PRAIRIE RIDGE ADDICTION TREATMENT SERVICES

MASON CITY, IOWA

JUNE 30, 2014

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Board of Directors

Name	Title	Term Expires
Pam Wymore	President	October, 2014
Joel Voaklander	Vice-President	October, 2014
Laura Cerny	Secretary	October, 2014
Steve Wolfe	Treasurer	October, 2014
Willie Wubben	Member	October, 2014
Betty McCarthy	Member	October, 2014
Phil Dougherty	Member	October, 2014
Dan Barrett	Member	October, 2014
Don Christensen	Member	October, 2014
JoEllen Steil	Member	October, 2014
John Lander	Member	October, 2014
Tom Martin	Member	October, 2014
Jay Hansen	Executive Director	Indefinite

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Independent Auditor's Report

Board of Directors
Prairie Ridge Addiction Treatment Services
Mason City, Iowa

Report on the Financial Statements
We have audited the accompanying statements of financial position of Prairie Ridge Addiction Treatment Services as of June 30, 2014 and 2013, and the related 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 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 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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the 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 Organization'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 financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Prairie Ridge Addiction Treatment Services as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014 on our consideration of Prairie Ridge Addiction Treatment Services' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Prairie Ridge Addiction Treatment Services' internal control over financial reporting and compliance.

Other Matters

Supplementary Information

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

Hogan - Hansen

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Mason City, Iowa
November 25, 2014

Statements of Financial Position

As of June 30, 2014 and 2013

	2014	2013
Assets		
Cash	$ 1,537,248	$ 2,054,733
Receivables		
Client accounts (net of allowance for uncollectible accounts 2014 - $177,213; 2013 - $208,391)	650,254	562,835
Grants	13,739	21,996
Accrued investment income	634	350
Certificates of deposit	400,781	200,000
Investments	13,083,834	10,987,846
Prepaid expenses	15,988	16,292
Property, equipment and improvements (net of accumulated depreciation 2014 - $2,308,524; 2013 - $2,197,708)	2,522,801	2,358,322
Cash restricted for state unemployment trust	27,979	24,631
Total Assets	**$ 18,253,258**	**$ 16,227,005**
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 42,841	$ 82,437
Accrued Expenses		
Salaries, wages and bonuses	55,514	135,730
Compensated absences	80,403	94,962
Payroll taxes and employee benefits	36,631	31,042
Retirement plan contribution	72,277	62,954
Total Liabilities	**287,666**	**407,125**
Net Assets		
Unrestricted	**17,965,592**	**15,819,880**
Total Liabilities and Net Assets	**$ 18,253,258**	**$ 16,227,005**

Statements of Activities

Years Ended June 30, 2014 and 2013

	Unrestricted	
	2014	2013
Revenue, Gains and Other Support		
Private and government grants	$ 2,064,108	$ 1,865,292
Client fees	2,182,332	1,897,728
Contract services	17,166	28,736
Contributions	6,229	4,623
Investment income (net of expense 2014 - $19,866; 2013 - $20,684)	333,559	209,845
Net realized gain on investment transactions	240,882	70,718
Net unrealized gain on investments	1,322,063	781,643
Loss on disposal of equipment	—	(10,425)
Other	62,804	18,580
Total Revenue, Gains and Other Support	**6,229,143**	**4,866,740**
Functional Expenses		
Program Services		
Outpatient	1,511,501	1,354,100
Residential	1,269,138	1,203,063
Total Program Services	2,780,639	2,557,163
Administrative Support Activities		
Management and general	1,302,792	1,156,804
Total Functional Expenses	**4,083,431**	**3,713,967**
Change in Net Assets for the Year	**2,145,712**	**1,152,773**
Net Assets - Beginning of Year	15,819,880	14,667,107
Net Assets - End of Year	**$ 17,965,592**	**$ 15,819,880**

Statement of Functional Expenses

Year Ended June 30, 2014

	Program Services			Administrative Support Services	
	Outpatient	Residential	Total Program Services	Management and General	Total
Salaries and Related Expenses					
Salaries	$ 1,040,312	$ 653,311	$ 1,693,623	$ 535,182	$ 2,228,805
Payroll taxes and worker's compensation insurance	13,812	9,325	23,137	176,481	199,618
Employee health and retirement benefits	110,873	67,161	178,034	54,166	232,200
Total Salaries and Related Expenses	1,164,997	729,797	1,894,794	765,829	2,660,623
Contracted services	10,745	30,140	40,885	104,403	145,288
Client medical and lab fees	45,331	23,232	68,563	—	68,563
Supplies					
Office	8,491	1,839	10,330	24,268	34,598
Food	—	138,895	138,895	—	138,895
Subscriptions and materials	18,225	45,773	63,998	18,983	82,981
Postage	79	—	79	6,874	6,953
Occupancy					
Rent	18,080	32,400	50,480	1	50,481
Laundry	—	10,645	10,645	—	10,645
Utilities	22,710	40,830	63,540	17,519	81,059
Insurance	7,168	8,969	16,137	9,893	26,030
Telephone	12,424	5,322	17,746	7,423	25,169
Travel and training	28,803	5,886	34,689	39,133	73,822
Repairs and maintenance	4,995	15,945	20,940	65,964	86,904
Expendable equipment	4,517	4,094	8,611	15,811	24,422
Other	66,053	4,120	70,173	72,524	142,697
Depreciation	36,286	88,931	125,217	154,167	279,384
Bad debts and allowances	62,597	82,320	144,917	—	144,917
Total Expenses	**$ 1,511,501**	**$ 1,269,138**	**$ 2,780,639**	**$ 1,302,792**	**$ 4,083,431**

Statement of Functional Expenses

Year Ended June 30, 2013

	Program Services			Administrative Support Services	
	Outpatient	Residential	Total Program Services	Management and General	Total
Salaries and Related Expenses					
Salaries	$ 907,688	$ 671,953	$ 1,579,641	$ 478,714	$ 2,058,355
Payroll taxes and worker's compensation insurance	18,466	13,304	31,770	157,789	189,559
Employee health and retirement benefits	125,294	86,078	211,372	71,170	282,542
Total Salaries and Related Expenses	1,051,448	771,335	1,822,783	707,673	2,530,456
Contracted services	14,483	9,261	23,744	90,574	114,318
Client medical and lab fees	41,922	25,566	67,488	—	67,488
Supplies					
Office	7,076	3,309	10,385	39,655	50,040
Food	—	127,028	127,028	7,394	134,422
Subscriptions and materials	20,302	41,380	61,682	18,747	80,429
Postage	25	55	80	5,623	5,703
Occupancy					
Rent	17,840	29,700	47,540	1	47,541
Laundry	—	11,775	11,775	—	11,775
Utilities	21,550	37,577	59,127	14,500	73,627
Insurance	6,654	10,198	16,852	11,332	28,184
Telephone	9,544	5,561	15,105	7,396	22,501
Travel and training	38,109	10,699	48,808	19,650	68,458
Repairs and maintenance	6,604	17,129	23,733	58,241	81,974
Expendable equipment	11,571	5,576	17,147	5,024	22,171
Other	18,855	2,371	21,226	64,993	86,219
Depreciation	34,704	68,259	102,963	106,001	208,964
Bad debts and allowances	53,413	26,284	79,697	—	79,697
Total Expenses	**$ 1,354,100**	**$ 1,203,063**	**$ 2,557,163**	**$ 1,156,804**	**$ 3,713,967**

Statements of Cash Flows

Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	$ 2,145,712	$ 1,152,773
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	279,384	208,964
Net investment income reinvested	(322,573)	(191,916)
Net realized gain on investment transactions	(240,882)	(70,718)
Net unrealized gain on investments	(1,322,063)	(781,643)
Loss on disposal of equipment	—	10,425
Interest income added to certificates of deposit	(781)	—
Bad debts and provision for uncollectible accounts	144,917	79,697
Change in Assets and Liabilities		
Increase in receivables	(224,363)	(118,586)
(Increase) decrease in prepaid expenses	304	(10,810)
Increase (decrease) in accounts payable	(39,596)	13,536
Increase (decrease) in accrued expenses	(79,863)	96,530
Net Cash Provided by Operating Activities	**340,196**	**388,252**
Cash Flows From Investing Activities		
Payment for purchase of property, equipment and improvements	(443,863)	(576,864)
Proceeds from sale of investments	1,646,575	1,380,007
Proceeds from maturities of certificates of deposit	301,270	300,048
Purchase of investments	(1,857,045)	(2,978,560)
Purchase of certificates of deposit	(501,270)	(200,000)
Net Cash Used in Investing Activities	**(854,333)**	**(2,075,369)**
Net Decrease in Cash	**(514,137)**	**(1,687,117)**
Cash at Beginning of Year	2,079,364	3,766,481
Cash at End of Year	**$ 1,565,227**	**$ 2,079,364**

See accompanying notes to the financial statements.

(1) Summary of Significant Accounting Policies and Other Matters

Nature of Activities

Prairie Ridge Addiction Treatment Services is an Iowa nonprofit organization which provides education and counseling for substance abusers and their families and residential care services for substance abusers. Services are open to admissions on a statewide basis but the Organization primarily serves the eight-county area surrounding Mason City, Iowa. Prairie Ridge Addiction Treatment Services extends credit to clients based on an ability to pay and collects whenever possible. Public support is also solicited from the counties served by the Organization and from state and federal agencies.

Basis of Presentation

Financial statement presentation follows the recommendations of the American Institute of Certified Public Accountant's Audit and Accounting Guide, *Not-For-Profit Organizations* (Guide). The Guide requires the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets.

Concentrations

Investments which potentially subject the Organization to credit risk include common stocks and mutual funds held through American Funds and Alliance Bernstein that amounted to $13,083,834 and $10,987,846 as of June 30, 2014 and 2013, respectively.

The maximum potential credit loss to the Organization is limited to total investments and any related accrued investment income receivable as shown on the accompanying statements of financial position. It is management's belief that the credit risk related to these assets is minimal.

The Organization received approximately 27% and 34% of its revenue from federal and state grants during the years ended June 30, 2014 and 2013, respectively.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported public support, revenue and expenses.

Certain fee revenue is reported at amounts billed to clients, third-party insurance companies and Medicaid and includes estimated revenue adjustments due to future insurance and Medicaid settlements. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such insurance and Medicaid settlements.

Cash Management

As part of its normal banking practices, the Organization makes deposits in a financial institution which may exceed the limits provided by federal depository insurance. As of June 30, 2014, $1,458,788 of such deposits, as reflected on the financial institution's records, exceeded the insured limits.

(1) Summary of Significant Accounting Policies and Other Matters

Client Accounts and Grants Receivable

Client accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Payment of invoices is due within 30 days of the invoice date, otherwise the amounts are deemed past due. The Organization does not impose a finance charge on invoices that remain unpaid after the due date.

Contributions

Contributions are recognized when the donor makes an unconditional promise to give and are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence of any donor restrictions. The Organization records contributions received as increases in the appropriate net asset category as follows:

Unrestricted Net Assets - Contributions that are not subject to donor-imposed stipulations or that have restrictions which expire in the fiscal year in which the contributions are received and have not been appropriated by the Board of Directors.

Temporarily Restricted Net Assets - Contributions for which donor-imposed restrictions have not been met by the passage of time or performance.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

Property, Equipment and Improvements

Property, equipment and improvements are capitalized at cost if purchased, or at fair value as of the date of the gift if donated, with depreciation computed under the straight-line method over estimated useful lives as follows:

Type	Estimated Useful Lives
Land and improvements	5 - 15 Years
Building and improvements	15 - 31.5 Years
Furniture, fixtures and equipment	5 - 15 Years
Automobiles	5 Years

Depreciation expense for the years ended June 30, 2014 and 2013 was $279,384 and $208,964, respectively.

(1) Summary of Significant Accounting Policies and Other Matters

Donated Resources

Donated materials, land, buildings, equipment and investments are recorded as unrestricted support at their fair value when received unless explicit donor stipulations specify how the donated assets must be used. There were no such donations during the years ended June 30, 2014 and 2013.

Functional Allocation of Expenses

The costs of providing the various programs and other activities has been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Organization is exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and, accordingly, no provision for income taxes is reflected in the financial statements.

Management annually makes an appropriate evaluation of any uncertain income tax positions based upon current statutes in completing these financial statements and the notes to the financial statements. As of June 30, 2014, management believes that there were no uncertain income tax positions for which a material change in the unrecognized effect would be reasonably possible within the next 12 months. The open years for audit of the Organization's Form 990 are 2011-2014.

Subsequent Events

Management has evaluated subsequent events through November 25, 2014, the date which the financial statements were available to be issued.

(2) Cash Flow Statement Supplementary Information

For purposes of the statements of cash flows, except as described in the following sentence, the Organization considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. The Organization has excluded its brokerage money market accounts from items classified as cash equivalents.

Cash and cash equivalents are classified as follows:

	2014	**2013**
Unrestricted	$ 1,537,248	$ 2,054,733
Restricted for state unemployment trust	27,979	24,631
Total	**$ 1,565,227**	**$ 2,079,364**

(3) Summary of Investments

Investments are stated at fair value and are summarized as follows as of June 30:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
2014			
Money market	$ 28,167	$ 28,167	$ —
Common stocks and equity mutual funds	8,704,556	10,937,940	2,233,384
Fixed income mutual funds	2,100,359	2,117,727	17,368
	$ 10,833,082	**$ 13,083,834**	**$ 2,250,752**
2013			
Money market	$ 29,405	$ 29,405	$ —
Common stocks and equity mutual funds	7,331,099	8,286,658	955,559
Fixed income mutual funds	2,698,653	2,671,783	(26,870)
	$ 10,059,157	**$ 10,987,846**	**$ 928,689**

The Organization's financial assets carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by the Financial Accounting Standards Board's Accounting Standards Codification for fair value measurements. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's classification is based on the lowest level input that is significant to its measurement. The Organization's common stocks and mutual funds are valued using Level 1 inputs which consist of unadjusted quoted prices in active markets for identical assets. The Organization has no assets which are valued using Level 2 or 3 inputs. Gains and losses (realized and unrealized) on investments are reported on separate lines in the statements of activities.

Investment income and gains not subject to external restrictions or that have restrictions which expire in the fiscal year earned are recorded as unrestricted revenue.

The following schedule summarizes the investment return and its classification in the statements of activities for the years ended June 30, 2014 and 2013:

	Unrestricted	
	2014	**2013**
Interest and dividend income (net of expense)	$ 333,559	$ 209,845
Net realized and unrealized gains and losses	1,562,945	852,361
	$ 1,896,504	**$ 1,062,206**

(4) Summary of Property, Equipment and Improvements

	2014	2013
Land and improvements	$ 565,442	$ 466,534
Building and improvements	3,144,459	3,112,288
Furniture, fixtures and equipment	1,065,527	921,311
Automobiles	55,897	55,897
Total	4,831,325	4,556,030
Less accumulated depreciation	(2,308,524)	(2,197,708)
Net Property, Equipment and Improvements	**$ 2,522,801**	**$ 2,358,322**

(5) Operating Leases

The Organization conducts its Mason City, Charles City and Forest City treatment and administrative activities from facilities leased under operating leases which are month to month or year to year. The Organization conducts activities in the Algona location from facilities leased under an operating lease expiring September, 2018.

In addition, the Organization leases 18 acres of land under an operating lease for $1.00 per year expiring December, 2089. The entire lease has been prepaid.

Rental expense for all operating leases totaled $50,481 and $47,541 for the years ended June 30, 2014 and 2013, respectively.

The following is a schedule by years of future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2014:

Year Ending June 30,	
2015	$ 6,870
2016	7,050
2017	7,230
2018	7,410
2019	7,590
2020	1,270
Total Minimum Payments Required	**$ 37,420**

(6) Retirement Plan

The Organization has committed to a savings and profit sharing plan under Section 401(k) of the Internal Revenue Code, covering substantially all employees. The plan allows employees to defer income on a pretax basis through contributions to the plan up to the maximum permitted by law. Matching contributions may be made at the discretion of the Board of Directors.

Total contributions to the plan were $117,296 and $104,579 for the years ended June 30, 2014 and 2013, respectively.

Supplementary Information

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services			
Indirect			
Pass-Through From Iowa Department of Public Health			
Substance Abuse and Mental Health Services -			
Projects of Regional and National Significance	93.243	5884SA50	$ 138,314
Block Grants for Prevention and Treatment of			
Substance Abuse			
Comprehensive Treatment Program	93.959	122456-000	624,161
Comprehensive Substance Abuse Prevention ...	93.959	5884CP07	105,083
Total Block Grants for Prevention and			
Treatment of Substance Abuse			729,244
Total			**$ 867,558**

Note 1. Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of Prairie Ridge Addiction Treatment Services and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*.

Note 2. Subrecipients

Prairie Ridge Addiction Treatment Services provided no federal awards to subrecipients.

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

Board of Directors
Prairie Ridge Addiction Treatment Services
Mason City, Iowa

We have audited, in accordance with the 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, the financial statements of Prairie Ridge Addiction Treatment Services (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 25, 2014.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered Prairie Ridge Addiction Treatment Services' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Prairie Ridge Addiction Treatment Services' internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying schedule of findings and questioned costs as items 14-II-R-1 and 14-II-R-2 to be material weaknesses.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Prairie Ridge Addiction Treatment Services' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Prairie Ridge Addiction Treatment Services' Response to Findings
Prairie Ridge Addiction Treatment Services' response to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. While we have expressed our conclusions on the Organization's responses, we did not audit Prairie Ridge Addiction Treatment Services' responses and, accordingly, we express no opinion on them.

Purpose of This Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing* Standards in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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Mason City, Iowa
November 25, 2014

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Independent Auditor's Report on Compliance for the Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133

Board of Directors
Prairie Ridge Addiction Treatment Services
Mason City, Iowa

Report on Compliance for Each Major Federal Program
We have audited Prairie Ridge Addiction Treatment Services' compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on Prairie Ridge Addiction Treatment Services' major federal program for the year ended June 30, 2014. Prairie Ridge Addiction Treatment Services' major federal program is identified in Part I of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for Prairie Ridge Addiction Treatment Services' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Prairie Ridge Addiction Treatment Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Prairie Ridge Addiction Treatment Services' compliance.

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Opinion on the Major Federal Program

In our opinion, Prairie Ridge Addiction Treatment Services complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program identified in Part I of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Prairie Ridge Addiction Treatment Services is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Prairie Ridge Addiction Treatment Services' internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Prairie Ridge Addiction Treatment Services' internal control over compliance.

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

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 weaknesses in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in Part III of the accompanying schedule of findings and questioned costs as item 14-III-R-1 to be a material weakness.

Prairie Ridge Addiction Treatment Services' response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Prairie Ridge Addiction Treatment Services' response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hogan - Hansen

HOGAN - HANSEN

Mason City, Iowa
November 25, 2014

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Part I: Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness identified?	X yes	__ no
Significant deficiencies identified not considered to be material weaknesses?	__ yes	X none reported
Noncompliance material to financial statements noted?	__ yes	X no

Federal Awards

Internal control over major programs:		
Material weakness identified?	X yes	__ no
Significant deficiencies identified not considered to be material weakness?	__ yes	X none reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?	X yes	__ no

Identification of major program:

CFDA Number	Name of Federal Program
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee?	__ yes	X no

Part II: Findings Related to the Financial Statements

Instances of Noncompliance
There were no reported prior or current year instances of noncompliance identified.

Material Weaknesses in Internal Control

14-II-R-1 Segregation of Duties

Prior Year Finding and Recommendation - The limited number of personnel employed by the Organization makes it difficult to achieve adequate control procedures through segregation of duties. The concentration of closely related duties and responsibilities makes it difficult to establish an adequate system of automatic internal checks on accounting record accuracy and reliability. This is not an unusual condition for an organization of this size, but it is important that management be aware the condition exists and search for alternatives to improve the situation. The potential effect of this material weakness is an error occurring or fraudulent activity being committed and not being detected by employees or management.

Management should review its control procedures to obtain the maximum internal control possible under the circumstances, segregate duties to the extent possible with existing personnel and utilize alternative personnel to provide additional control through review of financial transactions and reports.

Current Year Finding - We found that the same condition exists.

Auditor's Recommendation - We reiterate our prior year recommendation.

Organization's Response - We are aware of the condition and will review procedures to make changes when appropriate and cost effective.

Auditor's Conclusion - Response accepted.

14-II-R-2 Financial Statement Preparation

Prior Year Finding and Recommendation - The Organization does not have a system of internal controls that fully prepares financial statements and disclosures that are fairly presented in conformity with accounting principles generally accepted in the United States of America. As is inherent in many entities of this size, the Organization has management and employees who, while knowledgeable and skillful, do not have the time to maintain the current knowledge and expertise to fully prepare financial statements and the related disclosures. The potential effect of this material weakness is that there could be material errors in the financial statements which would not be discovered by management.

We recommend obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses.

Current Year Finding - We found that the same condition exists.

Auditor's Recommendation - We reiterate our prior year recommendation.

Organization's Response - We will consider obtaining additional knowledge where practical and cost effective. However, we intend to continue to rely on assistance from our audit firm to draft these financial statements each year.

Auditor's Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance
There were no reported prior or current year instances of noncompliance identified.

Internal Control Deficiencies
Prior year deficiencies have not been resolved and have been repeated below as item 14-III-R-1.

All Programs Displayed on the Schedule of Expenditures of Federal Awards

14-III-R-1 (2014-001) Segregation of Duties

Adequate control procedures through the segregation of employee duties is difficult to achieve due to the limited number of staff administering grants and performing accounting functions. See Finding 14-II-R-1 for additional information.