

**PRAIRIE RIDGE INTEGRATED
BEHAVIORAL HEALTHCARE**

MASON CITY, IOWA

JUNE 30, 2015

Table of Contents ---

Board of Directors	1
Independent Auditor’s Report	2-3
Financial Statements	
Statements of Financial Position.....	4
Statements of Activities	5
Statements of Functional Expenses	6-7
Statements of Cash Flows.....	8
Notes to the Financial Statements	9-13
Supplementary Information	
Schedule of Expenditures of Federal Awards	14
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	15-16
Independent Auditor’s Report on Compliance for the Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133	17-18
Schedule of Findings and Questioned Costs	19-21

Board of Directors

Name	Title	Term Expires
Joel Voaklander	President	October, 2015
John Lander	Vice-President	October, 2015
Steve Wolfe	Secretary	October, 2015
Laura Cerny	Treasurer	October, 2015
Betty McCarthy	Member	October, 2015
Phil Dougherty	Member	October, 2015
Dan Barrett	Member	October, 2015
Don Christensen	Member	October, 2015
JoEllen Steil	Member	October, 2015
Tom Martin	Member	October, 2015
Pam Wymore	Member	October, 2015
Jay Hansen	Executive Director	Indefinite

Independent Auditor's Report

Board of Directors
Prairie Ridge Integrated Behavioral Healthcare
Mason City, Iowa

Report on the Financial Statements

We have audited the accompanying statements of financial position of Prairie Ridge Integrated Behavioral Healthcare 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Prairie Ridge Integrated Behavioral Healthcare 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2015 on our consideration of Prairie Ridge Integrated Behavioral Healthcare's 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 Integrated Behavioral Healthcare's 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

Mason City, Iowa
November 2, 2015

Statements of Financial Position

As of June 30, 2015 and 2014

	2015	2014
Assets		
Cash.....	\$ 2,149,068	\$ 1,537,248
Receivables		
Client accounts (net of allowance for uncollectible accounts 2015 - \$295,224; 2014 - \$177,213)	877,542	650,254
Grants.....	—	13,739
Accrued investment income	938	634
Certificates of deposit.....	402,077	400,781
Investments.....	13,150,310	13,083,834
Prepaid expenses.....	18,496	15,988
Property, equipment and improvements (net of accumulated depreciation 2015 - \$2,603,354; 2014 - \$2,308,524).....	2,523,339	2,522,801
Cash restricted for state unemployment trust.....	<u>33,327</u>	<u>27,979</u>
Total Assets	<u>\$ 19,155,097</u>	<u>\$ 18,253,258</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 117,657	\$ 42,841
Accrued Expenses		
Salaries, wages and bonuses	70,400	55,514
Compensated absences	81,717	80,403
Payroll taxes and employee benefits.....	41,336	36,631
Retirement plan contribution	<u>74,340</u>	<u>72,277</u>
Total Liabilities	<u>385,450</u>	<u>287,666</u>
Net Assets		
Unrestricted.....	<u>18,769,647</u>	<u>17,965,592</u>
Total Liabilities and Net Assets	<u>\$ 19,155,097</u>	<u>\$ 18,253,258</u>

See accompanying notes to the financial statements.

Statements of Activities

Years Ended June 30, 2015 and 2014

	2015	2014
Revenue, Gains and Other Support		
Private and government grants.....	\$ 2,134,872	\$ 2,064,108
Client fees	2,786,669	2,182,332
Contract services.....	45,828	17,166
Contributions	4,102	6,229
Investment income (net of expense 2015 - \$22,124; 2014 - \$19,866).....	408,282	333,559
Net realized gain on investment transactions.....	253,841	240,882
Net unrealized gain (loss) on investments	(282,325)	1,322,063
Other	28,293	62,804
Total Revenue, Gains and Other Support	<u>5,379,562</u>	<u>6,229,143</u>
Functional Expenses		
Program Services		
Outpatient	1,713,930	1,511,501
Residential	1,430,999	1,269,138
Total Program Services	<u>3,144,929</u>	<u>2,780,639</u>
Administrative Support Activities		
Management and general	1,430,517	1,302,792
Total Functional Expenses	<u>4,575,446</u>	<u>4,083,431</u>
Other Expense		
Loss on disposal of equipment	<u>(61)</u>	<u>—</u>
Change in Net Assets for the Year	804,055	2,145,712
Net Assets - Beginning of Year	<u>17,965,592</u>	<u>15,819,880</u>
Net Assets - End of Year	<u>\$ 18,769,647</u>	<u>\$ 17,965,592</u>

See accompanying notes to the financial statements.

Statement of Functional Expenses

Year Ended June 30, 2015

	Program Services			Administrative Support Services	Total
	Outpatient	Residential	Total Program Services	Management and General	
Salaries and Related Expenses					
Salaries	\$ 1,101,390	\$ 762,652	\$ 1,864,042	\$ 649,321	\$ 2,513,363
Payroll taxes and worker's compensation insurance	19,641	12,064	31,705	186,136	217,841
Employee health and retirement benefits.....	64,487	48,388	112,875	41,032	153,907
Total Salaries and Related Expenses	1,185,518	823,104	2,008,622	876,489	2,885,111
Contracted services	11,029	16,068	27,097	72,965	100,062
Client medical and lab fees	51,180	33,886	85,066	—	85,066
Supplies					
Office	9,017	3,314	12,331	26,963	39,294
Food	—	157,252	157,252	—	157,252
Subscriptions and materials ..	29,090	51,951	81,041	17,762	98,803
Postage	151	42	193	7,283	7,476
Occupancy					
Rent	21,320	32,400	53,720	1	53,721
Laundry.....	—	10,132	10,132	—	10,132
Utilities	22,204	38,346	60,550	15,006	75,556
Insurance.....	6,993	8,508	15,501	11,127	26,628
Telephone	15,719	5,301	21,020	8,213	29,233
Travel and training	37,153	6,816	43,969	41,032	85,001
Repairs and maintenance	7,840	22,472	30,312	97,969	128,281
Expendable equipment	10,143	4,911	15,054	16,479	31,533
Other	154,709	2,744	157,453	58,572	216,025
Depreciation	37,697	92,957	130,654	180,656	311,310
Bad debts and allowances	114,167	120,795	234,962	—	234,962
Total Expenses	\$ 1,713,930	\$ 1,430,999	\$ 3,144,929	\$ 1,430,517	\$ 4,575,446

See accompanying notes to the financial statements.

Statement of Functional Expenses

Year Ended June 30, 2014

	Program Services			Administrative Support Services	Total
	Outpatient	Residential	Total Program Services	Management and General	
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.....	<u>110,873</u>	<u>67,161</u>	<u>178,034</u>	<u>54,166</u>	<u>232,200</u>
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	<u>62,597</u>	<u>82,320</u>	<u>144,917</u>	<u>—</u>	<u>144,917</u>
Total Expenses	<u>\$ 1,511,501</u>	<u>\$ 1,269,138</u>	<u>\$ 2,780,639</u>	<u>\$ 1,302,792</u>	<u>\$ 4,083,431</u>

See accompanying notes to the financial statements.

Statements of Cash Flows

Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities		
Change in net assets.....	\$ 804,055	\$ 2,145,712
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	311,310	279,384
Net investment income reinvested.....	(394,994)	(322,573)
Net realized gain on investment transactions.....	(253,841)	(240,882)
Net unrealized gain (loss) on investments	282,325	(1,322,063)
Loss on disposal of equipment	61	—
Interest income added to certificates of deposit.....	(296)	(781)
Bad debts and provision for uncollectible accounts.....	234,962	144,917
Change in Assets and Liabilities		
Increase in receivables.....	(448,815)	(224,363)
(Increase) decrease in prepaid expenses.....	(2,508)	304
Increase (decrease) in accounts payable	74,816	(39,596)
Increase (decrease) in accrued expenses	<u>22,968</u>	<u>(79,863)</u>
Net Cash Provided by Operating Activities	<u>630,043</u>	<u>340,196</u>
Cash Flows From Investing Activities		
Payment for purchase of property, equipment and improvements	(311,909)	(443,863)
Proceeds from sale of investments.....	1,454,375	1,646,575
Proceeds from maturities of certificates of deposit.....	401,077	301,270
Purchase of investments	(1,154,341)	(1,857,045)
Purchase of certificates of deposit.....	<u>(402,077)</u>	<u>(501,270)</u>
Net Cash Used in Investing Activities.....	<u>(12,875)</u>	<u>(854,333)</u>
Net Increase (Decrease) in Cash	617,168	(514,137)
Cash at Beginning of Year.....	<u>1,565,227</u>	<u>2,079,364</u>
Cash at End of Year.....	<u>\$ 2,182,395</u>	<u>\$ 1,565,227</u>

See accompanying notes to the financial statements.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies and Other Matters

Nature of Activities

Prairie Ridge Integrated Behavioral Healthcare 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 Integrated Behavioral Healthcare 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 \$13,150,310 and \$13,083,834 as of June 30, 2015 and 2014, 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.

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, 2015, \$2,015,955 of such deposits, as reflected on the financial institution's records, exceeded the insured limits.

Notes to the Financial Statements

(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.

The Organization received approximately 31% and 27% of its revenue from federal and state grants during the years ended June 30, 2015 and 2014, respectively.

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 - Contributions 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, 2015 and 2014 was \$311,310 and \$279,384, respectively.

Notes to the Financial Statements

(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, 2015 and 2014.

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, 2015, 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.

Subsequent Events

Management has evaluated subsequent events through November 2, 2015, 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:

	2015	2014
Unrestricted	\$ 2,149,068	\$ 1,537,248
Restricted for state unemployment trust	<u>33,327</u>	<u>27,979</u>
Total	<u>\$ 2,182,395</u>	<u>\$ 1,565,227</u>

Notes to the Financial Statements

(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)
2015			
Money market.....	\$ 10,678	\$ 10,678	\$ —
Common stocks and equity mutual funds	8,982,534	10,882,507	1,899,973
Fixed income mutual funds.....	<u>2,272,136</u>	<u>2,257,125</u>	<u>(15,011)</u>
	<u>\$ 11,265,348</u>	<u>\$ 13,150,310</u>	<u>\$ 1,884,962</u>
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.....	<u>2,100,359</u>	<u>2,117,727</u>	<u>17,368</u>
	<u>\$ 10,833,082</u>	<u>\$ 13,083,834</u>	<u>\$ 2,250,752</u>

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, 2015 and 2014:

	<u>Unrestricted</u>	
	2015	2014
Interest and dividend income (net of expense)	\$ 408,282	\$ 333,559
Net realized and unrealized gains and losses.....	<u>(28,484)</u>	<u>1,562,945</u>
	<u>\$ 379,798</u>	<u>\$ 1,896,504</u>

Notes to the Financial Statements

(4) Summary of Property, Equipment and Improvements

	2015	2014
Land and improvements	\$ 702,149	\$ 565,442
Building and improvements	3,217,150	3,144,459
Furniture, fixtures and equipment	1,151,497	1,065,527
Automobiles.....	<u>55,897</u>	<u>55,897</u>
Total.....	5,126,693	4,831,325
Less accumulated depreciation	<u>(2,603,354)</u>	<u>(2,308,524)</u>
Net Property, Equipment and Improvements	<u>\$ 2,523,339</u>	<u>\$ 2,522,801</u>

(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 per year expiring December, 2089. The entire lease has been prepaid.

Rental expense for all operating leases totaled \$53,721 and \$50,481 for the years ended June 30, 2015 and 2014, 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, 2015:

Year Ending June 30,	
2016	\$ 8,070
2017	8,250
2018	8,430
2019	8,610
2020	<u>1,440</u>
Total Minimum Payments Required	<u>\$ 34,800</u>

(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 \$126,442 and \$117,296 for the years ended June 30, 2015 and 2014, respectively.

Supplementary Information

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

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	5885SA50	<u>\$ 215,167</u>
Block Grants for Prevention and Treatment of Substance Abuse			
Comprehensive Treatment Program.....	93.959	122456-000	562,290
Comprehensive Substance Abuse Prevention ...	93.959	5885CP07	<u>109,164</u>
Total Block Grants for Prevention and Treatment of Substance Abuse			<u>671,454</u>
Total			<u>\$ 886,621</u>

Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of Prairie Ridge Integrated Behavioral Healthcare 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*.

Subrecipients

Prairie Ridge Integrated Behavioral Healthcare 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 Integrated Behavioral Healthcare
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 Integrated Behavioral Healthcare (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 November 2, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Prairie Ridge Integrated Behavioral Healthcare's 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 Integrated Behavioral Healthcare's 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 15-II-R-1 and 15-II-R-2 to be material weaknesses.

Compliance and Other Matters

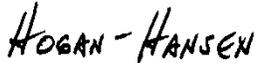
As part of obtaining reasonable assurance about whether Prairie Ridge Integrated Behavioral Healthcare’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which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

Prairie Ridge Integrated Behavioral Healthcare’s Response to Findings

Prairie Ridge Integrated Behavioral Healthcare’s 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 Integrated Behavioral Healthcare’s 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.



HOGAN - HANSEN

Mason City, Iowa
November 2, 2015

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 Integrated Behavioral Healthcare
Mason City, Iowa

Report on Compliance for Each Major Federal Program

We have audited Prairie Ridge Integrated Behavioral Healthcare's 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 Integrated Behavioral Healthcare's major federal program for the year ended June 30, 2015. Prairie Ridge Integrated Behavioral Healthcare's 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 Integrated Behavioral Healthcare's 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 Integrated Behavioral Healthcare's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Prairie Ridge Integrated Behavioral Healthcare's compliance.

Opinion on the Major Federal Program

In our opinion, Prairie Ridge Integrated Behavioral Healthcare 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, 2015.

Report on Internal Control Over Compliance

Management of Prairie Ridge Integrated Behavioral Healthcare 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 Integrated Behavioral Healthcare’s 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 Integrated Behavioral Healthcare’s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be 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 15-III-R-1 to be a material weakness.

Prairie Ridge Integrated Behavioral Healthcare’s 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 Integrated Behavioral Healthcare’s 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 2, 2015

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

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? yes no
Significant deficiencies identified not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:
Material weakness identified? yes no
Significant deficiencies identified not considered to be material weakness? yes 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? yes no

Identification of major program:

CFDA Number

93.959

Name of Federal Program

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 no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

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

15-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.

15-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.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

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

15-III-R-1 Segregation of Duties (2015-001)

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 15-II-R-1 for additional information.