ 1,068,572</u>	<u>\$ 9,346,305</u>

2011		
Unrestricted	Temporarily Restricted	Total
\$ 683,469	\$ -	\$ 683,469
2,031,295	-	2,031,295
2,593,948	-	2,593,948
2,884,262	-	2,884,262
10,861	474,253	485,114
166,587	30,147	196,734
50,884	617,802	668,686
1,282,846	-	1,282,846
253,942	-	253,942
1,032	-	1,032
95,602	-	95,602
<u>10,054,728</u>	<u>1,122,202</u>	<u>11,176,930</u>
<u>595,790</u>	<u>(595,790)</u>	<u>-</u>
<u>10,650,518</u>	<u>526,412</u>	<u>11,176,930</u>
<u>9,000,799</u>	<u>-</u>	<u>9,000,799</u>
816,315	-	816,315
27,958	-	27,958
<u>844,273</u>	<u>-</u>	<u>844,273</u>
<u>9,845,072</u>	<u>-</u>	<u>9,845,072</u>
805,446	526,412	1,331,858
<u>(171,911)</u>	<u>-</u>	<u>(171,911)</u>
633,535	526,412	1,159,947
<u>6,800,326</u>	<u>595,790</u>	<u>7,396,116</u>
<u>\$ 7,433,861</u>	<u>\$ 1,122,202</u>	<u>\$ 8,556,063</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
For the Year Ended June 30, 2012**

	Program Services	Supporting Activities			Total Expenses
		Management and General	Fund Raising	Total	
Salaries	\$ 5,681,608	\$ 461,275	\$ 12,928	\$ 474,203	\$ 6,155,811
Fringe Benefits	1,539,856	125,600	3,361	128,961	1,668,817
Contracted Services	829,241	57,856	10,000	67,856	897,097
Supplies and Office Expenses	539,979	16,284	2,320	18,604	558,583
Telephone	53,389	6,872	-	6,872	60,261
Occupancy	494,031	6,436	-	6,436	500,467
Tenant Rental Assistance	30,489	-	-	-	30,489
Staff Training and Education	42,510	2,252	-	2,252	44,762
Travel	60,189	4,246	-	4,246	64,435
Equipment Maintenance and Rental	43,243	2,462	-	2,462	45,705
Insurance	53,807	3,031	-	3,031	56,838
Other	95,842	10,015	-	10,015	105,857
Total Expenses before Depreciation	9,464,184	696,329	28,609	724,938	10,189,122
Depreciation	201,837	10,302	-	10,302	212,139
Total Expenses	<u>\$ 9,666,021</u>	<u>\$ 706,631</u>	<u>\$ 28,609</u>	<u>\$ 735,240</u>	<u>\$10,401,261</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
For the Year Ended June 30, 2011**

	Program Services	Supporting Activities			Total Expenses
		Management and General	Fund Raising	Total	
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
Total Expenses before Depreciation	8,816,693	798,964	27,958	826,922	9,643,615
Depreciation	184,106	17,351	-	17,351	201,457
Total Expenses	<u>\$ 9,000,799</u>	<u>\$ 816,315</u>	<u>\$ 27,958</u>	<u>\$ 844,273</u>	<u>\$ 9,845,072</u>

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, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 790,242	\$ 1,159,947
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	401,904	386,162
Amortization	5,183	5,622
In-Kind Rent Contribution	27,464	(645,266)
Loss on Disposition of Property and Equipment	579	36
Effects of Changes in Operating Assets and Liabilities:		
Receivables	382,821	(520,242)
Prepaid Expenses	(5,431)	(109,022)
Escrow Deposits	(3,879)	(15,262)
Deposits	-	(137)
Accounts Payable	(347,322)	37,256
Accrued Vacation Pay	25,259	14,695
Accrued Expenses	12,585	2,858
Tenants' Security Deposits	1,520	463
Net Cash Provided by Operating Activities	<u>1,290,925</u>	<u>317,110</u>
Cash Flows from Investing Activities:		
Purchases of Certificates of Deposits	(18,926)	-
Purchases of Property and Equipment	(1,794,131)	(446,463)
Net Cash (Used) in Investing Activities	<u>(1,813,057)</u>	<u>(446,463)</u>
Cash Flows from Financing Activities:		
Payments on Long-Term Debt	(121,879)	(155,909)
Advances on Long-Term Debt	750,000	-
Net Cash Provided (Used) in Financing Activities	<u>628,121</u>	<u>(155,909)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	105,989	(285,262)
Cash and Cash Equivalents, Beginning of Year	543,086	828,348
Cash and Cash Equivalents, End of Year	<u>\$ 649,075</u>	<u>\$ 543,086</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

NOTE 1. Nature of Activities and Summary of Significant Accounting Policies

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 is 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

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,

**Area Substance Abuse Council, Inc.
and Its Affiliates**

Notes to Consolidated Financial Statements

**NOTE 1. Nature of Activities and Summary of Significant Accounting Policies
(Continued)**

Use of Estimates (Continued)

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

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. The Council deems all accounts receivable to be collectible and has not recorded an allowance for doubtful accounts against it accounts receivable as of June 30, 2012 and 2011.

**Area Substance Abuse Council, Inc.
and Its Affiliates**

Notes to Consolidated Financial Statements

**NOTE 1. Nature of Activities and Summary of Significant Accounting Policies
(Continued)**

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.

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 amounts 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.

**Area Substance Abuse Council, Inc.
and Its Affiliates**

Notes to Consolidated Financial Statements

**NOTE 1. Nature of Activities and Summary of Significant Accounting Policies
(Continued)**

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, 2012 and 2011, based on rates of pay on those dates.

Revenue Recognition

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

Revenue from grants and contracts is recognized as the services are performed if the contract is based on units of services 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 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 Council 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 asset 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.

**Area Substance Abuse Council, Inc.
and Its Affiliates**

Notes to Consolidated Financial Statements

**NOTE 1. Nature of Activities and Summary of Significant Accounting Policies
(Continued)**

Contributed Goods and Services (Continued)

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, 2009, and thereafter are subject to examination by the IRS, generally for three years after they were filed.

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.

**Area Substance Abuse Council, Inc.
and Its Affiliates**

Notes to Consolidated Financial Statements

NOTE 2. Partnerships' Required Reserves – Restricted Cash (Continued)

As of June 30, 2012, \$15,370 and \$41,073, respectively, was funded to the Partnerships' replacement reserves with no withdrawals. As of June 30, 2011, \$11,992 and \$32,855, 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, 2012, \$26,803 and \$69,899, respectively, was funded to the Partnerships' operating reserves. As of June 30, 2011, \$26,741 and \$69,724, respectively, 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, 2012 and 2011, \$70,909 and \$69,504 was held in the Partnership's real estate tax reserve, respectively.

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, 2012 and 2011, \$108,011 and \$105,860 was held in the Partnership's tenant rental subsidy reserve, respectively.

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.

**Area Substance Abuse Council, Inc.
and Its Affiliates**

Notes to Consolidated Financial Statements

NOTE 3. Contributed Lease (Continued)

	2012	2011
Contributed Lease Receivable	\$ 765,678	\$ 807,066
Less Discount to Present Value	(147,876)	(161,800)
Net Present Value of Contributed Lease Receivable	\$ 617,802	\$ 645,266
Contributed Lease Amounts Due in:		
Less Than One Year	\$ 41,388	
One to Five Years	165,552	
More Than Five Years	558,738	
Total	\$ 765,678	

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 up-front payment of \$200,000. The payment is being amortized over the term of the lease.

NOTE 5. Debt

Long-term debt consists of the following:

	2012	2011
Area Substance Abuse Council, Inc.		
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 on September 1, 2016. The bond is secured by property located on 16th Avenue. The bond agreement contains various restrictive covenants, all of which were complied with as of June 30, 2012.	\$ 160,641	\$ 194,406

**Area Substance Abuse Council, Inc.
and Its Affiliates**

Notes to Consolidated Financial Statements

NOTE 5. Debt (Continued)

	2012	2011
Area Substance Abuse Council, Inc. (Continued)		
Note payable to US Bank, requiring monthly payments of \$4,568, including interest at a rate of 4% per year, with final payment due April 5, 2017. The note is secured by a mortgage/deed of trust on a property located in Clinton.	\$ 743,644	\$ -
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, 2012 and 2011), with final payment due January 2, 2018. The note is secured by land on 16th Avenue.	82,500	97,500
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 25-year amortization. Interest is charged at 4.61% per year, and a final balloon payment is due on 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, 2012.	1,156,996	1,202,807
	2,143,781	1,494,713
The Way Home, LLLP		
Note payable, Iowa Finance Authority (IFA), bearing interest at 1%, with monthly payments of \$2,251 through June 2037 when all unpaid principal and interest are due.	595,657	616,604

**Area Substance Abuse Council, Inc.
and Its Affiliates**

Notes to Consolidated Financial Statements

NOTE 5. Debt (Continued)

	2012	2011
The Way Home, LLLP (Continued)		
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.	\$ 600,000	\$ 600,000
	1,195,657	1,216,604
 N.D. Housing, LLLP		
Mortgage note payable, Iowa Department of Economic Development, HOME Investment Partnership Program, bearing interest at 1%, due in annual interest-only payments of \$2,000 beginning in March 2011, with all unpaid principal and interest due March 2038.	500,000	500,000
Total	3,839,438	3,211,317
Less Current Portion	135,980	112,566
Long-Term Portion	\$ 3,703,458	\$ 3,098,751

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

NOTE 5. Debt (Continued)

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

2013	\$ 135,980
2014	150,417
2015	156,046
2016	161,809
2017	739,315
Thereafter	<u>2,495,871</u>
Total	<u><u>\$ 3,839,438</u></u>

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, 2013. The note is secured by the Council's assets. As of June 30, 2012 and 2011, 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, 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>
Balance, June 30, 2011	7,433,861	5,092,121	2,341,740
Change in Net Assets	<u>843,872</u>	<u>998,778</u>	<u>(154,906)</u>
Balance, June 30, 2012	<u><u>\$ 8,277,733</u></u>	<u><u>\$ 6,090,899</u></u>	<u><u>\$ 2,186,834</u></u>

**Area Substance Abuse Council, Inc.
and Its Affiliates**

Notes to Consolidated Financial Statements

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 December 2013 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:

2013	\$ 87,264
2014	70,345
2015	41,996
2016	11,143
2017	-
Total	<u>\$ 210,748</u>

Total rental expense was \$137,612 and \$103,235 for the years ended June 30, 2012 and 2011, respectively, including \$27,464 and \$20,694 of in-kind rent recorded for the years ended June 30, 2012 and 2011, respectively.

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, 2012 and 2011, the Council received volunteer services for the tobacco coalition grant which they value at \$52,141 and \$53,363, respectively. For the years ended June 30, 2012 and 2011, the Council also received volunteer services for the Jones DFC grant which they value at \$87,051 and \$123,852, respectively.

**Area Substance Abuse Council, Inc.
and Its Affiliates**

Notes to Consolidated Financial Statements

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 each employee's contribution, up to a maximum of 3% of their pay. The contribution charged to expense for the years ended June 30, 2012 and 2011, was \$82,991 and \$84,041, respectively.

NOTE 10. Cash Flow Disclosure and Interest Expense

Total interest cost incurred and charged to expense was \$92,675 and \$89,315, and the interest actually paid was \$85,348 and \$82,071 for the years ended June 30, 2012 and 2011, 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, and was then paid during the year ended June 30, 2012.

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, 2012 and 2011, property management fees were \$10,867 and \$10,805, 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 of \$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, 2012, the on-site management fees paid totaled \$6,000 and \$20,000 for N.D. Housing, LLLP and The Way Home, LLLP, respectively. 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.

**Area Substance Abuse Council, Inc.
and Its Affiliates**

Notes to Consolidated Financial Statements

NOTE 11. Related Party Transactions (Continued)

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 \$2,732 and \$2,652 for each Partnership were incurred during the years ended June 30, 2012 and 2011, respectively.

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 \$4,721 and \$12,020 were incurred by N.D. Housing, LLLP and The Way Home, LLLP, respectively, during the year ended June 30, 2012, and \$4,583 and \$11,670 for the year ended June 30, 2011, 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, 2012 and 2011.

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, 2012, a subsidy income of \$0 and \$7,766 was earned by N.D. Housing, LLLP and The Way Home, LLLP, respectively, under these agreements. 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.

**Area Substance Abuse Council, Inc.
and Its Affiliates**

Notes to Consolidated Financial Statements

NOTE 11. Related Party Transactions (Continued)

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, 2012 and 2011, totals \$35,274 and \$28,346, 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, 2012 and 2011, totals \$29,914 and \$23,535, 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 \$572,866 at June 30, 2012. It is management's belief that the credit risk related to the aforementioned asset is minimal.

Revenue

The Council is subject to a certain degree of vulnerability due to concentration 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
MBC of Iowa - Non-Medicaid	24%	26%
MBC of Iowa - Medicaid	25%	23%

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

**Area Substance Abuse Council, Inc.
and Its Affiliates**

Notes to Consolidated Financial Statements

NOTE 12. Concentrations and Contingencies (Continued)

Hightower Place Loan and Grant

In conjunction with the purchase of a facility (Hightower Place) in the year ended June 30, 2002, the Council is contingently liable to the U.S. Department of Housing and Urban Development (HUD) and the Iowa Finance Authority under loan and grant agreements. The HUD grant agreement requires that the facility be used for low-income housing through April 2019 or the portion of the grant which was used for the original acquisition and rehabilitation of the property, which was \$100,000, will be refunded to HUD.

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 changes by an act of Congress or administrative changes. Such changes occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Risk Management

The Area Substance Abuse Council, Inc. is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Council assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three fiscal years.

**NOTE 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.

**Area Substance Abuse Council, Inc.
and Its Affiliates**

Notes to Consolidated Financial Statements

**NOTE 13. Partnerships' Allocations of Cash Distributions, Net Income (Loss),
Distribution Preferences, and Restricted Cash (Continued)**

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

Subsequent to year-end, the Council sold their outpatient counseling office building located in Clinton, Iowa. The Council received proceeds of \$24,000 on the sale of the building, and will recognize an approximate \$28,000 loss on its disposition in fiscal year 2013. At the time of the sale, there was no debt outstanding against the property, and the Council does not receive any grant funding that is contingent on the continued operation of this building location.

Supplementary Information

**Area Substance Abuse Council, Inc.
and Its Affiliates
Consolidating Statement of Financial Position
June 30, 2012**

	<u>ASAC</u>	<u>ASAC Housing Corporation</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 472,186	\$ -
Cash, Restricted	-	-
Accounts Receivable	1,191,624	-
Unconditional Promises to Give:		
Contributions Receivable - United Way	476,125	-
Current Portion of Contributed Lease	26,855	-
Prepaid Expenses	146,971	-
Prepaid Rent	-	-
Deposits	5,300	-
Total Current Assets	<u>2,319,061</u>	<u>-</u>
Escrow Deposits	<u>-</u>	<u>-</u>
Investments and Long-Term Receivables		
Notes Receivable - Affiliated Companies	387,500	-
Accounts Receivable - Affiliated Companies	81,421	84,924
Accrued Interest Receivable - Affiliated Companies	65,187	-
Present Value of Contributed Lease, Less Current Portion Above	590,947	-
Certificates of Deposit, Restricted	-	-
Investment in Affiliate	(36,535)	177,376
Total Investments and Long-Term Receivables	<u>1,088,520</u>	<u>262,300</u>
Property and Equipment		
Land	868,973	-
Buildings and Improvements	8,046,003	-
Furniture, Fixtures, and Equipment	626,034	-
Total	<u>9,541,010</u>	<u>-</u>
Less Accumulated Depreciation	2,609,529	-
Net Property and Equipment	<u>6,931,481</u>	<u>-</u>
Other Assets		
Loan Origination Fees, Net of Accumulated Amortization	-	-
Tax Credit Fees, Net of Accumulated Amortization	-	-
Total Other Assets	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 10,339,062</u>	<u>\$ 262,300</u>

The Way Home, LLLP	N.D. Housing, LLLP	Total	Eliminations	Consolidated
\$ 32,946	\$ 26,812	\$ 531,944	\$ -	\$ 531,944
84,499	32,632	117,131	-	117,131
820	(771)	1,191,673	-	1,191,673
-	-	476,125	-	476,125
-	-	26,855	-	26,855
-	-	146,971	-	146,971
188,980	-	188,980	-	188,980
-	-	5,300	-	5,300
<u>307,245</u>	<u>58,673</u>	<u>2,684,979</u>	<u>-</u>	<u>2,684,979</u>
<u>47,347</u>	<u>-</u>	<u>47,347</u>	<u>-</u>	<u>47,347</u>
-	-	387,500	(387,500)	-
-	-	166,345	(166,345)	-
-	-	65,187	(65,187)	-
-	-	590,947	-	590,947
178,920	15,370	194,290	-	194,290
-	-	140,841	(140,841)	-
<u>178,920</u>	<u>15,370</u>	<u>1,545,110</u>	<u>(759,873)</u>	<u>785,237</u>
20,000	179,585	1,068,558	-	1,068,558
3,020,605	1,360,646	12,427,254	(591,563)	11,835,691
142,362	50,541	818,937	-	818,937
3,182,967	1,590,772	14,314,749	(591,563)	13,723,186
780,955	306,455	3,696,939	(115,192)	3,581,747
<u>2,402,012</u>	<u>1,284,317</u>	<u>10,617,810</u>	<u>(476,371)</u>	<u>10,141,439</u>
33,548	-	33,548	-	33,548
11,786	5,876	17,662	-	17,662
<u>45,334</u>	<u>5,876</u>	<u>51,210</u>	<u>-</u>	<u>51,210</u>
<u>\$ 2,980,858</u>	<u>\$ 1,364,236</u>	<u>\$ 14,946,456</u>	<u>\$ (1,236,244)</u>	<u>\$ 13,710,212</u>

(Continued)

**Area Substance Abuse Council, Inc.
and Its Affiliates
Consolidating Statement of Financial Position (Continued)
June 30, 2012**

	ASAC	ASAC Housing Corporation
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 142,960	\$ 81,421
Accrued Vacation Pay	290,608	-
Accrued Expenses	10,690	-
Accrued Interest Payable	-	29,914
Tenants' Security Deposits	-	-
Current Maturities of Long-Term Debt	116,593	-
Total Current Liabilities	560,851	111,335
Long-Term Debt , Less Current Maturities Above	2,027,188	187,500
Total Liabilities	2,588,039	298,835
Net Assets		
Unrestricted:		
Undesignated and Controlling Interest	6,682,451	(36,535)
Non-Controlling Interest of Affiliates	-	-
Total Unrestricted	6,682,451	(36,535)
Temporarily Restricted:		
Subsequent Years' Operations	1,067,072	-
Purpose Restricted	1,500	-
Total Temporarily Restricted	1,068,572	-
Total Net Assets	7,751,023	(36,535)
	\$ 10,339,062	\$ 262,300

The Way Home, LLLP	N.D. Housing, LLLP	Total	Eliminations	Consolidated
\$ 71,010	\$ 34,210	\$ 329,601	\$ (166,345)	\$ 163,256
-	-	290,608	-	290,608
-	-	10,690	-	10,690
57,167	17,593	104,674	(65,187)	39,487
14,598	5,830	20,428	-	20,428
19,387	-	135,980	-	135,980
<u>162,162</u>	<u>57,633</u>	<u>891,981</u>	<u>(231,532)</u>	<u>660,449</u>
<u>1,376,270</u>	<u>500,000</u>	<u>4,090,958</u>	<u>(387,500)</u>	<u>3,703,458</u>
<u>1,538,432</u>	<u>557,633</u>	<u>4,982,939</u>	<u>(619,032)</u>	<u>4,363,907</u>
1,442,426	806,603	8,894,945	(2,804,046)	6,090,899
-	-	-	2,186,834	2,186,834
<u>1,442,426</u>	<u>806,603</u>	<u>8,894,945</u>	<u>(617,212)</u>	<u>8,277,733</u>
-	-	1,067,072	-	1,067,072
-	-	1,500	-	1,500
<u>-</u>	<u>-</u>	<u>1,068,572</u>	<u>-</u>	<u>1,068,572</u>
<u>1,442,426</u>	<u>806,603</u>	<u>9,963,517</u>	<u>(617,212)</u>	<u>9,346,305</u>
<u>\$ 2,980,858</u>	<u>\$ 1,364,236</u>	<u>\$ 14,946,456</u>	<u>\$ (1,236,244)</u>	<u>\$ 13,710,212</u>

**Area Substance Abuse Council, Inc.
and Its Affiliates
Consolidating Statement of Activities
For the Year Ended June 30, 2012**

	ASAC	ASAC Housing Corporation
Public Support and Revenue		
Iowa Department of Public Health:		
Prevention Programs	\$ 1,116,106	\$ -
Other Government Fees and Grants	1,781,714	-
Medicaid	2,796,162	-
Non-Medicaid	2,729,243	-
United Way	493,441	-
Donations	82,640	-
Donated Goods and Services	19,654	-
Client and Resident Fees	1,721,553	-
Contract Services	245,507	-
Interest	13,746	-
Interest in Net Loss of Affiliate	(6,397)	-
Other Revenue	363,769	-
	<u>11,357,138</u>	<u>-</u>
Expenses		
Program Services	9,676,751	-
Supporting Activities:		
Management and General	706,631	-
Fund Raising	28,609	-
	<u>735,240</u>	<u>-</u>
Total Supporting Activities		
Total Expenses	<u>10,411,991</u>	<u>-</u>
Change in Net Assets - ASAC	<u>945,147</u>	<u>-</u>
Activities of Affiliates		
Revenues	-	27,607
Expenses	-	(34,004)
	<u>-</u>	<u>(6,397)</u>
Net (Loss) of Affiliates		
Change in Net Assets	<u>945,147</u>	<u>(6,397)</u>
Net Assets, Beginning of Year	<u>6,805,876</u>	<u>(30,138)</u>
Total Net Assets, End of Year	<u>\$ 7,751,023</u>	<u>\$ (36,535)</u>

The Way Home, LLLP	N.D. Housing, LLLP	Total	Eliminations	Consolidated
\$ -	\$ -	\$ 1,116,106	\$ -	\$ 1,116,106
-	-	1,781,714	-	1,781,714
-	-	2,796,162	-	2,796,162
-	-	2,729,243	-	2,729,243
-	-	493,441	-	493,441
-	-	82,640	-	82,640
-	-	19,654	-	19,654
-	-	1,721,553	-	1,721,553
-	-	245,507	(56,572)	188,935
-	-	13,746	(13,306)	440
-	-	(6,397)	6,397	-
-	-	363,769	-	363,769
-	-	11,357,138	(63,481)	11,293,657
-	-	9,676,751	(10,730)	9,666,021
-	-	706,631	-	706,631
-	-	28,609	-	28,609
-	-	735,240	-	735,240
-	-	10,411,991	(10,730)	10,401,261
-	-	945,147	(52,751)	892,396
159,067	68,903	255,577	(35,373)	220,204
(279,814)	(124,590)	(438,408)	116,050	(322,358)
(120,747)	(55,687)	(182,831)	80,677	(102,154)
(120,747)	(55,687)	762,316	27,926	790,242
1,563,173	862,290	9,201,201	(645,138)	8,556,063
<u>\$ 1,442,426</u>	<u>\$ 806,603</u>	<u>\$ 9,963,517</u>	<u>\$ (617,212)</u>	<u>\$ 9,346,305</u>

**Area Substance Abuse Council, Inc.
and Its Affiliates
Schedule of Revenue and Expenses - I.D.P.H. Contracts
For the Year Ended June 30, 2012**

	Clinton Comprehensive Prevention 5882CP06	Clinton Comprehensive Prevention 5882CP08	Tobacco Community Partnerships 5882TS28	Multi- Cultural 5882CP45	Youth Development 5882YM56	SPF/SIG
Revenue						
Iowa Department of Public Health	\$ 264,859	\$ 57,297	\$ 229,556	\$ 115,525	\$ 53,050	\$ 314,531
Other Government Fees and Grants	-	-	-	300	6,000	-
Medicaid	-	-	-	5,653	-	-
United Way	37,226	6,700	-	-	6,000	-
Insurance	-	-	-	22,159	-	-
Client and Resident Fees	-	-	-	7,606	-	-
Total Revenue	302,085	63,997	229,556	151,243	65,050	314,531
Expenses						
Salaries	191,361	32,079	138,008	86,776	49,719	171,338
Fringe Benefits	56,292	18,006	46,616	14,724	11,552	54,678
Contracted Services	880	1,645	1,095	949	149	10,230
Supplies and Office Expenses	13,967	8,765	2,802	3,703	284	26,022
Telephone	2,031	749	1,587	631	360	-
Occupancy	10,130	1,289	7,745	22,532	2,063	7,967
Staff Training and Education	2,799	799	408	1,258	893	5,293
Travel	8,415	1,387	3,906	70	485	5,159
Equipment Maintenance and Rental	946	176	-	200	-	11
Insurance	1,832	163	760	350	172	760
Depreciation	11,138	-	-	-	-	-
Other	164	-	-	3,235	-	6,131
Total Expenses	299,955	65,058	202,927	134,428	65,677	287,589
Excess (Deficit) of Revenue over (under) Expenses	2,130	(1,061)	26,629	16,815	(627)	26,942
Indirect Expense Allocation	22,195	4,814	15,016	9,947	4,860	21,280
Net	\$ (20,065)	\$ (5,875)	\$ 11,613	\$ 6,868	\$ (5,487)	\$ 5,662

**Area Substance Abuse Council, Inc.
and Its Affiliates
Schedule of Revenue and Expenses - Other Contracts
For the Year Ended June 30, 2012**

	Linn County JAG	Benton DFC	Rural Linn DFC
Revenue			
Other Government Fees and Grants	\$ 40,000	\$ 45,826	\$ 48,527
Client and Resident Fees	-	-	-
Medicaid	-	-	-
United Way	19,550	11,560	17,300
Schools	-	-	-
Insurance	-	-	-
Total Revenue	<u>59,550</u>	<u>57,386</u>	<u>65,827</u>
Expenses			
Salaries	46,407	45,296	56,637
Fringe Benefits	6,055	10,435	13,792
Contracted Services	145	-	170
Supplies and Office Expenses	1,748	1,242	199
Telephone	109	-	-
Occupancy	-	350	550
Staff Training and Education	260	200	45
Travel	365	852	1,858
Equipment Maintenance and Rental	-	-	-
Insurance	166	-	195
Other	-	33	-
Total Expenses	<u>55,255</u>	<u>58,408</u>	<u>73,446</u>
Excess (Deficit) of Revenue over (under) Expenses	4,295	(1,022)	(7,619)
Indirect Expense Allocation	4,089	4,322	5,435
Net	<u>\$ 206</u>	<u>\$ (5,344)</u>	<u>\$ (13,054)</u>

Jones DFC	Jones DFC Match	Jackson Schools	Total
\$ 119,495	\$ -	\$ 55,418	\$ 309,266
-	3,339	-	3,339
-	27,423	-	27,423
-	-	-	48,410
-	14,000	-	14,000
-	14,913	-	14,913
<u>119,495</u>	<u>59,675</u>	<u>55,418</u>	<u>417,351</u>
55,949	37,828	37,184	279,301
20,976	13,821	12,061	77,140
4,540	500	142	5,497
7,905	410	474	11,978
1,343	-	-	1,452
6,777	-	-	7,677
7,817	-	225	8,547
6,869	1,296	1,068	12,308
44	-	64	108
890	-	163	1,414
10,190	-	-	10,223
<u>123,300</u>	<u>53,855</u>	<u>51,381</u>	<u>415,645</u>
(3,805)	5,820	4,037	1,706
<u>9,124</u>	<u>3,985</u>	<u>3,802</u>	<u>30,757</u>
<u>\$ (12,929)</u>	<u>\$ 1,835</u>	<u>\$ 235</u>	<u>\$ (29,051)</u>

**Area Substance Abuse Council, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Numbers	Federal Expenditures
U.S. Department of Health and Human Services:			
Direct Awards:			
Jones County Safe and Healthy Youth Coalition	93.276	5H79SP014744-04	\$ 82,753
Jones County Safe and Healthy Youth Coalition	93.276	5H79SP014744-03	36,742
Total CFDA # 93.276			<u>119,495</u>
Passed through Iowa Department of Public Health:			
Substance Abuse Prevention and Treatment Block Grant Program:			
Strategic Prevention Framework State Incentive	93.243	5882CP06	229,703
Strategic Prevention Framework State Incentive	93.243	5882CP08	84,428
Strategic Prevention Framework State Incentive	93.243	5882IP02	34,000
Total CFDA # 93.243			<u>348,131</u>
Tobacco Community Partnerships	93.520	5882TS28	<u>14,200</u>
Passed through Iowa Department of Public Health:			
Substance Abuse Prevention and Treatment:			
Access to Recovery	93.275	N/A	<u>42,326</u>
Passed through Magellan Behavioral Care of Iowa:			
Substance Abuse Prevention and Treatment Block Grant Program:			
Behavioral Care	93.959	N/A	843,390
Women and Children	93.959	N/A	369,170
Passed through Iowa Department of Public Health:			
Substance Abuse Prevention and Treatment Block Grant Program:			
Comprehensive Prevention	93.959	5882CP06	249,748
Comprehensive Prevention	93.959	5882CP08	49,294
Total CFDA # 93.959			<u>1,511,602</u>
Total U.S. Department of Health and Human Services			<u>2,035,754</u>
U.S. Department of Housing and Urban Development:			
Direct Awards:			
Emergency Shelter Grants Program	14.231	N/A	14,828
Emergency Shelter Grants Program	14.231	11-HAP-001/57001	6,733
Emergency Shelter Grants Program	14.231	N/A	18,729
Emergency Shelter Grants Program	14.231	11-HAP-001/23003	7,788
Emergency Shelter Grants Program	14.231	N/A	22,000
Emergency Shelter Grants Program	14.231	11-HAP-001/57200	7,414
Emergency Shelter Grants Program	14.231	N/A	13,814
Total CFDA # 14.231			<u>91,306</u>

Area Substance Abuse Council, Inc.
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Numbers	Federal Expenditures
U.S. Department of Housing and Urban Development (Continued):			
Direct Awards (Continued):			
McKinney Vento Homeless Assistance Act	14.235	IA0009B7D011003	74,713
McKinney Vento Homeless Assistance Act	14.235	IA0009B7D011104	35,470
Total CFDA # 14.235			110,183
Passed through City of Clinton:			
Community Development Block Grant	14.218	10-CF-004-09	575,309
Total U.S. Department of Housing and Urban Development			776,798
U.S. Department of Agriculture			
Passed through Iowa Department of Education:			
Breakfast Program	10.553	N/A	10,904
National School Lunch Program	10.555	N/A	17,008
Snack Program	10.555	N/A	4,181
Total Cluster CFDA # 10.553 and CFDA # 10.555			32,093
Child and Adult Care Food Program	10.558	578051	7,607
Food Distribution Program (Commodities)	10.550	N/A	22
Total U.S. Department of Agriculture			39,722
U.S. Department of Energy			
Passed through Iowa Office of Energy Independence:			
ARRA - State Energy Program	81.041	SEP10-8952	95,051
U.S. Department of Justice			
Passed through the Office of Drug Control Policy			
Linn County Outpatient Substance Abuse Services	16.738	09JAG-17077	40,000
Total Federal Expenditures			\$ 2,987,325

Area Substance Abuse Council, Inc.

Notes to Schedule of Expenditures of Federal Awards

NOTE 1. Summary of Significant Accounting Policies

Basis of Presentation

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

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, 2012. In addition, there were no non-cash assistance, insurance, loans or loan guarantees outstanding as of and for the year ended June 30, 2012.

NOTE 3. Risk-Based Audit Approach

The dollar threshold used to distinguish between Type A and Type B programs is \$300,000. The Council does not qualify as a low risk auditee.



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

To the Board of Directors
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, 2012, and have issued our report thereon dated December 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

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 Area Substance Abuse Council, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Council's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Directors, and 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.

HONKAMP KRUEGER & CO., P.C.

A handwritten signature in cursive script that reads "Honkamp Krueger & Co.".

Dubuque, Iowa
December 6, 2012



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

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

Compliance

We have audited the compliance of Area Substance Abuse Council, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2012. The Area Substance Abuse Council, Inc.'s major federal programs are 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 each of its major federal programs is the responsibility of the Area Substance Abuse Council, Inc.'s management. Our responsibility is to express an opinion on the 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 the 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 the 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 programs for the year ended June 30, 2012. 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 2012-III-A and 2012-III-B.

Internal Control over Compliance

Management of the Area Substance Abuse Council, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the 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 the 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 over compliance 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 certain deficiencies in internal control over compliance 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.

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 2012-III-A and 2012-III-B to be significant deficiencies.

The Area Substance Abuse Council, Inc.'s response to the findings 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 the response.

This report is intended solely for the information and use of management, Board of Directors, and 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.

HONKAMP KRUEGER & CO., P.C.

Honkamp Krueger & Co.

Dubuque, Iowa
December 6, 2012

**Area Substance Abuse Council, Inc.
and Its Affiliates**

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Part I. Summary of the Independent Auditors' Results

- a. An unqualified opinion was issued on the financial statements.
- b. No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. Significant deficiencies in internal control over the major programs were disclosed by the audit of the financial statements.
- e. An unqualified opinion was issued on compliance with requirements applicable to each major program.
- f. The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget (OMB) Circular A-133, Section .510(a).
- g. The major programs were as follows:
 - CFDA Number 14.218 – Community Development Block Grant
 - CFDA Number 93.959 – Block Grants for Prevention and Treatment of Substance Abuse
 - CFDA Number 93.243 – Strategic Prevention Framework State Incentive Grant
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The Area Substance Abuse Council, Inc. did not qualify as a low-risk auditee.

**Area Substance Abuse Council, Inc.
and Its Affiliates**

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2012**

Part II. Findings Related to the Financial Statements

Instances of Non-Compliance:

No matters were noted.

Internal Control Deficiencies:

No matters were noted.

**Area Substance Abuse Council, Inc.
and Its Affiliates**

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2012**

Part III. Federal Awards Findings

Finding 2012-III-A Residency Verification

U.S. Department of Health and Human Services:
Passed through Iowa Department of Public Health
Substance Abuse Prevention and Treatment Block Grant Program, CFDA #93.959
Substance Abuse Prevention and Treatment Block Grant Program, CFDA #93.243

Criteria:

The individual case files for recipients receiving program assistance must support their residency.

Condition:

Documentation of residency status could not be located for one selected case file.

Context:

For 1 of 25 recipients tested, the case file did not include the proper verification documents for determining residency.

Effect:

Failure to adequately document residency 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 residency determinations.

Recommendation:

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

Management's Response:

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

**Area Substance Abuse Council, Inc.
and Its Affiliates**

**Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2012**

Part III. Federal Awards Findings (Continued)

Finding 2012-III-B Authorized Pay Rate Approval

U.S. Department of Health and Human Services:
Passed through Iowa Department of Public Health
Substance Abuse Prevention and Treatment Block Grant Program, CFDA #93.959
Substance Abuse Prevention and Treatment Block Grant Program, CFDA #93.243

Criteria:

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

Condition:

The Council was unable to support supervisory approval of an approved pay rate for one payroll disbursement.

Context:

For 1 of 25 payroll disbursements tested, there was no documentation of an approved pay rate in the personnel file which correlated with the amount paid 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 approved documentation of pay rates in personnel files were not followed correctly.

Recommendation:

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

Management's Response:

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



To the Board of Directors
Area Substance Abuse Council, Inc.
and Its Affiliates
Cedar Rapids, Iowa

We have audited the consolidated financial statements of Area Substance Abuse Council, Inc. (the Council) and Its Affiliates as of and for the year ended June 30, 2012, and have issued our report thereon dated December 6, 2012. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As communicated in our engagement letter dated July 13, 2012, our responsibility, as described by professional standards, is to plan and perform our audit to form and express an opinion about whether the consolidated financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit of the consolidated financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the consolidated financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Council solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Area Substance Abuse Council, Inc. and Its Affiliates are included in Note 1 to the consolidated financial statements. There has been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2012. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The most sensitive accounting estimates affecting the financial statements are contributed lease receivable and related discount to present value and the estimated useful lives of property and equipment.

For the contributed lease receivable and the related discount to present value, management estimated the excess of the fair rental value over the rent amount charged for the duration of the lease. In determining the estimate, management used information obtained from a real estate professional's analysis of the space. This information included square footage rates and the consideration of the type of property and location. An estimated risk-free rate of return was used in calculating the discount to present value. We evaluated the key factors and assumptions used to develop the estimate of value for the office space and discount to present value in determining that it is reasonable in relation to the consolidated financial statements as a whole.

Management's estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Council's consolidated financial statements relate to:

The disclosures of long-term debt in Note 5 to the consolidated financial statements. Financial institutions and other lending sources tend to rely on such information when granting the Council additional financing.

The disclosure of related party transactions in Note 11 to the consolidated financial statements, as the note discloses resources and potential obligations of the Council outside normal business operations.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following attachment indicates material misstatements that we identified as a result of our audit procedures that were brought to the attention of, and corrected by, management (Attachment 2).

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Council's consolidated financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated December 6, 2012 (Attachment 1).

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Findings or Issues

In the normal course of our professional association with the Council, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the Council, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Council's auditors.

This report is intended solely for the information and use of the Board of Directors and management of Area Substance Abuse Council, Inc. and Its Affiliates and is not intended to be and should not be used by anyone other than these specified parties.

HONKAMP KRUEGER & CO., P.C.

Honkamp Krueger & Co.

Dubuque, Iowa
December 6, 2012

asac
AREA SUBSTANCE
ABUSE COUNCIL

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3601 16th Avenue S.W.
Cedar Rapids, IA 52404
www.asac.us

December 6, 2012

Honkamp Krueger & Co., P.C.
2345 John F. Kennedy Road
Dubuque, Iowa 52002

We are providing this letter in connection with your audit of the consolidated statements of financial position, statement of activities, cash flows and functional expenses of Area Substance Abuse Council, Inc. and Its Affiliates as of and for the year ended June 30, 2012, for the purpose of expressing an opinion as to whether the consolidated financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Area Substance Abuse Council, Inc. and Its Affiliates in conformity with accounting principles generally accepted in the United States of America (GAAP). Further, we understand that the purpose of your testing transactions and records from the organization's federal awards programs was to obtain reasonable assurance that the organization complied, in all material respects, with the compliance requirements applicable to each of our major federal award programs. We confirm that we are responsible for the fair presentation in the consolidated financial statements of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of December 6, 2012, the following representations made to you during your audit:

1. The consolidated financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America.
2. We have made available to you all:
 - a. Financial records and related data.
 - b. Minutes of meetings of the board of directors of Area Substance Abuse Council, Inc. and Its Affiliates and its committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. Management acknowledges its responsibility for the design and implementation of programs and controls to prevent and detect fraud. We confirm that we have no:

Attachment 1

- a. Knowledge of any fraud or suspected fraud affecting the Council and Its Affiliates involving management, employees who have significant roles in internal control, and others, where the fraud could have a material effect on the consolidated financial statements.
 - b. Knowledge of any allegations of fraud or suspected fraud affecting the organization received in communications from employees, former employees, analysts, regulators, short-sellers, or others.
 - c. Knowledge of any communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. Area Substance Abuse Council, Inc. and Its Affiliates have no plans or intentions that may materially affect the carrying value or classifications of assets, liabilities, or net assets.
5. The following have been properly recorded or disclosed in the financial statements:
- a. Related-party transactions and related amounts receivable or payable, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees.
 - b. Guarantees, whether written or oral, under which Area Substance Abuse Council, Inc. and Its Affiliates are contingently liable.
 - c. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with FASB Accounting Standards Codification (ASC) 275, *Risks and Uncertainties*. Significant estimates are estimates at the statement of financial position date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.
6. There are no:
- a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and cannot be disclosed in accordance with ASC 450, *Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by ASC 450.
7. There are no material transactions that have not been properly recorded in the accounting records underlying the consolidated financial statements.
8. Area Substance Abuse Council, Inc. and Its Affiliates have satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral except as noted in the footnotes.
9. With respect to compliance with laws and regulations affecting Area Substance Abuse Council, Inc. and Its Affiliates, we represent the following:
- a. We are responsible for Area Substance Abuse Council, Inc.'s and Its Affiliates' compliance with the laws and regulations applicable to it.

Attachment 1

- b. We have identified and disclosed to you all laws and regulations that have a direct and material effect on the determination of financial statement amounts and each major federal awards program.
 - c. We have complied with all aspects of laws, regulations, and contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
10. All adjustments proposed by the auditor, material and immaterial, have been recorded.
11. We confirm the following regarding fair value measurements and disclosures:
 - a. Measurement methods, including related assumptions, used in determining fair value are reasonable, appropriately reflect management's intent and ability to carry out its stated courses of action, and were consistently applied.
 - b. Disclosures related to fair values are complete, adequate, and in accordance with GAAP.
 - c. No subsequent events have occurred that require adjustments to the fair value measurements and disclosures included in the financial statements.
12. With respect to federal awards programs:
 - a. We are responsible for establishing and maintaining effective internal control over compliance for federal programs that provides reasonable assurance that the organization is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on its federal programs.
 - b. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
 - c. We have identified in the schedule of expenditures of federal awards all assistance provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations, including noncash assistance. We have also identified any programs which include funding under the American Recovery and Reinvestment Act of 2009 and have reported that funding separately on the schedule of expenditures of federal awards.
 - d. We have identified the compliance requirements governing activities allowed or unallowed; allowable costs/cost principles, cash management; Davis-Bacon Act; eligibility; equipment and real property management; matching, level of effort, earmarking; period of availability of federal funds; procurement and suspension and debarment; program income; real property acquisition/relocation assistance; reporting; subrecipient monitoring; special tests and provisions.
 - e. We have complied, in all material respects, with the requirements in connection with federal awards, including the requirements of the American Recovery and Reinvestment Act of 2009, where applicable.
 - f. Information presented in federal financial reports and claims for advances and reimbursements is supported by the books and records from which the basic financial statements have been prepared.
 - g. Amounts claimed for reimbursement or used for matching were determined in accordance with requirements of the OMB and agency requirements.

Attachment 1

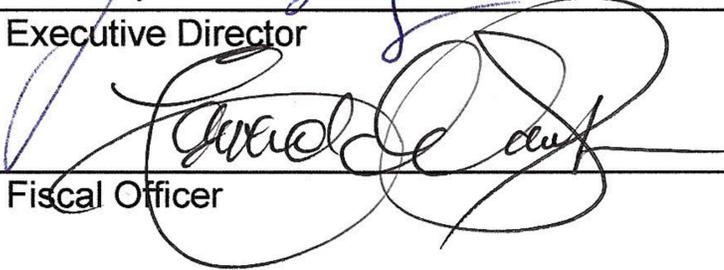
- h. We have identified and disclosed to you all amounts questioned, as well as known violations of requirements that, if not complied with, could have a material effect on a major federal award programs, and any other known noncompliance with the specific and general requirements of federal awards.
 - i. We are responsible for complying with the requirements in OMB Circular A-133.
 - j. We have disclosed whether, subsequent to the date as of which compliance is audited, any changes in internal control or other factors that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies (including material weaknesses), have occurred.
 - k. We have provided you with our interpretations of any compliance requirements that have varying interpretations.
 - l. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the federal agency (and/or pass-through entities).
 - m. We have provided you with all information on the status of the follow-up of prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
 - n. We have accurately completed the appropriate sections of the data collection form.
 - o. We have disclosed to you all contracts or other agreements with the service organizations.
 - p. We have disclosed to you all communications from the service organizations relating to noncompliance by the service organizations.
 - q. We have disclosed to you any known noncompliance subsequent to the period for which compliance is audited.
 - r. We have disclosed to you whether any changes in internal control over compliance or other factors that might significantly affect internal control, including any corrective action taken by management with regard to significant deficiencies (including material weaknesses), have occurred subsequent to the date as of which compliance is audited.
13. With respect to the supplementary information accompanying the consolidated financial statements:
- a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
 - b. We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
 - c. The methods of measurement or presentation have not changed from those used in the prior period.

Attachment 1

14. To the best of our knowledge and belief, no events have occurred subsequent to the date of the consolidated statement of financial position and through the date of this letter that would require adjustment to, or disclosure in, the aforementioned consolidated financial statements.

Area Substance Abuse Council, Inc. and Its Affiliates


Executive Director


Fiscal Officer

Attachment 2

12/7/2012
3:08 PM

Client: **12970 - Area Substance Abuse Council, Inc.**
 Engagement: **12970 - Area Substance Abuse Council, Inc.**
 Period Ending: **6/30/2012**
 Trial Balance: **3000. - Trial Balance Database**
 Workpaper: **3600 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1		PBC		
To record fixed asset additions/disposals and to adjust depreciation to actual.				
546-30	DEPRECIATION EXPENSE BLDG		3,947.20	
546-40	DEPRECIATION EXPENSE BLDG: O.P		9,439.46	
546-42	DEPRECIATION EXPENSE BLDG: CL-		5,092.87	
546-45	DEPRECIATION EXPENSE BLDG: MET		8,772.65	
546-50	DEPRECIATION EXPENSE BLDG: PRE		9,937.31	
546-84	DEPRECIATION EXPENSE BLDG: CWH		10,791.77	
546-85	DEPRECIATION EXPENSE BLDG: CL-		5,421.00	
546-89	DEPRECIATION EXPENSE BLDG: HLF		4,722.64	
546-90	DEPRECIATION EXP BDLG : ADULT		9,170.29	
546-91	DEPRECIATION EXPENSE BLDG: YOU		22,561.56	
546-92	DEPRECIATION EXPENSE BLDG: DDR		11,864.91	
546-93	DEPRECIATION EXPENSE BLDG:		72,311.37	
546-96	DEPRECIATION EXPENSE BLDG: OP		2,757.79	
546-97	DEPRECIATION EXPENSE BLDG:SO		103.41	
547-93	AMORTIZATION		4,793.84	
556-30	EQUIPMENT DEPRECIATION		6,355.15	
556-32	EQUIPMENT DEPRECIATION: MANAG		4,999.14	
556-40	EQUIPMENT DEPRECIATION: O.P.		756.50	
556-42	EQUIPMENT DEPRECIATION: CL-OP		702.16	
556-50	EQUIPMENT DEPRECIATION: PREVN		1,200.60	
556-60	EQUIPMENT DEPRECIATION: OP BN		539.40	
556-70	EQUIPMENT DEPRECIATION: OP JO		254.17	
556-80	EQUIPMENT DEPRECIATION: OP JA		474.01	
556-84	EQUIPMENT DEPRECIATION: CWHH		4,641.27	
556-85	EQUIPMENT DEPRECIATION: CL-KH		217.79	
556-89	EQUIPMENT DEPRECIATION: HLFWY		378.49	
556-90	EQUIPMENT DEPRECIATION: ADULT		1,057.50	
556-91	EQUIPMENT DEPRECIATION: YOUTH		1,410.82	
556-92	EQUIPMENT DEPRECIATION: DDRC		950.89	
556-93	EQUIPMENT DEPRECIATION:		5,741.97	
556-96	EQUIPMENT DEPRECIATION: OP YT		221.02	
556-97	EQUIPMENT DEPRECIATION:SO		550.31	
580-30	MISCELLANEOUS		579.40	
160-00	FURNITURE & EQUIPMENT			57,230.66
160-10	FURNITURE & EQUIPMENT- CLINTON			15,444.88
161-00	ACCUM.DEPRECIATION			139,977.30
580-30	MISCELLANEOUS			65.82
Total			212,718.66	212,718.66
Adjusting Journal Entries JE # 2		5301		
To record current maturities of long-term debt				
255-00	CONTR PYBLE FACL FUTURE YEARS		116,593.16	
230-00	LOAN PYBLE - CURRENT PORTION			116,593.16
Total			116,593.16	116,593.16
Adjusting Journal Entries JE # 3		4202.1		
To adjust AR to actual				
045-00	ACCOUNTS RECEIVABLE		80,701.00	
412-40	CLIENT FEES - LINN OP		11,889.00	
412-41	CLIENT FEES INSURANCE: EAST		12,405.00	
412-65	CLIENT FEES INSURANCE-MINORITY		5,754.00	
412-75	CLIENT FEES:JDFC		3,955.00	
412-93	CLIENT FEES INSURANCE-WOMEN		13,757.00	
412-96	CLIENT FEES INSURANCE - YTH OP		661.00	

Attachment 2

12/7/2012
3:08 PM

Client: **12970 - Area Substance Abuse Council, Inc.**
Engagement: **12970 - Area Substance Abuse Council, Inc.**
Period Ending: **6/30/2012**
Trial Balance: **3000. - Trial Balance Database**
Workpaper: **3600 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
412-42	CLIENT FEES INSR -CLINTON OP			3,269.00
412-60	CLIENT FEES INSURANCE - BENTON			2,204.00
412-70	CLIENT FEES INSURANCE-JONES			18,005.00
412-80	CLIENT FEES INSURANCE-JACKSON			1,706.00
412-89	CLIENT FEES INSURANCE-HALFWAY			21,672.00
412-90	CLIENT FEES INSURANCE - ADULT			501.00
412-91	CLIENT FEES INSURANCE-YTH RES			53,059.00
412-92	CLIENT FEES INSURANCE -DDRC			20,000.00
412-97	CLIENT FEES INSURANCE:SO			8,502.00
412-98	CLIENT FEES INSURANCE- OWI			204.00
Total			129,122.00	129,122.00
Adjusting Journal Entries JE # 4		PBC		
To reclass bank fee to correct account.				
527-30	BANK CHARGES		356.87	
524-30	TRANSCRIPTION			356.87
Total			356.87	356.87
Adjusting Journal Entries JE # 5		8530		
To record current year net loss of investment in ASAC Housing				
470-00	Loss of Affiliate		6,396.18	
270-00	Investment in ASAC Housing Corp			6,396.18
Total			6,396.18	6,396.18



To the Board of Directors
Area Substance Abuse Council, Inc.
and Its Affiliates
Cedar Rapids, Iowa

In planning and performing our audit of the consolidated financial statements of Area Substance Abuse Council, Inc. (the Council) and Its Affiliates, as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Council's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control.

Our consideration of internal control 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 and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 identified no deficiencies in the Council's internal control considered to be material weaknesses.

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.

This communication is intended solely for the information and use of management, Board of Directors, others within the organization, 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.

HONKAMP KRUEGER & CO., P.C.

Dubuque, Iowa
December 6, 2012