

NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.

FINANCIAL STATEMENTS

**YEARS ENDED
JUNE 30, 2007 AND 2006**

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NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.

BOARD OF DIRECTORS

<u>Name</u>	<u>Title</u>	<u>County Represented</u>
Jim Gill	President	Webster
Larry Hood	Vice-President	Calhoun
Dorothy Griffin	Treasurer	Webster
Dave Young	Secretary	Hamilton
Dawn Villhauer-Murley	Director	Calhoun
Jane Zieg	Director	Calhoun
Patty Treibel	Director	Hamilton
Diane Bunkofske	Director	Hamilton
Mark Dohms	Director	Hamilton
Pam Olson	Director	Humboldt
Stacy Mooney	Director	Humboldt
Kay Kollmorgen	Director	Humboldt
Don Anderson	Director	Humboldt
Cindy Youngquist	Director	Webster
Irene Blair	Director	Webster
Stan Watne	Director	Wright
Janet Disney	Director	Wright
Brad Leckrone	Director	Wright
Jane Whyte	Director	Wright
Dona Nielsen	Director	Kossuth
Don Besch	Director	Kossuth
Deb Schulz	Director	Kossuth
Vince Triggs	Director	Pocahontas
Lisa Peterson	Director	Pocahontas

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Central Iowa Mental Health Center, Inc.
Fort Dodge, Iowa

We have audited the accompanying statements of financial position of North Central Iowa Mental Health Center, Inc. (a nonprofit organization) as of June 30, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Central Iowa Mental Health Center, Inc., as of June 30, 2007 and 2006, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2007, on our consideration of North Central Iowa Mental Health Center, Inc.'s internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

Brooks Lodden, P.C.

West Des Moines, Iowa
October 22, 2007

NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2007 and 2006

ASSETS	<u>2007</u>	<u>2006</u>
CURRENT ASSETS		
Cash	\$ 92,863	\$ 53,195
Accounts receivable - patient fees, net	268,816	276,962
Grant receivable	4,017	4,854
Prepaid expenses	33,338	36,570
Note receivable	7,243	-
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Total current assets	\$ 406,277	\$ 371,581
	<hr/>	<hr/>
PROPERTY AND EQUIPMENT, net	\$ 451,785	\$ 478,351
	<hr/>	<hr/>
OTHER ASSETS		
Note receivable, less current maturities	\$ 24,458	\$ -
	<hr/>	<hr/>
Total other assets	\$ 24,458	\$ -
	<hr/>	<hr/>
Total assets	\$ 882,520	\$ 849,932
	<hr/> <hr/>	<hr/> <hr/>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 62,482	\$ 81,584
Line of credit	25,000	-
Current maturities of long-term debt	16,599	15,756
	<hr/>	<hr/>
Total current liabilities	\$ 104,081	\$ 97,340
	<hr/>	<hr/>
LONG-TERM LIABILITIES		
County advances	\$ 34,034	\$ 34,034
Note payable, less current maturities	77,808	94,328
	<hr/>	<hr/>
Net long-term liabilities	\$ 111,842	\$ 128,362
	<hr/>	<hr/>
Total liabilities	\$ 215,923	\$ 225,702
	<hr/>	<hr/>
NET ASSETS		
Unrestricted	\$ 666,597	\$ 624,230
	<hr/>	<hr/>
Total liabilities and net assets	\$ 882,520	\$ 849,932
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See Notes to Financial Statements.

NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.

STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2007 and 2006

	2007	2006
UNRESTRICTED NET ASSETS		
PUBLIC SUPPORT AND REVENUE		
Public support:		
Grant income	\$ 82,760	\$ 330,759
Contributions	12,057	12,191
Total public support	\$ 94,817	\$ 342,950
Revenue:		
Patient fees, net	\$ 1,696,357	\$ 1,548,622
Interest income	72	87
Settlement agreement	40,851	-
Miscellaneous income	5,690	188
Total revenue	\$ 1,742,970	\$ 1,548,897
Total public support and revenue	\$ 1,837,787	\$ 1,891,847
EXPENSES		
Program services	\$ 1,412,050	\$ 1,492,523
Management and general	383,370	435,671
Total expenses	\$ 1,795,420	\$ 1,928,194
Change in net assets	\$ 42,367	\$ (36,347)
Net assets at beginning of year	624,230	660,577
Net assets at end of year	\$ 666,597	\$ 624,230

See Notes to Financial Statements.

NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2007 and 2006

	2007			2006		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries	\$ 999,862	\$ 239,610	\$ 1,239,472	\$ 1,104,367	\$ 263,448	\$ 1,367,815
Payroll taxes and employee benefits	120,610	43,817	164,427	130,317	49,038	179,355
Temporary employment	19,219	-	19,219	21,603	-	21,603
Purchased services	30,000	-	30,000	-	-	-
Travel	32,529	3,277	35,806	23,251	631	23,882
Program supplies, maintenance/activity	3,404	-	3,404	2,649	-	2,649
Insurance	54,162	4,606	58,768	59,495	4,074	63,569
Professional fees	4,207	32,679	36,886	4,926	27,742	32,668
Rent	23,120	940	24,060	23,291	769	24,060
Utilities and telephone	27,249	4,979	32,228	26,580	5,957	32,537
Answering service	7,824	-	7,824	8,100	-	8,100
Maintenance	21,348	2,772	24,120	19,870	2,165	22,035
Computer service	-	27,689	27,689	234	60,586	60,820
Equipment rental	4,040	-	4,040	5,246	-	5,246
Office supplies and expense	10,215	2,781	12,996	9,919	3,587	13,506
Publicity and public relations	1,418	11,001	12,419	491	6,878	7,369
Board expenses	-	1,700	1,700	-	1,986	1,986
Continuing education	2,030	-	2,030	530	-	530
Dues and subscriptions	3,119	-	3,119	3,329	-	3,329
Postage	5,428	2,417	7,845	5,275	2,709	7,984
Depreciation	31,919	3,614	35,533	32,677	3,377	36,054
Interest expense	6,273	534	6,807	7,433	509	7,942
Miscellaneous	4,074	954	5,028	2,940	2,215	5,155
	<u>\$ 1,412,050</u>	<u>\$ 383,370</u>	<u>\$ 1,795,420</u>	<u>\$ 1,492,523</u>	<u>\$ 435,671</u>	<u>\$ 1,928,194</u>

See Notes to Financial Statements.

NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 42,367	\$ (36,347)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	35,533	36,054
Change in operating assets and liabilities:		
Decrease in patient accounts receivable	8,146	40,321
Decrease in grant receivable	837	31,063
Decrease in prepaid expenses	3,232	14,385
(Increase) in note receivable	(31,701)	-
(Decrease) increase in accounts payable and accrued expenses	(19,102)	9,886
Net cash provided by operating activities	\$ 39,312	\$ 95,362
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	\$ (8,967)	\$ (1,885)
Net cash (used in) investing activities	\$ (8,967)	\$ (1,885)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	\$ (15,677)	\$ (14,861)
Increase (decrease) in line of credit	25,000	(8,000)
(Decrease) in checks written in excess of bank balance	-	(20,292)
Net cash provided by (used in) financing activities	\$ 9,323	\$ (43,153)
Net increase in cash	\$ 39,668	\$ 50,324
Cash at beginning of year	53,195	2,871
Cash at end of year	\$ 92,863	\$ 53,195
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 6,807	\$ 7,942

See Notes to Financial Statements.

NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Reporting entity:

North Central Iowa Mental Health Center, Inc. (the Center), is a non-profit organization established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. The Center provides these services based on an agreement with the various county boards of supervisors as provided for in Chapter 230A.3(2) of the Code of Iowa. The Center serves primarily Calhoun, Hamilton, Humboldt, Kossuth, Pocahontas, Webster, and Wright counties.

The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law.

Classification of net assets:

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Center and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. The Center's board may designate portions of the unrestricted net assets as board-designated for specific purposes, projects or investment as an aid in the planning of expenses and the conservation of assets.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Center and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction expires in the same reporting period in which the support is recognized, that support is reported as an increase in unrestricted net assets. Currently, the Center has no temporarily restricted net assets.

Permanently restricted net assets - Net assets subject to permanent restrictions imposed by donor. Although such assets may not be expended, the investment income earned on them may be expended for any purpose. Currently, the Center has no permanently restricted net assets.

Use of estimates:

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

Cash and cash equivalents:

For purposes of the statement of cash flows, the Center considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Patient receivables:

Patient receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a charge to receivables based on its assessment of the current status and billing rates of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to patient receivables. Changes in the valuation allowance have not been material to the financial statements. Management closely monitors outstanding balances and writes off all balances that will not be collected.

Property and equipment:

Acquisitions of property and equipment in excess of \$500 with an estimated life of at least one year are capitalized. Property and equipment are carried at cost, if purchased, or if donated, at the approximate fair value at the date of donation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from 5-40 years.

Compensated absences:

Center employees accumulate a limited amount of earned but unused vacation benefits. Amounts representing the cost of compensated absences are recorded as liabilities and have been computed based on rates of pay in effect at June 30, 2007 and 2006, respectively.

Net patient service revenue:

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, counties, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Contributions received:

Contributions, which are defined as unconditional transfers of cash or other assets, are measured at fair value on the date received and given recognition as revenue. The imposition of restrictions on how a contribution is to be used does not delay recognition.

Contributions with donor-imposed restrictions are reported as restricted contributions. Gifts of long-lived assets received without donor-imposed restrictions are considered unrestricted support.

Functional allocations of expenses:

The Center allocates expenses on a functional basis among direct program services and management and general. Expenses are allocated directly to the program service or supporting activity benefited. Certain expenses are allocated using an estimated percentage base.

NOTES TO FINANCIAL STATEMENTS

Note 2. Accounts Receivable - Patient Fees

Accounts receivable - patient fees are recorded net of the allowance for doubtful accounts of \$63,000 and \$83,000 at June 30, 2007 and 2006, respectively. The allowance for doubtful accounts represents those patient receivables which are doubtful of collection, as well as estimated third-party contractual adjustments.

Note 3. Grant Receivable

Grant receivable consist of a grant receivable from CMHS for services provided during the years ended June 30, 2007 and 2006 in the amount of \$4,017 and \$4,854, respectively.

Note 4. Note Receivable

Note receivable consists of a note receivable from a former employee. This note bears an interest rate of 0 percent per annum and requires annual payments of \$9,150 though March 2011. This note is unsecured. Total receivable at June 30, 2007 and 2006 is \$31,701 and \$-0-, respectively, using an imputed interest rate of 6.0 percent per annum. This note is the result of a settlement agreement with the former employee. The Center recognized income of \$40,851 in the statement of activities for the year ended June 30, 2007.

	2007	2006
Note receivable	\$ 31,701	\$ -
Less amounts due within one year	7,243	-
	\$ 24,458	\$ -

Note 5. Property and Equipment

A summary of property and equipment for 2007 and 2006 is as follows:

	2007		
	Cost	Accumulated Depreciation	Book Value
Building and improvements	\$ 900,733	\$ 469,584	\$ 431,149
Furniture, fixtures and equipment	294,004	276,168	17,836
Vehicles	6,000	3,200	2,800
Total	\$1,200,737	\$ 748,952	\$ 451,785
	2006		
	Cost	Accumulated Depreciation	Book Value
Building and improvements	\$ 900,733	\$ 439,829	\$ 460,904
Furniture, fixtures and equipment	285,037	271,590	13,447
Vehicles	6,000	2,000	4,000
Total	\$1,191,770	\$ 713,419	\$ 478,351

NOTES TO FINANCIAL STATEMENTS

Note 6. County Advances

The following counties have advanced operating funds to the Center, which are to be returned to the respective counties if the Center should terminate operations. The advances are non-interest bearing.

Webster	\$ 12,000
Calhoun	3,981
Hamilton	4,500
Humboldt	3,056
Kossuth	4,549
Pocahontas	2,381
Wright	<u>3,567</u>
	<u>\$ 34,034</u>

Note 7. Notes Payable

	<u>2007</u>	<u>2006</u>
Wells Fargo Bank Iowa, N.A., bears an interest rate of 5.25% per annum and requires monthly installments of \$1,763, including interest through April 2013. This note is secured by the building and substantially all equipment.	\$ 94,407	\$110,084
Less amounts due within one year	<u>16,599</u>	<u>15,756</u>
	<u>\$ 77,808</u>	<u>\$ 94,328</u>

The annual requirements for principal payments on notes payable for the next five years are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2008	\$ 16,599
2009	17,492
2010	18,433
2011	19,425
2012	20,469
Thereafter	<u>1,989</u>
	<u>\$ 94,407</u>

Note 8. Line of Credit

The Center has a line of credit for \$50,000, which bears interest at 1.00 percent above the prime rate set from time-to-time by Wells Fargo Bank, N.A. (9.25 percent as of June 30, 2007 and 2006, respectively). The line of credit requires monthly interest only payments until January 2008, at which time all outstanding principal plus all accrued unpaid interest is payable. The outstanding balance on the line at June 30, 2007 and 2006 was \$25,000 and \$-0-, respectively. The line of credit is unsecured.

NOTES TO FINANCIAL STATEMENTS

Note 9. Retirement Plan

The Center has a retirement plan covering all employees who are contracted to work in excess of twenty hours per week and have been employed by the Center for three years. The contribution was 5 percent of the eligible wages with no matching requirements. Effective May 1, 2005, the Center elected to discontinue making contributions to the retirement plan.

Note 10. Lease Commitments

On September 10, 1990, the Center entered into a lease with Trinity Regional Hospital, Fort Dodge, Iowa, for land on the hospital grounds on which to construct the mental health facility. The lease of the hospital's land provides for payments from the Center of one dollar per year for twenty years. The estimated lease value of \$12,000 has been recorded as a contribution and as rent expense. At the expiration of the twenty years, lease payments will be negotiated based on appraised fair market rates. The lease is renewable for three periods of twenty years and one additional period of nineteen years.

The Center has a lease for a mail machine, which requires quarterly payments of \$453 through January 2011, with an option to purchase the mail machine at fair market value at the end of the agreement. Lease expense for the mail machine totaled \$1,812 and \$1,812 for the years ended June 30, 2007 and 2006, respectively.

The Center has a lease for a copy machine, which requires monthly payments of \$209 through September 2011, with an option to purchase the copy machine at fair market value at the end of the agreement. Lease expense for the copy machine totaled \$1,878 and \$-0- for the years ended June 30, 2007 and 2006, respectively.

Minimum lease obligations under existing leases are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2008	\$ 4,316
2009	4,316
2010	4,316
2011	3,410
2012	<u>626</u>
	<u>\$ 16,984</u>

NOTES TO FINANCIAL STATEMENTS

Note 11. Concentrations of Credit Risk

Financial instruments that potentially subject the Center to concentrations of credit risk consist principally of demand deposits located at a financial institution. These demand deposits exceeded the federally insured limit of \$100,000 at times throughout the year.

The Center provides counseling to individuals in a seven-county area. The Center grants credit to these individuals and the seven counties.

The Center receives a substantial amount of its revenue from third-party payors, including Medicare, Medicaid, Blue Cross and several counties. A significant reduction in reimbursement by any of these third-party payors could have a material impact on the Center's programs and services.

Note 12. Center Risk Management

The Center is exposed to various risks of loss related to torts; theft of, 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. The Center assumes liability for any deductibles and claims in excess of coverage limitations.

**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
North Central Iowa Mental Health Center, Inc.
Fort Dodge, Iowa

We have audited the financial statements of North Central Iowa Mental Health Center, Inc. (a nonprofit organization) for the year ended June 30, 2007, and have issued our report thereon dated October 22, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Central Iowa Mental Health Center, Inc.'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 Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Center's financial statements that is more than inconsequential will not be prevented or detected by the Center's internal control. We consider the deficiency described in the accompanying Schedule of Findings and responses as 2007-A to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Central Iowa Mental Health Center, Inc.'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 non-compliance that are required to be reported under *Government Auditing Standards*.

We also noted other matters that we reported to management of the Center in a separate letter dated October 22, 2007.

This report is intended solely for the information and use of the Center's management and Board of Directors and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brooks J. Fisher, P.C.

West Des Moines, Iowa
October 22, 2007

NORTH CENTRAL IOWA MENTAL HEALTH CENTER, INC.

SCHEDULE OF FINDINGS

Findings Related to the General Purpose Financial Statements:

Reportable Condition:

Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the Center’s financial statements. We noted that the same individual who performs the record keeping duties and reconciliation of accounts receivable also had custody of receipts.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, we noted the Center has implemented the operating procedures to obtain the maximum internal control possible with the current number of staff.

Response – Due to one of our front office staff leaving employment with the Center, another front office staff had been assigned some of her duties. This led to decreased segregation of some of the financial functions. We have now shifted the former employee’s duties to a different front office staff person who is not otherwise involved in financial duties.

Conclusion – Response accepted.