



MID-EASTERN COUNCIL ON CHEMICAL ABUSE
Iowa City, Iowa

FINANCIAL STATEMENTS
June 30, 2009 and 2008



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MID-EASTERN COUNCIL ON CHEMICAL ABUSE
BOARD OF DIRECTORS AND MANAGEMENT
June 30, 2009

BOARD OF DIRECTORS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Erin Brothers Smith	Chair Person	2010
Michael Flaum	Vice Chair	2011
Kris Gillham	Secretary	2012
Karen Moline	Treasurer	2010
Mark Behlke	Member	2010
Linda Yoder	Member	2012
Denise Suess	Member	2010
Susan Hauer	Member	2010
Bill Nusser	Member	2011
Steve Davis	Member	2011
LeRoy Moeller	Member	2012

MANAGEMENT

<u>Name</u>	<u>Title</u>
Steve Estes	President
Ronald Berg	Vice President, Director of Operations
Shannon Wagner	Vice President, Administration
Jill Liesveld	Medical Director
Fonda Frazier	Clinical Director
Christine Auner	Chief Financial Officer

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 Mid-Eastern Council on Chemical Abuse (MECCA) as of June 30, 2009 and 2008 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 require that we plan and perform the audit 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 Mid-Eastern Council on Chemical Abuse as of June 30, 2009 and 2008, 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 February 22, 2010, 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 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* and should be considered in assessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. 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 presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Cedar Rapids, Iowa
February 22, 2010

FINANCIAL STATEMENTS

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
STATEMENTS OF FINANCIAL POSITION
June 30, 2009 and 2008

ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash	\$ 424,457	\$ 318,926
Accounts receivable	755,209	533,368
Unconditional promises to give	143,847	131,507
Prepaid expenses	<u>93,059</u>	<u>84,846</u>
Total current assets	<u>1,416,572</u>	<u>1,068,647</u>
 PROPERTY AND EQUIPMENT		
Land	547,910	547,910
Buildings and improvements	5,516,039	5,505,619
Furniture, fixtures and equipment	<u>1,601,889</u>	<u>1,498,481</u>
Total	7,665,838	7,552,010
Less accumulated depreciation	<u>2,400,899</u>	<u>2,091,120</u>
Net property and equipment	<u>5,264,939</u>	<u>5,460,890</u>
 TOTAL ASSETS	 <u>\$ 6,681,511</u>	 <u>\$ 6,529,537</u>

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT LIABILITIES		
Accounts payable	\$ 231,735	\$ 191,857
Note payable	-	40,000
Accrued expenses:		
Salaries and vacation pay	689,688	599,835
Interest	17,611	10,579
Payroll taxes	-	600
Real estate taxes payable	28,045	46,093
Security deposits	4,828	6,415
Unearned revenue	28,641	129,498
Current portion of deferred gain on acquisition	5,398	5,398
Current maturities of long-term debt	174,175	356,421
Current maturities of obligations under capital leases	12,137	11,980
	1,192,258	1,398,676
Total current liabilities		
LONG-TERM LIABILITIES		
Deferred gain on acquisition, less current portion above	197,009	202,406
Long-term debt, less current maturities above	3,803,368	3,729,491
Obligations under capital leases, less current maturities above	19,093	31,633
	4,019,470	3,963,530
Total long-term liabilities		
Total liabilities	5,211,728	5,362,206
NET ASSETS		
Unrestricted	1,325,936	1,035,824
Temporarily restricted:		
Subsequent year's operations	143,847	131,507
	1,469,783	1,167,331
Total net assets		
TOTAL LIABILITIES AND NET ASSETS	\$ 6,681,511	\$ 6,529,537

The accompanying notes are an integral part of the financial statements.

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2009 and 2008

	<u>2009</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue			
Net client fees:			
Residential services	\$ 3,583,266	\$ -	\$ 3,583,266
Nonresidential services	2,577,404	-	2,577,404
Iowa Department of Public Health:			
Prevention programs	1,112,611	-	1,112,611
Other government fees and grants	787,056	-	787,056
Counties	371,499	-	371,499
Iowa City and Coralville	52,330	-	52,330
United Way	-	143,847	143,847
Donations	134,051	-	134,051
Rental income	71,986	-	71,986
Interest	630	-	630
Fund raising income	6,044	-	6,044
Miscellaneous	66,696	-	66,696
	<hr/>	<hr/>	<hr/>
Total public support and revenue	8,763,573	143,847	8,907,420
 NET ASSETS RELEASED FROM RESTRICTIONS			
Expiration of time restrictions	131,507	(131,507)	-
	<hr/>	<hr/>	<hr/>
Total public support, revenue and net assets released from restrictions	8,895,080	12,340	8,907,420
	<hr/>	<hr/>	<hr/>
Expenses			
Program services	6,798,756	-	6,798,756
Supporting activities:			
Management and general	1,723,255	-	1,723,255
Fundraising	82,957	-	82,957
	<hr/>	<hr/>	<hr/>
Total supporting activities	1,806,212	-	1,806,212
	<hr/>	<hr/>	<hr/>
Total expenses	8,604,968	-	8,604,968
	<hr/>	<hr/>	<hr/>
Change in net assets	290,112	12,340	302,452
Net assets, beginning of year	1,035,824	131,507	1,167,331
	<hr/>	<hr/>	<hr/>
Net assets, end of year	\$ 1,325,936	\$ 143,847	\$ 1,469,783
	<hr/>	<hr/>	<hr/>

2008

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 3,395,691	\$ -	\$ 3,395,691
2,535,867	-	2,535,867
758,716	-	758,716
603,023	-	603,023
369,533	-	369,533
40,675	-	40,675
95,498	131,507	227,005
106,381	-	106,381
82,751	-	82,751
507	-	507
8,624	-	8,624
134,301	-	134,301
8,131,567	131,507	8,263,074
-	-	-
8,131,567	131,507	8,263,074
6,720,095	-	6,720,095
1,180,445	-	1,180,445
-	-	-
1,180,445	-	1,180,445
7,900,540	-	7,900,540
231,027	131,507	362,534
804,797	-	804,797
\$ 1,035,824	\$ 131,507	\$ 1,167,331

The accompanying notes are an integral part of the financial statements.

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2009 and 2008

	2009				
	Supporting Activities				
	Program Services	Management and General	Fund Raising	Total	Total Expenses
Salaries and related expenses	\$ 4,658,630	\$ 1,388,784	\$ 71,001	\$ 1,459,785	\$ 6,118,415
Contract services and grants	131,326	-	-	-	131,326
Program costs	234,381	-	-	-	234,381
Professional fees	18,401	34,608	-	34,608	53,009
Travel and conferences	98,493	28,599	-	28,599	127,092
Groceries	312,573	-	-	-	312,573
Supplies and printing	128,136	13,238	-	13,238	141,374
Medical services and supplies	56,691	-	-	-	56,691
Telephone	26,627	10,326	-	10,326	36,953
Depreciation	291,599	18,180	-	18,180	309,779
Utilities	204,202	24,780	-	24,780	228,982
Property tax expense	27,032	-	-	-	27,032
Repairs and maintenance	131,474	16,580	-	16,580	148,054
Equipment rental and repair	46,443	32,282	-	32,282	78,725
Insurance	64,850	22,690	-	22,690	87,540
Staff development	36,732	20,923	-	20,923	57,655
Rent expense	54,927	-	-	-	54,927
Interest	163,027	76,424	-	76,424	239,451
Promotional and education	59,007	20,275	-	20,275	79,282
Dues and subscriptions	-	6,875	270	7,145	7,145
Miscellaneous	54,205	8,691	11,686	20,377	74,582
Total expenses	\$ 6,798,756	\$ 1,723,255	\$ 82,957	\$ 1,806,212	\$ 8,604,968

2008

<u>Program Services</u>	<u>Supporting Activities</u>			<u>Total Expenses</u>
	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>	
\$ 4,621,106	\$ 818,573	\$ -	\$ 818,573	\$ 5,439,679
221,766	-	-	-	221,766
161,651	-	-	-	161,651
-	42,999	-	42,999.00	42,999
86,948	29,831	-	29,831.00	116,779
279,810	-	-	-	279,810
169,684	12,125	-	12,125.00	181,809
57,355	-	-	-	57,355
45,117	8,231	-	8,231.00	53,348
324,976	15,127	-	15,127.00	340,103
187,896	21,873	-	21,873.00	209,769
36,011	9,069	-	9,069.00	45,080
100,468	14,499	-	14,499.00	114,967
96,438	32,277	-	32,277.00	128,715
44,766	36,627	-	36,627.00	81,393
47,385	16,803	-	16,803.00	64,188
38,028	-	-	-	38,028
153,674	98,250	-	98,250.00	251,924
23,571	10,752	-	10,752.00	34,323
2,110	3,816	-	3,816.00	5,926
21,335	9,593	-	9,593	30,928
<u>\$ 6,720,095</u>	<u>\$ 1,180,445</u>	<u>\$ -</u>	<u>\$ 1,180,445</u>	<u>\$ 7,900,540</u>

The accompanying notes are an integral part of the financial statements.

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 302,452	\$ 362,534
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	309,779	340,103
Forgiveness of debt	(10,000)	(10,000)
Gain from acquisition	(5,397)	(5,398)
Effects of changes in operating assets and liabilities:		
Receivables	(234,181)	(246,822)
Prepaid expenses	(8,213)	(12,661)
Security deposits	(1,587)	2,610
Accounts payable	39,878	(61,630)
Accrued expenses	78,237	(27,030)
Unearned revenue	<u>(100,857)</u>	<u>11,408</u>
Net cash provided by operating activities	<u>370,111</u>	<u>353,114</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(84,030)</u>	<u>(91,174)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	-	18,737
Payments on long term-debt	(128,167)	(73,025)
Payments on obligations under capital leases	(12,383)	(17,997)
Payments on note payable	<u>(40,000)</u>	<u>(10,000)</u>
Net cash used in financing activities	<u>(180,550)</u>	<u>(82,285)</u>
 NET INCREASE IN CASH	105,531	179,655
 CASH, BEGINNING OF YEAR	<u>318,926</u>	<u>139,271</u>
 CASH, END OF YEAR	<u>\$ 424,457</u>	<u>\$ 318,926</u>

The accompanying notes are an integral part of the financial statements.

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 - 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.

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.

Net Assets

Net assets are classified based on the existence or absence of donor-imposed restrictions. The following is a description of each class:

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

Temporarily restricted net assets includes 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.

Permanently restricted net assets includes contributions and other inflows of assets whose use by MECCA is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of MECCA. MECCA has no permanently restricted net assets as of June 30, 2009 and 2008.

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable represents uncollateralized obligations due from clients, insurance companies, funding agencies and other providers and generally require payment within 30 days from the billing date. Accounts receivable are stated at the invoice amount. Interest is not charged on overdue accounts. Payments of accounts receivable are applied to specific invoices. The carrying amount of accounts receivable is reduced to reflect management's best estimate of amounts that will ultimately be collected. Revenue is reduced for accounts or portions thereof deemed uncollectible.

Property and Equipment

Property and equipment which were purchased are stated at their original cost and donated furniture and equipment are recorded at fair 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 value if donated, all expenditures for property and equipment in excess of \$500 and a useful life greater than one year.

Impairment of Long-lived Assets

MECCA reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or the fair value less costs to sell.

Unearned Revenue

Conditional grants are recognized as revenue at the point the conditions are met. Unearned revenue represents both grant funds that have been received but the conditions of the grant have not been met and amounts received for which services have not yet been performed.

Compensated Absences

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, 2009 and 2008, based on rates of pay on those dates.

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenue from client services is recognized, at estimated net collectible amounts, in the period the services are performed. A substantial portion of such revenue will not be collectible and the adjustments between standardized and collectible rates is treated as an adjustment to net fee revenue.

Revenue from grants and contracts is recognized as the services are performed if the contract is based on units of service or as costs are incurred if the contract is a cost reimbursement arrangement.

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, MECCA 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.

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

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. MECCA is not classified as a private foundation.

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses

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

Capitalized Interest

MECCA follows the policy of capitalizing interest as a component of the cost of property and equipment constructed for its own use. During the year ended June 30, 2008, total interest capitalized was \$21,723.

Change in Accounting Principles

Effective June 30, 2009, MECCA adopted FASB Statement No. 165, *Subsequent Events* (FAS 165), which introduces the concept of financial statements being available to be issued and requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The adoption of FAS 165 did not have a material impact on MECCA's financial statements. See Note 10.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board issued an interpretation of an established accounting principle in order to create a single model to address accounting for uncertainty in tax positions. This interpretation clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. This also provides guidance on derecognition, measurement, classification, interest and penalties, disclosure and transition. This interpretation will be effective for MECCA's fiscal year ending June 30, 2010.

NOTE 2 - NOTE PAYABLE

The note payable represents a line of credit agreement with F&M Bank which expired on January 16, 2009. The line of credit, which was not renewed, had an outstanding balance of \$40,000 at June 30, 2008.

**MID-EASTERN COUNCIL ON CHEMICAL ABUSE
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008**

NOTE 3 - LONG-TERM DEBT

Long-term debt as of June 30, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Note payable to GMAC, requiring monthly installments of \$300, with no stated interest rate, with final payment made in current year, collateralized by a vehicle.	\$ -	\$ 600
Note payable to GMAC, requiring monthly installments of \$350, with no stated interest rate, with final payment made in current year, collateralized by a vehicle.	-	700
Mortgage note payable to bank, requiring monthly installments of \$20,551, including interest at 5.95% per year, with final balloon payment due February 1, 2011. This note is collateralized by a security agreement dated January 26, 2005, covering substantially all assets of MECCA.	2,559,383	2,649,914
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.	20,000	30,000
Note payable to bank, requiring monthly installments of \$4,885, beginning September 1, 2007, including interest at 5.95%, with final payment due August 2010, collateralized by substantially all assets of MECCA.	619,794	640,637
Note payable to GMAC, requiring monthly installments of \$386, with no stated interest rate, with final payment due January 2010, collateralized by a vehicle.	3,087	7,717
Note payable to GMAC, requiring monthly installments of \$378, with no stated interest rate, with final payment due October 2011, collateralized by a vehicle.	10,591	15,130
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.	390,653	396,214

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 3 - LONG-TERM DEBT (CONTINUED)

	<u>2009</u>	<u>2008</u>
Note payable to Farmers and Merchants Savings Bank, requiring monthly installments of \$900, including interest at 5.50% per year, with final payment due May 2012, collateralized by a vehicle.	29,035	-
Non-interest bearing, forgivable note payable to the City of Iowa City. The loan will be forgiven on June 30, 2101, 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.	<u>345,000</u>	<u>345,000</u>
Total	3,977,543	4,085,912
Less current portion	<u>174,175</u>	<u>356,421</u>
Total long-term portion	<u>\$3,803,368</u>	<u>\$3,729,491</u>
Future maturities of long-term debt for the years ending June 30 are as follows:		
2010	\$ 174,175	
2011	3,448,746	
2012	9,622	
2013	-	
2014	-	
Thereafter	<u>345,000</u>	
Total	<u>\$3,977,543</u>	

NOTE 4 - OBLIGATIONS UNDER CAPITAL LEASES

MECCA is leasing office equipment under four 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 \$109,546, and accumulated depreciation at June 30, 2009 and 2008 is \$79,827 and \$64,835, respectively. Amortization of the capitalized leases totaled \$14,993 and \$18,940 for the years ended June 30, 2009 and 2008, respectively, and is included in depreciation expense.

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 4 - OBLIGATIONS UNDER CAPITAL LEASES (CONTINUED)

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

2010	\$ 16,057
2011	14,144
2012	<u>7,706</u>
Total minimum lease payments	37,907
Less amount representing interest	<u>6,677</u>
Present value of minimum lease payments	<u>\$ 31,230</u>

NOTE 5 - CASH FLOW DISCLOSURES

Cash paid for interest, net of interest capitalized of \$21,723 in the year ended June 30, 2008, totaled \$224,124 and \$277,845 for the years ended June 30, 2009 and 2008, respectively.

During the years ended June 30, 2009 and 2008, MECCA purchased \$29,798 and \$11,200, respectively, of equipment that was directly financed.

NOTE 6 - CONTINGENCIES

Concentration of Credit Risk

MECCA maintains deposits in one bank account in excess of the federally insured amount. The total amount on deposit was \$254,238 at June 30, 2009. It is management's belief that the credit risk related to the aforementioned asset is minimal.

Concentrations

MECCA is subject to a certain degree of vulnerability due to concentrations of accounts receivable and revenue from a major funding agency. MECCA received approximately 42% of their total support from Magellan Behavioral Health for each of the years ended June 30, 2009 and 2008.

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

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 6 - CONTINGENCIES (CONTINUED)

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 three fiscal years.

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, 2009 and 2008 totaled \$43,101 and \$38,353, respectively.

NOTE 8 - COMMITMENTS

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.

Lease Agreement

MECCA leases office space under a lease agreement accounted for as an operating lease agreement. The lease expires in November 2011 and requires monthly payments ranging from \$2,004 to \$2,068.

Total rent expense included in the statements of activities for the years ended June 30, 2009 and 2008, was \$54,927 and \$38,028, respectively.

The minimum rental commitments as of June 30, 2009 under the aforementioned lease is as follows:

2010	\$ 24,496
2011	24,816
2012	<u>10,340</u>
Total	\$ <u>59,652</u>

MID-EASTERN COUNCIL ON CHEMICAL ABUSE
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE 8 - COMMITMENTS (CONTINUED)

MECCA leases space for a cellular tower under a lease agreement with Cingular Wireless which expires in September 2011. The lease contains automatic renewal options. Total rental income included in the statements of activities for the year ended June 30, 2009 was \$10,110.

The minimum rental income to be received under the aforementioned lease for the years ending June 30, is as follows:

2010	\$ 10,414
2011	10,726
2012	<u>2,701</u>
Total	<u>\$ 23,841</u>

NOTE 9 - CHANGE IN UNITED WAY FUNDING

Effective with their 2008 allocations, United Way agencies providing funding for MECCA changed their methodology of awarding allocations to agencies. Under the new allocation methodology, grants are awarded for a twelve-month period, versus the prior methodology of awarding grants in six-month intervals. This change resulted in MECCA recording an additional \$65,754 of temporarily restricted support from United Way during the year ended June 30, 2008.

NOTE 10 - SUBSEQUENT EVENTS

Management evaluated subsequent events through February 22, 2010, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2009, but prior to February 22, 2010 that provided additional evidence about conditions that existed at June 30, 2009, have been recognized in the financial statements for the year ended June 30, 2009. Events or transactions that provided evidence about conditions that did not exist at June 30, 2009, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2009.

This information is an integral part of the financial statements.

SUPPLEMENTAL INFORMATION

**MID-EASTERN COUNCIL ON CHEMICAL ABUSE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2009**

Grantor / Program	CFDA Number	Grant Number	Federal Expenditures
U.S. Department of Health and Human Services			
Passed Through Iowa Department of Public Health: Safe and Drug Free Schools	84.186B	N/A	\$ <u>55,000</u>
Passed Through Iowa Department of Public Health: Substance Abuse Prevention and Treatment Access to Recovery	93.275	N/A	<u>81,823</u>
Passed through Johnson County Public Health: HIV Care Consortium	93.917	5887HC02	<u>51,670</u>
Passed Through Johnson County Public Health: Drug Free Communities Support	93.276	H9SP12963A	108,888
Passed Through Washington County Auditor's Office: Drug Free Communities Support	93.276	N/A	<u>81,159</u>
Total CFDA # 93.276			<u>190,047</u>
Passed Through Iowa Department of Public Health: Substance Abuse Prevention and Treatment Block Grant Program: Comprehensive Substance Abuse Prevention	93.959*	N/A	160,636
Passed Through Magellan Behavioral Care of Iowa: Substance Abuse Prevention and Treatment Block Grant Program: Behavioral Health Addendum	93.959*	N/A	939,649
Women and Children	93.959*	N/A	<u>141,147</u>
Total CFDA # 93.959			<u>1,241,432</u>
Passed Through Iowa Department of Public Health: HIV Prevention Activities	93.940	5887AP19	14,593
HIV CTR and Hepatitis	93.940	5887AP24	<u>16,145</u>
Total CFDA # 93.940			<u>30,738</u>
Total U.S. Department of Health and Human Services			<u>1,650,710</u>

**MID-EASTERN COUNCIL ON CHEMICAL ABUSE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2009**

<u>Grantor / Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
U.S Department of Justice			
Passed through 5th Judicial District Department of Correctional Services:			
Iowa City Decat	16.540	N/A	16,807
Iowa Coalition Against Domestic Violence	16.589	N/A	<u>5,046</u>
Total U.S. Department of Justice			<u>21,853</u>
U.S Department of Housing and Urban Development			
Passed Through City of Des Moines:			
Transitional Housing	14.218	N/A	44,007
Passed through Iowa Finance Authority :			
Housing Opportunities for Persons with AIDS	14.241	2009 F-1 R5	<u>84,435</u>
Total U.S. Department of Housing and Urban Development			<u>128,442</u>
Total Federal Expenditures			<u>\$ 1,801,005</u>

* This program was tested as a major program at June 30, 2009.

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Mid-Eastern Council on Chemical Abuse 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.

NOTE 2 - SUB-RECIPIENT PAYMENTS, NON-CASH ASSISTANCE, INSURANCE, LOANS, OR LOAN GUARANTEES

There were no payments passed through to sub-recipient agencies during the year ended June 30, 2009. In addition, there was no non-cash assistance, insurance, loans or loan guarantees outstanding as of and for the year ended June 30, 2009.

**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
Mid-Eastern Council on Chemical Abuse
Iowa City, Iowa

We have audited the financial statements of Mid-Eastern Council on Chemical Abuse as of and for the year ended June 30, 2009, and have issued our report thereon dated February 22, 2010.

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 Mid-Eastern Council on Chemical Abuse'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 the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity'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 the 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 of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity'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 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 consider the deficiencies described in the accompanying schedule of findings, responses and questioned costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mid-Eastern Council on Chemical Abuse'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*.

Mid-Eastern Council on Chemical Abuse's responses to the findings identified in our audit are described in the accompanying schedule of findings, responses and questioned costs. We did not audit Mid-Eastern Council on Chemical Abuse's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Henderson LLP

Cedar Rapids, Iowa
February 22, 2010

**Independent Auditor's Report on Compliance with
Requirements Applicable to the 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 Mid-Eastern Council on Chemical Abuse 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 its major federal program for the year ended June 30, 2009. Mid-Eastern Council on Chemical Abuse's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings, responses and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Organization's management. Our responsibility is to express an opinion on Mid-Eastern Council on Chemical Abuse'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 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 Mid-Eastern Council on Chemical Abuse'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 of Mid-Eastern Council on Chemical Abuse's compliance with those requirements.

In our opinion, Mid-Eastern Council on Chemical Abuse complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Mid-Eastern Council on Chemical Abuse is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Mid-Eastern Council on Chemical Abuse's internal control over compliance with the 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 Mid-Eastern Council on Chemical Abuse's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's 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 material weaknesses.

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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings, responses and questioned costs to be material weaknesses.

MECCA's responses to the findings identified in our audit are described in the accompanying schedule of findings, responses and questioned costs. We did not audit MECCA's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Henderson LLP

Cedar Rapids, Iowa
February 22, 2010

**MID-EASTERN COUNCIL ON CHEMICAL ABUSE
SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS
Year Ended June 30, 2009**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X Yes None Reported
- Deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? X Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

**MID-EASTERN COUNCIL ON CHEMICAL ABUSE
SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS
Year Ended June 30, 2009**

SECTION II - FINANCIAL STATEMENT FINDINGS

2009 - 1: Preparation of Financial Statements

Criteria:

The Board of Directors and management share the ultimate responsibility for the preparation of their financial statements, including disclosures.

Condition:

MECCA has not implemented procedures, to the degree necessary, to perform a review and assume responsibility for their financial statements and related disclosures to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected.

Context:

While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced. The independent auditor cannot be considered part of MECCA's internal control system. MECCA has implemented procedures to review the financial statements and disclosures but has not utilized review aids, such as a disclosure checklist, and may not have monitored recent accounting developments to the extent necessary to provide a high level of assurance that financial statement omissions or other errors would be identified and corrected.

Effect:

As a result of this condition, there is a higher risk that financial statement omissions or other errors or misstatements could occur and not be detected.

Cause:

MECCA has relied on the independent auditor to some degree to provide assurance that the financial statements, including disclosures, are not materially misstated.

Recommendation:

We recommend that sufficient financial statement and disclosure review procedures be performed by an individual possessing a thorough understanding of applicable generally accepted accounting principles and knowledge of MECCA's activities and operations.

Management's Response:

We recently recruited a Certified Public Accountant to our Board of Directors to assist with financial statement preparation and review.

Conclusion:

Response accepted.

**MID-EASTERN COUNCIL ON CHEMICAL ABUSE
SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS
Year Ended June 30, 2009**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2009 - 2: Audit Adjustments

Criteria:

MECCA should have adequate procedures to provide for the accuracy and reliability of the trial balance given to the auditor.

Condition:

During the course of the audit, misstatements that had a significant effect on MECCA's financial statements were brought to our attention. Adjusting journal entries were made to correct these misstatements.

Context:

For many years, MECCA has engaged independent public accountants to propose various adjusting journal entries. We will continue to perform these functions for you in the future if so directed by you, however, as independent auditors, we cannot be considered part of MECCA's internal control system for this area. Without our present level of assistance in this function, there may not be a high level of assurance that any potential omissions or other errors that are significant would be identified and corrected in MECCA's financial statements.

Effect:

As a result of this condition, there is a higher risk that misstatements that are more than inconsequential to the financial statements could be reported.

Cause:

MECCA has relied on the independent auditor to some degree to provide assurance that the financial statements are not materially misstated.

Recommendation:

We recommend that trial balance review procedures be performed by an individual possessing a thorough understanding of applicable generally accepted accounting principles and having knowledge of MECCA's activities and operations, so that all account balances are adjusted prior to the audit.

Management's Response:

We will develop internal procedures to ensure that account balances are correctly adjusted prior to the audit.

Conclusion:

Response accepted.

**MID-EASTERN COUNCIL ON CHEMICAL ABUSE
SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS
Year Ended June 30, 2009**

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

2009 - 3: Segregation of Duties in the Accounting Function

Criteria:

MECCA should have adequate segregation of duties to provide for the accuracy and reliability of the financial statements.

Condition:

Due to a limited number of personnel performing accounting functions, MECCA does not have adequate segregation of duties over accounting functions.

Context:

Internal controls that are in place could be averted, overridden, or not consistently implemented.

Effect:

As a result of this condition, there is a higher risk that errors or irregularities could occur and not be detected within a timely period.

Cause:

MECCA has a limited number of personnel performing accounting functions.

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 MECCA review its operating procedures to obtain the maximum internal control possible under the circumstances.

Management's Response:

We will reorganize duties performed by accounting personnel to resolve the situation.

Conclusion:

Response accepted.

**MID-EASTERN COUNCIL ON CHEMICAL ABUSE
SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS
Year Ended June 30, 2009**

SECTION III - FEDERAL AWARD FINDINGS

2009 - A: Segregation of Duties in the Accounting Function

Major Program: Block Grants for Prevention and Treatment of Substance Abuse
CFDA#: 93.959
Federal Agency: U.S. Department of Health and Human Services

See Finding No. 2009-3 reported in the Financial Statement Findings section of this schedule.

2009 - B: Audit Adjustments

Major Program: Block Grants for Prevention and Treatment of Substance Abuse
CFDA#: 93.959
Federal Agency: U.S. Department of Health and Human Services

See Finding No. 2009-2 reported in the Financial Statement Findings section of this schedule.

**MID-EASTERN COUNCIL ON CHEMICAL ABUSE
CORRECTIVE ACTION PLAN
Year Ended June 30, 2009**

<u>Comment Number</u>	<u>Comment Title</u>	<u>Corrective Action Plan</u>	<u>Contact Person, Title, Phone Number</u>	<u>Anticipated Date of Completion</u>
2009 - 1	Preparation of Financial Statements	The Council recently recruited a Certified Public Accountant to the Board of Directors.	Chris Auner, CFO (319) 351-4357	10/1/2009
2009 - 2, 2009 - B	Audit Adjustments	Establish procedures to ensure that account balances are correctly adjusted prior to the audit.	Chris Auner, CFO (319) 351-4357	6/30/2010
2009 - 3, 2009 - A	Segregation Of Duties	Establish procedures to ensure that incompatible accounting functions are segregated.	Chris Auner, CFO (319) 351-4357	6/30/2010

**MID-EASTERN COUNCIL ON CHEMICAL ABUSE
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2008**

FINDING 2008 - 1: Preparation of Financial Statements

Condition:

MECCA has not implemented procedures, to the degree necessary, to perform a review and assume responsibility for their financial statements and related disclosures to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected.

Recommendation:

We recommend that sufficient financial statement and disclosure review procedures be performed by an individual possessing a thorough understanding of applicable generally accepted accounting principles and knowledge of MECCA's activities and operations.

Current Status:

Not implemented.

FINDING 2008 - 2: Audit Adjustments

Condition:

During the course of the audit, misstatements that had a significant effect on MECCA's financial statements were brought to our attention. Adjusting journal entries were made to correct these misstatements.

Recommendation:

We recommend that trial balance review procedures be performed by an individual possessing a thorough understanding of applicable generally accepted accounting principles and having knowledge of MECCA's activities and operations, so that all account balances are adjusted prior to the audit.

Current Status:

Implemented.

FINDING 2008 - 3: Reconciliation of Account Balances

Condition:

MECCA has not implemented procedures, to the degree necessary, to ensure that account balances are being reconciled in a timely manner. Timely reconciliations provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected.

Recommendation:

We recommend that management establish procedures to ensure that reconciliations of account balances be performed in a timely manner.

Current Status:

Implemented.