

Prelude Behavioral Services

Financial Statements

June 30, 2015 and 2014



Prelude Behavioral Services

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Prelude Behavioral Services

Report on the Financial Statements

We have audited the accompanying financial statements of Prelude Behavioral Services, which comprise the statements of financial position as of June 30, 2015 and 2014, 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes

Cedar Falls
602 Main Street
Suite 100
P.O. Box 489
Cedar Falls, IA
50613-0026
T 319.268.1715
F 319.268.1720

Cedar Rapids
2720 1st Avenue NE
Suite 300
P.O. Box 10200
Cedar Rapids, IA
52402-0200
T 319.294.8000
F 319.294.9003

Coralville
2530 Corridor Way
Suite 301
P.O. Box 5267
Coralville, IA
52241-0267
T 319.248.0367
F 319.248.0582

Des Moines
9207 Northpark Drive
Johnston, IA
50131-2933
T 515.727.5700
F 515.727.5800

Minneapolis
3800 American Blvd W
Suite 1000
Bloomington, MN
55431-4420
T 952.563.6800
F 952.563.6801

St. Cloud
220 Park Avenue S
P.O. Box 1304
St. Cloud, MN
56302-3713
T 320.251.7010
F 320.251.1784

Waterloo
100 East Park Avenue
Suite 300
P.O. Box 2100
Waterloo, IA
50704-2100
T 319.234.6885
F 319.234.6287

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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.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Prelude Behavioral Services as of June 30, 2015 and 2014, 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 Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2016 on our consideration of Prelude Behavioral Services' internal control over financial reporting and on 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 Prelude Behavioral Services' internal control over financial reporting and compliance.

BerganKDV, Ltd.

Waterloo, Iowa
January 28, 2016

Prelude Behavioral Services
Statements of Financial Position
As of June 30, 2015 and 2014

Assets

	2015	2014
Current Assets		
Cash	\$ 1,850,776	\$ 1,857,596
Client receivables, net	491,925	206,411
Other receivables	331,530	271,980
Unconditional promises to give	81,000	103,499
Prepaid expenses	<u>100,516</u>	<u>82,413</u>
Total Current Assets	<u>2,855,747</u>	<u>2,521,899</u>
Property and Equipment, net	4,630,709	4,836,434
Investment in Integrated Behavioral Health Network, Inc.	105,000	105,000
Loan Origination Fees, net	<u>34,405</u>	<u>36,637</u>
Total Assets	<u>\$ 7,625,861</u>	<u>\$ 7,499,970</u>

Liabilities and Net Assets

Current Liabilities		
Current maturities of long-term debt	\$ 138,649	\$ 133,482
Current maturities of obligations under capital leases	3,961	4,891
Accounts payable	77,546	157,812
Accrued expenses	702,043	724,535
Other liabilities	<u>75,346</u>	<u>116,982</u>
Total Current Liabilities	<u>997,545</u>	<u>1,137,702</u>
Long-Term Liabilities		
Long-term debt	3,114,508	3,254,005
Obligations under capital leases	<u>2,567</u>	<u>6,417</u>
Total Long-Term Liabilities	<u>3,117,075</u>	<u>3,260,422</u>
Net Assets		
Unrestricted:		
Operations	683,349	794,121
Board designated - operating reserve	1,270,868	661,587
Investment in Integrated Behavioral Health Network, Inc.	105,000	105,000
Net investment in property and equipment	<u>1,371,024</u>	<u>1,437,639</u>
Total Unrestricted	3,430,241	2,998,347
Temporarily restricted, future periods	<u>81,000</u>	<u>103,499</u>
Total Net Assets	<u>3,511,241</u>	<u>3,101,846</u>
Total Liabilities and Net Assets	<u>\$ 7,625,861</u>	<u>\$ 7,499,970</u>

Prelude Behavioral Services
Statements of Activities
For the years ended June 30, 2015 and 2014

	2015	2014
Unrestricted Net Assets		
Revenue, Gains and Other Support		
Client service revenue (net of contractual allowances and discounts)	\$ 4,210,160	\$ 3,656,980
Provision for bad debts	720,100	633,558
Net client service revenue	<u>3,490,060</u>	<u>3,023,422</u>
Federal, state and local revenue	4,646,373	5,100,370
Employee assistance contracts	121,125	148,444
Donations	71,447	82,839
Rental income	12,072	11,721
Interest	3,446	3,448
Miscellaneous	32,993	34,218
Net assets released from restrictions	<u>103,499</u>	<u>141,789</u>
Total Revenue, Gains and Other Support	<u>8,481,015</u>	<u>8,546,251</u>
Expenses		
Program expenses	6,253,774	6,327,384
Management and general	1,712,084	1,529,882
Fundraising	<u>84,563</u>	<u>81,783</u>
Total Expenses	<u>8,050,421</u>	<u>7,939,049</u>
Gain (Loss) on Disposal of Property and Equipment	<u>1,300</u>	<u>(542)</u>
Increase in Unrestricted Net Assets	<u>431,894</u>	<u>606,660</u>
Temporarily Restricted Net Assets		
United Way allocations	81,000	103,499
Net assets released from restrictions	<u>(103,499)</u>	<u>(141,789)</u>
Decrease in Temporarily Restricted Net Assets	<u>(22,499)</u>	<u>(38,290)</u>
Increase in Net Assets	<u>409,395</u>	<u>568,370</u>
Net Assets, Beginning of Year	<u>3,101,846</u>	<u>2,533,476</u>
Net Assets, End of Year	<u>\$ 3,511,241</u>	<u>\$ 3,101,846</u>

Prelude Behavioral Services
Statement of Functional Expenses
For the year ended June 30, 2015

	<u>SUPPORT SERVICES</u>				Total Expenses
	<u>Program Services</u>	<u>Management & General</u>	<u>Fund Development</u>	<u>Total Support Services</u>	
Salaries and related expenses	\$ 4,755,623	\$ 1,104,617	\$ 77,221	\$ 1,181,838	\$ 5,937,461
Contract services and grants	97,172	-	-	-	97,172
Program costs	41,824	275	-	275	42,099
Professional fees	21,000	193,642	-	193,642	214,642
Travel and conferences	35,229	19,903	310	20,213	55,442
Groceries	319,401	-	-	-	319,401
Supplies and printing	96,397	62,875	489	63,364	159,761
Medical services and supplies	73,335	-	-	-	73,335
Depreciation	228,808	56,724	-	56,724	285,532
Utilities	162,485	76,496	-	76,496	238,981
Property tax expense	13,652	-	-	-	13,652
Repairs and maintenance	91,929	36,231	-	36,231	128,160
Equipment rental and repair	58,096	39,643	2,235	41,878	99,974
Insurance	91,846	15,169	-	15,169	107,015
Staff development	10,428	19,010	-	19,010	29,438
Rent expense	32,100	-	-	-	32,100
Interest	99,856	18,886	-	18,886	118,742
Promotional and education	1,413	19,140	3,558	22,698	24,111
Dues and subscriptions	969	10,690	300	10,990	11,959
Bond amortization expense	-	2,232	-	2,232	2,232
Miscellaneous	22,211	36,551	450	37,001	59,212
Total Expenses	<u>\$ 6,253,774</u>	<u>\$ 1,712,084</u>	<u>\$ 84,563</u>	<u>\$ 1,796,647</u>	<u>\$ 8,050,421</u>

Prelude Behavioral Services
Statement of Functional Expenses
For the year ended June 30, 2014

	SUPPORT SERVICES				
	Program Services	Management & General	Fund Development	Total Support Services	Total Expenses
Salaries and related expenses	\$ 4,732,841	\$ 1,098,564	\$ 75,892	\$ 1,174,456	\$ 5,907,297
Contract services and grants	224,761	3,045	-	3,045	227,806
Program costs	80,210	3,073	253	3,326	83,536
Professional fees	17,150	96,231	-	96,231	113,381
Travel and conferences	47,751	21,344	2,020	23,364	71,115
Groceries	310,497	-	-	-	310,497
Supplies and printing	100,114	13,869	405	14,274	114,388
Medical services and supplies	72,808	-	-	-	72,808
Depreciation	215,981	52,037	1,351	53,388	269,369
Utilities	151,902	71,821	-	71,821	223,723
Property tax expense	13,228	-	-	-	13,228
Repairs and maintenance	63,492	37,311	-	37,311	100,803
Equipment rental and repair	55,587	22,196	-	22,196	77,783
Insurance	84,396	15,410	-	15,410	99,806
Staff development	13,438	28,067	1,100	29,167	42,605
Rent expense	28,242	-	-	-	28,242
Interest	104,261	20,127	-	20,127	124,388
Promotional and education	481	8,830	-	8,830	9,311
Dues and subscriptions	1,177	3,312	751	4,063	5,240
Bond amortization expense	-	2,232	-	2,232	2,232
Miscellaneous	9,067	32,413	11	32,424	41,491
	\$ 6,327,384	\$ 1,529,882	\$ 81,783	\$ 1,611,665	\$ 7,939,049

Prelude Behavioral Services
Statements of Cash Flows
For the years ended June 30, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities		
Increase in net assets	\$ 409,395	\$ 568,370
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	287,764	271,601
Loss (gain) on disposal of property and equipment	(1,300)	542
Changes in operating assets and liabilities:		
Receivables	(322,565)	82,893
Prepaid expenses	(18,103)	(73,766)
Accounts payable	(80,266)	128,255
Accrued expenses	(22,492)	90,842
Other liabilities	(41,636)	4,255
Total Adjustments	<u>(485,062)</u>	<u>232,479</u>
Net Cash Provided by Operating Activities	<u>210,797</u>	<u>1,072,992</u>
Cash Flows From Investing Activities		
Proceeds from sale of property and equipment	1,300	-
Purchases of property and equipment	(79,807)	(176,103)
Purchase of investment	-	(105,000)
Net Cash Used in Investing Activities	<u>(78,507)</u>	<u>(281,103)</u>
Cash Flows From Financing Activities		
Principal payments under long-term borrowings	(134,330)	(128,316)
Principal payments under capital lease obligations	(4,780)	(4,315)
Net Cash Used in Financing Activities	<u>(139,110)</u>	<u>(132,631)</u>
Net Change In Cash	(6,820)	659,258
Cash, Beginning of Year	<u>1,857,596</u>	<u>1,198,338</u>
Cash, End of Year	<u>\$ 1,850,776</u>	<u>\$ 1,857,596</u>

Supplemental Disclosure of Cash Flow Information

	2015	2014
Cash paid during the period for:		
Interest	<u>\$ 118,328</u>	<u>\$ 124,805</u>

Prelude Behavioral Services
Notes to Financial Statements

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

NATURE OF ORGANIZATION

Prelude Behavioral Services (the Organization) is a nonprofit corporation created to provide education, as well as individual and group counseling, for substance abusers and their families. The Organization also provides residential care and treatment for substance abusers in the Johnson, Iowa, Washington, Cedar, Warren, and Polk county areas. The Organization operates a detoxification unit in Iowa City, residential facilities in Iowa City and Des Moines, and provides outpatient services from its clinical offices in Iowa City, Des Moines, and various satellite offices. The Organization also provides substance abuse services through contracts with schools, counties, universities, employers, and state and federal organizations.

The Organization is primarily a fee-based provider of services. Clients pay if they are able, but a majority of the client fees are paid by third parties, such as Medicaid, insurance companies, and the courts.

BASIS OF PRESENTATION

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted include all net assets which are neither temporarily nor permanently restricted.

Temporarily restricted include contributions for which donor-imposed time and purpose restrictions have not been met.

Permanently restricted include contributions whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization.

The Organization did not have any permanently restricted net assets as of June 30, 2015 and 2014.

ACCOUNTING ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Prelude Behavioral Services
Notes to Financial Statements

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd.):

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and receivables. The Organization's cash is federally insured up to \$250,000.

Concentrations of credit risk with respect to client receivables are limited due to the Organization's large number of clients.

The Organization received approximately 50% of its total revenue, gains and other support from two sources for the years ended June 30, 2015 and 2014.

CLIENT RECEIVABLES

The Organization provides an allowance for doubtful collections based upon a review of outstanding receivables, historical collection information, and existing economic conditions for each of its major pay sources. For receivables associated with services provided to clients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties). For receivables associated with self-pay clients without insurance and clients with deductible and copayment balances for which third-party coverage exists for part of the bill, the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many clients are unable or unwilling to pay the portion of their bill for which they are financially responsible. Accounts receivable are due 30 days after the issuance of the invoice. The difference between the standard rates or negotiated discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Prelude Behavioral Services
Notes to Financial Statements

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd.):

NET CLIENT SERVICE REVENUE

Net client service revenue is reported at the estimated net realizable amounts from clients, third-party payors, and others for services rendered. The Organization recognizes client service revenue associated with services provided to clients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured clients, the Organization recognizes revenue on the basis of its standard rates for services provided, adjusted to a sliding fee scale based upon the clients' income.

PROPERTY AND EQUIPMENT

Property and equipment is carried at cost or fair value, if donated, with depreciation computed primarily under the straight-line method over the economic useful lives of the assets. The Organization follows the policy of capitalizing all property and equipment expenditures over \$500, unless general contract conditions call for a lower amount.

Equipment held under capital leases is classified as property and equipment and amortized using the straight-line method over the economic useful life of the equipment, or the term of the lease. Lease amortization is included in depreciation expense.

LONG-LIVED ASSETS

The Organization records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. There were no impairment losses for the years ended June 30, 2015 and 2014.

INVESTMENT IN INTEGRATED BEHAVIORAL HEALTH NETWORK, INC.

The Organization's 13% investment in Integrated Behavioral Health Network, Inc. is accounted for under the cost method.

RESTRICTED AND UNRESTRICTED REVENUE

Contributions and grants that are restricted are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted support is reported as an increase in temporarily restricted net assets. When a 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 statements of activities as net assets released from restrictions.

Unconditional promises to give are recorded as receivables and as support when received.

Prelude Behavioral Services

Notes to Financial Statements

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd.):

BOARD DESIGNATED RESERVE

The operating reserve, which has been designated by the board of directors, is intended to assure continued funding of the Organization's operations.

INCOME TAXES

The Organization is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes pursuant to Section 501(a) of the Code.

EXPENSE ALLOCATION

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 28, 2016, the date which the financial statements were available for issue.

NOTE 2 – NET CLIENT SERVICES REVENUE:

The Organization receives payment for services rendered from federal and state agencies, private insurance carriers, employers, managed care programs, and clients. The Organization recognizes that revenue and receivables from government agencies are significant to the operations but do not believe there are significant credit risks associated with these government agencies.

Prelude Behavioral Services
Notes to Financial Statements

NOTE 2 – NET CLIENT SERVICES REVENUE (Cont'd.):

Client service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized for the years ended June 30, 2015 and 2014, from these major payor sources, is as follows:

	2015	2014
Third-party payors	\$ 3,237,261	\$ 2,643,556
Self-pay	<u>972,898</u>	<u>1,013,424</u>
Client services revenue (net of contractual allowances and discounts)	<u>\$ 4,210,160</u>	<u>\$ 3,656,980</u>

The Organization's allowance for doubtful accounts for self-pay clients increased from 56 percent of self-pay accounts receivable at June 30, 2014, to 69 percent of self-pay accounts receivable at June 30, 2015. In addition, the Organization's self-pay write-offs increased \$86,542 from \$633,558 for fiscal year 2014 to \$720,100 for fiscal year 2015. The Organization has not changed its charity care or uninsured discount policies during fiscal years 2014 or 2015. The Organization does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

NOTE 3 – PROPERTY AND EQUIPMENT:

A summary of property and equipment as of June 30, 2015 and 2014 follows:

	2015	2014
Land	\$ 590,410	\$ 590,410
Buildings and improvements	5,819,931	5,806,894
Furniture and fixtures	523,047	498,678
Equipment	<u>1,196,076</u>	<u>1,287,558</u>
	8,129,464	8,183,540
Less: Accumulated depreciation	<u>3,498,755</u>	<u>3,347,106</u>
	<u>\$ 4,630,709</u>	<u>\$ 4,836,434</u>

Prelude Behavioral Services
Notes to Financial Statements

NOTE 4 – SUMMARY OF LONG-TERM DEBT:

	2015	2014
3.9% mortgage note with the Iowa Finance Authority, payable in monthly installments of \$20,950, including interest to December 1, 2030, collateralized by real estate and certain property and equipment. This bond has been assigned to Hills Bank, Hills, Iowa as a purchase.	\$ 2,908,157	\$ 3,042,487
Non-interest bearing, forgivable note payable to the city of Iowa City. The loan will be forgiven on November 18, 2022, as long as the Organization continues to use the property as prescribed in the agreement. The note is collateralized by real estate.	<u>345,000</u>	<u>345,000</u>
	3,253,157	3,387,487
Less: Current maturities	<u>138,649</u>	<u>133,482</u>
	<u>\$ 3,114,508</u>	<u>\$ 3,254,005</u>
<u>Year Ending</u>		
2016	\$ 138,549	
2017	144,436	
2018	150,252	
2019	162,354	
2020	169,133	
Thereafter	<u>2,488,433</u>	
Total	<u>\$ 3,253,157</u>	

NOTE 5 – CAPITAL LEASES:

The following is an analysis of leased property under capital leases as of June 30, 2015 and 2014:

	2015	2014
Office equipment	\$ 20,681	\$ 20,681
Less: Accumulated amortization	<u>9,684</u>	<u>6,729</u>
	<u>\$ 10,997</u>	<u>\$ 13,952</u>

Prelude Behavioral Services
Notes to Financial Statements

NOTE 5 – CAPITAL LEASES (Cont'd.):

The following is a schedule by years of future minimum lease payments under capital leases as of June 30, 2015:

<u>Year Ending</u>	
2016	\$ 4,627
2017	2,571
Less: Amount representing interest	<u>(670)</u>
Present value of net minimum lease payments	<u>\$ 6,528</u>

NOTE 6 – OPERATING LEASE:

The Organization leases space for a cellular tower under a lease agreement with Cingular Wireless through September 2016. The lease contains three remaining automatic five year renewal options if not cancelled by either party by giving the other written notice to terminate at least six months prior to the end of the annual term. Rent income was \$12,072 and \$11,721 for the years ended June 30, 2015 and 2014, respectively.

The following is a schedule by years of future rentals to be received by the Organization as of June 30, 2015:

<u>Year Ending June 30:</u>	
2016	\$ 12,435
2017	<u>3,131</u>
Total	<u>\$ 15,566</u>

NOTE 7 – RETIREMENT PLAN:

The Organization sponsors a 401(k) plan (the Plan) covering all employees who have one year of employment, 1,000 hours of service, age 18 or older, and agree to make contributions to the Plan. The Organization makes a contribution to the Plan each year equal to 50% of the participants' eligible contributions, up to a maximum of 8% of their compensation. For the years ended June 30, 2015 and 2014, the Organization charged against income \$86,393 and \$79,164, respectively, under this plan.

Prelude Behavioral Services
Notes to Financial Statements

NOTE 8 – CONTINGENCIES:

Financial awards from federal and state governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. In the opinion of the Organization, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

The Organization was notified in December 2014, of a claim against the Organization and others alleging negligence in the death of one of the Organization's clients. At the present time, it is not possible to determine any potential or real liability to the Organization. The Organization believes that any material liability would be covered by its insurance carrier.

NOTE 9 – RECLASSIFICATIONS:

Certain reclassifications have been made to the 2014 financial statements, as previously reported, in order to conform them to the current year's presentation.

SUPPLEMENTAL INFORMATION

Prelude Behavioral Services
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2015

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
<u>Department of Health and Human Services</u>			
Passed through Iowa Judicial Branch:			
Parents and Children Together	93.087	N/A	\$ 6,136
Passed through the Iowa Department of Public Health:			
Screening, Brief Intervention & Referral Treatment	93.243	588 5 SA08	65,287
Iowa Recovery Health Information Technology	93.243	588 5 SA26	5,585
Youth Suicide Prevention	93.243	588 5 SM40	14,400
Access to Recovery	93.243	588 5 AC20	1,881
			<u>87,153</u>
Passed through the Iowa Department of Public Health:			
Access to Recovery - Iowa	93.275	588 1 AC20	16,421
Passed through the Iowa Department of Public Health:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	588 5 CP17	122,995
Passed through Magellan Behavioral Health:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	122398-00	1,135,738
Block Grants for Behavioral Health Addendum Women and Children	93.959	122398-00	117,230
			<u>1,252,968</u>
Total Federal Expenditures			<u>\$ 1,485,673</u>

Basis of Presentation

The Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Prelude Behavioral Services under programs of the federal government for the year ended June 30, 2015. 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*. Because the Schedule presents only a selected portion of the operations of Prelude Behavioral Services, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Prelude Behavioral Services.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited to reimbursement.

**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 of
Prelude Behavioral Services

We have audited 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, the financial statements of Prelude Behavioral Services (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, 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 January 28, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Prelude Behavioral 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 Prelude Behavioral Services' internal control. Accordingly, we do not express an opinion on the effectiveness of Prelude Behavioral Services' internal control.

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. 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.

Cedar Falls
602 Main Street
Suite 100
P.O. Box 489
Cedar Falls, IA
50613-0026
T 319.268.1715
F 319.268.1720

Cedar Rapids
2720 1st Avenue NE
Suite 300
P.O. Box 10200
Cedar Rapids, IA
52402-0200
T 319.294.8000
F 319.294.9003

Coralville
2530 Corridor Way
Suite 301
P.O. Box 5267
Coralville, IA
52241-0267
T 319.248.0367
F 319.248.0582

Des Moines
9207 Northpark Drive
Johnston, IA
50131-2933
T 515.727.5700
F 515.727.5800

Minneapolis
3800 American Blvd W
Suite 1000
Bloomington, MN
55431-4420
T 952.563.6800
F 952.563.6801

St. Cloud
220 Park Avenue S
P.O. Box 1304
St. Cloud, MN
56302-3713
T 320.251.7010
F 320.251.1784

Waterloo
100 East Park Avenue
Suite 300
P.O. Box 2100
Waterloo, IA
50704-2100
T 319.234.6885
F 319.234.6287

bergankdv.com



Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency listed as 2015-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Prelude Behavioral Services' financial statements are free from 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*.

Prelude Behavioral Services' Response to Findings

Prelude Behavioral Services' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Prelude Behavioral Services' response was not subjected to the auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on it.

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.

BerganKDV, Ltd.

Waterloo, Iowa
January 28, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

To the Board of Directors of
Prelude Behavioral Services

Report on Compliance for Each Major Federal Program

We have audited Prelude Behavioral Services' compliance 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 Prelude Behavioral Services' major federal program for the year ended June 30, 2015. Prelude Behavioral Services' major federal program is identified in the summary of auditor's results section 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 Prelude Behavioral 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 Prelude Behavioral 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

Cedar Falls
602 Main Street
Suite 100
P.O. Box 489
Cedar Falls, IA
50613-0026
T 319.268.1715
F 319.268.1720

Cedar Rapids
2720 1st Avenue NE
Suite 300
P.O. Box 10200
Cedar Rapids, IA
52402-0200
T 319.294.8000
F 319.294.9003

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Suite 301
P.O. Box 5267
Coralville, IA
52241-0267
T 319.248.0367
F 319.248.0582

Des Moines
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Johnston, IA
50131-2933
T 515.727.5700
F 515.727.5800

Minneapolis
3800 American Blvd W
Suite 1000
Bloomington, MN
55431-4420
T 952.563.6800
F 952.563.6801

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St. Cloud, MN
56302-3713
T 320.251.7010
F 320.251.1784

Waterloo
100 East Park Avenue
Suite 300
P.O. Box 2100
Waterloo, IA
50704-2100
T 319.234.6885
F 319.234.6287

bergankdv.com

federal program. However, our audit does not provide a legal determination of Prelude Behavioral Services' compliance.

Opinion on Major Federal Program

In our opinion, Prelude Behavioral Services complied, in all material respects, with the types of compliance requirements referred to in the first paragraph that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Prelude Behavioral Services is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to in the first paragraph. In planning and performing our audit of compliance, we considered Prelude Behavioral Services' internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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 Prelude Behavioral Services' 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.



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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

BerganKDV, Ltd.

Waterloo, Iowa
January 28, 2016

Prelude Behavioral Services
Schedule of Findings and Questioned Costs
For the year ended June 30, 2015

Part II: Findings Related to the Financial Statements

Finding 2015-001: Check Dates

Type of Finding: Significant Deficiency

Criteria: A system of internal controls should ensure that check disbursements are dated in sequence using the date the check is actually produced.

Condition and Context: During our audit procedures, it was noted that checks produced in August 2015 were backdated using a June 2015 date. These checks were then included in the list of June 30, 2015, outstanding checks as if they had been actually processed in June.

Effect or Potential Effect: Proper cutoff is extremely critical in all aspects of accounting. Any process or procedure that holds the books open or closes them in advance will yield inaccurate financial results.

Recommendation: Appropriate policies and procedures should be established to ensure all check disbursements are dated in sequence using the date the check is actually produced.

Responsible Official's Response and Corrective Action Planned: We agree with the finding and have established new policies and procedures to provide guidance to employees involved in the processing of check disbursements.

Part III: Findings and Questioned Costs for Federal Awards

The audit did not disclose audit findings which are required to be reported in accordance with OMB Circular A-133.

Part IV: Status of Prior Year Findings and Questioned Costs for Federal Awards

For the year ended June 30, 2014, there were no findings or questioned costs.