Financial Statements

Mid-Eastern Council on Chemical Abuse
Iowa City, Iowa

June 30, 2007 and 2006

Table of Contents *Page(s)*

Mid-Eastern Council on Chemical Abuse
Board of Directors and Management
June 30, 2007

Board of Directors

Name	Title	Term Expires
Bill Nusser	Chair Person	2008
Phil Reisetter	Vice Chair	2008
Kris Gillham	Treasurer	2009
Karen Moline	Secretary	2010
Mark Behlke	Member	2010
Jim Miksch	Member	2008
Linda Yoder	Member	2009
Erin Brothers	Member	2010
Denise Suess	Member	2010
Larry Meyers	Member	2009
Billy Campion	Member	2009
Michael Flaum	Member	2008
Susan Hauer	Member	2010

Management

Name	Title
Arthur J. Schut	President
Ronald Berg	Vice President
Elizabeth Maley	Finance Officer
Jill Liesveld	Medical Director
Fonda Frazier	Clinical Director

KRUEGER
& ASSOCIATES, P.C.

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Independent Auditor's Report

Board of Directors
Mid-Eastern Council on Chemical Abuse
Iowa City, Iowa

We have audited the accompanying statements of financial position of the Mid-Eastern Council on Chemical Abuse (MECCA) as of June 30, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of MECCA's management. 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 and provisions require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MECCA as of June 30, 2007 and 2006, 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.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 4, 2007, on our consideration of MECCA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of those reports is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing and not to provide and 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* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information, listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Krueger & Associates, P.C.

Dubuque, Iowa
October 4, 2007

Mid-Eastern Council on Chemical Abuse
Statements of Financial Position
June 30, 2007 and 2006

ASSETS	2007	2006
Current Assets		
Cash	$ 139,271	$ 438,329
Accounts Receivable	418,053	403,114
Prepaid Expenses	72,185	74,913
Total Current Assets	629,509	916,356

Property and Equipment		
Land	547,910	547,910
Buildings and Improvements	5,441,419	4,322,487
Furniture, Fixtures, and Equipment	1,460,307	1,261,606
Total Property and Equipment	7,449,636	6,132,003
Less Accumulated Depreciation	1,751,017	1,450,420
Net Property and Equipment	5,698,619	4,681,583
Total Assets	$ 6,328,128	$ 5,597,939

LIABILITIES AND NET ASSETS	2007	2006
Current Liabilities		
Accounts Payable	$ 253,487	$ 223,615
Note Payable	50,000	-
Accrued Expenses:		
Salaries and Vacation Pay	599,089	551,055
Interest	36,500	16,487
Payroll Taxes	4,125	450
Real Estate Taxes Payable	44,423	42,370
Unearned Revenue	118,090	119,601
Current Portion of Deferred Gain on Acquisition	5,398	-
Current Maturities of Long-Term Debt	2,741,078	78,144
Current Maturities of Obligations under Capital Leases	16,543	20,484
Total Current Liabilities	3,868,733	1,052,206
Long-Term Liabilities		
Long-Term Debt,		
Net of Current Maturities	1,409,122	3,528,378
Obligations under Capital Leases,		
Net of Current Maturities	33,867	17,995
Deferred Gain on Acquisition	207,804	-
Security Deposits	3,805	4,591
Total Long-Term Liabilities	1,654,598	3,550,964
Total Liabilities	5,523,331	4,603,170
Net Assets		
Unrestricted	804,797	994,769
Total Liabilities and Net Assets	$ 6,328,128	$ 5,597,939

See Accompanying Notes to Financial Statements

Mid-Eastern Council on Chemical Abuse
Statements of Activities
Years Ended June 30, 2007 and 2006

		2007		2006
Public Support and Revenue				
Net Client Fees:				
Residential Services	$	2,939,425	$	2,910,073
Nonresidential Services		2,595,166		2,415,428
		5,534,591		5,325,501
Iowa Department of Public Health:				
Prevention Programs		220,639		155,352
Other Grants and Contracts		438,936		548,452
Counties		410,198		398,474
Iowa City and Coralville		74,690		56,166
United Way of Johnson County		78,393		69,850
Donations		82,843		20,130
Rental Income		66,965		74,228
Interest Income		1,906		1,196
Fundraising Income		16,774		11,843
Miscellaneous		34,300		94,041
		1,425,644		1,429,732
Total Public Support and Revenue		6,960,235		6,755,233
Expenses				
Program Services		6,088,679		4,886,351
Support Services, Management and General		1,061,528		1,455,162
Total Expenses		7,150,207		6,341,513
Change in Net Assets		(189,972)		413,720
Net Assets, Beginning of Year		994,769		581,049
Net Assets, End of Year	$	804,797	$	994,769

See Accompanying Notes to Financial Statements

Mid-Eastern Council on Chemical Abuse
Statements of Functional Expenses
Years Ended June 30, 2007 and 2006

	2007		
	Program Services	Support Services, Management, and General	Total
Salaries and Related Expenses	$ 4,173,092	$ 736,428	$ 4,909,520
Contract Services and Grants	187,489	-	187,489
Program Costs	107,618	-	107,618
Professional Fees	16,518	17,895	34,413
Travel and Conferences	89,588	22,397	111,985
Groceries	237,876	-	237,876
Supplies and Printing	214,200	11,155	225,355
Medical Services and Supplies	58,728	-	58,728
Telephone	59,940	10,752	70,692
Depreciation	301,631	13,982	315,613
Utilities	141,394	11,233	152,627
Property Tax Expense	45,151	-	45,151
Repairs and Maintenance	71,875	8,057	79,932
Equipment Rental and Repair	105,315	7,878	113,193
Insurance	56,591	46,526	103,117
Staff Development	35,352	11,784	47,136
Rent Expense	24,200	-	24,200
Interest	92,136	144,110	236,246
Promotional and Education	22,911	10,560	33,471
Dues and Subscriptions	2,817	10,731	13,548
(Gain) Loss on Disposition of Assets	(1,961)	(1,960)	(3,921)
Miscellaneous	46,218	-	46,218
Total Expenses	$ 6,088,679	$ 1,061,528	$ 7,150,207

2006		
Program Services	Support Services, Management, and General	Total
$ 3,157,237	$ 1,021,155	$ 4,178,392
274,765	-	274,765
122,621	-	122,621
-	49,435	49,435
57,074	42,855	99,929
216,093	-	216,093
144,391	7,525	151,916
83,163	-	83,163
39,572	7,100	46,672
239,369	11,100	250,469
103,460	14,229	117,689
25,898	-	25,898
124,923	14,005	138,928
135,433	10,125	145,558
35,990	29,588	65,578
44,700	27,421	72,121
25,540	-	25,540
-	210,533	210,533
17,420	8,029	25,449
1,522	5,799	7,321
2,278	2,277	4,555
34,902	(6,014)	28,888
$ 4,886,351	$ 1,455,162	$ 6,341,513

Mid-Eastern Council on Chemical Abuse
Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Cash Flows from Operating Activities		
Change in Net Assets	$ (189,972)	$ 413,720
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
(Gain) on Acquisition	(2,699)	-
Depreciation	315,613	250,469
(Gain) Loss on Disposition of Assets	(3,921)	4,555
(Increase) Decrease in Assets:		
Receivables	5,810	24,285
Prepaid Expenses	6,675	(39,773)
Deposits	-	1,867
Increase (Decrease) in Liabilities:		
Accounts Payable	10,810	66,895
Accrued Expenses	73,775	101,603
Unearned Revenue	(1,511)	57,579
Security Deposits	(786)	191
Net Cash Provided by Operating Activities	213,794	881,391
Cash Flows from Investing Activities		
Cash Received in Acquisition	210,267	-
Purchases of Property and Equipment	(1,328,728)	(1,145,412)
Net Cash (Used) by Investing Activities	(1,118,461)	(1,145,412)
Cash Flows from Financing Activities		
Proceeds from Long-Term Debt	621,899	432,234
Payments on Long-Term Debt	(78,221)	(83,852)
Proceeds from Obligations under Capital Leases	40,799	-
Payments on Obligations under Capital Leases	(28,868)	(19,513)
Net Proceeds from Note Payable	50,000	-
Net Cash Provided by Financing Activities	605,609	328,869
Net Increase in Cash	(299,058)	64,848
Cash, Beginning of Year	438,329	373,481
Cash, End of Year	$ 139,271	$ 438,329

(Continued)

Mid-Eastern Council on Chemical Abuse
Statements of Cash Flows (Continued)
Years Ended June 30, 2007 and 2006

	2007	2006
Supplemental Disclosures of Cash Flow Information		
Cash Payments For:		
Interest	$ 199,136	$ 230,885
Supplemental Disclosures of Noncash Investing and Financing Activities:		
Cash Acquired	210,267	-
Accounts Receivable Acquired	20,749	15,259
Prepaid Expenses	3,947	-
Property Acquired	-	103,999
Accounts Payable Assumed	(19,062)	(23,584)
Long-Term Debt Assumed	-	(95,674)
Deferred Gain on Acquisition	(215,901)	-
	$ -	$ -

Mid-Eastern Council on Chemical Abuse

Notes to Financial Statements

NOTE 1. Nature of Activities and Summary of Significant Accounting Policies

Mid-Eastern Council on Chemical Abuse (MECCA) is a non-profit corporation created to provide education, as well as individual and group counseling, for substance abusers and their families. MECCA also provides residential care and treatment for substance abusers in the Johnson, Iowa, Washington, Cedar, Warren, and Polk county areas. MECCA operates a detoxification unit in Iowa City, residential facilities in Iowa City and Des Moines, and provides outpatient services from its clinical offices in Iowa City, Des Moines, and various satellite offices.

MECCA 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. MECCA also provides substance abuse services through contracts with schools, counties, universities, employers, and state and federal governmental organizations.

MECCA's fiscal year ends on June 30. Significant accounting policies followed by MECCA are presented below.

MECCA's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board for non-profit corporations.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

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 MECCA and changes therein are classified and reported as follows:

Unrestricted: Unrestricted net assets include all net assets which are neither temporarily or permanently restricted.

NOTE 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

***Basis of Presentation** (Continued)*

Temporarily Restricted: Temporarily restricted net assets include contributed net assets for which donor-imposed time and purpose restrictions have not been met, and the ultimate purpose of the contribution is not permanently restricted. MECCA has no temporarily restricted net assets for the years ended June 30, 2007 and 2006.

Permanently Restricted: Permanently restricted net assets include contributions and other inflows of assets 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. MECCA has no permanently restricted net assets for the years ended June 30, 2007 and 2006.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements, in conformity with generally accepted accounting principles, 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, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers demand deposits and all other highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Accounts receivable are uncollateralized client and funding agency obligations which generally require payment within 30 days from the billing date. Accounts receivable are stated at the billing amount. Interest is not charged on overdue accounts. Payments of

NOTE 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Accounts Receivable ***(Continued)***

accounts receivable are applied to specific billings. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectibility of amounts billed and the aging of the accounts receivable.

All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts. At June 30, 2007 and 2006, the accounts receivable have been adjusted to an estimated collectible amount, resulting in a zero-balance allowance account.

Property and Equipment

Property and equipment which were purchased are stated at their original cost and donated furniture and equipment are recorded at fair market value at the date of receipt. All fixed assets are depreciated over their estimated useful lives of three to thirty-nine years, using the straight-line method of depreciation. MECCA follows the practice of capitalizing at cost, or at fair market value if donated, all expenditures for property and equipment in excess of $500 and a useful life greater than one year. Expenses for maintenance, repairs, and minor replacements are charged to the current year, while the cost for major replacements and betterments are capitalized.

Compensated Absences

MECCA employees accumulate vacation and sick leave hours for subsequent use or, in the case of vacation leave, for payment upon retirement, death, or termination. MECCA has accrued a liability for compensated absences from accrued vacation at June 30, 2007 and 2006, based on rates of pay on those dates.

Unearned Revenue

Conditional grants are recognized as revenue at the point the conditions are met. Unearned revenue represents grant funds that have been received but the conditions of the grant have not been met.

NOTE 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Recognition of Contribution Revenue

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor or by law. Amounts received which are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the organization reports the support as unrestricted.

When a donor 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.

Contributed Goods and Services

Contributions of donated goods are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Contributed property and equipment are recorded at estimated fair value at the date of gift. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

Income Taxes

MECCA is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides income tax exemption for corporations organized and operated exclusively for religious, charitable, or educational purposes.

Concentration of Credit Risk

The Organization's cash balances are maintained in numerous checking accounts at a financial institution. At various times during the year, account balances were in excess of federally insured limits. Management believes the credit risk related to these deposits is minimal.

NOTE 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

Functional Expenses

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

Capitalized Interest

The Organization follows the policy of capitalizing interest as a component of the cost of property, plant, and equipment constructed for its own use. For the years ended June 30, 2007 and 2006, total interest capitalized was $17,569 and $0, respectively.

NOTE 2. Line of Credit Agreement

The Organization has a line of credit agreement with F & M Bank under which it can borrow up to $200,000. Borrowings under this agreement bear interest at a fixed rate of 8.95% as of June 30, 2007, and the agreement expires February 18, 2008. There was an outstanding balance of $50,000 and $0 on this note at June 30, 2007 and 2006, respectively.

NOTE 3. Notes Payable and Long-Term Debt

Long-term debt as of June 30, 2007 and 2006, consists of the following:

	2007	2006
Note payable to GMAC, requiring monthly installments of $300, with no stated interest rate, with final payment due July 2008, collateralized by a vehicle.	$ 4,200	$ 7,800
Note payable to GMAC, requiring monthly installments of $350, with no stated interest rate, with final payment due July 2008, collateralized by a vehicle.	4,900	9,100

NOTE 3. Notes Payable and Long-Term Debt (Continued)

	2007	2006
Mortgage note payable to bank, requiring monthly installments of $20,551, including interest at 7.31% per year, with final balloon payment due February 1, 2008. This note is collateralized by a security agreement dated January 26, 2005, covering substantially all assets of the Organization.	$ 2,701,172	$ 2,748,437
Non-interest bearing, forgivable note payable to the City of Iowa City. The loan will be forgiven on June 30, 2011, as long as MECCA continues to use the property as prescribed in the loan agreement. The agreement states that each June 30, $10,000 of the outstanding principal is forgiven.	40,000	50,000
Note payable to bank, requiring monthly installments of $4,885, beginning September 1, 2007, including interest at 7.3%, with final payment due August 2010, collateralized by substantially all assets of the Organization.	621,899	-----
Note payable to GMAC, requiring monthly installments of $386, with no stated interest rate, with final payment due January 2010, collateralized by a vehicle.	12,347	16,976
Note payable to GMAC, requiring monthly installments of $378, with no stated interest rate, with final payment due October 2011, collateralized by a vehicle.	19,670	24,209
Real estate contract payable, requiring monthly installments of $2,560, including interest at 6.50% per year, with final balloon payment due July 30, 2010. This contract is collateralized by real estate.	401,012	405,000
Non-interest bearing, forgivable note payable to the City of Iowa City. The loan will be forgiven on June 30, 2011, as long as MECCA continues to use the property as prescribed in the loan agreement. The note becomes due if the use of the property is not consistent with the terms of the agreement. The note will be classified as long-term debt until MECCA has been relieved of its obligations to repay the loan.	345,000	345,000
Total	4,150,200	3,606,522
Less: Current Portion	2,741,078	78,144
Total Long-Term Portion	$ 1,409,122	$ 3,528,378

NOTE 3. Notes Payable and Long-Term Debt (Continued)

Future maturities of long-term debt for the years ending June 30 are as follows:

2008	$	2,741,078
2009		36,032
2010		34,321
2011		992,255
2012		1,514
Thereafter		345,000
Total	$	4,150,200

NOTE 4. Obligations under Capital Leases

MECCA is leasing office equipment under five capitalized leases which expire at various dates through April 2012. The leases require monthly payments ranging from $135 to $613. The total cost of the leased equipment is $98,346, and accumulated depreciation at June 30, 2007, is $45,894.

Future minimum lease payments under these leases for the years ending June 30 are as follows:

2008	$	22,693
2009		14,213
2010		12,267
2011		10,380
2012		6,127
Total Minimum Lease Payments		65,680
Less: Amount Representing Interest		15,270
Present Value of Minimum Lease Payments	$	50,410

Mid-Eastern Council on Chemical Abuse

Notes to Financial Statements

NOTE 5. Commitments and Contingency

In the normal course of business, MECCA enters into grant agreements with subcontractors. Under these agreements, MECCA is committed to making payments to the subcontractors as services are provided. These agreements would not extend beyond a one-year period.

A substantial portion of MECCA's accounts receivable and revenue is from governmental entities under reimbursement and purchase-of-service contracts.

NOTE 6. Disclosure about Certain Concentrations

MECCA is subject to a certain degree of vulnerability due to concentrations of revenue received from a major funder. MECCA received $3,489,503 and $3,231,597 of funding from Magellan Behavioral Health for the years ended June 30, 2007 and 2006, respectively.

NOTE 7. Retirement Plan

MECCA has a defined contribution 403(b) retirement plan for its full and part-time employees. An employee is eligible to participate after completing one year of service and who is at least 21 years of age. Participation is voluntary, and MECCA contributes 50% of the employees' contribution, up to a maximum of 4% of their pay. The contribution charged to expense for the years ended June 30, 2007 and 2006 was $39,595 and $34,027, respectively.

NOTE 8. Council Risk Management

MECCA is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. MECCA 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 four fiscal years.

NOTE 9. Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to develop the Organization's programs. The value of this contributed time is not reflected in these statements since it is not susceptible to objective measurement or valuation.

NOTE 10. Lease Agreements

The Organization leases equipment under various lease agreements accounted for as operating lease agreements. These leases expire on various dates through April 2012 and require monthly payments ranging from $282 to $285. Total rent expense included in the statements of activities for the year ended June 30, 2007, was $1,135.

The minimum rental commitment as of June 30, 2007, under the aforementioned leases is as follows:

Year Ending June 30:

2008	$ 6,810
2009	6,810
2010	6,810
2011	6,810
2012	5,675
	$ 32,915

The Organization leases space for a cellular tower under a lease agreement with Cingular Wireless. This lease expires in September 2012 and requires Cingular to make monthly payments of $800. Total rental income included in the statements of activities for the year ended June 30, 2007, was $8,700.

NOTE 10. Lease Agreements (Continued)

The minimum rental income as of June 30, 2007, to be received under the aforementioned lease is as follows:

Year Ending June 30:

2008	$	9,600
2009		9,600
2010		9,600
2011		9,600
2012		2,400
	$	40,800

NOTE 11. Acquisition of Bernie Lorenz Recovery Center

On January 1, 2007 MECCA acquired the assets and operations of the Bernie Lorenz Recovery Center. The economic substance of the transaction was that of a purchase of the assets of Bernie Lorenz Recovery Center in exchange for the assumption of the outstanding liabilities of Bernie Lorenz Recovery Center. The method of accounting used for the combination was the purchase method. Net income from the operations of the Bernie Lorenz Recovery Center through December 31, 2006 is not included in MECCA's statement of activities for the year ended June 30, 2007. The fair market value of the assets purchased exceeded the fair market value of liabilities assumed by $446,961. In accordance with the purchase method of accounting, this excess over cost was allocated to reduce the values assigned to non-current assets by $231,060. A deferred gain on acquisition of $215,901 is being amortized to income over a period of 40 years using the straight-line method. The amount of amortized gain recognized in income was $2,699 for the year ended June 30, 2007.

Supplementary Information

Mid-Eastern Council on Chemical Abuse
Schedules of Other Grants and Contracts
Years Ended June 30, 2007 and 2006

Schedules of Other Grants and Contracts	2007	2006
ICARE Grants	$ 34,208	$ 12,642
Robert Wood Johnson	2,269	73,219
Department of Veteran Affairs	263,498	259,649
SEIDA Management Contract	5,000	42,708
University of Iowa SCY Grant	34,503	93,953
Lifeskills Grant	3,761	17,748
Gateway Addiction Project	-	44,138
Mentoring Grant	35,389	-
Youth Development Grant	14,910	-
Iowa Coalition Against Domestic Violence	11,773	-
Other	33,625	4,395
Total	$ 438,936	$ 548,452

Schedules of County Revenue		
Johnson County	$ 361,312	$ 363,940
Iowa County	47,686	33,334
Cedar County	1,200	1,200
Total	$ 410,198	$ 398,474

Mid-Eastern Council on Chemical Abuse
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Grantor Program	CFDA Number	Grant Number	Federal Expenditures
U.S. Department of Health and Human Services			
Passed through Iowa Department of Public Health:			
Consolidated Knowledge Development and Application (KD&A) Program	93.230	5886TM03	$ 206,350
HIV Prevention Activities	93.940	5887AP19	5,684
Block Grant for Prevention and Treatment of Substance Abuse	93.959	5886CP17	181,081
			393,115
Passed through University of Iowa:			
Consolidated Knowledge Development and Application (KD&A) Program	93.230	21181900	34,503
Passed through Magellan Behavioral Health			
Consolidated Knowledge Development and Application (KD&A) Program	93.959	-	890,784
Block Grants for Prevention and Treatment of Substance Abuse	93.959	-	42,910
			933,694
Passed through Johnson County Public Health:			
Juvenile Justice Youth Development Program	93.276	1SP12963-01	119,224
HIV Care Formula Grant	93.917	5886HC02	22,272
			141,496
Passed through Washington County Auditor's Office:			
Drug-Free Communities Support	93.276	5H79SP12224-05	76,917
Passed through Southern Iowa Economic Development Association:			
Block Grant for Prevention and Treatment of Substance Abuse	93.959	-	200
Total U.S. Department of Health and Human Services			1,579,925

(Continued)

Mid-Eastern Council on Chemical Abuse
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2007

Grantor Program	CFDA Number	Grant Number	Federal Expenditures
U.S. Department of Justice			
Passed through 5th Judicial District Department of Correctional Services:			
Offender Re-Entry Program	16.202	-	$ 8,333
Passed through Iowa Department of Human Services:			
Juvenile Justice Youth Development Program	16.523, 16.540, 16.727	CJJP-07-C2-004	19,919
Passed through Federal Bureau of Prisons - North Central Region:			
Residential Substance Abuse Treatment for State Prisoners	16.593	05-4531	160,585
Total U.S. Department of Justice			188,837
U.S. Department of Housing and Urban Development			
Passed through City of Iowa City:			
CDBG - Entitlement Grant - Medical Director	14.218	-	17,788
Passed through Iowa Finance Authority:			
Housing Opportunities for Persons with AIDS	14.241	01-R5	56,396
Total U.S. Department of Housing and Urban Development			74,184
U.S. Department of Veteran Affairs			
Passed through Central Iowa Health Care System - Des Moines Division:			
Veterans Rehabilitation	64.019	V636A7P-1809	263,498
Total U.S. Department of Veteran Affairs			263,498
Total Federal Awards			$ 2,106,444

(Continued)

Mid-Eastern Council on Chemical Abuse

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2007

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of MECCA and is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

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

Board of Directors
Mid-Eastern Council on Chemical Abuse
Iowa City, Iowa

We have audited the financial statements of the Mid-Eastern Council on Chemical Abuse (MECCA) as of and for the year ended June 30, 2007, and have issued our report thereon dated October 4, 2007. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered MECCA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MECCA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination on control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items II-A-07 and III-A-07 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MECCA'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 and which are described in the accompanying Schedule of Findings and Questioned Costs as items II-A-07 and III-A-07.

We noted certain matters that we reported to management of MECCA in a separate letter dated October 4, 2007.

MECCA's response to the findings identified in our audit in described in the accompanying Schedule of Findings and Questioned Costs. We did not audit MECCA's response and, accordingly, do not express an opinion on it.

This report, a public record by law, is intended solely for the information and use of the audit committee, management, others within the organization, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Krueger & Associates, P.C.

Dubuque, Iowa
October 4, 2007

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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance In Accordance with OMB Circular A-133

Board of Directors
Mid-Eastern Council on Chemical Abuse
Iowa City, Iowa

Compliance

We have audited the compliance of the Mid-Eastern Council on Chemical Abuse (MECCA) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. MECCA's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of MECCA's management. Our responsibility is to express an opinion on MECCA's compliance based on our audit.

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 and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance 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 MECCA'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. Our audit does not provide a legal determination on MECCA's compliance with those requirements.

In our opinion, MECCA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items II-A-07 and III-A-07.

Internal Control over Compliance

The management of MECCA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered MECCA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 MECCA's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance 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 non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination on control deficiencies, that adversely affects the Organization's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items II-A-07 and III-A-07 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than remote likelihood that material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the Organization's internal control. We do not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

MECCA's response to the findings identified in our audit in described in the accompanying Schedule of Findings and Questioned Costs. We did not audit MECCA's response and, accordingly, do not express an opinion on it.

This report is intended solely for the information and use of the management of the Mid-Eastern Council on Chemical Abuse and other parties to whom MECCA may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Krueger & Associates, P.C.

Dubuque, Iowa
October 4, 2007

Mid-Eastern Council on Chemical Abuse

Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Part I: Summary of the Independent Auditor's Results

(a) An unqualified opinion was issued on the financial statements.

(b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements. The conditions are not considered material weaknesses.

(c) The audit did not disclose any non-compliance which is material to the financial statements.

(d) Significant deficiencies in internal control over the major programs were disclosed by the audit of the financial statements. The conditions are not considered material weaknesses.

(e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.

(f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section 510(a).

(g) The following programs were tested as major programs:

Block Grants for Prevention and Treatment of Substance Abuse, CFDA Number 93.959

(h) The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

(i) The Mid-Eastern Council on Chemical Abuse did not qualify as a low-risk auditee.

(Continued)

Part II: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-07 Segregation of Duties - Due to a limited number of personnel performing accounting functions, MECCA does not have adequate segregation of duties over accounting transactions. As a result of this condition, there is a higher risk that errors or misappropriations could occur and not be detected within a timely period.

Recommendation - When this condition exists, management's close supervision and review of accounting information is the best means of preventing or detecting errors and irregularities. We recommend that MECCA review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – The Organization has reorganized duties performed by its personnel to resolve the situation.

Conclusion - Response accepted.

(Continued)

Part III: Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

CFDA Number 93.959:	Block Grants for Prevention and Treatment of Substance Abuse
Pass-through Agency Number:	Various

Passed through the U.S. Department of Housing and Urban Development

III-A-07 **Segregation of Duties over Federal Receipts**: A lack of segregation of duties over receipts and disbursements, including those related to federal programs, exist in MECCA's finance department. See audit finding II-A-06.

Mid-Eastern Council on Chemical Abuse

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2007

Part IV: <u>Other Findings Related to Statutory Requirements and Other Matters</u>

INSTANCES OF NON-COMPLIANCE:

No matters were noted.