

**Alcohol and Drug Dependency Services of Southeast Iowa**

**Independent Auditor's Reports  
Financial Statements and Supplementary Information  
Schedule of Findings**

**June 30, 2016**

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**Alcohol and Drug Dependency Services of Southeast Iowa  
Board of Directors  
June 30, 2016**

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	<u>Title</u>	<u>Term Expires</u>
Jeff Heland	President	October, 2018
Sarah Berndt	Vice President	October, 2017
Stephanie Kozlowski	Secretary	October, 2016
Robert Ritson	Treasurer	October, 2017
Brian DePriest	Director	October, 2018
Ben Diewold	Director	October, 2016
John Korb	Director	October, 2016
Russ Kuhlemeier	Director	October, 2017
Mack Turner	Director	October, 2017
Mary Margaret Wagner	Director	October, 2018
Jonathan Weinand	Director	October, 2017
Wyman Weinbeck	Director	October, 2017
Dr. Richard Swanson	Executive Director	Retired
Dan Kenel	Executive Director	Indefinite



401 South Roosevelt Avenue - Suite 2A, PO Box 547, Burlington, IA 52601 / 319 752 6348 / fax: 319 752 8644 / info@cpaapc.com

## **Independent Auditor's Report**

Board of Directors  
Alcohol and Drug Dependency Services of Southeast Iowa  
Burlington, Iowa

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Alcohol and Drug Dependency Services of Southeast Iowa (Organization) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Alcohol and Drug Dependency Services of Southeast Iowa as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 12 is presented for purposes of additional analysis 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 information is fairly stated in all material aspects 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 24, 2017, on our consideration of the Organization's 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 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 Organization's internal control over financial reporting and compliance.

*CPA Associates PC*

January 24, 2017

**Alcohol and Drug Dependency Services of Southeast Iowa**  
**Statement of Financial Position**  
**June 30, 2016**

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**Assets**

Cash	\$ 746,602
Accounts receivable	534,879
Less allowance for doubtful accounts	(32,236)
Prepaid expenses	12,404
Certificates of deposit	<u>488,498</u>
	<u>1,750,147</u>
Property and equipment	
Building	1,687,487
Furniture and fixtures	31,659
Equipment	166,492
Accumulated depreciation	<u>(1,368,277)</u>
	<u>517,361</u>
Investment, at cost	<u>50,000</u>
	<u>\$ 2,317,508</u>

**Liabilities and Net Assets**

Liabilities	
Accounts payable	\$ 56,021
Accrued salaries and paid time off	115,209
Payroll taxes payable	<u>19,896</u>
	<u>191,126</u>
Net assets	
Temporarily restricted	76,197
Unrestricted	<u>2,050,185</u>
	<u>2,126,382</u>
	<u>\$ 2,317,508</u>

See accompanying notes to financial statements.

**Alcohol and Drug Dependency Services of Southeast Iowa  
Statement of Activities  
Year Ended June 30, 2016**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Public Support and Revenue</b>			
Public support			
Iowa Department of Public Health:			
Treatment program	\$ 580,606	\$ -	\$ 580,606
Prevention program	399,603	-	399,603
Gambling treatment program	387,546	-	387,546
Other grants	116,088	-	116,088
County allocations	31,403	-	31,403
United Way	<u>23,400</u>	<u>15,998</u>	<u>39,398</u>
	<u>1,538,646</u>	<u>15,998</u>	<u>1,554,644</u>
Revenue			
Resident recovery program fees	437,872	-	437,872
Client fees	453,774	-	453,774
Other services	152,289	-	152,289
Interest income	6,643	-	6,643
Miscellaneous	<u>17,453</u>	<u>-</u>	<u>17,453</u>
	<u>1,068,031</u>	<u>-</u>	<u>1,068,031</u>
Total public support and revenue	<u>2,606,677</u>	<u>15,998</u>	<u>2,622,675</u>
<b>Expenses</b>			
Program services	1,846,320	-	1,846,320
Supporting services	<u>617,271</u>	<u>-</u>	<u>617,271</u>
Total expenses	<u>2,463,591</u>	<u>-</u>	<u>2,463,591</u>
Support and revenue over expenses	143,086	15,998	159,084
Transfers	<u>24,944</u>	<u>(24,944)</u>	<u>-</u>
Change in net assets	168,030	(8,946)	159,084
<b>Net assets, beginning of year</b>	<u>1,882,155</u>	<u>85,143</u>	<u>1,967,298</u>
<b>Net assets, end of year</b>	<u>\$ 2,050,185</u>	<u>\$ 76,197</u>	<u>\$ 2,126,382</u>

See accompanying notes to financial statements.

**Alcohol and Drug Dependency Services of Southeast Iowa**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2016**

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Total</u>
Salaries	\$ 993,091	\$ 333,009	\$ 1,326,100
Benefits and taxes	<u>236,816</u>	<u>67,980</u>	<u>304,796</u>
Total salaries and related expenses	1,229,907	400,989	1,630,896
Travel	51,853	12,711	64,564
Education and training	34,057	4,655	38,712
Contract services	52,473	6,430	58,903
Insurance	42,687	8,756	51,443
Occupancy	98,624	6,363	104,987
Supplies	257,160	10,736	267,896
Telephone	22,013	6,306	28,319
Equipment maintenance	22,230	4,229	26,459
Other expenses	<u>23,719</u>	<u>96,353</u>	<u>120,072</u>
Total expenses before depreciation	1,834,723	557,528	2,392,251
Depreciation	<u>11,597</u>	<u>59,743</u>	<u>71,340</u>
Total functional expenses	<u>\$ 1,846,320</u>	<u>\$ 617,271</u>	<u>\$ 2,463,591</u>

See accompanying notes to financial statements.



**Alcohol and Drug Dependency Services of Southeast Iowa**  
**Statement of Cash Flows**  
**Year Ended June 30, 2016**

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<b>Cash Flows From Operating Activities</b>	
Change in net assets	\$ 159,084
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Loss on disposition of fixed assets	80,462
Depreciation	71,340
Change in assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	(304,597)
Other assets	12,651
Increase in:	
Accounts payable and accrued expenses	<u>15,913</u>
Net cash provided by operating activities	<u>34,853</u>
<b>Cash Flows From Investing Activities</b>	
Purchase of certificates of deposit	(5,529)
Capital expenditures	<u>(55,487)</u>
Net cash used by investing activities	<u>(61,016)</u>
Net decrease in cash	(26,163)
Cash, beginning of year	<u>772,765</u>
Cash, end of year	<u><u>\$ 746,602</u></u>

See accompanying notes to financial statements.

**Alcohol and Drug Dependency Services of Southeast Iowa**  
**Notes to Financial Statements**

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**Note 1. Reporting Entity**

Alcohol and Drug Dependency Services of Southeast Iowa (Organization) is a nonprofit corporation organized and licensed to provide education and group counseling for substance abusers and their families, in addition to providing residential care for adult substance abusers and treatment for gambling addiction. Services are provided primarily to residents of southeast Iowa.

**Note 2. Summary of Significant Accounting Policies**

Basis of Accounting

The Organization's financial statements are prepared on the accrual basis.

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as restricted or unrestricted net assets. Public support and revenue are reported as increases in unrestricted net assets unless use of related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Contributions with donor-imposed restrictions that are met in the same year as received are reported as unrestricted revenues. The Organization had temporarily restricted net assets of \$76,197 at June 30, 2016. These restricted assets include United Way allocations receivable, as well as unexpended cash related to activities previously administered by Grade A+. There were no permanently restricted net assets at June 30, 2016.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments available for current use with an original maturity of three months or less to be cash. The Organization maintains deposit balances in excess of federal deposit insurance limits.

Accounts Receivable

Accounts receivable are for grants, allocations and services performed and are uncollateralized. Collection of accounts receivable, net of the allowance for doubtful accounts, is expected to occur within one year. The allowance for doubtful accounts is estimated based on current and prior experience with the outstanding accounts. Accounts are written off when management believes the account is uncollectible. Accounts written off are netted against the related revenues and totaled \$78,058 for the year ended June 30, 2016.

**Alcohol and Drug Dependency Services of Southeast Iowa**  
**Notes to Financial Statements**

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**Note 2. Summary of Significant Accounting Policies (continued)**

Property and Equipment

Property and equipment is stated at cost. Expenditures in excess of \$1,000 for property and equipment that provide future benefit are capitalized. Depreciation is computed by the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings	4-39
Furniture and fixtures	7-10
Equipment	5-10

Property and equipment acquired with government funds must be offered back to the related agency prior to any disposition.

Income Taxes

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes. The Organization files information tax returns in the United States. The Organization is no longer subject to United States federal tax examinations by tax authorities for years before 2014.

Evaluation of Subsequent Events

The Organization performed an evaluation of subsequent events through January 24, 2017, which is the date the financial statements were available to be issued. There were no subsequent events that would require disclosure or recognition in the financial statements as of June 30, 2016.

**Note 3. Certificates of Deposit**

The Organization has certificates of deposit totaling \$488,498. The certificates bear interest at rates ranging from 0.85% to 1.69%, have maturity dates ranging from November 10, 2016 to May 11, 2020, and are subject to penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

**Note 4. Leased Equipment and Facilities**

The Organization leases office space in Davenport, Ottumwa, and Clinton Iowa under operating leases. The leases require monthly rental payments totaling \$2,383 and may be cancelled with 30 days notice. The Ottumwa office lease includes the use of support staff, furnishings, and internet and phone access. Rent expense under these leases was \$28,596 for the year ended June 30, 2016. Future minimum lease payments total are as follows:

Year ended June 30, 2017	\$ 8,096
Year ended June 30, 2018	<u>596</u>
	<u>\$ 8,692</u>

**Alcohol and Drug Dependency Services of Southeast Iowa**  
**Notes to Financial Statements**

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**Note 5. Pension Plan**

The Organization has a pension plan covering full time employees who are at least 21 years of age and have completed at least one year of service. The plan states that the Organization will contribute an amount equal to two percent of each eligible employee's gross salary. In addition, if the employee elects to make a two percent contribution, the Organization will match it, making the Organization's maximum contribution four percent. Total pension expense for the year was \$34,768.

**Note 6. Concentration of Revenues and Credit Risk**

The Organization receives the majority of its funding through various state and federal grants. If these funding sources were removed, the Organization could have difficulty meeting its functional obligations.

**Note 7. Self-Insured Unemployment Benefits**

The Organization elected to self-fund unemployment benefits through participation in an unemployment savings program. The Organization has set up a reserve account that will be used to reimburse the State of Iowa for actual claims paid to former employees. The program includes excess loss insurance up to \$149,871 with a stop loss limit of \$59,871. The reserve account had a balance of \$1,645 as of June 30, 2016. Unemployment claims of \$17,133 were paid from the fund to the State of Iowa during the year ended June 30, 2016.

**Note 8. Allocation of Expenses - Statement of Functional Expenses**

The allocation of expenses on the Statement of Functional Expenses is based on actual amounts when identifiable with a particular program, or allocated based on estimates furnished by management of the Organization.

**Note 9. Risk Management**

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the Organization's commercial insurance. The Organization assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**Note 10. Related Party Transactions**

One of the Organization's directors is an officer with a local bank. At June 30, 2016, the Organization had on deposit with the bank a certificate of deposit with a balance of \$86,695 and a money market account with a balance of \$55,362.

**Alcohol and Drug Dependency Services of Southeast Iowa**  
**Notes to Financial Statements**

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**Note 11. Investment**

The Organization owns eleven shares in Integrated Behavioral Health Network. The shares are not regularly traded and are carried at cost. The fair value is not estimated as it is not practical to estimate fair value, and no events or changes in circumstances that may have a significant adverse effect on the fair value have been identified.

**Note 12. Recent Accounting Pronouncement**

In August 2015, the Financial Accounting Standards Board (FASB) issued an accounting standard update, which supersedes the financial reporting requirements for not-for-profit entities under current professional standards. This update requires two classes of net assets instead of the current three classes for the statement of financial position and statement of activities. The update also requires enhanced disclosures regarding the governing board designations, composition of net assets with donor restrictions and liquidity of the entity through qualitative and quantitative disclosures. The effective date of the update will be for periods beginning after December 15, 2017, using the retrospective method. The Organization has not determined the potential effect of the standard on the financial statements.

**Alcohol and Drug Dependency Services of Southeast Iowa**  
**Detail of Functional Expenses - Program Services**  
**Year Ended June 30, 2016**

	<u>Treatment</u>	<u>Prevention</u>	<u>Access to Recovery</u>	<u>Gambling</u>	<u>Tobacco</u>	<u>Total</u>
Salaries	\$ 598,670	\$ 132,467	\$ 23,627	\$ 158,878	\$ 79,449	\$ 993,091
Benefits and taxes	<u>142,487</u>	<u>31,555</u>	<u>5,486</u>	<u>38,128</u>	<u>19,160</u>	<u>236,816</u>
Total salaries and related expenses	741,157	164,022	29,113	197,006	98,609	1,229,907
Travel	21,080	13,380	2,175	13,042	2,176	51,853
Education and training	11,461	12,769	645	8,062	1,120	34,057
Contract services	31,127	13,370	2,606	5,370	-	52,473
Insurance	24,662	7,809	2,191	8,025	-	42,687
Occupancy	37,959	9,229	1,366	50,070	-	98,624
Supplies	94,989	77,761	50,075	33,899	436	257,160
Telephone	12,059	3,122	687	6,145	-	22,013
Equipment maintenance	14,077	4,772	753	2,628	-	22,230
Other expenses	<u>14,707</u>	<u>3,776</u>	<u>2,396</u>	<u>2,810</u>	<u>30</u>	<u>23,719</u>
Total expenses before depreciation	1,003,278	310,010	92,007	327,057	102,371	1,834,723
Depreciation	<u>11,596</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,597</u>
Total functional expenses	<u>\$ 1,014,874</u>	<u>\$ 310,011</u>	<u>\$ 92,007</u>	<u>\$ 327,057</u>	<u>\$ 102,371</u>	<u>\$ 1,846,320</u>

See accompanying independent auditor's report.



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**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  
Alcohol and Drug Dependency Services of Southeast Iowa  
Burlington, Iowa

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 the *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the of Alcohol and Drug Dependency Services of Southeast Iowa (a nonprofit organization) (Organization), which comprise the statement of financial position as of June 30, 2016, 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 24, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's 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 a material misstatement of the Organization'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 which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in Part I-A-16 in the accompanying schedule of findings, that we consider to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's 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*.

## **Organizations's Responses to Findings**

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings. The Organization's responses were not subjected to the auditing procedures applied in the audit of the financial statements 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Organization during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*CPA Associates PC*

January 24, 2017



**Alcohol and Drug Dependency Services of Southeast Iowa**  
**Schedule of Findings**  
**Year Ended June 30, 2016**

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**Part I: Findings Related to the Financial Statements**

**SIGNIFICANT DEFICIENCY**

I-A-16 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling a transaction from its inception to its completion. Management has not separated incompatible activities of personnel, thereby creating risks to the safeguarding of assets and accuracy of the financial statements. Due to the size of your Organization, not all duties related to billing, cash receipts, cash disbursements and account reconciliation are adequately segregated.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Organization should review its control procedures to obtain the maximum internal control possible under the circumstances, and should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

**Part II: Findings Related to Statutory Reporting:**

No matters were noted.