

MECCA SERVICES

Financial Statements

June 30, 2013 and 2012



MECCA SERVICES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
MECCA Services
Iowa City, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of MECCA SERVICES, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2013, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of MECCA SERVICES for the year ended June 30, 2012, were audited by another auditor who expressed an unmodified opinion on those statements on January 4, 2013.

Other Matters

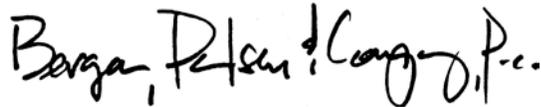
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other 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

Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2013 on our consideration of MECCA SERVICES' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MECCA SERVICES' internal control over financial reporting and compliance.



Waterloo, Iowa
December 12, 2013

MECCA SERVICES
 Statements of Financial Position
 As of June 30, 2013 and 2012

Assets

	2013	2012
Current Assets		
Cash	\$ 1,198,338	\$ 660,736
Client accounts receivable, net	258,295	301,187
Other receivables	264,699	239,457
Unconditional promises to give	141,789	141,791
Prepaid expenses	<u>8,647</u>	<u>58,915</u>
Total Current Assets	<u>1,871,768</u>	<u>1,402,086</u>
Property and Equipment, net	4,930,242	5,086,906
Other Assets		
Loan origination fees, net	<u>38,869</u>	<u>41,100</u>
Total Assets	<u><u>\$ 6,840,879</u></u>	<u><u>\$ 6,530,092</u></u>

Liabilities and Net Assets

Current Liabilities		
Current maturities of long-term debt	\$ 128,316	\$ 123,349
Current maturities of obligations under capital leases	4,343	19,142
Accounts payable	29,557	119,574
Accrued expenses	633,768	475,607
Other liabilities	<u>112,652</u>	<u>30,194</u>
Total Current Liabilities	<u>908,636</u>	<u>767,866</u>
Long-Term Liabilities		
Long-term debt	3,387,487	3,515,803
Obligations under capital leases	<u>11,280</u>	<u>15,648</u>
Total Long-Term Liabilities	<u>3,398,767</u>	<u>3,531,451</u>
Net Assets		
Unrestricted:		
Operations	992,871	676,020
Net investment in property and equipment	<u>1,398,816</u>	<u>1,412,964</u>
Total Unrestricted	<u>2,391,687</u>	<u>2,088,984</u>
Temporarily restricted	<u>141,789</u>	<u>141,791</u>
Total Net Assets	<u>2,533,476</u>	<u>2,230,775</u>
Total Liabilities and Net Assets	<u><u>\$ 6,840,879</u></u>	<u><u>\$ 6,530,092</u></u>

MECCA SERVICES
 Statements of Activities
 For the years ended June 30, 2013 and 2012

	2013	2012
Unrestricted Net Assets		
Revenue, Gains and Other Support		
Client service revenue (net of contractual allowances and discounts)	\$ 6,727,194	\$ 6,340,491
Provision for bad debts	(1,033,805)	(919,918)
Net client service revenue	<u>5,693,389</u>	<u>5,420,573</u>
Federal, state, and local revenue	1,936,720	2,210,750
Donations	152,574	81,638
Rental Income	49,638	68,814
Interest	1,685	1,823
Miscellaneous	42,350	59,603
Net assets released from restrictions	<u>141,789</u>	<u>141,791</u>
Total Revenue, Gains and Other Support	<u>8,018,145</u>	<u>7,984,992</u>
Expenses		
Program expenses	6,249,982	6,331,152
Management and general	1,387,200	1,392,536
Fundraising	<u>76,893</u>	<u>77,700</u>
Total Expenses	<u>7,714,075</u>	<u>7,801,388</u>
Loss on Disposal of Property and Equipment	<u>(1,369)</u>	<u>-</u>
Increase in Unrestricted Net Assets	<u>302,701</u>	<u>183,604</u>
Temporarily Restricted Net Assets		
United Way allocations	141,789	141,791
Net assets released from restrictions	<u>(141,789)</u>	<u>(141,791)</u>
Increase in Temporarily Restricted Net Assets	<u>-</u>	<u>-</u>
Increase in Net Assets	<u>302,701</u>	<u>183,604</u>
Net Assets, Beginning of Year	<u>2,230,775</u>	<u>2,047,171</u>
Net Assets, End of Year	<u><u>\$ 2,533,476</u></u>	<u><u>\$ 2,230,775</u></u>

MECCA SERVICESStatement of Functional Expenses
For the year ended June 30, 2013

	SUPPORT SERVICES				
	Program	Management	Fund	Total	Total
	Services	& General	Development	Support	Expenses
				Services	
Salaries and related expenses	\$ 4,628,909	\$ 1,021,252	\$ 72,636	\$ 1,093,888	\$ 5,722,797
Contract services and grants	183,314	-	-	-	183,314
Program costs	173,926	-	-	-	173,926
Professional fees	5,000	69,428	-	69,428	74,428
Travel and conferences	49,401	25,769	750	26,518	75,920
Groceries	311,977	-	-	-	311,977
Supplies and printing	76,273	32,477	1,362	33,838	110,111
Medical services and supplies	72,252	-	-	-	72,252
Telephone	16,801	4,730	-	4,730	21,531
Depreciation	214,451	41,023	-	41,023	255,474
Utilities	144,088	23,274	-	23,274	167,363
Property tax expense	13,134	-	-	-	13,134
Repairs and maintenance	87,774	8,598	-	8,598	96,373
Equipment rental and repair	31,051	51,003	498	51,501	82,553
Insurance	75,448	13,931	-	13,931	89,379
Staff development	9,513	16,203	715	16,918	26,430
Rent expense	34,160	-	-	-	34,160
Interest	108,497	21,629	-	21,629	130,126
Promotional and education	-	7,858	15	7,873	7,873
Dues and suscriptions	1,313	7,881	918	8,799	10,111
Bond amortization expense	-	2,232	-	2,232	2,232
Miscellaneous	12,701	39,912	-	39,912	52,613
Total Expenses	<u>\$ 6,249,982</u>	<u>\$ 1,387,200</u>	<u>\$ 76,893</u>	<u>\$ 1,464,093</u>	<u>\$ 7,714,075</u>

MECCA SERVICESStatement of Functional Expenses
For the year ended June 30, 2012

	SUPPORT SERVICES				
	Program Services	Management & General	Fund Development	Total Support Services	Total Expenses
Salaries and related expenses	\$ 4,699,591	\$ 1,002,390	\$ 70,951	\$ 1,073,340	\$ 5,772,931
Contract services and grants	92,231	1,293	-	1,293	93,523
Program costs	198,863	290	12	302	199,165
Professional fees	5,000	82,145	-	82,145	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	215,322	40,355	-	40,355	255,678
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	45,259	52,852	-	52,852	98,110
Insurance	70,614	13,147	-	13,147	83,761
Staff development	17,877	6,209	272	6,481	24,358
Rent expense	53,483	-	-	-	53,483
Interest	112,868	24,210	-	24,210	137,078
Promotional and education	3,038	21,200	2,833	24,033	27,071
Dues and suscriptions	1,689	1,973	642	2,615	4,304
Bond amortization expense	-	2,232	-	2,232	2,232
Miscellaneous	13,315	32,219	1,281	33,500	46,814
Total Expenses	<u>\$ 6,331,152</u>	<u>\$ 1,392,536</u>	<u>\$ 77,700</u>	<u>\$ 1,470,236</u>	<u>\$ 7,801,388</u>

MECCA SERVICES
 Statements of Cash Flows
 For the years ended June 30, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities		
Increase in net assets	\$ 302,701	\$ 183,604
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	257,705	257,910
Loss on sale of equipment	1,369	-
Effects of changes in operating assets and liabilities:		
Receivables	17,652	71,540
Prepaid expenses	50,268	(5,551)
Accounts payable	(90,017)	(116,380)
Accrued expenses	158,161	(230,342)
Other liabilities	82,458	(3,040)
Total Adjustments	<u>218,522</u>	<u>(283,773)</u>
Net Cash Provided by Operating Activities	<u>780,297</u>	<u>157,741</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	<u>(100,179)</u>	<u>(70,649)</u>
Cash Flows From Financing Activities		
Principle payments under long-term borrowings	(123,349)	(119,737)
Principle payments under capital lease obligations	<u>(19,167)</u>	<u>(51,565)</u>
Net Cash Used in Financing Activities	<u>(142,516)</u>	<u>(171,302)</u>
Net Change In Cash	537,602	(84,210)
Cash, Beginning of Year	<u>660,736</u>	<u>744,946</u>
Cash, End of Year	<u><u>\$ 1,198,338</u></u>	<u><u>\$ 660,736</u></u>

Supplemental Disclosure of Cash Flow Information

	2013	2012
Cash paid during the period for:		
Interest	<u><u>\$ 131,384</u></u>	<u><u>\$ 133,179</u></u>

MECCA SERVICES
Notes to the Financial Statements

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

NATURE OF ORGANIZATION

MECCA SERVICES (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 organizations.

BASIS OF PRESENTATION

MECCA reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets include all net assets which are neither temporarily nor permanently restricted.

Temporarily restricted net assets include contributions for which donor-imposed time and purpose restrictions have not been met.

Permanently restricted net assets include contributions 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 did not have any permanently restricted net assets as of June 30, 2013 and 2012.

ACCOUNTING ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

MECCA SERVICES
Notes to the Financial Statements

**NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(Cont'd.):**

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject MECCA to concentrations of credit risk consist principally of cash, cash equivalents, and trade receivables. MECCA places its cash and cash equivalents with high credit quality financial institutions. At times, MECCA's cash and cash equivalents are in excess of the FDIC insurance limit.

MECCA is subject to a certain degree of vulnerability due to concentrations of accounts receivable and revenue from major funding agencies. MECCA received approximately 53% and 55% of its total revenue, gains and other support from two sources for the years ended June 30, 2013 and 2012, respectively.

Concentrations of credit risk with respect to client receivables are limited due to MECCA's large number of clients.

CLIENT ACCOUNTS RECEIVABLE

MECCA provides an allowance for doubtful collections based upon a review of outstanding receivables, historical collection information, and existing economic conditions for each of its major pay sources. For receivables associated with services provided to clients who have third-party coverage, MECCA analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties). For receivables associated with self-pay clients without insurance and clients with deductible and copayment balances for which third-party coverage exists for part of the bill, MECCA records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many clients are unable or unwilling to pay the portion of their bill for which they are financially responsible. Accounts receivable are due 30 days after the issuance of the invoice. The difference between the standard rates or negotiated discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted and charged off against the allowance for uncollectible accounts.

MECCA SERVICES
Notes to the Financial Statements

**NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(Cont'd.):**

PROPERTY AND EQUIPMENT

Property and equipment is carried at cost or fair value, if donated, with depreciation computed primarily under the straight-line method over the economic useful lives of the assets. MECCA follows the policy of capitalizing all property and equipment expenditures over \$500, unless general contract conditions call for a lower amount.

Equipment held under capital leases is classified as property and equipment and amortized using the straight-line method over the economic useful life of the equipment, or the term of the lease. Lease amortization is included in depreciation expense.

INCOME TAXES

MECCA is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes pursuant to Section 501(a) of the Code.

Income tax returns are subject to uncertain tax positions that might not be sustained upon examination by taxing authorities. Management annually makes an appropriate evaluation of any uncertain tax positions that may exist within MECCA's tax returns. As of June 30, 2013, management believes that there are no material uncertain tax positions that are required to be recorded or disclosed. With few exceptions, MECCA is no longer subject to tax examinations for fiscal years before 2010.

NET CLIENT SERVICE REVENUE

Net client service revenue is reported at the estimated net realizable amounts from clients, third-party payors, and others for services rendered. MECCA recognizes client service revenue associated with services provided to clients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured clients that do not qualify for charity care, MECCA recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion MECCA's uninsured clients will be unable or unwilling to pay for the services provided. Thus, MECCA records a significant provision for bad debts related to uninsured clients in the period the services are provided.

MECCA SERVICES
Notes to the Financial Statements

**NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(Cont'd.):**

RESTRICTED AND UNRESTRICTED REVENUE

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporary or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

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

DONATED GOODS AND SERVICES

Donated goods are recorded at their fair values in the period received. Contributions of donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by MECCA, are recorded at their fair market values in the period received.

Donations of property and equipment are recorded as contributions at fair market value as the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose.

ADOPTION OF ACCOUNTING STANDARD

In 2013, MECCA adopted FASB Accounting Standards Update ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which requires certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with client service revenue from an operating expense to a deduction from client service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The new standard also requires disclosures of client service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. There was no material impact on MECCA's changes in net assets or financial condition upon adoption of the new standard.

MECCA SERVICES
Notes to the Financial Statements

NOTE 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(Cont'd.):

EXPENSE ALLOCATION

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of MECCA.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 12, 2013, the date which the financial statements were available for issue.

NOTE 2 – NET CLIENT SERVICES REVENUE:

MECCA receives payment for services rendered from federal and state agencies, private insurance carriers, employers, managed care programs, and clients. MECCA recognizes that revenue and receivables from government agencies are significant to the operations but does not believe there are significant credit risks associated with these government agencies.

Client service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	2013	2012
Third-party payors	\$ 5,503,965	\$ 5,225,211
Clients	<u>1,223,229</u>	<u>1,115,280</u>
Client services revenue (net of contractual allowances and discounts)	<u>\$ 6,727,194</u>	<u>\$ 6,340,491</u>

MECCA's allowance for doubtful accounts for self-pay clients increased from 60 percent of client accounts receivables at June 30, 2012, to 75 percent at June 30, 2013. In addition, MECCA's self-pay writeoffs increased \$113,887 from \$919,918 for fiscal year 2012 to \$1,033,805 for fiscal year 2013. Both increases were the result of negative trends experienced in the collection of amounts from self-pay clients in fiscal year 2013. MECCA has not changed its charity care or uninsured discount policies during fiscal years 2012 or 2013. MECCA does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

MECCA SERVICES
Notes to the Financial Statements

NOTE 3 – PROPERTY AND EQUIPMENT:

A summary of property and equipment as of June 30, 2013 and 2012 follows:

	2013	2012
Land	\$ 590,410	\$ 590,410
Buildings and improvements	5,806,894	5,806,894
Furniture and fixtures	377,426	360,991
Equipment	<u>1,472,592</u>	<u>1,413,542</u>
	8,247,322	8,171,837
Less: Accumulated depreciation	<u>3,317,080</u>	<u>3,084,931</u>
	<u>\$ 4,930,242</u>	<u>\$ 5,086,906</u>

NOTE 4 – SUMMARY OF LONG-TERM DEBT:

	2013	2012
3.9% mortgage note payable in monthly installments of \$20,950, including interest to December 1, 2030, collateralized by real estate and certain property and equipment.	\$ 3,170,803	\$ 3,294,152

Non-interest bearing, forgivable note payable to the City of Iowa City. The loan will be forgiven on November 18, 2022, as long as MECCA continues to use the property as prescribed in the agreement. The note is collateralized by real estate.	<u>345,000</u>	<u>345,000</u>
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Less: Current maturities	<u>128,316</u>	<u>123,349</u>
	<u>\$ 3,387,487</u>	<u>\$ 3,515,803</u>

<u>Year Ending</u>	
2014	\$ 128,316
2015	133,482
2016	138,549
2017	144,436
2018	150,252
Thereafter	<u>2,820,768</u>
Total	<u>\$ 3,515,803</u>

MECCA SERVICES
Notes to the Financial Statements

NOTE 5 – CAPITAL LEASES:

The following is an analysis of leased property under capital leases as of June 30, 2013 and 2012:

	2013	2012
Office equipment	\$ 20,681	\$ 228,071
Less: Accumulated amortization	<u>3,775</u>	<u>128,323</u>
	<u>\$ 16,906</u>	<u>\$ 99,748</u>

The following is a schedule by years of future minimum lease payments under capital leases as of June 30, 2013:

<u>Year Ending</u>	
2014	\$ 6,072
2015	6,072
2016	4,532
2017	2,494
Less: Amount representing interest	<u>(3,547)</u>
Present value of net minimum lease payments	<u>\$15,623</u>

NOTE 6 – OPERATING LEASE:

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 the annual term. The first renewal option was automatically exercised in September 2011. Rent income was \$11,379 and \$11,048 for the years ended June 30, 2013 and 2012, respectively.

MECCA SERVICES

Notes to the Financial Statements

NOTE 6 – OPERATING LEASE (Cont'd.):

The following is a schedule by years of future rentals to be received by MECCA as of June 30, 2013:

Year Ending June 30:

2014	\$ 11,721
2015	12,072
2016	12,435
2017	<u>3,131</u>
Total	<u>\$ 39,359</u>

NOTE 7 – RETIREMENT PLAN:

MECCA sponsors a 401(k) plan covering all employees who have one year of employment, 1,000 hours of service, age 18 or older, and agree to make contributions to the Plan. MECCA makes a contribution to the Plan each year equal to 50% of the participants' eligible contributions, up to a maximum of 8% of their compensation. For the years ended June 30, 2013 and 2012, MECCA charged against income \$77,205 and \$80,972, respectively, under this plan.

NOTE 8 – CONTINGENCIES:

Financial awards from federal and state governmental entities in the form of grants are subject to special audit. Such audits could result in claims against MECCA for disallowed costs or noncompliance with grantor restrictions. In the opinion of MECCA, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

MECCA SERVICES
Notes to the Financial Statements

NOTE 9 - CORRECTION OF AN ERROR:

In January 2007, MECCA acquired the assets, liabilities, and operations of the Bernie Lorenz Recovery Center (BLR). MECCA transferred no consideration in exchange for BLR. The acquisition was achieved by, in effect, a gift from BLR to MECCA. The inherent contribution received, \$215,901, represented the excess of assets acquired over the liabilities assumed and was recorded as a deferred gain, which was being amortized over 40 years. Additionally, MECCA received real estate with a fair market value of approximately \$293,000 from BLR that was not recognized. The inherent contribution, along with the contribution of real estate, should have been recognized as revenue at the time of acquisition.

To correct this error, net assets as of July 1, 2011, have been increased by \$456,431 to recognize the remaining deferred gain on acquisition (\$191,612) and the adjusted fair market value of the real estate (\$264,819). In addition, for the year ended June 30, 2012, the increase in net assets, as previously reported, was decreased by \$11,661 to remove the amortized gain previously reported and to include depreciation expense on the real estate received.

Net Assets at beginning of year, as previously reported	\$ 1,590,740
Prior-period adjustment – recognize inherent contribution	191,612
Prior-period adjustment – recognize real estate received	<u>264,819</u>
Net Assets at beginning of year, as restated	<u>\$ 2,047,171</u>
Increase in Net Assets, as previously reported	\$ 195,263
Prior-period adjustment – reverse amortized gain	(5,396)
Prior-period adjustment – record depreciation on real estate	<u>(6,263)</u>
Increase in Net Assets, end of year	<u>\$ 183,604</u>

NOTE 10 – RECLASSIFICATIONS:

Certain reclassifications have been made to the 2012 financial statements, as previously reported, in order to conform them to the current year's presentation.

SUPPLEMENTAL INFORMATION

MECCA SERVICES
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2013

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant Number	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>			
Passed through Iowa Judicial Branch: Parents and Children Together	93.087	N/A	\$ <u>21,637</u>
Passed through the Iowa Department of Public Health: Strategic Prevention Framework State Incentive Grant	93.243	588 3 CP17	108,278
Screening, Brief Intervention & Referral Treatment	93.243	588 3 SA08	<u>48,867</u>
			<u>157,145</u>
Passed through the Iowa Department of Public Health: Access to Recovery - Iowa	93.275	588 1 AC20	<u>62,547</u>
Passed through the Iowa Department of Public Health: HIV Care Services	93.917	588 3 HC09	<u>59,901</u>
Passed through the Iowa Department of Public Health: Block Grants for Prevention and Treatment of Substance Abuse	93.959	588 3 CP17	164,814
Passed through Magellan Behavioral Health: Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	1,102,105
Block Grants for Behavioral Health Addendum Women and Childrer	93.959	N/A	<u>117,230</u>
			<u>1,384,149</u>
Passed through Washington County: Drug Free Communities Support Program	93.276	5H79SP012224-10	35,417
Caring Communities Initiative	93.276	5H79SP017267-02	<u>20,796</u>
			<u>56,213</u>
Total U.S. Department of Health and Human Services			<u>1,741,592</u>
<u>Department of Housing and Urban Development</u>			
Passed through City of Des Moines: Transitional Housing	14.218	N/A	2,625
Passed through City of Iowa City: Entitlement Grant	14.218	N/A	<u>11,692</u>
			<u>14,317</u>
Passed through City of Des Moines: Transitional Housing	14.231	N/A	<u>2,625</u>
Passed through Iowa Finance Authority: Housing Opportunities for Persons with AIDS	14.241	N/A	<u>44,974</u>
Total U.S. Department of Housing and Urban Development			<u>61,916</u>

MECCA SERVICES
 Schedule of Expenditures of Federal Awards
 For the year ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	CFDA Number	Grant Number	Federal Expenditures
<u>Department of Education</u>			
Passed through Iowa City Community Schools: Safe Schools, Health Students	84.184	FY' 13	<u>55,733</u>
Total Federal Expenditures			<u>\$ 1,859,241</u>

Basis of Presentation

The Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of MECCA SERVICES under programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Because the Schedule presents only a selected portion of the operations of MECCA Services, it is not intended to and does not present the financial position, changes in net assets, or cash flows of MECCA SERVICES.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited to reimbursement.

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
MECCA Services
Iowa City, Iowa

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of MECCA Services, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated December 12, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered MECCA Services' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MECCA Services' internal control. Accordingly, we do not express an opinion on the effectiveness of MECCA Services' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MECCA Services' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Waterloo, Iowa
December 12, 2013

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors of
MECCA Services
Iowa City, Iowa

Compliance

We have audited MECCA SERVICES' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on MECCA SERVICES' major federal program for the year ended June 30, 2013. MECCA Services' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on MECCA Services's compliance with the applicable compliance requirements based on our compliance audit. We conducted our compliance audit 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 Circular A-133 require that we plan and perform the compliance 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 Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of MECCA Services' compliance.

Basis for Qualified Opinion on CFDA 93.959 – Block Grants for Preventions and Treatment of Substance Abuse

As described in the accompanying schedule of findings and questioned costs, MECCA SERVICES did not comply with requirements regarding CFDA 9.959 – Block Grants for Prevention and Treatment of Substance Abuse as described in finding number 2013-01 for Special Tests and Provisions. Compliance with such requirements is necessary, in our opinion, for MECCA SERVICES to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 93.959 – Block Grants for Preventions and Treatment of Substance Abuse

In our opinion, except for the noncompliance described in the “Basis for Qualified Opinion” paragraph, MECCA SERVICES complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 93.959 – Block Grants for Prevention and Treatment of Substance Abuse for the year ended June 30, 2013.

Other Matters

MECCA SERVICES' response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. MECCA SERVICES' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of MECCA SERVICES is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MECCA SERVICES' internal control over compliance with the types of requirements that could have a direct and

material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 SERVICES' internal control over compliance.

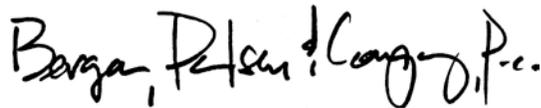
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-01 to be a significant deficiency.

MECCA SERVICES' response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. MECCA SERVICES' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Waterloo, Iowa
December 12, 2013

MECCA Services
Schedule of Findings and Questioned Costs
For the year ended June 30, 2013

Part II: Financial Statement Findings

There were no findings related to the financial statements as of June 30, 2013.

Part III: Federal Award Findings

Finding 2013-01: Problem Gambling Screening

This finding was noted in the prior year as Finding 2012-111-A.

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

Contact Person: Ronald Berg, Chief Executive Officer

Anticipated completion date: June 30, 2014

MECCA Services
Schedule of Status of Prior Audit Finding
For the year ended June 30, 2013

Part IV: Status of Prior Year Findings

Finding 2012-III-A:

Federal Program: CFDA 93.959 – Block Grants for Prevention and Treatment of Substance Abuse

Pass-Through Entity: Iowa Department of Public Health and Magellan Behavioral Care of Iowa

Compliance Requirements: Special Tests and Provisions

Criteria: Program requirements state that 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 2013-01 Problem Gambling Screening