
MENTAL HEALTH CLINIC OF
TAMA COUNTY
TOLEDO, IOWA

INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS
SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2013

 **CARNEY,
ALEXANDER,
MAROLD & CO., L.L.P.**
Certified Public Accountants

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

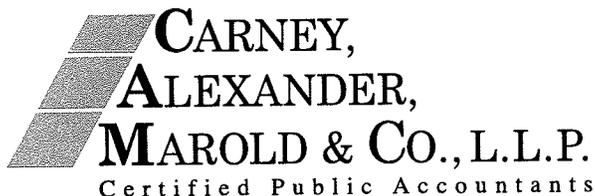
Table of Contents

	Page
Board of Directors	1
Independent Auditors' Report	2 - 3
Financial Statements:	Exhibit
Statement of Net Assets in Liquidation	A 4
Statement of Changes in Net Assets in Liquidation	B 5
Statement of Functional Expenses	C 6
Statement of Cash Flows	D 7
Notes to Financial Statements	8 - 12
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	13 - 14
Schedule of Findings	15 - 16

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Board of Directors
June 30, 2013

Name	Title	Term Expires
Berleen Wobeter	President	9/2012
Anita Townsley	Secretary/Treasurer	9/2012
Dan Wilkens	Member	N/A
Larry Vest	Member	N/A
Kendall Jordan	Member	N/A
Mike Gilchrist	Member	9/2012
Linda Rosenberger	Member	9/2013
Tracy Devaney	Member	9/2015
Larry Hassman	Member	7/2015



500 E. 4th Street, Suite 300
PO Box 1290 Waterloo, Iowa 50704-1290
Telephone (319) 233-3318 Fax (319) 233-1346
E-mail cam@carneycpa.com

Independent Auditors' Report

Board of Directors
Mental Health Clinic of Tama County
Toledo, Iowa

Report of Financial Statements

We have audited the accompanying statement of net assets in liquidation of Mental Health Clinic of Tama County, (a nonprofit organization) as of June 30, 2013, and the related statements of changes in net assets in liquidation, functional expenses, and cash flows for the year then ended and the 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 U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with 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 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Clinic'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 Clinic'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 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 net assets in liquidation of Mental Health Clinic of Tama County, at June 30, 2013, and the changes in its net assets in liquidation and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles applied on the basis described in Note 1 to the financial statements.

Emphasis of a Matter

As discussed in Note 9 to the financial statements, the board of directors of Mental Health Clinic of Tama County approved a plan of liquidation on October 10, 2013, and the Clinic will commence liquidation on October 31, 2013. As a result, the clinic has changed its basis of accounting for the year ended June 30, 2013 from the accrual basis to a liquidation basis of accounting. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 30, 2013 on our consideration of Mental Health Clinic of Tama County'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 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 Mental Health Clinic of Tama County's internal control over financial reporting and compliance.

Carney, Alexander, Arnold & Co., L.L.P.

December 30, 2013

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Exhibit A

Statement of Net Assets in Liquidation
As of June 30, 2013

	2013
- ASSETS -	
Cash and cash equivalents	\$ 37,762
Cash and cash equivalents - restricted by loan covenant	11,700
Accounts receivable, patient services, less allowance for uncollectible accounts of \$45,339 for 2013	30,219
Grants receivable, less allowance for uncollectible accounts of \$3,461 for 2013	2,875
Prepaid expense	2,514
	<u>85,070</u>
Property and Equipment:	
Building	188,618
Land	2,500
Equipment	54,278
	<u>245,396</u>
Less accumulated depreciation	150,759
	<u>94,637</u>
Total Assets	<u><u>\$179,707</u></u>
- LIABILITIES -	
Accounts payable	\$ 36,224
Payroll liabilities	3,788
Accrued vacation	14,191
Notes payable	132,685
Line-of-credit	21,169
	<u>208,057</u>
Total Liabilities	<u>208,057</u>
- NET ASSETS -	
Unrestricted (Deficit)	(41,394)
Temporarily restricted	13,044
	<u>28,350</u>
Total Net Assets (Deficit)	<u>(28,350)</u>
Total Liabilities and Net Assets	<u><u>\$179,707</u></u>

The accompanying notes are an integral part of these statements.

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Exhibit B

Statement of Changes in Net Assets in Liquidation
For the Year Ended June 30, 2013

	2013		
	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue:			
Public Support:			
County Social Services	\$ 148,171	\$ -	\$ 148,171
Other county and state payments	7,350	-	7,350
Federal, State and other program grants	30,052	-	30,052
Contributions	120	-	120
	185,693	-	185,693
Revenues:			
Fees from patients	453,802	-	453,802
Interest income	125	-	125
Miscellaneous income	3,342	-	3,342
	457,269	-	457,269
Net Assets Released From Restrictions:			
Satisfaction of program restrictions	-	-	-
	-	-	-
Total Public Support and Revenues	642,962	-	642,962
Expenses:			
Program services	518,439	-	518,439
Support services	121,344	-	121,344
Fundraising services	1,000	-	1,000
	640,783	-	640,783
Total Expenses	640,783	-	640,783
Change in Net Assets	2,179	-	2,179
Net Assets (Deficit), Beginning of Year	(43,573)	13,044	(30,529)
Net Assets (Deficit), End of Year	\$ (41,394)	\$ 13,044	\$ (28,350)

The accompanying notes are an integral part of these statements.

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Exhibit C

Statement of Functional Expenses
For the Year Ended June 30, 2013

	2013			
	Program Services	Support Services, Management and General	Fundraising	Total
Salaries	\$ 229,532	\$ 57,383	\$ 1,000	\$ 287,915
Payroll taxes	17,409	4,352	-	21,761
Retirement	7,790	1,948	-	9,738
Fringe benefits	25,096	6,274	-	31,370
	279,827	69,957	1,000	350,784
Total Salaries and Related Expenses				
Insurance	7,373	1,843	-	9,216
Rent	780	195	-	975
Contract labor	133,557	33,389	-	166,946
Advertising	434	109	-	543
Dues and subscriptions	2,371	593	-	2,964
Office supplies	12,818	3,204	-	16,022
Equipment maintenance	2,543	636	-	3,179
Leased equipment	4,049	1,012	-	5,061
Telephone	5,606	1,401	-	7,007
Building maintenance	4,326	1,081	-	5,407
Utilities	4,772	1,193	-	5,965
Bad debt expense	33,052	-	-	33,052
Travel expense	9,426	2,356	-	11,782
Accounting fees	5,422	1,355	-	6,777
Interest expense	6,786	1,696	-	8,482
	233,315	50,063	-	283,378
Total Expenses Before Depreciation and Amortization	513,142	120,020	1,000	634,162
Depreciation and amortization	5,297	1,324	-	6,621
Total Expenses	\$ 518,439	\$ 121,344	\$ 1,000	\$ 640,783

The accompanying notes are an integral part of these statements.

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Exhibit D

Statement of Cash Flows
For the Year Ended June 30, 2013

	2013
Cash Flows from Operating Activities:	
Change in net assets	\$ 2,179
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation of buildings and equipment	6,621
Change in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	22,501
Grant income receivable	8,208
Prepaid expenses	(1,728)
Increase (decrease) in:	
Accounts payable	19,018
Accrued withholdings	(2,864)
Accrued vacation	(11,792)
Net Cash Provided By Operating Activities	<u>42,143</u>
Cash Flows from Investing Activities:	
Purchase of fixed assets	<u>(7,958)</u>
Net Cash Used By Investing Activities	<u>(7,958)</u>
Cash Flows from Financing Activities:	
Proceeds from short term debt	5,005
Payments on short term debt	(8,836)
Payments on long term debt	<u>(3,946)</u>
Net Cash Used By Financing Activities	<u>(7,777)</u>
Net Change in Cash and Cash Equivalents	26,408
Cash and Cash Equivalents at Beginning of Year	23,054
Cash and Cash Equivalents at End of Year	<u><u>\$49,462</u></u>
Supplemental Disclosure of Cash Flow Information:	
Cash paid during the period for:	
Interest	\$ 8,581

The accompanying notes are an integral part of these statements.

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Clinic is a non-profit corporation 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. Services are provided primarily to residents of Tama County.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the liquidation basis of accounting as accepted by accounting principles generally accepted in the United States of America for not for profit organizations under liquidation. The Clinic has revalued its assets and liabilities to amounts expected to be collected and paid during the liquidation. Differences between the revalued amounts and actual cash transactions will be recognized in the period they can be estimated.

C. Basis of Presentation

The Clinic has adopted the Financial Accounting Standards Board (FASB) reporting requirements for not for profit organizations. Under those standards, the Clinic is required to report 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. As permitted by the standards, the Clinic does not use fund accounting.

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

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets whose use by the Clinic has been limited by donor-imposed restrictions, such as specified dates and/or purposes.

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.

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Notes to Financial Statements

(1) Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the statement of net assets in liquidation:

Cash and Cash Equivalents - The Clinic considers savings accounts, certificates of deposit and all other highly liquid investments to be cash equivalents.

Receivables - Receivables are shown at the amount expected to be received after determining the allowance for doubtful accounts based on an estimate of what management believes it will reasonably collect during the liquidation period.

Property and Equipment - Property and equipment are stated at cost if purchased or fair market value at the date of the gift if donated. Depreciation is computed by the straight-line method over the estimated useful lives of 5 - 40 years. Any property and equipment purchased with a cost of \$1,000 or higher will be capitalized and depreciated.

Compensated Absences - Clinic employees accumulate a limited amount of earned but unused vacation benefits payable to employees. Amounts representing an estimate of the cost of compensated absences are recorded as liabilities and have been computed based on rates of pay in effect at June 30, 2013.

E. Net Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, 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.

F. Contributions

Contributions to the Clinic which are received from the public are considered available for unrestricted use, unless specifically restricted by the donor. No restricted contributions were received for the year ended June 30, 2013. No amounts are reflected in these financial statements for donated services rendered for the Clinic since no objective basis is available to measure the value of such services.

G. 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. Actual results could differ from those estimates.

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Notes to Financial Statements

(1) Summary of Significant Accounting Policies (continued)

H. Income Taxes

The Clinic 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, which provides tax exemption for corporations organized and operated exclusively for religious, charitable or educational purposes. Accordingly, no provision for income taxes is reflected in the financial statements.

The Clinic has adopted the FASB standards regarding uncertain tax positions which requires evaluation of the impact of uncertain tax positions taken or expected to be taken on a tax return. In some instances, the Clinic may be required to recognize a liability related to those tax positions. In evaluating the Clinic's tax provisions and accruals, interpretations and tax planning strategies are considered. At June 30, 2013, the Clinic had no uncertain tax positions requiring recognition in the financial statements. The Clinic's income tax filings prior to 2010 are no longer subject to audit by the federal and state taxing authorities. Interest and penalties incurred, if any, when filing income tax returns are recognized in the Statement of Changes in Net Assets in Liquidation.

(2) Property and Equipment

A summary of changes in property and equipment is as follows:

	Beginning of Year	Additions	Deletions	Balance End of Year
Buildings	\$ 188,618	\$ -	\$ -	\$ 188,618
Land	2,500	-	-	2,500
Equipment	46,637	7,958	317	54,278
Total	<u>237,755</u>	<u>7,958</u>	<u>317</u>	<u>245,396</u>
Less: Accumulated Depreciation	<u>144,455</u>	<u>6,621</u>	<u>317</u>	<u>150,759</u>
Net Book Value	<u>\$ 93,300</u>	<u>\$ 1,337</u>	<u>\$ -</u>	<u>\$ 94,637</u>

Depreciation expense for 2013 was \$6,621.

(3) Leases

The Clinic is obligated under one noncancelable operating lease for two copiers with a monthly payment of \$579 per month ending May 12, 2018.

Lease payments made on all leases during the year ended June 30, 2013 was \$5,061.

The future minimum lease payments for the next five years required under the leases mentioned above are as follows:

Years ending June 30:	2014	\$ 6,948
	2015	6,948
	2016	6,948
	2017	6,948
	2018	5,790

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Notes to Financial Statements

(4) Annuities

The Clinic contributed 4% of the salaries of full-time employees to a tax sheltered annuity of the employees choice. The payments are 100% vested immediately upon contribution. The Clinic's required and actual contributions for the year ended June 30, 2013 totaled \$9,738.

(5) Debt

On March 13, 1992, the Clinic financed \$180,000 to build a new facility through USDA-Rural Development, in the form of two notes; one note for \$145,000 and the second for \$35,000. The notes are secured by the facility and contain a covenant that requires the sum of one year's payments be kept as restricted assets. The notes are based on a forty year amortization, with monthly payments of \$785 and \$190, respectively, with final payments due March 13, 2032. At June 30, 2013 the balances on the two notes were \$107,101 and \$25,584, respectively. Subsequent to year end the building was sold and the proceeds were used to satisfy the notes in full, see note 9.

During the prior fiscal year the Clinic obtained a line-of-credit from State Bank of Toledo. Borrowings were not to exceed \$30,000. The loan is secured by the general assets of the Clinic. Interest payments are due monthly at a rate of 3.25%. The loan was due August 17, 2013, but was subsequently renewed at 3.25% with a new maturity date of August 17, 2014. At June 30, 2013 the balance was \$21,169.

Total interest expense for the year ended June 30, 2013 was \$8,482.

As of June 30, 2013, maturities of the loans were as follows:

Years ending June 30:		
	2014	\$132,685
	2015	21,169

(6) Financial Instruments and Credit Risk

The Clinic grants credit in the form of accounts receivable for services rendered. The accounts receivable are collectible from individuals receiving service and in many cases third party payors such as insurance carriers. The Clinic received 80% of its total public support and revenue for the year ended June 30, 2013, from County Social Services.

The Clinic's financial instruments consist of cash and short-term receivables and payables. The carrying value for all such instruments, considering the terms, approximated fair value at June 30, 2013.

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Notes to Financial Statements

(7) Risk Management

Mental Health Clinic of Tama County 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 Clinic assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

(8) Reclassifications of Net Assets

Temporarily restricted net assets at June 30, 2013 consist of cash and cash equivalents as required by note covenant and donor restrictions imposed on contributions.

Temporarily restricted net assets are available for the following purposes:

	2013
Funds under temporary restriction:	
Required by note covenants	\$ 11,700
Restricted by donor	1,344
Total Temporarily Restricted Net Assets	<u>\$ 13,044</u>

(9) Subsequent Events

Management has evaluated subsequent events through December 30, 2013, the date on which the financial statements were available to be issued.

Discontinuation of Operations

On July 31, 2013, subsequent to year end, the clinic ceased operations and elected to transfer selected assets to a local private mental health practice.

Disposition of remaining assets

In August 2013, the clinic elected to liquidate the remaining assets, for an amount in excess of book value, to the local private mental health practice mentioned previously. The proceeds were used to satisfy the mortgages on the building.

Dissolution of the Clinic

During the board of directors meeting held on October 10, 2013 the Clinic's board of directors unanimously elected to dissolve the corporation. This was due to the economic hardships the Clinic has endured for the past several periods. The dissolution will be effective October 31, 2013. The Clinic has arranged to bring final expenses to the Board of Supervisors of Tama County to be paid on a case by case basis.

Independent Auditors' Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Directors
Mental Health Clinic of Tama County
Toledo, Iowa

We have audited 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, the financial statements of Mental Health Clinic of Tama County, Toledo, Iowa, (a nonprofit organization), as of and for the year ended June 30, 2013, and the related notes to financial statements, and have issued our report thereon dated December 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mental Health Clinic of Tama County's internal control over financial reporting to determine the audit procedures 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 Mental Health Clinic of Tama County's internal control. Accordingly, we do not express an opinion on the effectiveness of Mental Health Clinic of Tama County's 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 significant deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in I through III in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mental Health Clinic of Tama County'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 would 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.

Comments involving statutory and other legal matters about the Clinic's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Clinic. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Mental Health Clinic of Tama County's Responses to Findings

Mental Health Clinic of Tama County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. Mental Health Clinic of Tama County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Clinic'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 Clinic's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Mental Health Clinic of Tama County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Carney, Alexander, Knudsen & Co., L.L.P.

December 30, 2013

MENTAL HEALTH CLINIC OF TAMA COUNTY
TOLEDO, IOWA

Schedule of Findings

Year Ended June 30, 2013

Findings Related to the Financial Statements:

Internal Control Deficiencies

- (I) **Segregation of Duties** - One important aspect of internal accounting control is the segregation of duties among employees. Recordkeeping is primarily done by the office bookkeeper and office manager. Because of the limited number of employees, they perform some cash-related duties that are incompatible.

Recommendation - We realize that segregation of duties is difficult, if not impossible, in a small office; however, we feel that a reminder of this is justified so as to provide attention to those areas throughout the year and that operating procedures be continually reviewed to obtain the maximum internal control possible under the circumstances.

Response - We have acknowledged the importance of segregation of duties throughout this year and implemented several new controls regarding the handling of mail and accounting for check payments by more than one office personnel. We recognized the need for segregation of duties and implemented the recommended procedures from the previous year's audit with only two support staff office employees however; the Clinic is now closed so no further procedures will be modified.

Conclusion - Response accepted.

- (II) **Preparation of Financial Statements** - Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, results of activities, cash flows and disclosures in the financial statements, in conformity with accounting principals generally accepted in the United States of America (GAAP). Mental Health Clinic of Tama County has not implemented a system to allow accounting personnel to prepare the financial statements (including footnote disclosures) in conformity with GAAP; therefore, it relies on its auditors to prepare such statements at year end.

Recommendation - The Clinic should develop a system that allows its internally prepared monthly financial statements to be prepared in accordance with generally accepted accounting principles.

Response - A system had not been implemented for preparation of financial statements at the time the Clinic closed operations.

Conclusion - Response accepted.

- (III) **Cash receipts** - Currently cash receipts, both over the counter and mail receipts, are stored in an unlocked drawer that can sometimes be left unattended. Also, cash receipts that the Clinic receives through the mail do not have a paper trail that can be traced back to the source document. These deficiencies create an environment that is susceptible to misappropriation of the Clinics' assets.

Recommendation - We recommend the Center's cash receipts be documented through a paper trail in some manner. Having the person opening the mail or receiving cash create a log of receipts would be a way to achieve this. We also suggested that cash and checks be secured in a locked area when unattended, even for a short period of time.

Response - The Clinic took the auditors' previous recommendations to keep all receipts of cash or checks in a locked safe until deposited in the bank. Staff also began a new system of accounting for checks received through the mail. The staff member that picked up the mail would not open the mail. The mail would be opened by another staff member who would then run a tape of any checks opened. This system was not completely without conflict due to the lack of support staff members and the Clinic has now closed.

Conclusion - Response accepted.

Other Findings Related to Required Statutory Reporting:

No instances of non-compliance were noted