

MECCA SERVICES
Iowa City, Iowa

FINANCIAL STATEMENTS
June 30, 2012 and 2011

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**MECCA SERVICES
BOARD OF DIRECTORS AND MANAGEMENT
June 30, 2012**

BOARD OF DIRECTORS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Flaum	Chair Person	2014
Susan Hauer	Vice Chair	2013
Dorothy Maher	Secretary	2014
Verne Nelson	Treasurer	2014
Mark Behlke	Member	2013
Jeff Grubb	Member	2015
Jim Houghton	Member	2015
Steve Kuhl	Member	2015
Steve Reagan	Member	2015
Margaret Stuart	Member	2015
Sally Stutsman	Member	2014

MANAGEMENT

<u>Name</u>	<u>Title</u>
Ronald Berg	Chief Executive Officer
Shannon Wagner	Vice President, Community Affairs
Jill Liesveld	Medical Director
Fonda Frazier	Clinical Director
Christine Auner	Chief Financial Officer

Independent Auditors' Report

Board of Directors
MECCA SERVICES
Iowa City, Iowa

We have audited the accompanying statements of financial position of MECCA SERVICES (MECCA) as of June 30, 2012 and 2011 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 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 SERVICES as of June 30, 2012 and 2011, 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 January 4, 2013, on our consideration of the MECCA SERVICES'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.

CliftonLarsonAllen LLP

Cedar Rapids, Iowa
January 4, 2013

FINANCIAL STATEMENTS

MECCA SERVICES
STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 660,736	\$ 744,946
Accounts receivable	540,644	612,186
Unconditional promises to give	141,791	141,791
Prepaid expenses	<u>58,915</u>	<u>53,364</u>
Total current assets	<u>1,402,086</u>	<u>1,552,287</u>
 PROPERTY AND EQUIPMENT		
Land	547,910	547,910
Buildings and improvements	5,556,394	5,532,632
Furniture, fixtures and equipment	<u>1,774,532</u>	<u>1,736,242</u>
Total	7,878,836	7,816,784
Less accumulated depreciation	<u>(3,050,486)</u>	<u>(2,848,065)</u>
Net property and equipment	<u>4,828,350</u>	<u>4,968,719</u>
 OTHER ASSETS		
Loan origination fees, net of accumulated amortization of \$3,534 in 2012 and \$1,302 in 2011	<u>41,100</u>	<u>43,332</u>
 TOTAL ASSETS	 <u>\$ 6,271,536</u>	 <u>\$ 6,564,338</u>

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT LIABILITIES		
Accounts payable	\$ 119,574	\$ 202,897
Accrued expenses:		
Salaries and vacation pay	451,478	667,199
Interest	11,227	11,614
Real estate taxes payable	12,902	27,138
Security deposits	3,052	2,650
Due to funding agency	-	15,341
Unearned revenue	27,142	30,584
Current portion of deferred gain on acquisition	5,398	5,398
Current maturities of long-term debt	123,349	119,737
Current maturities of obligations under capital leases	19,142	51,018
	<u>773,264</u>	<u>1,133,576</u>
Total current liabilities		
LONG-TERM LIABILITIES		
Deferred gain on acquisition, less current portion above	180,818	186,214
Long-term debt, less current maturities above	3,515,803	3,639,152
Obligations under capital leases, less current maturities above	15,648	14,656
	<u>3,712,269</u>	<u>3,840,022</u>
Total long-term liabilities		
Total liabilities	<u>4,485,533</u>	<u>4,973,598</u>
NET ASSETS		
Unrestricted	1,644,212	1,448,949
Temporarily restricted:		
Subsequent years' operations	141,791	141,791
	<u>1,786,003</u>	<u>1,590,740</u>
Total net assets		
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,271,536</u>	<u>\$ 6,564,338</u>

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

MECCA SERVICES
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2012 and 2011

	2012		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Net client fees:			
Residential services	\$ 2,906,560	\$ -	\$ 2,906,560
Nonresidential services	2,514,013	-	2,514,013
Iowa Department of Public Health:			
Prevention programs	754,097	-	754,097
Other prevention	221,810	-	221,810
Other government fees and grants	707,611	-	707,611
Counties	490,279	-	490,279
Iowa City and Coralville	36,953	-	36,953
United Way	-	141,791	141,791
Donations	81,638	-	81,638
Rental income	68,814	-	68,814
Interest	1,823	-	1,823
Fundraising income	13,754	-	13,754
Miscellaneous	51,245	-	51,245
	<u>7,848,597</u>	<u>141,791</u>	<u>7,990,388</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Expiration of time restrictions	<u>141,791</u>	<u>(141,791)</u>	<u>-</u>
Total public support, revenue and net assets released from restrictions	<u>7,990,388</u>	<u>-</u>	<u>7,990,388</u>
EXPENSES			
Program services	<u>5,776,023</u>	<u>-</u>	<u>5,776,023</u>
Supporting activities:			
Management and general	1,937,166	-	1,937,166
Fundraising	81,936	-	81,936
	<u>2,019,102</u>	<u>-</u>	<u>2,019,102</u>
Total supporting activities	<u>2,019,102</u>	<u>-</u>	<u>2,019,102</u>
Total expenses	<u>7,795,125</u>	<u>-</u>	<u>7,795,125</u>
CHANGE IN NET ASSETS	195,263	-	195,263
NET ASSETS, BEGINNING OF YEAR	<u>1,448,949</u>	<u>141,791</u>	<u>1,590,740</u>
NET ASSETS, END OF YEAR	<u>\$ 1,644,212</u>	<u>\$ 141,791</u>	<u>\$ 1,786,003</u>

2011

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 2,859,396	\$ -	\$ 2,859,396
2,460,619	-	2,460,619
922,904	-	922,904
223,108	-	223,108
929,502	-	929,502
473,186	-	473,186
31,660	-	31,660
-	141,791	141,791
105,247	-	105,247
57,300	-	57,300
1,909	-	1,909
20,005	-	20,005
76,457	-	76,457
8,161,293	141,791	8,303,084
141,789	(141,789)	-
8,303,082	2	8,303,084
6,411,628	-	6,411,628
2,067,767	-	2,067,767
83,327	-	83,327
2,151,094	-	2,151,094
8,562,722	-	8,562,722
(259,640)	2	(259,638)
1,708,589	141,789	1,850,378
\$ 1,448,949	\$ 141,791	\$ 1,590,740

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

MECCA SERVICES
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2012 and 2011

2012

	<u>Supporting Activities</u>				Total Expenses
	Program Services	Management and General	Fundraising	Total	
Salaries and related expenses	\$ 4,184,493	\$ 1,513,252	\$ 75,186	\$ 1,588,438	\$ 5,772,931
Contract services and grants	92,230	1,293	-	1,293	93,523
Program costs	198,863	290	12	302	199,165
Professional fees	-	87,145	-	87,145	87,145
Travel and conferences	74,712	24,608	871	25,479	100,191
Groceries	290,148	-	-	-	290,148
Supplies and printing	78,612	25,475	839	26,314	104,926
Medical services and supplies	76,401	-	-	-	76,401
Telephone	16,522	7,140	-	7,140	23,662
Depreciation	209,060	40,355	-	40,355	249,415
Utilities	165,683	32,633	-	32,633	198,316
Property tax expense	12,902	-	-	-	12,902
Repairs and maintenance	87,024	22,166	-	22,166	109,190
Equipment rental and repair	45,258	52,852	-	52,852	98,110
Insurance	58,767	24,994	-	24,994	83,761
Staff development	17,877	6,209	272	6,481	24,358
Rent expense	53,483	-	-	-	53,483
Interest	95,948	41,130	-	41,130	137,078
Promotional and education	3,038	21,200	2,833	24,033	27,071
Dues and subscriptions	1,689	1,973	642	2,615	4,304
Bond amortization expense	-	2,232	-	2,232	2,232
Miscellaneous	13,313	32,219	1,281	33,500	46,813
Total expenses	\$ 5,776,023	\$ 1,937,166	\$ 81,936	\$ 2,019,102	\$ 7,795,125

2011

Program Services	Supporting Activities			Total Expenses
	Management and General	Fundraising	Total	
\$ 4,323,067	\$ 1,628,454	\$ 71,445	\$ 1,699,899	\$ 6,022,966
321,920	-	-	-	321,920
218,803	395	-	395	219,198
-	79,301	-	79,301	79,301
87,439	25,158	1,207	26,365	113,804
320,495	-	-	-	320,495
86,272	26,103	329	26,432	112,704
58,668	-	-	-	58,668
17,266	7,974	-	7,974	25,240
227,933	44,248	-	44,248	272,181
171,517	25,963	-	25,963	197,480
27,138	-	-	-	27,138
224,215	28,432	-	28,432	252,647
43,036	47,375	705	48,080	91,116
57,430	18,623	-	18,623	76,053
13,592	7,635	100	7,735	21,327
55,758	-	-	-	55,758
133,275	44,877	-	44,877	178,152
5,683	22,720	3,761	26,481	32,164
1,068	9,856	485	10,341	11,409
-	1,302	-	1,302	1,302
17,053	49,351	5,295	54,646	71,699
\$ 6,411,628	\$ 2,067,767	\$ 83,327	\$ 2,151,094	\$ 8,562,722

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

MECCA SERVICES
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 195,263	\$ (259,638)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	249,415	272,181
Amortization	2,232	1,302
Loss on disposal of equipment	-	-
Forgiveness of debt	-	(10,000)
Gain from acquisition	(5,398)	(5,398)
Effects of changes in operating assets and liabilities:		
Receivables	71,542	166,211
Prepaid expenses	(5,551)	26,048
Security deposits	402	(1,208)
Accounts payable	(116,380)	17,386
Accrued expenses	(230,342)	(72,587)
Unearned revenue	(3,442)	1,688
	<u>157,741</u>	<u>135,985</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(70,649)</u>	<u>(44,569)</u>
Net cash used in investing activities	<u>(70,649)</u>	<u>(44,569)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	-	3,472,000
Payments on long term-debt	(119,737)	(3,528,845)
Payment for loan origination fees	-	(44,634)
Payments on obligations under capital leases	<u>(51,565)</u>	<u>(53,573)</u>
Net cash used in financing activities	<u>(171,302)</u>	<u>(155,052)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(84,210)	(63,636)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>744,946</u>	<u>808,582</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 660,736</u>	<u>\$ 744,946</u>

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

MECCA SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

MECCA SERVICES (MECCA) (formerly known as Mid-Eastern Council on Chemical Abuse) 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.

Cash Equivalents

MECCA considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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.

MECCA SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (continued)

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, 2012 and 2011.

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.

MECCA SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2012 and 2011, based on rates of pay on those dates.

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.

MECCA SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

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.

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. The Internal Revenue Service has not classified MECCA as a private foundation.

MECCA files information returns in the U.S. federal jurisdiction. MECCA determined that it was not required to record a liability related to uncertain tax positions. The federal information returns of MECCA for the year ended June 30, 2009, and thereafter, are subject to examination by the IRS, generally for three years after they were filed.

NOTE 2 - LONG-TERM DEBT

Long-term debt as of June 30 consists of the following:

	<u>2012</u>	<u>2011</u>
Note payable to GMAC, requiring monthly installments of \$378, with no stated interest rate, with final payment due October 2011, collateralized by a vehicle.	\$ -	\$ 1,513
Mortgage note payable to bank, requiring monthly installments of \$20,950, including interest at 3.90% per year, with final payment due December 1, 2030. This note is collateralized by a security agreement dated December 1, 2010, covering substantially all assets of MECCA.	3,294,152	3,412,376

MECCA SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 2 - LONG-TERM DEBT (CONTINUED)

	<u>2012</u>	<u>2011</u>
Non-interest bearing, forgivable note payable to the City of Iowa City. The loan will be forgiven on November 22, 2022, 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. The note is collateralized by real estate.	<u>345,000</u>	<u>345,000</u>
Total	3,639,152	3,758,889
Less current portion	<u>(123,349)</u>	<u>(119,737)</u>
Long-term portion	<u>\$3,515,803</u>	<u>\$3,639,152</u>

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

2013	\$ 123,349
2014	128,316
2015	133,482
2016	138,549
2017	144,436
Thereafter	<u>2,971,020</u>
Total	<u>\$3,639,152</u>

NOTE 3 - OBLIGATIONS UNDER CAPITAL LEASES

MECCA is leasing office equipment under five capitalized leases which expire at various dates through April 2017. Two of the leases expired during the current year. The remaining leases require monthly payments ranging from \$249 to \$3,894. The total cost of the leased equipment is \$228,071 and \$162,155 as of June 30, 2012 and 2011, respectively, and accumulated depreciation at June 30, 2012 and 2011 is \$102,516 and \$58,278, respectively. Amortization of the capitalized leases totaled \$25,807 and \$25,281 for the years ended June 30, 2012 and 2011, respectively, and is included in depreciation expense.

MECCA SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 3 - OBLIGATIONS UNDER CAPITAL LEASES (CONTINUED)

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

2013	\$ 21,624
2014	6,072
2015	6,072
2016	4,532
2017	<u>2,494</u>
Total minimum lease payments	40,794
Less amount representing interest	<u>6,004</u>
Present value of minimum lease payments	<u>\$ 34,790</u>

NOTE 4 - CASH FLOW DISCLOSURES

Cash paid for interest totaled \$133,179 and \$170,617 for the years ended June 30, 2012 and 2011, respectively. Non-cash investing and operating transactions during the year end June 30, 2012 included the purchase of \$17,716 of property and equipment that was accrued in accounts payable at June 30, 2012.

During the year ended June 30, 2012, MECCA acquired \$20,681 of equipment that was financed through capital leases.

NOTE 5 - CONTINGENCIES

Concentration of Credit Risk

MECCA maintains deposits in one bank in excess of the federally insured amount. The total amount on deposit was \$696,960 at June 30, 2012. 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 46% and 44% of their total support from Magellan Behavioral Health and 9% and 11% from the Iowa Department of Public Health for the years ended June 30, 2012 and 2011, respectively.

MECCA SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 5 - CONTINGENCIES (CONTINUED)

Concentrations (continued)

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

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 6 - RETIREMENT PLAN

MECCA began a defined contribution 401(k) plan on July 1, 2011 covering all employees who have one year of employment, 1,000 hours of service, and are age 18 or older. Eligibility requirements were waived for all employees employed on July 1, 2011. The plan allows employees to defer their income on a pretax basis through contributions to the plan. In addition, MECCA matches 50% of the participants' eligible contributions, up to a maximum of 8% of their compensation. The contribution charged to expense for the year ended June 30, 2012 is \$80,972.

MECCA had a defined contribution 403(b) retirement plan for its full- and part-time employees. An employee was eligible to participate after completing one year of service and who was at least 21 years of age. Participation was voluntary, and MECCA contributed 50% of the employees' contribution, up to a maximum of 4% of their pay. The contribution charged to expense for the year ended June 30, 2011 was \$48,981. This plan was terminated effective June 30, 2011.

NOTE 7 - 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 2012 and requires a monthly payment in the amount of \$2,068. Future minimum lease payments under this lease is \$10,340. MECCA does not plan to renew this lease.

MECCA SERVICES
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 7 - COMMITMENTS (CONTINUED)

Total office rent expense included in the statements of activities for the years ended June 30, 2012 and 2011, was \$53,483 and \$55,758, respectively.

MECCA leases space for a cellular tower under a lease agreement with Cingular Wireless which expired in September 2011. The lease contains four automatic five year renewal options if not cancelled by either party by giving the other written notice to terminate at least six months prior to the end of an annual term. The first renewal option was automatically exercised in September 2011.

Total rental income included in the statements of activities for the years ended June 30, 2012 and 2011 was \$11,048 and \$9,826, respectively. Future minimum rental income to be received under the aforementioned lease totals \$2,701, which will be received in the year ending June 30, 2013.

NOTE 8 – DEFERRED GAIN ON ACQUISITION

In January 2007, MECCA acquired the assets and operations of the Bernie Lorenz Recovery Center. A deferred gain of \$215,901 was recognized and 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 \$5,398 for the years ended June 30, 2012 and 2011, respectively.

NOTE 9 - SUBSEQUENT EVENTS

Subsequent to year end, MECCA's Board of Directors approved to discontinue the ICARE program once funding contracts expire in March, 2013. MECCA determined that the long range needs of ICARE clients would be better served in a medical rather than a community setting.

Management evaluated subsequent events through January 4, 2013, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2012, but prior to January 4, 2013, that provided additional evidence about conditions that existed at June 30, 2012, have been recognized in the financial statements for the year ended June 30, 2012. Events or transactions that provided evidence about conditions that did not exist at June 30, 2012, 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, 2012.

This information is an integral part of the financial statements.

**Independent Auditors' 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
MECCA SERVICES
Iowa City, Iowa

We have audited the financial statements of MECCA SERVICES (MECCA) as of and for the year ended June 30, 2012, and have issued our report thereon dated January 4, 2013. 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

Management of MECCA is responsible for establishing and maintaining effective 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 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

This report is intended solely for the information and use of management, the Board of Directors, 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.

CliftonLarsonAllen LLP

Cedar Rapids, Iowa
January 4, 2013

MECCA SERVICES

Iowa City, Iowa

**INDEPENDENT AUDITORS' REPORTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2012**

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CliftonLarsonAllen

**Independent Auditors' 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
MECCA Services
Iowa City, Iowa

We have audited the financial statements of MECCA Services (MECCA) as of and for the year ended June 30, 2012, and have issued our report thereon dated January 4, 2013. 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

Management of MECCA is responsible for establishing and maintaining effective 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 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.

This report is intended solely for the information and use of management, the Board of Directors, 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.

CliftonLarsonAllen LLP

Cedar Rapids, Iowa
January 4, 2013



CliftonLarsonAllen

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on the Major Program and on Internal Control Over Compliance and Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133

Board of Directors
MECCA Services
Iowa City, Iowa

Compliance

We have audited the compliance of MECCA Services (MECCA) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2012. MECCA's major federal program is 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 its major federal program 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 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 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 of MECCA's compliance with those requirements.

In our opinion, MECCA complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance 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 item 2012-III-A.

Internal Control Over Compliance

The management of MECCA 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 MECCA's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MECCA's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2012-III-A. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We audited the financial statements of MECCA as of and for the year ended June 30, 2012, and have issued our report thereon dated January 4, 2013. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

MECCA's responses to the findings identified in our audit are described in the accompanying schedule of findings 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, the Board of Directors, 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.

CliftonLarsonAllen LLP

Cedar Rapids, Iowa
January 24, 2013

MECCA SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

Grantor / Program	CFDA Number	Grant Number	Federal Expenditures
U.S. Department of Health and Human Services			
Passed through Iowa Department of Public Health: Substance Abuse Prevention and Treatment Block Grant Program: Strategic Prevention Framework State Incentive Grant	93.243	5881CP17	\$ <u>95,969</u>
Passed through Iowa Department of Public Health: Substance Abuse Prevention and Treatment Access to Recovery	93.275	5881AC20	<u>47,898</u>
Drug-Free Communities Support Program	93.276	1H79SP017267-01	<u>75,370</u>
Passed through Iowa Department of Public Health: HIV Care Consortium	93.917	5882HC09	59,501
HIV Care Consortium	93.917	5883HC09	<u>24,250</u>
Total CFDA # 93.917			<u>83,751</u>
Passed through Iowa Department of Public Health: Substance Abuse Prevention and Treatment Block Grant Program: Comprehensive Substance Abuse Prevention	93.959*	5881CP17	168,918
Passed through Magellan Behavioral Care of Iowa: Substance Abuse Prevention and Treatment Block Grant Program: Behavioral Health Addendum	93.959*	N/A	1,213,114
Women and Children	93.959*	N/A	<u>117,230</u>
Total CFDA # 93.959			<u>1,499,262</u>
Passed through Iowa Department of Public Health: HIV Prevention HERR	93.940	5881AP19	14,686
Total U.S. Department of Health and Human Services			<u>1,816,936</u>

MECCA SERVICES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

Grantor / Program	CFDA Number	Grant Number	Federal Expenditures
U.S Department of Housing and Urban Development			
Passed through City of Des Moines:			
Transitional Housing	14.218	Year 12	16,293
Passed through City of Iowa City:			
Entitlement Grant	14.218	N/A	10,500
Total CFDA # 14.218			<u>26,793</u>
Passed through Iowa Finance Authority :			
Housing Opportunities for Persons with AIDS	14.241	2011 F-1 R5	42,189
Housing Opportunities for Persons with AIDS	14.241	2012 F-1 R5	45,586
Total CFDA # 14.241			<u>87,775</u>
Total U.S. Department of Housing and Urban Development			<u>114,568</u>
U.S Department of Homeland Security			
Passed through Iowa County:			
Project Alert	97.076	N/A	2,505
Total Federal Expenditures			<u>\$ 1,934,009</u>

* This program was tested as a major program at June 30, 2012.

MECCA SERVICES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Schedule of Expenditures of Federal Awards (the schedule) includes the federal grant activity of MECCA Services 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 OUTSTANDING

There were no payments passed through to sub-recipient agencies during the year ended June 30, 2012. In addition, there was no non-cash assistance, insurance, loans or loan guarantees outstanding as of and for the year ended June 30, 2012.

This information is an integral part of the accompanying
schedule of expenditures of federal awards.

MECCA SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

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? _____ Yes X 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 program:

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

Type of auditor's report issued on compliance for major program 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 program:

<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? X Yes _____ No

**MECCA SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

SECTION II - FINANCIAL STATEMENT FINDINGS

INTERNAL CONTROL DEFICIENCIES:

No matters were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

MECCA SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

SECTION III - FEDERAL AWARD FINDINGS

Finding 2011-III-A Problem Gambling Screening

U.S Department of Health and Human Services

Passed through Iowa Department of Public Health and Magellan Behavioral Care of Iowa
Substance Abuse Prevention and Treatment Block Grant Program, CFDA #93.959

Passed through Magellan Behavioral Care of Iowa, Behavioral Health Addendum and Women
and Children grants

Criteria:

MECCA is required to complete a problem gambling screening with all grant participants during the intake process.

Condition:

Documentation of the screening could not be located for certain case files.

Context:

Certain case files did not include documentation of the problem gambling screening.

Effect:

Potential referrals to the Iowa gambling treatment program may have been missed.

Cause:

MECCA did not always follow its policies and procedures to document the problem gambling screening.

Recommendation:

MECCA should enforce its policies and procedures to help ensure compliance with documentation of problem gambling screening.

Management's Response:

MECCA will address the issue noted in the finding with the appropriate staff.

**MECCA SERVICES
CORRECTIVE ACTION PLAN
Year Ended June 30, 2012**

FINDING 2012-III-A: PROBLEM GAMBLING SCREENING

MECCA will address the issue noted in the finding with the appropriate staff.

Contact person: Chris Auner, CFO
Anticipated completion date: June 30, 2013

MECCA SERVICES
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2012

SECTION III – PRIOR YEAR FEDERAL AWARD FINDINGS

Finding 2011-III-A Level-of-Effort Reporting

U.S Department of Health and Human Services
Passed through Iowa Department of Public Health and Magellan Behavioral Care of Iowa
Substance Abuse Prevention and Treatment Block Grant Program, CFDA #93.959
Passed through Magellan Behavioral Care of Iowa, Behavioral Health Addendum and Women
and Children grants

Criteria:

The total number of eligible individuals served, for which level-of-effort units are claimed, must be reported to the grantor.

Condition:

MECCA was unable to support the eligibility of one individual who was included in the level-of-effort units reported.

Status:

No issues were noted during the current year audit.

Finding 2011-III-B Problem Gambling Screening

U.S Department of Health and Human Services
Passed through Iowa Department of Public Health and Magellan Behavioral Care of Iowa
Substance Abuse Prevention and Treatment Block Grant Program, CFDA #93.959
Passed through Magellan Behavioral Care of Iowa, Behavioral Health Addendum and Women
and Children grants

Criteria:

MECCA is required to complete a problem gambling screening with all grant participants during the intake process.

Condition:

Documentation of the screening could not be located for certain case files.

Status:

See finding 2012-III-A Problem Gambling Screening