

WAUBONSIE MENTAL HEALTH CENTER  
INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION  
COMMENTS AND RECOMMENDATIONS  
YEARS ENDED JUNE 30, 2007 AND 2006

WAUBONSIE MENTAL HEALTH CENTER

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WAUBONSIE MENTAL HEALTH CENTER  
Officials  
June 30, 2007

<u>Board of Directors:</u>	<u>Address</u>	<u>Term Expires</u>
Glen Benskin, President	Stanton, Iowa	--
Elaine Armstrong, Vice-President	Clarinda, Iowa	--
Ruthellen Reed, Secretary	Clarinda, Iowa	2007
Chuck Larson, Treasurer	Hamburg, Iowa	--
Bernice Messer	Stanton, Iowa	2008
Thomas Clark	Tabor, Iowa	2008
Dawn Hough	Clarinda, Iowa	2008
Sharon Yahnke	Sidney, Iowa	2008

As of the date of this report, the Board is looking for a replacement to fill one open director position. The open spot is from Montgomery County.

Executive Director:

Mary Anne Gibson                      Coin, Iowa

# Gronewold, Bell, Kyhnn & Co. P.C.

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DAVID A. GINTHER

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Waubonsie Mental Health Center  
Clarinda, Iowa

We have audited the accompanying balance sheets of Waubonsie Mental Health Center as of June 30, 2007 and 2006, and the related statements of activities and changes in net assets, 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 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 and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In accordance with Government Auditing Standards, we have also issued our report dated October 29, 2007 on our consideration of Waubonsie Mental Health Center'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 considered in assessing the results of our audit.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information (shown on pages 12 through 14) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Gronewold, Bell, Kyhnn & Co. P.C.*

Atlantic, Iowa  
October 29, 2007

WAUBONSIE MENTAL HEALTH CENTER  
Balance Sheets  
June 30,

ASSETS

	2007	2006
Current Assets:		
Cash	\$ 222,507	\$ 174,247
Certificates of deposit	153,906	147,301
Client receivables, less allowances for doubtful accounts and contractual adjustments (\$114,000 in 2007 and \$116,000 in 2006)	109,658	100,929
Other receivables	52,970	103,475
Prepaid expense	2,534	635
Total current assets	541,575	526,587
Property and Equipment, Net	48,662	58,512
Total assets	\$ 590,237	\$ 585,099

LIABILITIES AND NET ASSETS

Current Liabilities:		
Current maturities of capital lease obligations	\$ 7,390	\$ 7,046
Accounts payable	320	1,154
Accrued employee compensation	35,012	37,414
Deferred grant revenue	--	122,872
Total current liabilities	42,722	168,486
Capital Lease Obligations, Less Current Maturities	10,044	18,660
Total liabilities	52,766	187,146
Net Assets:		
Unrestricted	537,471	397,953
Total liabilities and net assets	\$ 590,237	\$ 585,099

The accompanying notes are an integral part of these statements.

WAUBONSIE MENTAL HEALTH CENTER  
 Statements of Activities and Changes in Net Assets  
 Year ended June 30,

	<u>2007</u>	<u>2006</u>
Support and Revenue:		
Support:		
Fees from participating counties	\$ 392,627	\$ 377,681
Grants	<u>233,994</u>	<u>140,622</u>
Total support	626,621	518,303
Revenue:		
Client fees, net	394,773	330,090
Other revenue	<u>14,421</u>	<u>16,227</u>
Total revenue	<u>409,194</u>	<u>346,317</u>
Total Support and Revenue	1,035,815	864,620
Expenses:		
Operating expenses	874,902	828,413
Provision for depreciation	18,713	18,281
Provision for bad debts	6,436	1,498
Interest	<u>3,715</u>	<u>395</u>
Total expenses	<u>903,766</u>	<u>848,587</u>
Operating Income	132,049	16,033
Other Support and Gains (Losses):		
Interest income	8,189	5,041
Contribution	--	( 200)
Loss on disposal of assets	<u>( 720)</u>	<u>( 716)</u>
Other support and gains, net	<u>7,469</u>	<u>4,125</u>
Increase in Unrestricted Net Assets	139,518	20,158
Net Assets, Beginning of Year	<u>397,953</u>	<u>377,795</u>
Net Assets, End of Year	<u>\$ 537,471</u>	<u>\$ 397,953</u>

The accompanying notes are an integral part of these statements.

WAUBONSIE MENTAL HEALTH CENTER  
 Statements of Cash Flows  
 Year ended June 30,

	2007	2006
Cash flows from operating activities:		
Cash received from clients, third party payors, and contracting agencies	\$ 376,608	\$ 300,821
Cash paid to suppliers and employees	( 880,037)	( 826,342)
County funding received	405,679	396,493
Grants received	151,575	257,985
Interest income	8,189	5,041
Other operating revenue	14,421	16,227
Interest paid	( 3,715)	( 395)
Contribution paid	--	( 200)
Net cash provided by operating activities	72,720	149,630
Cash flows from investing activities:		
Capital expenditures	( 9,583)	( 22,185)
Additions to certificates of deposit	( 6,605)	( 4,186)
Net cash used in investing activities	( 16,188)	( 26,371)
Cash flows from financing activities:		
Principal payments on capital lease obligations	( 8,272)	( 261)
Net increase in cash	48,260	122,998
Cash beginning of year	174,247	51,249
Cash end of year	\$ 222,507	\$ 174,247

(continued next page)

WAUBONSIE MENTAL HEALTH CENTER  
 Statements of Cash Flows - Continued  
 Year ended June 30,

	2007	2006
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 139,518	\$ 20,158
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Provision for depreciation	18,713	18,281
Provision for bad debts	6,436	1,498
Loss on disposal of assets	720	716
Change in assets and liabilities		
Accounts receivable	35,340	( 15,966)
Prepaid expense	( 1,899)	--
Accounts payable, trade	( 834)	( 3,051)
Accrued employee compensation	( 2,402)	5,122
Deferred grant revenue	( 122,872)	122,872
Total adjustments	( 66,798)	129,472
Net cash provided by operating activities	\$ 72,720	\$ 149,630

The accompanying notes are an integral part of these statements.

WAUBONSIE MENTAL HEALTH CENTER  
Notes to Financial Statements  
June 30, 2007 and 2006

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

1. Nature of Activities

The Waubonsie Mental Health Center is an Iowa not-for-profit corporation operating under Chapter 230A of the Code of Iowa and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Center is 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 Board includes a representative from the County Board of Supervisors of each of the three counties in the service area (Fremont, Montgomery and Page counties). Each of these members serve an annual term. The six remaining members of the Board of Directors serve three year terms and are selected by the existing Board.

2. Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

3. Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Client Receivables

Client receivables are shown at the amount expected to be collected from clients and other third-party payors. The allowance for doubtful accounts is based on an aging of all the individual client balances. The allowance for contractual adjustments is based on the difference between the Center's normal fees and expected government program and insurance payments.

WAUBONSIE MENTAL HEALTH CENTER  
Notes to Financial Statements  
June 30, 2007 and 2006

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

5. Unrestricted Revenues and Support

- a. Fees from clients are recorded at list price with adjustments based upon ability to pay and government program and insurance limitations deducted to arrive at net fees from clients. Effective October 1, 2006, Medicaid services are reimbursed based on a cost reimbursement methodology. The Center is reimbursed for these services at a tentative rate with a final settlement determined after submission and review of an annual cost report. The Center does not record charges and the related write-off of Supported Community Living Services that are deemed uncollectible. If these charges were recorded, the revenues and the related adjustments would be higher. The amount of unrecorded revenues and related adjustments cannot be determined.
- b. Fees from participating counties are based on the Center's annual budget and are allocated among the counties based on their relative usages and populations.
- c. Grant revenues are for specific programs provided by the Center and are recognized as income when grant requirements have been satisfied.

6. Property and Equipment

Property and equipment is stated at cost. The Center computes depreciation on equipment and vehicles using the straight-line method. Lives range from five to ten years for equipment and leasehold improvements and five years for vehicles.

7. Capital Leases

Leases which meet certain criteria are classified as capital leases, and assets and liabilities are recorded at amounts equal to the lesser of the present value of the minimum lease payments or the fair value of the leased properties at the beginning of the respective lease terms. Such assets are amortized evenly over the related lease terms or their economic lives with the amortization expense being included in the provision for depreciation. Interest expense relating to the lease liabilities is recorded to effect constant rates of interest over the terms of the leases.

8. Charity Care

The Center provides care to clients who meet certain criteria under its charity care policy at amounts less than its regular rates. Revenue from services to these clients is recorded as indicated in 5. above. These reductions are recorded as adjustments to fees from clients.

WAUBONSIE MENTAL HEALTH CENTER  
Notes to Financial Statements  
June 30, 2007 and 2006

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

9. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Center considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

NOTE B - PROPERTY AND EQUIPMENT

The cost and related accumulated depreciation by major category at June 30 are as follows:

	2007	2006
Automobiles	\$ 60,402	\$ 60,402
Office Equipment and Leasehold Improvements	170,643	165,868
	231,045	226,270
Less Accumulated Depreciation	182,383	167,758
	\$ 48,662	\$ 58,512

Rent expense for office space under cancelable operating leases totaled \$22,823 for the year ended June 30, 2007 (\$22,352 for June 30, 2006).

NOTE C - CAPITAL LEASES

Waubonsie Mental Health Center has entered into two capital lease agreements. One lease is for a copying machine. The copying machine lease is for a period of five years with monthly payments of \$82, including interest at 19.75%. This lease was paid off during fiscal year 2007. The second lease is for computer equipment. The computer equipment lease is for a period of three years with monthly payments of \$782, including interest at 13.95%.

Assets recorded under capital leases consist of the following at June 30:

	2007	2006
Computer Equipment	\$ 22,857	\$ 22,857
Copying Machine	--	3,110
Less: Accumulated Depreciation	( 5,714)	( 1,609)
Net Book Value	\$ 17,143	\$ 24,358

WAUBONSIE MENTAL HEALTH CENTER  
Notes to Financial Statements  
June 30, 2007 and 2006

NOTE C - CAPITAL LEASES - Continued

The present value of the net minimum lease payments of the computer equipment capital lease as of June 30, 2007 follows:

<u>Year Ending June 30,</u>	<u>Capital Lease</u>
2008	\$ 9,381
2009	9,381
2010	<u>1,563</u>
Total minimum lease payments	20,325
Less: Amount representing interest	<u>2,891</u>
Present value of net minimum lease payments	<u>\$ 17,434</u>
Current maturities	<u>\$ 7,390</u>

NOTE D - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

	<u>2007</u>	<u>2006</u>
Client Services	\$ 788,505	\$ 746,914
Management and General	<u>115,261</u>	<u>101,673</u>
	<u>\$ 903,766</u>	<u>\$ 848,587</u>

NOTE E - RETIREMENT PLAN

The Center offers a 403(b) retirement plan in which the Center contributes five percent of an eligible individual's gross wages, limited to \$40,000, to the plan. All full-time staff with two months of employment and who are over eighteen years of age are included in the plan. Total contributions made by the Center for the year ended June 30, 2007 were \$22,792 (\$19,429 for 2006).

WAUBONSIE MENTAL HEALTH CENTER  
Notes to Financial Statements  
June 30, 2007 and 2006

NOTE F - CONTINGENCIES

Risk Management

The Center is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Waubonsie Mental Health Center is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage for the past three years.

Off-Balance Sheet Risk

The Center maintains its deposits at several banks in the area. At June 30, 2007, the deposits in two banks exceeded the FDIC insured deposits limit for one entity (by approximately \$146,400). Management of the Center has received no indication of any potential viability problems with these banks by the date of this report.

Economic Dependency

The Center received approximately 38 percent of its revenue from Fremont, Montgomery and Page counties in 2007 (44 percent in 2006).

NOTE G - CONCENTRATION OF CREDIT RISK

The Center grants credit without collateral to its clients, most of whom are area residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2007 and 2006, was as follows:

	2007	2006
Medicaid	54%	56%
Other third-party payors and patients	46	44
	100%	100%

NOTE H - NON-CASH TRANSACTIONS

The cash transactions of the Center are presented on the statements of cash flows. The Center also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of change in net assets to net cash provided by operating activities:

	2007	2006
Purchase equipment through capital leases	\$ --	\$ 25,967

\* \* \*

ACCOMPANYING INFORMATION

WAUBONSIE MENTAL HEALTH CENTER  
Revenues and Support  
Year ended June 30,

<u>Client Fees</u>	<u>2007</u>	<u>2006</u>
Self Pay and 3rd Party Insurance	\$ 267,720	\$ 319,918
Title XIX	613,959	539,779
ARO	<u>    --</u>	<u>16,882</u>
Gross Client Fees	881,679	876,579
Less Contractual Adjustments	<u>486,906</u>	<u>546,489</u>
Net Client Fees	<u>\$ 394,773</u>	<u>\$ 330,090</u>
 <u>Fees from Participating Counties</u>		
Fremont	\$ 63,806	\$ 78,000
Montgomery	138,946	138,946
Page	<u>189,875</u>	<u>160,735</u>
	<u>\$ 392,627</u>	<u>\$ 377,681</u>

See Independent Auditor's Report.

WAUBONSIE MENTAL HEALTH CENTER  
Operating Expenses  
Year ended June 30,

	2007	2006
Administrative salaries	\$ 27,868	\$ 25,458
Therapists salaries	268,157	264,919
Clerical salaries	106,706	96,965
Psychiatric consultation	69,408	69,639
Employee benefits	75,383	78,145
Payroll tax expense	43,115	39,941
Audit and accounting fees	8,675	8,046
Other professional fees	16,388	14,556
Office supplies	8,543	7,242
CSP program expenses	2,458	2,969
Telephone	9,365	10,091
Postage and shipping	5,642	5,575
Rent expense	22,823	22,352
Building repairs and maintenance	2,626	2,540
Insurance expense	10,810	11,457
Utilities	4,346	4,148
Printing	462	--
Travel expense	15,977	16,546
Agency vehicle expense	7,989	10,963
Staff development and training	3,779	2,914
Subscriptions	151	363
Organization dues	1,836	2,226
Equipment repairs and maintenance	764	990
Advertising	4,618	3,743
Medication expense	902	2,185
Miscellaneous	155	911
	718,946	704,884
 Community Mental Health Services Grant Expenses -		
Adults:		
Salaries	11,925	12,445
Employee benefits	1,933	2,536
Travel expense	6,478	4,690
Other expense	2,509	2,447
	22,845	22,118
 Senior Contract Program Grant:		
Salaries	45,038	43,925
Employee benefits	9,598	5,949
Travel expense	4,386	2,988
Other expense	2,830	7,153
	61,852	60,015

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WAUBONSIE MENTAL HEALTH CENTER  
 Operating Expenses - Continued  
 Year ended June 30,

	2007	2006
Community Mental Health Services Grant Expenses - Children & Adolescents:		
Salaries	\$ 14,026	\$ 14,264
Employee benefits	3,385	3,267
Travel expense	863	1,085
Other expense	4,590	3,838
	22,864	22,454
Co-Occurring Program Expenses:		
Salaries	27,937	7,618
Employee benefits	4,587	533
Travel expense	2,266	261
Other expense	5,681	2,950
	40,471	11,362
Transitional Living Program Expenses:		
Housing	5,948	6,084
Other expense	1,976	1,496
	7,924	7,580
	\$ 874,902	\$ 828,413

See Independent Auditor's Report.

## COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

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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  
Waubonsie Mental Health Center  
Clarinda, Iowa

We have audited the financial statements of Waubonsie Mental Health Center as of and for the year ended June 30, 2007, and have issued our report thereon dated October 29, 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 Waubonsie Mental Health Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Waubonsie Mental Health 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 internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to initiate, authorize, record, process, or report financial data reliably, in accordance with accounting principles generally accepted in the United States of America, such that there is more than a remote likelihood 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 deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

To the Board of Directors  
Waubonsie Mental Health Center

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood 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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Waubonsie Mental Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 or other matters that are required to be reported under Government Auditing Standards.

Waubonsie Mental Health Center's response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on the Center's response, we did not audit the Center's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Waubonsie Mental Health Center and other parties to whom the Center may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Gronwald, Ben, Kuhn + Co. P.C.*

Atlantic, Iowa  
October 29, 2007

WAUBONSIE MENTAL HEALTH CENTER  
Schedule of Findings  
Year ended June 30, 2007

PART I - SIGNIFICANT DEFICIENCIES

07-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Center.

Recommendation: We recognize that it may not be economically feasible for the Center to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Center to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

\* \* \*