

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

Consolidated Financial Statements

June 30, 2013 and 2012

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**Area Substance Abuse Council, Inc.
Board of Directors and Management
June 30, 2013**

BOARD OF DIRECTORS

<u>Name</u>	<u>Title</u>	<u>Term Expires December</u>
Mark Zaiger	President	2014
Hesta Stoffel	Vice President	2013
Nancylee Ziese	Secretary	2013
Nancy Lowenberg	Treasurer	2013
John Harris	Member	2013
Jason Sanders	Member	2013
Joe Oswald	Member	2015
Dave Romont	Member	2013
Jason Vestweber	Member	2015
Jeff Lara	Member	2015
Malinda Lamb	Member	2015
Jeff Gleason	Member	2015
Emily Logan	Member	2015
Sue Wilber	Member	2014
Bill Peart	Member	2015
LaSheila Yates	Member	2014
Jeff Brooks	Member	2015

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. and its Affiliates
Cedar Rapids, Iowa

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Area Substance Abuse Council, Inc. (the "Council") and its affiliates, which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Area Substance Abuse Council, Inc. and its affiliates as of June 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included on pages 28-32 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. 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 consolidated financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report dated December 12, 2013, 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 the report is to describe the scope of our testing of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

HONKAMP KRUEGER & CO., P.C.



Dubuque, Iowa
December 12, 2013

**Area Substance Abuse Council, Inc.
and Its Affiliates
Consolidated Statements of Financial Position
June 30, 2013 and 2012**

	2013	2012
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 564,235	\$ 531,944
Cash, Restricted	115,610	117,131
Accounts Receivable	1,322,988	1,191,673
Unconditional Promises to Give:		
Contributions Receivable - United Way	474,313	476,125
Current Portion of Contributed Lease, Less Discount to Present Value 2013: \$13,881 and 2012: \$14,533	27,507	26,855
Prepaid Expenses	187,984	146,971
Prepaid Rent	186,980	188,980
Deposits	5,300	5,300
Total Current Assets	2,884,917	2,684,979
Escrow Deposits	51,537	47,347
Investments and Other Long-Term Assets		
Certificates of Deposit, Restricted	172,509	194,290
Present Value of Contributed Lease, Less Current Portion Above, Less Discount to Present Value 2013: \$119,461 and 2012: \$133,343	563,441	590,947
Beneficial Interest in Assets Held by Community Foundation	25,000	-
Total Investments and Other Long-Term Assets	760,950	785,237
Property and Equipment		
Land	1,063,133	1,068,558
Buildings and Improvements	11,741,203	11,835,691
Furniture, Fixtures, and Equipment	745,069	818,937
Total	13,549,405	13,723,186
Less Accumulated Depreciation	3,861,187	3,581,747
Net Property and Equipment	9,688,218	10,141,439
Other Assets		
Loan Origination Fees, Net of Accumulated Amortization	32,179	33,548
Tax Credit Fees, Net of Accumulated Amortization	13,847	17,662
Total Other Assets	46,026	51,210
Total Assets	\$ 13,431,648	\$ 13,710,212

	<u>2013</u>	<u>2012</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 226,699	\$ 163,256
Accrued Vacation Pay	286,282	290,608
Accrued Expenses	11,781	10,690
Accrued Interest Payable	46,850	39,487
Tenants' Security Deposits	18,739	20,428
Current Maturities of Long-Term Debt	<u>142,864</u>	<u>135,980</u>
Total Current Liabilities	<u>733,215</u>	<u>660,449</u>
Long-Term Debt, Less Current Maturities Above	<u>3,551,633</u>	<u>3,703,458</u>
Total Liabilities	<u>4,284,848</u>	<u>4,363,907</u>
Net Assets		
Unrestricted:		
Undesignated and Controlling Interest	6,085,344	6,090,899
Board Designated for Endowment	25,000	-
Non-Controlling Interest of Affiliates	<u>1,997,634</u>	<u>2,186,834</u>
Total Unrestricted	<u>8,107,978</u>	<u>8,277,733</u>
Temporarily Restricted:		
Subsequent Years' Operations	1,037,754	1,067,072
Purpose Restricted	<u>1,068</u>	<u>1,500</u>
Total Temporarily Restricted	<u>1,038,822</u>	<u>1,068,572</u>
Total Net Assets	<u>9,146,800</u>	<u>9,346,305</u>
Total Liabilities and Net Assets	<u>\$ 13,431,648</u>	<u>\$ 13,710,212</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, 2013 and 2012**

	2013		
	Unrestricted	Temporarily Restricted	Total
PUBLIC SUPPORT AND REVENUE			
Iowa Department of Public Health:			
Prevention Programs	\$ 1,098,496	\$ -	\$ 1,098,496
Other Government Fees and Grants	847,531	-	847,531
Medicaid	2,893,628	-	2,893,628
Non-Medicaid	2,668,401	-	2,668,401
United Way	72,050	474,313	546,363
Donations	43,727	1,500	45,227
Donated Goods and Services	20,303	-	20,303
Client and Resident Fees	2,131,318	-	2,131,318
Contract Services	225,658	-	225,658
Interest	379	-	379
Other Revenue	65,487	-	65,487
Total Public Support and Revenue	<u>10,066,978</u>	<u>475,813</u>	<u>10,542,791</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Expiration of Time and Purpose Restrictions	<u>505,563</u>	<u>(505,563)</u>	<u>-</u>
Total Public Support, Revenue, and Net Assets Released from Restrictions	<u>10,572,541</u>	<u>(29,750)</u>	<u>10,542,791</u>
EXPENSES			
Program Services	<u>9,844,744</u>	<u>-</u>	<u>9,844,744</u>
Supporting Activities:			
Management and General	762,965	-	762,965
Fund Raising	<u>28,967</u>	<u>-</u>	<u>28,967</u>
Total Supporting Activities	<u>791,932</u>	<u>-</u>	<u>791,932</u>
Total Expenses	<u>10,636,676</u>	<u>-</u>	<u>10,636,676</u>
CHANGE IN NET ASSETS - ASAC	(64,135)	(29,750)	(93,885)
NET LOSS OF AFFILIATES	<u>(105,620)</u>	<u>-</u>	<u>(105,620)</u>
CHANGE IN NET ASSETS	(169,755)	(29,750)	(199,505)
NET ASSETS, BEGINNING OF YEAR	<u>8,277,733</u>	<u>1,068,572</u>	<u>9,346,305</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 8,107,978</u>	<u>\$ 1,038,822</u>	<u>\$ 9,146,800</u>

2012		
Unrestricted	Temporarily Restricted	Total
\$ 1,116,106	\$ -	\$ 1,116,106
1,781,714	-	1,781,714
2,796,162	-	2,796,162
2,729,243	-	2,729,243
17,316	476,125	493,441
81,140	1,500	82,640
19,654	-	19,654
1,721,553	-	1,721,553
188,935	-	188,935
440	-	440
363,769	-	363,769
<u>10,816,032</u>	<u>477,625</u>	<u>11,293,657</u>
<u>531,255</u>	<u>(531,255)</u>	<u>-</u>
<u>11,347,287</u>	<u>(53,630)</u>	<u>11,293,657</u>
<u>9,666,021</u>	<u>-</u>	<u>9,666,021</u>
706,631	-	706,631
28,609	-	28,609
<u>735,240</u>	<u>-</u>	<u>735,240</u>
<u>10,401,261</u>	<u>-</u>	<u>10,401,261</u>
946,026	(53,630)	892,396
<u>(102,154)</u>	<u>-</u>	<u>(102,154)</u>
843,872	(53,630)	790,242
<u>7,433,861</u>	<u>1,122,202</u>	<u>8,556,063</u>
<u>\$ 8,277,733</u>	<u>\$ 1,068,572</u>	<u>\$ 9,346,305</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, 2013**

	Program Services	Supporting Activities			Total Expenses
		Management and General	Fund Raising	Total	
Salaries	\$ 5,592,173	\$ 487,310	\$ 12,928	\$ 500,238	\$ 6,092,411
Fringe Benefits	1,628,413	138,096	3,664	141,760	1,770,173
Contracted Services	991,001	61,663	10,000	71,663	1,062,664
Supplies and Office Expenses	472,705	27,868	2,375	30,243	502,948
Telephone	47,913	5,973	-	5,973	53,886
Occupancy	516,363	4,461	-	4,461	520,824
Tenant Rental Assistance	11,855	-	-	-	11,855
Staff Training and Education	26,078	1,446	-	1,446	27,524
Travel	59,618	4,509	-	4,509	64,127
Equipment Maintenance and Rental	31,217	3,884	-	3,884	35,101
Insurance	51,099	7,322	-	7,322	58,421
Other	131,828	11,710	-	11,710	143,538
Total Expenses before Depreciation	9,560,263	754,242	28,967	783,209	10,343,472
Depreciation	284,481	8,723	-	8,723	293,204
Total Expenses	<u>\$ 9,844,744</u>	<u>\$ 762,965</u>	<u>\$ 28,967</u>	<u>\$ 791,932</u>	<u>\$ 10,636,676</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**

	<u>Supporting Activities</u>			Total	Total Expenses
	Program Services	Management and General	Fund Raising		
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	\$ 9,666,021	\$ 706,631	\$ 28,609	\$ 735,240	\$ 10,401,261

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, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (199,505)	\$ 790,242
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	442,169	401,904
Amortization	5,184	5,183
In-Kind Rent Contribution	26,854	27,464
Loss on Disposition of Property and Equipment	50,736	579
Effects of Changes in Operating Assets and Liabilities:		
Receivables	(129,503)	382,821
Prepaid Expenses	(39,013)	(5,431)
Escrow Deposits	(4,190)	(3,879)
Accounts Payable	63,443	(347,322)
Accrued Vacation Pay	(4,326)	25,259
Accrued Expenses	8,454	12,585
Tenants' Security Deposits	(1,689)	1,520
Net Cash Provided by Operating Activities	<u>218,614</u>	<u>1,290,925</u>
Cash Flows from Investing Activities:		
Redemption (Purchase) of Certificates of Deposits	21,781	(18,926)
Transfer of Assets to Community Foundation	(25,000)	-
Purchases of Property and Equipment	(61,334)	(1,794,131)
Proceeds on Sale of Property and Equipment	21,650	-
Net Cash (Used) in Investing Activities	<u>(42,903)</u>	<u>(1,813,057)</u>
Cash Flows from Financing Activities:		
Payments on Long-Term Debt	(144,941)	(121,879)
Advances on Long-Term Debt	-	750,000
Net Cash Provided (Used) in Financing Activities	<u>(144,941)</u>	<u>628,121</u>
Net Increase in Cash and Cash Equivalents	30,770	105,989
Cash and Cash Equivalents, Beginning of Year	<u>649,075</u>	<u>543,086</u>
Cash and Cash Equivalents, End of Year	<u>\$ 679,845</u>	<u>\$ 649,075</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. If the Board of Directors specifies a purpose where none has been stated by an original donor, such funds are classified as designated unrestricted funds.

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 as of June 30, 2013 and 2012.

**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.

Beneficial Interest in Assets Held by Community Foundation

A board-designated quasi-endowed fund is held by The Greater Cedar Rapids Community Foundation (the Foundation). The transactions with the Foundation are deemed to be reciprocal and, therefore, the value of the fund held by the Foundation is recognized as an asset (beneficial interest in assets held by community foundation) by the Council.

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.

**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)**

Tax Credit Fees

Tax credit fees are being amortized using the straight-line method over the ten-year tax credit period, coinciding with the reporting of tax credits on the Partnerships' tax returns.

Compensated Absences

Council employees accumulate vacation and sick leave hours for subsequent use or, in the case of vacation leave, for payment upon retirement, death, or termination. The Council has accrued a liability for compensated absences from accrued vacation at June 30, 2013 and 2012, 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.

**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

Contributions of donated goods are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Contributed property and equipment are recorded at estimated fair value at the date of gift. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Income Taxes

The Council is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides income tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes. The Council is not classified as a private foundation.

The Council files information returns in the U.S. federal jurisdiction. The Council and affiliates have determined that they were not required to record a liability related to uncertain tax positions. The federal information returns of the Council for the year ended June 30, 2010, 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.

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

Notes to Consolidated Financial Statements

NOTE 2. Beneficial Interest in Assets Held by Community Foundation

During the current year, the Council deposited \$25,000 with The Greater Cedar Rapids Community Foundation (the Foundation) in order to establish a permanent designated agency endowment fund. The fund is administered by the Foundation for the benefit of the Council. Control over the investment or reinvestment of these funds is exercised exclusively by the Foundation. A portion of the fund's earnings is made available for distribution to the Council periodically. No amounts were distributed to the Council from the Foundation for the year ended June 30, 2013.

NOTE 3. Fair Value Measurements

FASB ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Council has the ability to access.
Level 2	Inputs to the valuation methodology include: <ul style="list-style-type: none">• Quoted prices for similar assets or liabilities in active markets;• Quoted prices for identical or similar assets or liabilities in inactive markets;• Inputs other than quoted prices that are observable for the asset or liability;• Inputs that are derived principally from or corroborated by observable market data by correlation or other means. <p>If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.</p>

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

Notes to Consolidated Financial Statements

NOTE 3. Fair Value Measurements (Continued)

Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.
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The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Beneficial Interest in Assets Held by Community Foundation: Valued at the pro-rata share of the community foundation's investment pools. The unobservable inputs are the underlying assets at the community foundation and follow their investment policy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Council believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Council's assets at fair value as of June 30, 2013:

	Investments at Fair Value as Determined by Quoted Prices in Active Markets (Level I)	Investments at Estimated Fair Value		Total
		Valuation Techniques Based on Observable Market Data (Level II)	Techniques Incorporating Information Other Than Observable Market Data (Level III)	
Beneficial Interest in Assets Held by Community Foundation	\$ -	\$ -	\$ 25,000	\$ 25,000

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

Notes to Consolidated Financial Statements

NOTE 3. Fair Value Measurements (Continued)

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended June 30, 2013:

Balance, beginning of year	\$	-
Realized gains / (losses)		-
Unrealized gains / (losses) relating to assets held at end of year		-
Purchases, sales, issuances, and settlements:		
Purchases		25,000
Balance, end of year	\$	<u>25,000</u>

There were no gains or losses included in the change in net assets for the year ended June 30, 2013.

NOTE 4. Partnerships' Required Reserves – Restricted Cash

Pursuant to the Partnership Agreements (the "Agreements") for N.D. Housing, LLLP and The Way Home, LLLP, a replacement reserve is to be funded in the amount of \$3,000 and \$7,200 per year, respectively, increasing by 3% annually, beginning in 2007. Withdrawals from such reserves shall be utilized solely to fund capital repairs and improvements deemed necessary by the general partner, with approval from the limited partner for disbursements of \$5,000 or more.

As of June 30, 2013, \$18,849 and \$49,529, respectively, was funded to the Partnerships' replacement reserves with no withdrawals. As of June 30, 2012, \$15,370 and \$41,073, 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, 2013, \$26,845 and \$70,027, respectively, was funded to the Partnerships' operating reserves. As of June 30, 2012, \$26,803 and \$69,899, respectively, was funded to the Partnerships' operating reserves.

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

Notes to Consolidated Financial Statements

NOTE 4. Partnerships' Required Reserves – Restricted Cash (Continued)

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, 2013 and 2012, \$70,909 was held in the Partnership's real estate tax reserve.

Pursuant to The Way Home, LLLP Partnership Agreement, a tenant rental subsidy reserve of \$99,000 is to be funded from the proceeds of the fourth installment of the capital contribution. Withdrawals from such reserve shall be utilized solely to meet its subsidy payment requirement. As of June 30, 2013 and 2012, \$82,751 and \$108,011 was held in the Partnership's tenant rental subsidy reserve, respectively.

NOTE 5. 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.

	<u>2013</u>	<u>2012</u>
Contributed Lease Receivable	\$ 724,290	\$ 765,678
Less Discount to Present Value	<u>(133,342)</u>	<u>(147,876)</u>
Net Present Value of Contributed Lease Receivable	<u>\$ 590,948</u>	<u>\$ 617,802</u>

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

Notes to Consolidated Financial Statements

NOTE 5. Contributed Lease (Continued)

Contributed Lease Amounts Due in:

Less Than One Year	\$ 41,388
One to Five Years	165,552
More Than Five Years	<u>517,350</u>
Total	<u>\$ 724,290</u>

NOTE 6. 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 7. Debt

Long-term debt consists of the following:

	<u>2013</u>	<u>2012</u>
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, 2013.	\$ 125,115	\$ 160,641
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.	718,531	743,644

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

Notes to Consolidated Financial Statements

NOTE 7. Debt (Continued)

	2013	2012
Area Substance Abuse Council, Inc. (Continued)		
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, 2013 and 2012), with final payment due January 2, 2018. The note is secured by land on 16th Avenue.	67,500	82,500
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, 2013.	1,108,853	1,156,996
	\$ 2,019,999	\$ 2,143,781
 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.	\$ 574,498	\$ 595,657
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
	1,174,498	1,195,657

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

Notes to Consolidated Financial Statements

NOTE 7. Debt (Continued)

	2013	2012
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	3,694,497	3,839,438
Less Current Portion	142,864	135,980
Long-Term Portion	\$ 3,551,633	\$ 3,703,458

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.

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

2014	\$ 142,864
2015	156,064
2016	161,827
2017	739,765
2018	91,479
Thereafter	2,402,498
Total	\$ 3,694,497

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 3.50%, with final payment due January 5, 2014. The note is secured by the Council's assets. As of June 30, 2013 and 2012, there were no amounts outstanding on the line of credit.

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

Notes to Consolidated Financial Statements

NOTE 8. 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>Board Designated for Endowment</u>	<u>Non-Controlling Interest</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>-</u>	<u>(154,906)</u>
Balance, June 30, 2012	8,277,733	6,090,899	-	2,186,834
Change in Net Assets	(169,755)	19,445	-	(189,200)
Transfer of Assets to Community Foundation	<u>-</u>	<u>(25,000)</u>	<u>25,000</u>	<u>-</u>
Balance, June 30, 2013	<u>\$ 8,107,978</u>	<u>\$ 6,085,344</u>	<u>\$ 25,000</u>	<u>\$ 1,997,634</u>

NOTE 9. Endowment

The Council's endowment consists of funds established to support the Council in providing accessible, comprehensive substance abuse treatment and prevention services. Its endowment consists of board designated endowment funds held at The Greater Cedar Rapids Community Foundation. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net asset composition by type of fund as of June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Quasi-endowment	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,000</u>

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

Notes to Consolidated Financial Statements

NOTE 9. Endowment (Continued)

Changes in endowment net assets for the year ended June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ -	\$ -	\$ -	\$ -
Investment income	-	-	-	-
Investment fees	-	-	-	-
Net appreciation	-	-	-	-
Contributions	25,000	-	-	25,000
Appropriation of endowment assets for program expenditures	-	-	-	-
Net assets, end of year	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,000</u>

NOTE 10. Commitments and Rent Expense

The Council leases office space at various locations under noncancelable operating leases. Four of these leases extend beyond a one-year period, expiring between November 2014 and December 2015. Monthly payments on these leases range from \$675 to \$2,465.

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

2014	\$ 85,701
2015	56,784
2016	<u>11,143</u>
Total	<u>\$ 153,628</u>

Total rental expense was \$141,648 and \$137,612 for the years ended June 30, 2013 and 2012, respectively, including \$26,854 and \$27,464 of in-kind rent recorded for the years ended June 30, 2013 and 2012, respectively.

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

Notes to Consolidated Financial Statements

NOTE 11. 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, 2013 and 2012, the Council received volunteer services for the tobacco coalition grant which they value at \$50,290 and \$52,141, respectively. For the years ended June 30, 2013 and 2012, the Council also received volunteer services for the Jones DFC grant which they value at \$99,161 and \$87,051, respectively.

NOTE 12. 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, 2013 and 2012, was \$82,121 and \$82,991, respectively.

NOTE 13. Cash Flow Disclosure and Interest Expense

Total interest cost incurred and charged to expense was \$109,197 and \$92,675, and the interest actually paid was \$101,833 and \$85,348 for the years ended June 30, 2013 and 2012, respectively.

NOTE 14. 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

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

Notes to Consolidated Financial Statements

NOTE 14. Related Party Transactions (Continued)

Property Management Fees (Continued)

June 30, 2013 and 2012, property management fees were \$10,885 and \$10,867, 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, 2013, the on-site management fees paid totaled \$16,000 and \$20,030 for N.D. Housing, LLLP and The Way Home, LLLP, respectively. During the year ended June 30, 2012, on-site management fees paid totaled \$6,000 and \$20,000 for N.D. Housing, LLLP and The Way Home, LLLP, respectively.

Investor Services Fee

The Partnerships each entered into an agreement with their limited partner to pay a cumulative investor services fee equal to \$2,500 per year, increasing annually by 3%. Investor services fees of \$2,814 and \$2,732 for each Partnership were incurred during the years ended June 30, 2013 and 2012, 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 \$4,862 and \$12,381 were incurred by N.D. Housing, LLLP and The Way Home, LLLP, respectively, during the year ended June 30, 2013, and \$4,721 and \$12,020 for the year ended June 30, 2012, 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

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

Notes to Consolidated Financial Statements

NOTE 14. Related Party Transactions (Continued)

Operating Deficits (Continued)

Agreements. No operating deficit capital contributions were made during the years ended June 30, 2013 and 2012.

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, 2013, a subsidy income of \$1,502 and \$(13,805) was earned by N.D. Housing, LLLP and The Way Home, LLLP, respectively, under these agreements. During the year ended June 30, 2012, subsidy income of \$0 and \$7,766 was earned by N.D. Housing, LLLP and The Way Home, LLLP, respectively, under these agreements.

Intercompany Loans

The Council has loaned \$200,000 to The Way Home, LLLP, with payment of principal and accrued interest due in December 2056. Interest is charged at 3%, and the loan is unsecured. Accrued interest at June 30, 2013 and 2012, totals \$42,412 and \$35,274, 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, 2013 and 2012, totals \$36,485 and \$29,914, respectively.

NOTE 15. Concentrations and Contingencies

Cash

The Council maintains deposits in one bank account in excess of the federally insured amount. Total amount on deposit was \$572,868 at June 30, 2013. It is management's belief that the credit risk related to the aforementioned asset is minimal.

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

Notes to Consolidated Financial Statements

NOTE 15. Concentrations and Contingencies (Continued)

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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
MBC of Iowa - Non-Medicaid	25%	24%
MBC of Iowa - Medicaid	27%	25%

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

Hightower Place Loan and Grant

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

Transitional Housing Projects

The principal asset of each of the two limited partnerships is a low-income housing apartment complex and, therefore, the Partnerships' operations are concentrated in the multifamily real estate market. The Partnerships operate in a heavily regulated environment. The operations of the Partnerships are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies. Such administrative directives, rules, and regulations are subject to 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.

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

Notes to Consolidated Financial Statements

**NOTE 16. Partnerships' Allocations of Cash Distributions, Net Income (Loss),
Distribution Preferences, and Restricted Cash**

In accordance with the Partnership Agreements, all net profits, net losses, and tax credits shall be allocated 99.99% to the limited partners and 0.01% to the general partner.

Proceeds from the sale of capital assets are allocated to the partners according to the Agreements.

Net cash flow is defined by the Agreements as the excess of gross operating revenues, including amounts released from reserves, over project expenses paid and accrued, including required deposits to the replacement reserves and debt service. Cash flow is to be calculated and distributed annually in accordance with terms specified in the Agreements.

Proceeds upon dissolution and termination of the Partnerships are to be distributed in accordance with terms specified in the Agreements.

NOTE 17. Subsequent Events

Management has evaluated subsequent events through December 12, 2013, the date the consolidated financial statements were available to be issued.

Supplementary Information

**Area Substance Abuse Council, Inc.
and It's Affiliates
Consolidating Statement of Financial Position
June 30, 2013**

	ASAC	ASAC Housing Corporation
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 489,217	\$ -
Cash, Restricted	-	-
Accounts Receivable	1,324,521	-
Unconditional Promises to Give:		
Contributions Receivable - United Way	474,313	-
Current Portion of Contributed Lease	27,507	-
Prepaid Expenses	187,984	-
Prepaid Rent	-	-
Deposits	5,300	-
Total Current Assets	<u>2,508,842</u>	<u>-</u>
Escrow Deposits	<u>-</u>	<u>-</u>
Investments and Other Long-Term Assets		
Notes Receivable - Affiliated Companies	387,500	-
Accounts Receivable - Affiliated Companies	119,549	123,052
Accrued Interest Receivable - Affiliated Companies	78,897	-
Present Value of Contributed Lease, Less Current Portion Above	563,441	-
Certificates of Deposit, Restricted	-	-
Beneficial Interest in Assets Held by Community Foundation	25,000	-
Investment in Affiliate	(43,127)	177,355
Total Investments and Other Long-Term Assets	<u>1,131,260</u>	<u>300,407</u>
Property and Equipment		
Land	863,548	-
Buildings and Improvements	7,951,515	-
Furniture, Fixtures, and Equipment	552,166	-
Total	9,367,229	-
Less Accumulated Depreciation	<u>2,740,005</u>	<u>-</u>
Net Property and Equipment	<u>6,627,224</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>\$ 10,267,326</u>	<u>\$ 300,407</u>

The Way Home, LLLP	N.D. Housing, LLLP	Total	Eliminations	Consolidated
\$ 35,635	\$ 39,383	\$ 564,235	\$ -	\$ 564,235
82,961	32,649	115,610	-	115,610
810	(2,343)	1,322,988	-	1,322,988
-	-	474,313	-	474,313
-	-	27,507	-	27,507
-	-	187,984	-	187,984
186,980	-	186,980	-	186,980
-	-	5,300	-	5,300
<u>306,386</u>	<u>69,689</u>	<u>2,884,917</u>	<u>-</u>	<u>2,884,917</u>
<u>51,537</u>	<u>-</u>	<u>51,537</u>	<u>-</u>	<u>51,537</u>
-	-	387,500	(387,500)	-
-	-	242,601	(242,601)	-
-	-	78,897	(78,897)	-
-	-	563,441	-	563,441
153,660	18,849	172,509	-	172,509
-	-	25,000	-	25,000
-	-	134,228	(134,228)	-
<u>153,660</u>	<u>18,849</u>	<u>1,604,176</u>	<u>(843,226)</u>	<u>760,950</u>
20,000	179,585	1,063,133	-	1,063,133
3,020,605	1,360,646	12,332,766	(591,563)	11,741,203
142,362	50,541	745,069	-	745,069
<u>3,182,967</u>	<u>1,590,772</u>	<u>14,140,968</u>	<u>(591,563)</u>	<u>13,549,405</u>
<u>898,566</u>	<u>359,319</u>	<u>3,997,890</u>	<u>(136,703)</u>	<u>3,861,187</u>
<u>2,284,401</u>	<u>1,231,453</u>	<u>10,143,078</u>	<u>(454,860)</u>	<u>9,688,218</u>
32,179	-	32,179	-	32,179
9,167	4,680	13,847	-	13,847
<u>41,346</u>	<u>4,680</u>	<u>46,026</u>	<u>-</u>	<u>46,026</u>
<u>\$ 2,837,330</u>	<u>\$ 1,324,671</u>	<u>\$ 14,729,734</u>	<u>\$ (1,298,086)</u>	<u>\$ 13,431,648</u>

(Continued)

**Area Substance Abuse Council, Inc.
and Its Affiliates
Consolidating Statement of Financial Position (Continued)
June 30, 2013**

	ASAC	ASAC Housing Corporation
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts Payable	\$ 208,548	\$ 119,549
Accrued Vacation Pay	286,282	-
Accrued Expenses	11,781	-
Accrued Interest Payable	-	36,485
Tenants' Security Deposits	-	-
Current Maturities of Long-Term Debt	121,493	-
Total Current Liabilities	628,104	156,034
Long-Term Debt , Less Current Maturities Above	1,898,506	187,500
Total Liabilities	2,526,610	343,534
Net Assets		
Unrestricted:		
Undesignated and Controlling Interest	6,676,894	(43,127)
Board Designated for Endowment	25,000	-
Non-Controlling Interest of Affiliates	-	-
Total Unrestricted	6,701,894	(43,127)
Temporarily Restricted:		
Subsequent Years' Operations	1,037,754	-
Purpose Restricted	1,068	-
Total Temporarily Restricted	1,038,822	-
Total Net Assets	7,740,716	(43,127)
Total Liabilities and Net Assets	\$ 10,267,326	\$ 300,407

The Way Home, LLLP	N.D. Housing, LLLP	Total	Eliminations	Consolidated
\$ 90,094	\$ 51,109	\$ 469,300	\$ (242,601)	\$ 226,699
-	-	286,282	-	286,282
-	-	11,781	-	11,781
68,519	20,743	125,747	(78,897)	46,850
12,935	5,804	18,739	-	18,739
21,371	-	142,864	-	142,864
<u>192,919</u>	<u>77,656</u>	<u>1,054,713</u>	<u>(321,498)</u>	<u>733,215</u>
<u>1,353,127</u>	<u>500,000</u>	<u>3,939,133</u>	<u>(387,500)</u>	<u>3,551,633</u>
<u>1,546,046</u>	<u>577,656</u>	<u>4,993,846</u>	<u>(708,998)</u>	<u>4,284,848</u>
1,291,284	747,015	8,672,066	(2,586,722)	6,085,344
-	-	25,000	-	25,000
-	-	-	1,997,634	1,997,634
<u>1,291,284</u>	<u>747,015</u>	<u>8,697,066</u>	<u>(589,088)</u>	<u>8,107,978</u>
-	-	1,037,754	-	1,037,754
-	-	1,068	-	1,068
-	-	1,038,822	-	1,038,822
<u>1,291,284</u>	<u>747,015</u>	<u>9,735,888</u>	<u>(589,088)</u>	<u>9,146,800</u>
<u>\$ 2,837,330</u>	<u>\$ 1,324,671</u>	<u>\$ 14,729,734</u>	<u>\$ (1,298,086)</u>	<u>\$ 13,431,648</u>

**Area Substance Abuse Council, Inc.
and Its Affiliates
Consolidating Statement of Activities
For the Year Ended June 30, 2013**

	ASAC	ASAC Housing Corporation
Public Support and Revenue		
Iowa Department of Public Health:		
Prevention Programs	\$ 1,098,496	\$ -
Other Government Fees and Grants	847,531	-
Medicaid	2,893,628	-
Non-Medicaid	2,668,401	-
United Way	546,363	-
Donations	45,227	-
Donated Goods and Services	20,303	-
Client and Resident Fees	2,131,318	-
Contract Services	294,309	-
Interest	14,088	-
Interest in Net Loss of Affiliate	(6,592)	-
Other Revenue	65,487	-
	10,618,559	-
Expenses		
Program Services	9,836,934	-
Supporting Activities:		
Management and General	762,965	-
Fund Raising	28,967	-
Total Supporting Activities	791,932	-
Total Expenses	10,628,866	-
Change in Net Assets - ASAC	(10,307)	-
Activities of Affiliates		
Revenues	-	38,128
Expenses	-	(44,720)
Net (Loss) of Affiliates	-	(6,592)
Change in Net Assets	(10,307)	(6,592)
Net Assets, Beginning of Year	7,751,023	(36,535)
Total Net Assets, End of Year	\$ 7,740,716	\$ (43,127)

The Way Home, LLLP	N.D. Housing, LLLP	Total	Eliminations	Consolidated
\$ -	\$ -	\$ 1,098,496	\$ -	\$ 1,098,496
-	-	847,531	-	847,531
-	-	2,893,628	-	2,893,628
-	-	2,668,401	-	2,668,401
-	-	546,363	-	546,363
-	-	45,227	-	45,227
-	-	20,303	-	20,303
-	-	2,131,318	-	2,131,318
-	-	294,309	(68,651)	225,658
-	-	14,088	(13,709)	379
-	-	(6,592)	6,592	-
-	-	65,487	-	65,487
-	-	10,618,559	(75,768)	10,542,791
-	-	9,836,934	7,810	9,844,744
-	-	762,965	-	762,965
-	-	28,967	-	28,967
-	-	791,932	-	791,932
-	-	10,628,866	7,810	10,636,676
-	-	(10,307)	(83,578)	(93,885)
132,346	70,758	241,232	(25,825)	215,407
(283,488)	(130,346)	(458,554)	137,527	(321,027)
(151,142)	(59,588)	(217,322)	111,702	(105,620)
(151,142)	(59,588)	(227,629)	28,124	(199,505)
1,442,426	806,603	9,963,517	(617,212)	9,346,305
\$ 1,291,284	\$ 747,015	\$ 9,735,888	\$ (589,088)	\$ 9,146,800

**Area Substance Abuse Council, Inc.
and Its Affiliates
Schedule of Revenue and Expenses - I.D.P.H. Contracts
For the Year Ended June 30, 2013**

	Comprehensive Prevention 5883CP06	Clinton Comprehensive Prevention 5883CP08	Tobacco Community Partnerships 5883TS28	Multi- Cultural 5883CP45	Youth Development 5883YM56	SPF/SIG
Revenue						
Iowa Department of Public Health	\$ 263,937	\$ 56,405	\$ 207,007	\$ 120,500	\$ 53,050	\$ 313,730
Other Government Fees and Grants	-	5,500	-	200	-	-
Medicaid	-	-	-	29,755	-	-
United Way	87,152	-	-	-	6,700	-
Donations	20,992	-	-	-	-	-
Insurance	-	-	-	17,925	-	-
Client and Resident Fees	-	-	-	3,794	-	-
Total Revenue	372,081	61,905	207,007	172,174	59,750	313,730
Expenses						
Salaries	240,198	45,955	124,926	92,052	37,332	179,173
Fringe Benefits	80,280	22,369	47,216	16,387	16,114	72,142
Contracted Services	1,509	295	6,192	11,703	263	12,084
Supplies and Office Expenses	6,622	2,265	2,510	2,565	568	12,129
Telephone	677	417	1,276	10	360	-
Occupancy	10,398	(1,516)	8,635	22,965	3,130	9,131
Staff Training and Education	2,990	400	819	394	-	1,841
Travel	9,046	1,310	4,914	533	116	5,986
Equipment Maintenance and Rental	585	40	-	-	-	-
Insurance	1,706	228	497	335	159	735
Depreciation	13,889	-	-	-	-	-
Other	23	-	-	2,664	-	184
Total Expenses	367,923	71,763	196,985	149,608	58,042	293,405
Excess (Deficit) of Revenue over (under) Expenses	4,158	(9,858)	10,022	22,566	1,708	20,325
Indirect Expense Allocation	28,475	5,554	15,245	11,579	4,492	22,708
Net	\$ (24,317)	\$ (15,412)	\$ (5,223)	\$ 10,987	\$ (2,784)	\$ (2,383)

**Area Substance Abuse Council, Inc.
and Its Affiliates
Schedule of Revenue and Expenses - Other Contracts
For the Year Ended June 30, 2013**

	Linn County JAG	Benton DFC	Rural Linn DFC	Jones DFC	Jones DFC Match	Total
Revenue						
Other Government Fees and Grants	\$ 37,618	\$ 62,229	\$ 11,983	\$ 119,799	\$ -	\$ 231,629
Client and Resident Fees	-	-	-	-	523	523
Medicaid	-	-	-	-	3,860	3,860
United Way	12,960	9,505	-	-	20,383	42,848
Insurance	-	-	-	-	5,210	5,210
Total Revenue	50,578	71,734	11,983	119,799	29,976	284,070
Expenses						
Salaries	40,793	56,123	11,979	58,554	18,839	186,288
Fringe Benefits	5,324	13,024	3,261	23,800	7,640	53,049
Contracted Services	223	149	146	7,859	61	8,438
Supplies and Office Expenses	2,531	227	21	4,330	144	7,253
Telephone	94	-	-	1,329	-	1,423
Occupancy	-	600	150	6,590	-	7,340
Staff Training and Education	24	310	-	2,413	-	2,747
Travel	332	2,203	194	6,938	1,463	11,130
Insurance	123	184	77	451	-	835
Other	-	-	-	4,720	-	4,720
Total Expenses	49,444	72,820	15,828	116,984	28,147	283,223
Excess (Deficit) of Revenue over (under) Expenses	1,134	(1,086)	(3,845)	2,815	1,829	847
Indirect Expense Allocation	3,827	5,636	1,225	9,054	2,178	21,920
Net	\$ (2,693)	\$ (6,722)	\$ (5,070)	\$ (6,239)	\$ (349)	\$ (21,073)

**Area Substance Abuse Council, Inc.
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013**

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	\$ 37,671
Jones County Safe and Healthy Youth Coalition	93.276	5H79SP014744-05	82,128
Total CFDA # 93.276			<u>119,799</u>
Passed through Iowa Department of Public Health:			
Substance Abuse Prevention and Treatment Block Grant Program:			
Strategic Prevention Framework State Incentive	93.243	5883CP06	229,302
Strategic Prevention Framework State Incentive	93.243	5883CP08	84,428
Strategic Prevention Framework State Incentive	93.243	5883IP02	28,200
Total CFDA # 93.243			<u>341,930</u>
Passed through Iowa Department of Public Health:			
Substance Abuse Prevention and Treatment:			
Access to Recovery	93.275	5881AC28	<u>55,667</u>
Passed through Magellan Behavioral Care of Iowa:			
Substance Abuse Prevention and Treatment Block Grant Program:			
Behavioral Care	93.959	N/A	721,958
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	5883CP06	250,048
Comprehensive Prevention	93.959	5883CP08	49,594
Total CFDA # 93.959			<u>1,390,770</u>
Total U.S. Department of Health and Human Services			<u>1,908,166</u>
U.S. Department of Housing and Urban Development:			
Direct Awards:			
Emergency Shelter Grants Program	14.231	2012	7,172
Emergency Shelter Grants Program	14.231	2012	3,271
Emergency Shelter Grants Program	14.231	2012	8,186
Emergency Shelter Grants Program	14.231	57001-13	63,377
Total CFDA # 14.231			<u>82,006</u>

Area Substance Abuse Council, Inc.
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2013

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	IA0009L7D011205	37,010
McKinney Vento Homeless Assistance Act	14.235	IA0009B7D011104	68,753
Total CFDA # 14.235			105,763
Passed through City of Clinton:			
Community Development Block Grant	14.218	10-CF-004-09	6,350
Total U.S. Department of Housing and Urban Development			194,119
U.S. Department of Agriculture			
Passed through Iowa Department of Education:			
Breakfast Program	10.553	N/A	9,611
National School Lunch Program	10.555	N/A	13,599
Snack Program	10.555	N/A	3,433
Total Cluster CFDA # 10.553 and CFDA # 10.555			26,643
Child and Adult Care Food Program	10.558	578051	8,495
Food Distribution Program (Commodities)	10.550	N/A	385
Total U.S. Department of Agriculture			35,523
U.S. Department of Justice			
Passed through the Office of Drug Control Policy			
Linn County Outpatient Substance Abuse Services	16.738	10JAG-42798	37,618
Total Federal Expenditures			\$ 2,175,426

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, 2013. In addition, there were no non-cash assistance, insurance, loans or loan guarantees outstanding as of and for the year ended June 30, 2013.

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, 2013, and have issued our report thereon dated December 12, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Area Substance Abuse Council, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Area Substance Abuse Council, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the 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.

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.

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.

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*.

Restricted Use

The purpose of this report is solely 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 effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose.

HONKAMP KRUEGER & CO., P.C.

A handwritten signature in black ink that reads "Honkamp Krueger & Co." in a cursive style.

Dubuque, Iowa
December 12, 2013



Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on 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

Report on Compliance for Each Major Federal Program

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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. 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.

Management's Responsibility

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.

Auditor's Responsibility

Our responsibility is to express an opinion on the Area Substance Abuse Council, Inc.'s compliance with the applicable compliance requirements based on our compliance audit.

We conducted our compliance audit 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and Circular A-133 require that we plan and perform the compliance 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. A compliance 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 compliance audit provides a reasonable basis for our opinion. Our compliance audit does not provide a legal determination of the Area Substance Abuse Council, Inc.'s compliance with those requirements.

Opinion

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, 2013.

Internal Control over Compliance

The 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 compliance 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 as a basis for designing our compliance auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of Area Substance Abuse Council, Inc.'s internal control over compliance.

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.

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

Restricted Use

The purpose of this report is solely for the information and use of management, the Board of Directors, and others within the Council, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this report is not suitable for any other purpose 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 12, 2013

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

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2013**

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. No significant deficiencies or material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.
- e. An unqualified opinion was issued on compliance with requirements applicable to major programs.
- f. The audit disclosed no 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 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. does not qualify as a low-risk auditee.

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
Year Ended June 30, 2013**

Part III. Federal Awards Findings

There were no findings and questioned costs for federal awards.



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

We have audited the consolidated financial statements of the Area Substance Abuse Council, Inc. (the Council) and Its Affiliates as of and for the year ended June 30, 2013, and have issued our report thereon dated December 12, 2013. 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 May 31, 2013, 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 and its Affiliates 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.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

In order to ensure Honkamp Krueger & Co., P.C. has met the ethical requirements regarding independence the following procedures are in place:

- Prior to beginning an engagement, all services provided to the Council or its Affiliates are reviewed.
- On an annual basis all employees of Honkamp Krueger & Co., P.C. complete an independence representation form.
- Honkamp Krueger & Co., P.C. reviews the administrative files in order to determine if any legal issues or outstanding balances exist with the Council or its Affiliates.

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 the 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 fiscal 2013. 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 consolidated financial statements are the allowance for doubtful accounts, contributed lease receivable and related discount to present value and the estimated useful lives of property and equipment.

Management's estimate of an allowance for doubtful accounts is based on historical trends and review of current receivable aging reports. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the consolidated financial statements taken as a whole.

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 7 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 14 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 12, 2013 (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 the 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.

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

Dubuque, Iowa
December 12, 2013

asac
AREA SUBSTANCE
ABUSE COUNCIL

Phone: (319) 390-4611
Fax: (319) 390-4381
3601 16th Avenue S.W.
Cedar Rapids, IA 52404
www.asac.us

December 12, 2013

Honkamp Krueger & Co., P.C.
2345 John F. Kennedy Rd
Dubuque, IA 52002

This representation letter is provided in connection with your audit of the consolidated financial statements of the Area Substance Abuse Council, Inc. and its Affiliates which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, for the purpose of expressing an opinion on whether the consolidated financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm that to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of December 12, 2013:

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated May 31, 2013, for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. GAAP.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
- We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
- All events subsequent to the date of the consolidated financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
- The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

- With regard to items reported at fair value:
 - The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
 - The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
 - The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
 - There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the consolidated financial statements.
- All assets and liabilities under the entity's control are included in the consolidated financial statements.
- Net assets presented in the consolidated statements of financial position are appropriately classified, and reclassifications between net asset classes are appropriate.
- We have maintained the composition of the entity's assets in amounts needed to comply with all donor restrictions.
- The entity's disclosed tax exempt status is accurate.
- The basis used for the allocation of functional expenses is reasonable.
- Internal controls over the receipt and recording of contributions are adequate.

Information Provided

- We have provided you with:
 - Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the consolidated financial statements, such as records, documentation, meeting minutes, and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the consolidated financial statements.
- We have disclosed to you the results of our assessment of the risk that the consolidated financial statements may be materially misstated as a result of fraud.
- We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others when the fraud could have a material effect on the consolidated financial statements.

- We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's consolidated financial statements communicated by employees, former employees, analysts, regulators, or others.
- We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing consolidated financial statements.
- We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the consolidated financial statements and we have not consulted legal counsel concerning litigation or claims.
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
- There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
- The Area Substance Abuse Council, Inc. and its Affiliates as no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
- We have disclosed to you all guarantees, whether written or oral, under which the Area Substance Abuse Council, Inc. and its Affiliates are contingently liable.
- We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on consolidated financial statement amounts.
- There are no:
 - Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the consolidated financial statements or as a basis for recording a loss contingency.
 - Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with FASB Accounting Standards Codification TM (ASC) 450, Contingencies.
 - Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by ASC-450.
- The 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 have any asset or future revenue been pledged as collateral, except as disclosed to you.
- We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the consolidated financial statements in the event of noncompliance.
- With respect to the supplementary information accompanying the consolidated financial statements:
 - We acknowledge our responsibility for the presentation of the supplementary information in accordance with U.S. GAAP and criteria established by the State of Iowa.

- We believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP and criteria established by the State of Iowa.
- The methods of measurement or presentation have not changed from those used in the prior period.
- We believe significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.
- When the supplementary information is not presented with the audited consolidated financial statements, management will make the audited consolidated financial statements readily available to the intended users of the supplementary information no later than the date of issuance by the entity of the supplementary information and the auditor's report thereon.

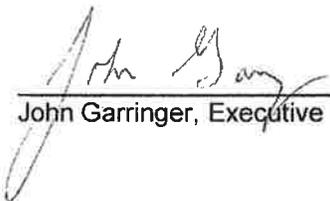
OMB Circular A-133

- With respect to federal awards, we represent the following to you:
 - We are responsible for understanding and complying with and have complied with the requirements of Circular A-133.
 - We are responsible for the preparation and presentation of the schedule of expenditures of federal awards in accordance with Circular A-133.
 - We believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with Circular A-133.
 - The methods of measurement or presentation have not changed from those used in the prior period.
 - We believe significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.
 - We are responsible for including the auditor's report on the schedule of expenditures of federal awards in any document that contains the schedule and that indicates that the auditor has reported on such information.
 - We have, in accordance with Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, food commodities, direct appropriations, and other assistance.
 - We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program; and we have complied, in all material respects, with these requirements.

- We have provided to you our interpretations of any compliance requirements that have varying interpretations.
- We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal programs that provide reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies, including material weaknesses, reported in the schedule of findings and questioned costs.
- We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to federal programs.
- The reports provided to the auditor are true copies of the reports submitted or electronically transmitted to the federal awarding agency.
- We have received no requests from a federal agency to audit one or more specific programs as a major program.
- We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews. We also know of no instances of noncompliance occurring subsequent to the end of the period audited.
- We have charged costs to federal awards in accordance with applicable cost principles, including amounts claimed or used for matching determined in accordance with relevant guidelines in the U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Tribal Governments, and the U.S. Office of Management and Budget's, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.¹⁰
- We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared (and are prepared on a basis consistent with the schedule of expenditures of federal awards).
- The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
- We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by Circular A-133, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.

- We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- We are responsible for and have accurately completed the appropriate sections of the Data Collection Form as required by Circular A-133, and we are responsible for preparing and implementing a correction action plan for each audit finding.
- We have disclosed all contracts or other agreements with service organizations and disclosed to you all communications from these service organizations relating to noncompliance at the organizations.
- We have reviewed, approved, and taken responsibility for the financial statements and related notes and an acknowledgment of the auditor's role in the preparation of this information.
- We have reviewed, approved, and taken responsibility for accrual adjustments and an acknowledgment of the auditor's role in the preparation of the adjustments.
- We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.

Area Substance Abuse Council, Inc.



John Garringer, Executive Director

12/16/2013

Date

Client: **12970 - Area Substance Abuse Council, Inc.**
Engagement: **12970 - Area Substance Abuse Council, Inc.**
Period Ending: **6/30/2013**
Trial Balance: **3000. - Trial Balance Database**
Workpaper: **3600 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 2		8306.4 & 8307.4		
to adjust revenues to reflect FY13 incentives to be received in FY14 (provided by Client, entry made)				
045-00	Accounts Receivable		600.00	
401-00	PREVENTION			600.00
Total			<u>600.00</u>	<u>600.00</u>
Adjusting Journal Entries JE # 3		4203.1		
to record in-kind rent revenue				
543-97	RENT:SO		14,533.12	
440-97	INKIND:SO OP			14,533.12
Total			<u>14,533.12</u>	<u>14,533.12</u>
Adjusting Journal Entries JE # 5		8530		
To record CY Net Loss in investments in ASAC Housing Corp				
270-00	Investment in ASAC Housing Corp		185.07	
470-00	Loss of Affiliate		6,592.40	
580-32	MISCELLANEOUS: MANAG			6,777.47
Total			<u>6,777.47</u>	<u>6,777.47</u>
Adjusting Journal Entries JE # 6		4201		
to adjust receivable to actual				
412-40	CLIENT FEES - LINN OP		1,641.23	
412-41	CLIENT FEES INSURANCE: EAST		8,484.64	
412-60	CLIENT FEES INSURANCE - BENTON		4,247.53	
412-65	CLIENT FEES INSURANCE-MINORITY		2,287.31	
412-70	CLIENT FEES INSURANCE-JONES		11,474.40	
412-75	CLIENT FEES:JDFC		1,741.00	
412-89	CLIENT FEES INSURANCE-HALFWAY		20,648.81	
412-90	CLIENT FEES INSURANCE - ADULT		42,261.13	
412-91	CLIENT FEES INSURANCE-YTH RES		146,893.98	
412-92	CLIENT FEES INSURANCE -DDRC		20,674.90	
412-96	CLIENT FEES INSURANCE - YTH OP		5,120.41	
412-97	CLIENT FEES INSURANCE:SO		10,590.47	
412-98	CLIENT FEES INSURANCE- OWI		1,055.00	
045-00	Accounts Receivable			261,148.67
412-42	CLIENT FEES INSR -CLINTON OP			4,592.88
412-80	CLIENT FEES INSURANCE-JACKSON			1,613.88
412-85	CLIENT FEES -			5,875.65

Client: **12970 - Area Substance Abuse Council, Inc.**
Engagement: **12970 - Area Substance Abuse Council, Inc.**
Period Ending: **6/30/2013**
Trial Balance: **3000. - Trial Balance Database**
Workpaper: **3600 - Adjusting Journal Entries Report**

Account	Description	W/P Ref	Debit	Credit
412-93	CLIENT FEES INSURANCE-WOMEN			1,935.65
412-99	CLIENT FEES INSURANCE: Drug Court			1,954.08
Total			277,120.81	277,120.81

Adjusting Journal Entries JE # 7**4202**

To adjust AR to actual for Wellmark check received

045-00	Accounts Receivable		404,796.79	
523-91	CONTRACT SERVICES: YOUTH		77,266.17	
201-00	ACCTS PAYBL FRM FISCAL YEAREND			77,266.17
412-40	CLIENT FEES - LINN OP			52,144.45
412-41	CLIENT FEES INSURANCE: EAST			21,261.42
412-42	CLIENT FEES INSR -CLINTON OP			12,371.28
412-60	CLIENT FEES INSURANCE - BENTON			4,386.76
412-65	CLIENT FEES INSURANCE-MINORITY			1,220.86
412-70	CLIENT FEES INSURANCE-JONES			17,323.01
412-80	CLIENT FEES INSURANCE-JACKSON			6,187.94
412-85	CLIENT FEES -			5,172.76
412-89	CLIENT FEES INSURANCE-HALFWAY			9,879.57
412-90	CLIENT FEES INSURANCE - ADULT			6,677.78
412-91	CLIENT FEES INSURANCE-YTH RES			170,264.14
412-92	CLIENT FEES INSURANCE -DDRC			35,513.32
412-93	CLIENT FEES INSURANCE-WOMEN			21,169.16
412-96	CLIENT FEES INSURANCE - YTH OP			28,217.79
412-97	CLIENT FEES INSURANCE:SO			6,709.26
412-99	CLIENT FEES INSURANCE: Drug Court			6,297.29
Total			482,062.96	482,062.96



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 the Area Substance Abuse Council, Inc. (the Council) and its Affiliates, as of and for the year ended June 30, 2013, 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.

Honkamp Krueger & Co.

Dubuque, Iowa
December 12, 2013