

MECCA SERVICES

Financial Statements

June 30, 2014 and 2013



MECCA SERVICES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
MECCA SERVICES

Report on the Financial Statements

We have audited the accompanying financial statements of MECCA SERVICES, which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards 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 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 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 January 9, 2015 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
January 9, 2015

MECCA SERVICES
Statements of Financial Position
As of June 30, 2014 and 2013

Assets

	2014	2013
Current Assets		
Cash	\$ 1,857,596	\$ 1,198,338
Client receivables, net	206,411	258,295
Other receivables	271,980	264,699
Unconditional promises to give	103,499	141,789
Prepaid expenses	<u>82,413</u>	<u>8,647</u>
Total Current Assets	<u>2,521,899</u>	<u>1,871,768</u>
Property and Equipment, net	4,836,434	4,930,242
Investment in Integrated Behavioral Health Network, Inc.	105,000	-
Loan Origination Fees, net	<u>36,637</u>	<u>38,869</u>
Total Assets	<u>\$ 7,499,970</u>	<u>\$ 6,840,879</u>

Liabilities and Net Assets

Current Liabilities		
Current maturities of long-term debt	\$ 133,482	\$ 128,316
Current maturities of obligations under capital leases	4,891	4,343
Accounts payable	157,812	29,557
Accrued expenses	724,610	633,768
Other liabilities	<u>116,907</u>	<u>112,652</u>
Total Current Liabilities	<u>1,137,702</u>	<u>908,636</u>
Long-Term Liabilities		
Long-term debt	3,254,005	3,387,487
Obligations under capital leases	<u>6,417</u>	<u>11,280</u>
Total Long-Term Liabilities	<u>3,260,422</u>	<u>3,398,767</u>
Net Assets		
Unrestricted:		
Operations	794,121	992,871
Board designated - operating reserve	661,587	-
Investment in Integrated Behavioral Health Network, Inc.	105,000	-
Net investment in property and equipment	<u>1,437,639</u>	<u>1,398,816</u>
Total Unrestricted	<u>2,998,347</u>	<u>2,391,687</u>
Temporarily restricted	<u>103,499</u>	<u>141,789</u>
Total Net Assets	<u>3,101,846</u>	<u>2,533,476</u>
Total Liabilities and Net Assets	<u>\$ 7,499,970</u>	<u>\$ 6,840,879</u>

MECCA SERVICES
 Statements of Activities
 For the years ended June 30, 2014 and 2013

	2014	2013
Unrestricted Net Assets		
Revenue, Gains and Other Support		
Client service revenue (net of contractual allowances and discounts)	\$ 7,042,973	\$ 6,573,884
Provision for bad debts	(633,558)	(1,033,805)
Net client service revenue	6,409,415	5,540,079
Prevention programs	544,994	602,274
Employee assistance contracts	148,444	145,617
Corrections programs	260,374	264,820
Public support	408,622	415,187
Drug testing	31,782	29,330
Other contracts	315,064	506,280
Donations	72,767	140,302
Rental income	68,849	49,638
Interest	3,448	1,685
Miscellaneous	140,703	181,144
Net assets released from restrictions	141,789	141,789
Total Revenue, Gains and Other Support	8,546,251	8,018,145
Expenses		
Program expenses	6,315,234	6,249,982
Management and general	1,542,032	1,387,200
Fundraising	81,783	76,893
Total Expenses	7,939,049	7,714,075
Loss on Disposal of Property and Equipment	(542)	(1,369)
Increase in Unrestricted Net Assets	606,660	302,701
Temporarily Restricted Net Assets		
United Way allocations	103,499	141,789
Net assets released from restrictions	(141,789)	(141,789)
Decrease in Temporarily Restricted Net Assets	(38,290)	-
Increase in Net Assets	568,370	302,701
Net Assets, Beginning of Year	2,533,476	2,230,775
Net Assets, End of Year	\$ 3,101,846	\$ 2,533,476

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

MECCA SERVICES

Statement of Functional Expenses

For the year ended June 30, 2014

SUPPORT SERVICES

	<u>Program Services</u>	<u>Management & General</u>	<u>Fund Development</u>	<u>Total Support Services</u>	<u>Total Expenses</u>
Salaries and related expenses	\$ 4,732,841	\$ 1,098,564	\$ 75,892	\$ 1,174,456	\$ 5,907,297
Contract services and grants	224,761	3,045	-	3,045	227,806
Program costs	80,210	3,073	253	3,326	83,536
Professional fees	5,000	108,381	-	108,381	113,381
Travel and conferences	47,751	21,344	2,020	23,364	71,115
Groceries	310,497	-	-	-	310,497
Supplies and printing	100,114	13,869	405	14,274	114,388
Medical services and supplies	72,808	-	-	-	72,808
Depreciation	215,981	52,037	1,351	53,388	269,369
Utilities	151,902	71,821	-	71,821	223,723
Property tax expense	13,228	-	-	-	13,228
Repairs and maintenance	63,492	37,311	-	37,311	100,803
Equipment rental and repair	55,587	22,196	-	22,196	77,783
Insurance	84,396	15,410	-	15,410	99,806
Staff development	13,438	28,067	1,100	29,167	42,605
Rent expense	28,242	-	-	-	28,242
Interest	104,261	20,127	-	20,127	124,388
Promotional and education	481	8,830	-	8,830	9,311
Dues and subscriptions	1,177	3,312	751	4,063	5,240
Bond amortization expense	-	2,232	-	2,232	2,232
Miscellaneous	9,067	32,413	11	32,424	41,491
Total Expenses	<u>\$ 6,315,234</u>	<u>\$ 1,542,032</u>	<u>\$ 81,783</u>	<u>\$ 1,623,815</u>	<u>\$ 7,939,049</u>

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

	SUPPORT SERVICES				
	Program Services	Management & General	Fund Development	Total Support Services	Total Expenses
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
Depreciation	214,451	41,023	-	41,023	255,474
Utilities	160,889	28,004	-	28,004	188,893
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 subscriptions	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 SERVICES
 Statements of Cash Flows
 For the years ended June 30, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Increase in net assets	\$ 568,370	\$ 302,701
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	271,601	257,705
Loss on disposal of property and equipment	542	1,369
Changes in operating assets and liabilities:		
Receivables	82,893	17,652
Prepaid expenses	(73,766)	50,268
Accounts payable	128,255	(90,017)
Accrued expenses	90,842	158,161
Other liabilities	4,255	82,458
Total Adjustments	<u>232,479</u>	<u>218,522</u>
Net Cash Provided by Operating Activities	<u>1,072,992</u>	<u>780,297</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(176,103)	(100,179)
Purchase of equity investment	<u>(105,000)</u>	<u>-</u>
Net Cash Used in Investing Activities	<u>(281,103)</u>	<u>(100,179)</u>
Cash Flows From Financing Activities		
Principal payments under long-term borrowings	(128,316)	(123,349)
Principal payments under capital lease obligations	<u>(4,315)</u>	<u>(19,167)</u>
Net Cash Used in Financing Activities	<u>(132,631)</u>	<u>(142,516)</u>
Net Change In Cash	659,258	537,602
Cash, Beginning of Year	<u>1,198,338</u>	<u>660,736</u>
Cash, End of Year	<u>\$ 1,857,596</u>	<u>\$ 1,198,338</u>

Supplemental Disclosure of Cash Flow Information

	2014	2013
Cash paid during the period for:		
Interest	<u>\$ 124,805</u>	<u>\$ 131,384</u>

MECCA SERVICES
Notes to 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, 2014 and 2013.

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 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 and receivables. MECCA's cash is federally insured up to \$250,000.

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

MECCA received approximately 51% and 53% of its total revenue, gains and other support from two sources for the years ended June 30, 2014 and 2013, respectively.

CLIENT RECEIVABLES

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 is charged off against the allowance for doubtful accounts.

MECCA SERVICES
Notes to Financial Statements

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

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, MECCA recognizes revenue on the basis of its standard rates for services provided, adjusted to a sliding fee scale based upon the clients' income.

PROPERTY AND EQUIPMENT

Property and equipment is carried at cost or fair value, if donated, with depreciation computed primarily under the straight-line method over the economic useful lives of the assets. 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.

INVESTMENT IN INTEGRATED BEHAVIORAL HEALTH NETWORK, INC.

MECCA's 13% investment in Integrated Behavioral Health Network, Inc. is accounted for under the cost method.

RESTRICTED AND UNRESTRICTED REVENUE

Contributions and grants that are restricted are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted support is reported as an increase in temporary restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

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

MECCA SERVICES
Notes to Financial Statements

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

BOARD DESIGNATED RESERVE

The operating reserve, which has been designated by the board of directors, is intended to assure continued funding of MECCA's operations.

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, 2014, 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 2011.

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.

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 Financial Statements

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

SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 9, 2015, the date which the financial statements were available for issue. With the exception of the matter discussed in Note 9, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

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 do not believe there are significant credit risks associated with these government agencies.

Client service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized for the years ended June 30, 2014 and 2013, from these major payor sources, is as follows:

	2014	2013
Third-party payors	\$ 6,130,180	\$ 5,350,655
Self-pay	<u>912,793</u>	<u>1,223,229</u>
Client services revenue (net of contractual allowances and discounts)	<u>\$ 7,042,973</u>	<u>\$ 6,573,884</u>

MECCA's allowance for doubtful accounts for self-pay clients decreased from 75 percent of self-pay accounts receivable at June 30, 2013, to 62 percent of self-pay accounts receivable at June 30, 2014. In addition, MECCA's self-pay write-offs decreased \$400,247 from \$1,033,805 for fiscal year 2013 to \$633,558 for fiscal year 2014. MECCA has not changed its charity care or uninsured discount policies during fiscal years 2013 or 2014. 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 Financial Statements

NOTE 3 – PROPERTY AND EQUIPMENT:

A summary of property and equipment as of June 30, 2014 and 2013 follows:

	2014	2013
Land	\$ 590,410	\$ 590,410
Buildings and improvements	5,806,894	5,806,894
Furniture and fixtures	498,678	377,426
Equipment	<u>1,287,558</u>	<u>1,472,592</u>
	8,183,540	8,247,322
Less: Accumulated depreciation	<u>3,347,106</u>	<u>3,317,080</u>
	<u>\$ 4,836,434</u>	<u>\$ 4,930,242</u>

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

	2014	2013
Future periods	\$ 103,499	\$ 141,789

NOTE 5 – SUMMARY OF LONG-TERM DEBT:

	2014	2013
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.	\$ 3,042,487	\$ 3,170,803
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>
	3,387,487	3,515,803
Less: Current maturities	<u>133,482</u>	<u>128,316</u>
	<u>\$ 3,254,005</u>	<u>\$ 3,387,487</u>

MECCA SERVICES
Notes to Financial Statements

NOTE 5 – SUMMARY OF LONG-TERM DEBT (Cont'd.):

<u>Year Ending</u>	
2015	\$ 133,482
2016	138,549
2017	144,436
2018	150,252
2019	162,354
Thereafter	<u>2,658,414</u>
 Total	 <u>\$ 3,387,487</u>

NOTE 6 – CAPITAL LEASES:

The following is an analysis of leased property under capital leases as of June 30, 2014 and 2013:

	2014	2013
Office equipment	\$ 20,681	\$ 20,681
Less: Accumulated amortization	<u>6,729</u>	<u>3,775</u>
	<u>\$ 13,952</u>	<u>\$ 16,906</u>

The following is a schedule by years of future minimum lease payments under capital leases as of June 30, 2014:

<u>Year Ending</u>	
2015	\$ 6,072
2016	4,532
2017	2,521
Less: Amount representing interest	<u>(1,817)</u>
 Present value of net minimum lease payments	 <u>\$ 11,308</u>

MECCA SERVICES
Notes to Financial Statements

NOTE 7 – OPERATING LEASE:

MECCA leases space for a cellular tower under a lease agreement with Cingular Wireless through September 2016. The lease contains three remaining 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. Rent income was \$11,721 and \$11,379 for the years ended June 30, 2014 and 2013, respectively.

The following is a schedule by years of future rentals to be received by MECCA as of June 30, 2014:

<u>Year Ending June 30:</u>	
2015	\$ 12,072
2016	12,435
2017	<u>3,131</u>
Total	<u>\$ 27,638</u>

NOTE 8 – 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, 2014 and 2013, MECCA charged against income \$79,164 and \$77,205, respectively, under this plan.

NOTE 9 – 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.

On October 9, 2014, a former client filed a lawsuit against MECCA alleging breach of contract and negligence related to the services and treatment MECCA was contracted to provide. MECCA is vigorously defending this matter and believes that any liability would be covered by its insurance carrier.

MECCA SERVICES
Notes to Financial Statements

NOTE 10 – RECLASSIFICATIONS:

Certain reclassifications have been made to the 2013 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, 2014

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	CFDA Number	Grant Number	Federal Expenditures
<u>Department of Health and Human Services</u>			
Passed through Iowa Judicial Branch: Parents and Children Together	93.087	N/A	\$ 24,544
Passed through the Iowa Department of Public Health:			
Strategic Prevention Framework State Incentive Grant	93.243	588 4 CP17	96,053
Screening, Brief Intervention & Referral Treatment	93.243	588 4 SA08	63,946
Youth Suicide Prevention	93.243	N/A	6,000
			<u>165,999</u>
Passed through the Iowa Department of Public Health: Access to Recovery - Iowa	93.275	588 1 AC20	<u>26,627</u>
Passed through the Iowa Department of Public Health: Block Grants for Prevention and Treatment of Substance Abuse	93.959	588 4 CP17	<u>156,079</u>
Passed through Magellan Behavioral Health:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	122398-00	1,289,309
Block Grants for Behavioral Health Addendum Women and Children	93.959	122398-00	117,230
			<u>1,562,618</u>
 Total U.S. Department of Health and Human Services			 <u>1,779,788</u>
<u>Department of Housing and Urban Development</u>			
Passed through City of Iowa City: Entitlement Grant	14.218	N/A	<u>40,730</u>
 Total Federal Expenditures			 <u>\$ 1,820,518</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, 2014. 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

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 (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated January 9, 2015.

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
January 9, 2015

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
MECCA SERVICES

Report on Compliance for Each Major Federal Program

We have audited MECCA SERVICES' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (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, 2014. 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 programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for MECCA SERVICES' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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

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.

Opinion on Major Federal Program

In our opinion, 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 its major federal program for the year ended June 30, 2014.

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 its major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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.

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

that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



Waterloo, Iowa
January 9, 2015

MECCA SERVICES
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014

Part I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Are any material weaknesses identified? Yes No

Are any significant deficiencies identified not considered to be material weaknesses? Yes None reported

Is any noncompliance material to financial statements noted? Yes No

Federal Awards

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

Internal control over major programs:

Are any material weaknesses identified? Yes No

Are any significant deficiencies identified not considered to be material weaknesses? Yes None reported

Are any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations, Section .510(a)*? Yes No

Identification of major programs:

CFDA Number
93.959

Name of Federal Program or Cluster
Block Grants for Prevention and
Treatment of Substance Abuse

Enter the dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Is the auditee qualified as a low-risk auditee: Yes No

MECCA SERVICES
Schedule of Findings and Questioned Costs
For the year ended June 30, 2014

Part II: Financial Statement Findings

There were no findings related to the financial statements as of June 30, 2014.

Part III: Federal Award Findings

The audit did not disclose audit findings which are required to be reported in accordance with OMB Circular A-133.

MECCAS SERVICES
Schedule of Status of Prior Audit Finding
For the year ended June 30, 2014

Part IV: Status of Prior Year Findings

Finding 2013-01: Problem Gambling Screening

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: MECCA implemented new procedures during 2014 to ensure compliance with the gambling screening criteria as required by the granting entity.