

Prelude Behavioral Services

Financial Statements

June 30, 2016 and 2015



**Prelude Behavioral Services
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Independent Auditor's Report

Board of Directors
Prelude Behavioral Services
Iowa City, Iowa

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, 2016 and 2015, 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 evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Prelude Behavioral Services as of June 30, 2016 and 2015, 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, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 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 17, 2017, 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.

A handwritten signature in black ink that reads "BergankDV, Ltd." in a cursive, slightly stylized font.

Waterloo, Iowa
January 17, 2017

**Prelude Behavioral Services
Statements of Financial Position
As of June 30, 2016 and 2015**

	2016	2015
Assets		
Current assets		
Cash	\$ 917,158	\$ 1,850,776
Client receivables, net	1,140,589	491,925
Other receivables	508,330	331,530
Unconditional promises to give	72,900	81,000
Prepaid expenses	73,521	100,516
Total current assets	2,712,498	2,855,747
Property and equipment, net	4,422,287	4,630,709
Investment in Integrated Behavioral Health Network, Inc.	105,000	105,000
Loan origination fees, net	32,173	34,405
Total assets	\$ 7,271,958	\$ 7,625,861
Liabilities and Net Assets		
Current liabilities		
Current maturities of long-term debt	\$ 147,421	\$ 138,649
Current maturities of obligations under capital leases	5,050	3,961
Accounts payable	84,492	77,546
Accrued expenses	528,172	702,043
Other liabilities	42,219	75,346
Total current liabilities	807,354	997,545
Long-term liabilities		
Long-term debt	2,966,512	3,114,508
Obligations under capital leases	5,012	2,567
Total long-term liabilities	2,971,524	3,117,075
Net assets		
Unrestricted		
Operations	737,469	683,349
Board designated - operating reserve	1,279,419	1,270,868
Investment in Integrated Behavioral Health Network, Inc.	105,000	105,000
Net investment in property and equipment	1,298,292	1,371,024
Total unrestricted	3,420,180	3,430,241
Temporarily restricted, future periods	72,900	81,000
Total net assets	3,493,080	3,511,241
Total liabilities and net assets	\$ 7,271,958	\$ 7,625,861

See notes to financial statements.

Prelude Behavioral Services
Statements of Activities
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unrestricted net assets		
Revenue, gains and other support		
Client service revenue (net of contractual allowances and discounts)	\$ 3,924,660	\$ 4,210,160
Provision for bad debts	724,152	720,100
Net client service revenue	3,200,508	3,490,060
Federal, state and local revenue	4,643,052	4,646,373
Employee assistance contracts	117,449	121,125
Donations	54,038	71,447
Rental income	18,935	12,072
Interest	2,861	3,446
Miscellaneous	25,219	32,993
Net assets released from restrictions	81,000	103,499
Total revenue, gains and other support	<u>8,143,062</u>	<u>8,481,015</u>
Expenses		
Program expenses	6,179,009	6,253,774
Management and general	1,874,110	1,712,084
Fundraising	99,907	84,563
Total expenses	<u>8,153,026</u>	<u>8,050,421</u>
Gain (loss) on disposal of equipment	<u>(97)</u>	<u>1,300</u>
Change in unrestricted net assets	<u>(10,061)</u>	<u>431,894</u>
Temporarily restricted net assets		
United Way allocations	72,900	81,000
Net assets released from restrictions	<u>(81,000)</u>	<u>(103,499)</u>
Change in temporarily restricted net assets	<u>(8,100)</u>	<u>(22,499)</u>
Change in net assets	<u>(18,161)</u>	<u>409,395</u>
Net assets, beginning of year	<u>3,511,241</u>	<u>3,101,846</u>
Net assets, end of year	<u><u>\$ 3,493,080</u></u>	<u><u>\$ 3,511,241</u></u>

See notes to financial statements.

Prelude Behavioral Services
Statement of Functional Expenses
Year Ended June 30, 2016

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and related expenses	\$ 4,524,045	\$ 1,294,037	\$ 93,458	\$ 5,911,540
Contract services and grants	195,427	-	-	195,427
Program costs	74,967	-	939	75,906
Professional fees	23,650	96,042	-	119,692
Travel and conferences	28,151	18,061	1,343	47,555
Groceries	337,138	-	-	337,138
Supplies and printing	90,969	33,665	499	125,133
Medical services and supplies	77,767	-	-	77,767
Depreciation	215,452	71,437	-	286,889
Utilities	160,227	68,669	-	228,896
Property tax expense	13,950	-	-	13,950
Repairs and maintenance	94,369	35,262	-	129,631
Equipment rental and repair	79,638	40,517	1,320	121,475
Insurance	98,639	17,558	-	116,197
Staff development	8,531	28,089	25	36,645
Rent expense	38,534	-	-	38,534
Interest	92,507	16,325	853	109,685
Promotional and education	15,040	109,452	1,020	125,512
Dues and subscriptions	1,549	11,490	450	13,489
Bond amortization expense	-	2,232	-	2,232
Miscellaneous	8,459	31,274	-	39,733
	<u>\$ 6,179,009</u>	<u>\$ 1,874,110</u>	<u>\$ 99,907</u>	<u>\$ 8,153,026</u>

**Prelude Behavioral Services
Statement of Functional Expenses
Year Ended June 30, 2015**

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

Prelude Behavioral Services
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows - Operating Activities		
Change in net assets	\$ (18,161)	\$ 409,395
Adjustments to reconcile change in net assets to net cash flows - operating activities		
Depreciation and amortization	289,121	287,764
Gain (loss) on disposal of equipment	97	(1,300)
Changes in operating assets and liabilities		
Receivables	(817,364)	(322,565)
Prepaid expenses	26,995	(18,103)
Accounts payable	6,946	(80,266)
Accrued expenses and other liabilities	(206,998)	(64,128)
Total adjustments	<u>(990,421)</u>	<u>(485,062)</u>
Net cash flows - operating activities	<u>(719,364)</u>	<u>210,797</u>
 Cash Flows - Investing Activities		
Proceeds from sale of equipment	1,200	1,300
Purchases of equipment	(71,472)	(79,807)
Net cash flows - investing activities	<u>(70,272)</u>	<u>(78,507)</u>
 Cash Flows - Financing Activities		
Principal payments under long-term borrowings	(139,224)	(134,330)
Principal payments under capital lease obligations	(4,758)	(4,780)
Net cash flows - financing activities	<u>(143,982)</u>	<u>(139,110)</u>
 Net change in cash	(933,618)	(6,820)
 Cash		
Beginning of year	<u>1,850,776</u>	<u>1,857,596</u>
End of year	<u>\$ 917,158</u>	<u>\$ 1,850,776</u>
 Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for interest	<u>\$ 110,619</u>	<u>\$ 118,328</u>
 Supplemental Schedule of Noncash Investing and Financing Activities		
Financing of equipment through capital leases	<u>\$ 8,292</u>	<u>\$ -</u>

See notes to financial statements.

**Prelude Behavioral Services
Notes to Financial Statements**

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization Activity

Prelude Behavioral Services (the Organization) is a nonprofit, community-based organization which provides comprehensive substance abuse, gambling and behavioral health services to people of all ages and from all parts of the state of Iowa. Prelude provides a full continuum of substance abuse services, including prevention and early intervention, evaluation, detoxification, outpatient and residential treatment, halfway and transitional housing, and case management. 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.

The Organization serves six counties across central and eastern Iowa: Johnson, Iowa, Washington, Cedar, Warren, and Polk counties.

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. A description of the three net asset categories follows.

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, 2016 and 2015.

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.

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.

Prelude Behavioral Services
Notes to Financial Statements

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk (Continued)

The Organization is subject to a degree of vulnerability due to concentrations of accounts receivable and revenue from major funding sources. The Organization received 51% and 48% of its revenue, gains and other support from two sources for the years ended June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, these two sources accounted for approximately 78% and 56% of other receivables.

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.

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.

**Prelude Behavioral Services
Notes to Financial Statements**

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2016 and 2015.

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 and Support

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 statement of activities as net assets released from restrictions.

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

Donated Services

Many individuals volunteer their time and perform a variety of tasks that assist the Organization with its operations. However, no amounts have been reflected in the financial statements for donated services because the services did not meet the criteria for recognition.

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.

**Prelude Behavioral Services
Notes to Financial Statements**

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Management has evaluated subsequent events through January 17, 2017, 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.

Client service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized for the years ended June 30, 2016 and 2015, from these major payor sources, is as follows:

	<u>2016</u>	<u>2015</u>
Third-party payors	\$ 3,078,579	\$ 3,237,261
Self-pay	<u>846,081</u>	<u>972,898</u>
Client services revenue (net of contractual allowances and discounts)	<u>\$ 3,924,660</u>	<u>\$ 4,210,160</u>

The Organization's allowance for doubtful accounts from self-pay clients decreased from 69 percent of self-pay accounts receivable at June 30, 2015, to 55 percent of self-pay accounts receivable at June 30, 2016. In addition, the Organization's self-pay write-offs were \$465,490 and \$668,866 for the years ending June 30, 2016 and 2015, respectively. The Organization has not changed its charity care or uninsured discount policies during fiscal years 2015 or 2016. The Organization's allowance for doubtful accounts from third-party payors increased from 2 percent of third-party accounts receivable at June 30, 2015, to 8 percent of self-pay accounts receivable at June 30, 2016. In addition, the Organization's self-pay write-offs were \$258,662 and \$51,234 for the years ending June 30, 2016 and 2015, respectively.

**Prelude Behavioral Services
Notes to Financial Statements**

NOTE 3 – PROPERTY AND EQUIPMENT

A summary of property and equipment as of June 30, 2016 and 2015 follows:

	2016	2015
Land	\$ 590,410	\$ 590,410
Buildings and improvements	5,819,931	5,819,931
Furniture and fixtures	523,841	523,047
Equipment	1,106,716	1,196,076
	8,040,898	8,183,540
Less accumulated depreciation	3,618,611	3,498,756
	\$ 4,422,287	\$ 4,630,709

NOTE 4 – SUMMARY OF LONG-TERM DEBT

	2016	2015
3.62% mortgage note with the Iowa Finance Authority, payable in monthly installments of \$20,549, including interest to December 1, 2030, collateralized by real estate and certain property and equipment. This bond has been assigned to Hills Bank as a purchase.	\$ 2,768,933	\$ 2,908,157

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.	345,000	345,000
	3,113,933	3,253,157
Less current maturities	147,421	138,649
	\$ 2,966,512	\$ 3,114,508

<u>Year Ending</u>	
2017	\$ 147,421
2018	152,915
2019	158,623
2020	164,321
2021	170,678
Thereafter	2,319,975
Total	\$ 3,113,933

**Prelude Behavioral Services
Notes to Financial Statements**

NOTE 5 – CAPITAL LEASES

The following is an analysis of leased property under capital leases as of June 30, 2016 and 2015:

	2016	2015
Office equipment	\$ 28,973	\$ 20,681
Less accumulated amortization	13,230	9,684
	\$ 15,743	\$ 10,997

The following is a schedule by years of future minimum lease payments under capital leases as of June 30, 2016:

<u>Year Ending</u>	
2017	\$ 5,343
2018	2,554
2019	2,554
2020	1,277
Less amount representing interest	(1,666)
Present value of net minimum lease payments	\$ 10,062

NOTE 6 – OPERATING LEASE

The Organization leases space for a cellular tower under a long-term lease agreement. The lease agreement, as amended, will automatically renew for eight (8) five (5) year terms 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. The term of the agreement, including all extensions, if exercised, will expire on October 31, 2051. Rent income was \$18,935 and \$12,072 for the years ended June 30, 2016 and 2015, respectively.

The following is a schedule by years of future rentals to be received by the Organization as of June 30, 2016:

<u>Year Ending June 30:</u>	
2017	\$ 12,808
2018	13,192
2019	13,588
2020	13,995
2021	14,415

Prelude Behavioral Services
Notes to Financial Statements

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, 2016 and 2015, the Organization charged against income \$81,730 and \$86,393, respectively, under this plan.

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.

SUPPLEMENTARY INFORMATION

**Prelude Behavioral Services
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
U.S. Department of Health and Human Services			
Passed through the Iowa Department of Public Health			
Substance Abuse and Mental Health Services	93.243		
Screening, Brief Intervention & Referral Treatment		588 5 SA08	56,320
Suicide Screening in Substance Abuse Treatment Centers		588 5 SM40	12,100
Access to Recovery		588 5 AC20	13,994
State Youth Treatment - Implementation		588 6 SA58	7,530
Total for CFDA # 93.243			<u>89,944</u>
Passed through the Iowa Department of Public Health:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959		
Comprehensive Prevention		588 5 CP17	164,814
Substance Abuse Treatment Services		588 5 CP17	322,296
Passed through Magellan Behavioral Health:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959		
Substance Abuse Treatment Services		122398-00	620,330
Passed through Amerigroup, Iowa, Inc.			
Block Grants for Prevention and Treatment of Substance Abuse	93.959		
Substance Abuse Treatment Services		N/A	263,354
Total for CFDA # 93.959			<u>1,370,794</u>
Total federal expenditures			<u>\$ 1,460,738</u>

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Prelude Behavioral Services under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement. Prelude Behavioral Services has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**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
Prelude Behavioral Services
Iowa City, 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 *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Prelude Behavioral Services (Prelude), 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 17, 2017.

Internal Control over Financial Reporting

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

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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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies listed as 2016-001 and 2016-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Prelude'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*.

Prelude's Response to Findings

Prelude's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Prelude's response was not subjected to the auditing procedures applied in the audit of the 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads 'BerganKDV, Ltd.' in a cursive, slightly slanted script.

Waterloo, Iowa
January 17, 2017

**Independent Auditor's Report on Compliance
for a Major Federal Program and Report on Internal Control
Over Compliance Required by the Uniform Guidance**

Board of Directors
Prelude Behavioral Services
Iowa City, Iowa

Report on Compliance for a Major Federal Program

We have audited Prelude Behavioral Services (Prelude) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on Prelude's major federal program for the year ended June 30, 2016. Prelude's 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'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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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'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 Prelude's compliance.

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Opinion on Major Federal Program

In our opinion, Prelude 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 the major federal program for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of Prelude 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's internal control over compliance with the types of requirements that could have a direct and material effect on the 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 the major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, 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's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BerganKDV, Ltd.

Waterloo, Iowa
January 17, 2017

**Prelude Behavioral Services
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued Unmodified

Internal control over financial reporting

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major program

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Type of auditor’s report issued on compliance for major program Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of Major Program

CFDA No. 93.959
Name of Federal Program or Cluster Block Grants for
Prevention and
Treatment of
Substance Abuse

Dollar threshold used to distinguish between type A and type B programs \$750,000

Auditee qualified as a low-risk auditee? Yes

**Prelude Behavioral Services
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016**

SECTION II – FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Significant Deficiencies

Finding 2016-001: Segregation of duties

Criteria: A system of internal controls should provide safeguards to prevent unauthorized transactions in the payroll distribution system.

Condition: During our audit it was discovered that the payroll processing duties are concentrated in one employee, lacking an independent review prior to disbursement.

Cause: With a limited number of office employees, segregation of duties is difficult.

Effect: The concentration of payroll processing creates a conflict and opens the way for the payroll information to be manipulated, whether intentional or unintentional.

Recommendation: In order to provide greater control over this area, we suggest that management review the payroll report prepared and processed by the Organization for each payroll period. We also suggest that documentation of the review of these reports be made on the reports and maintained.

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 payroll.

Finding 2016-002: Material audit adjustments

Criteria: The financial statements are the responsibility of the Organization's management.

Condition: During our audit, material adjustments were needed to correct the recording of client service revenue and the associated allowance for doubtful accounts.

Cause: There is a limited number of office employees with varying levels of experience with the reporting requirements.

Effect: This indicates that it would be likely that a misstatement may occur and not be detected by the Organization's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.

Recommendation: We recommend that management refine its process for estimating and recording client service revenue and the associated allowance for doubtful accounts.

Responsible Official's Response and Corrective Action Planned: We agree with the finding and will establish new policies and procedures to more accurately estimate and record client service revenue.

**Prelude Behavioral Services
Corrective Action Plan
Year Ended June 30, 2016**

Comment Number	Comment	Corrective Action Plan	Contact Person	Anticipated Date of Completion
Findings Related to the Basic Financial Statements				
2016-001	Segregation of duties	See corrective action plan at 2016-001.	Executive Director	June 30,2017
2016-002	Material audit adjustments	See corrective action plan at 2016-002.	Executive Director	June 30, 2017

**Prelude Behavioral Services
Schedule of Prior Year Audit Findings
Year Ended June 30, 2016**

2015-001: Check Dates

Condition and Criteria: 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.

Current Status: No instances were noted in the current year.