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MEMBER OF
AMERICAN AND FLORIDA
INSTITUTES OF
CERTIFIED PUBLIC ACCOUNTANTS

August 6, 2010

The Board of Directors
Clay Behavioral Health Center, Inc.
Orange Park, Florida

In planning and performing our audit of the financial statements of Clay Behavioral Health Center, Inc. as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Clay Behavioral Health Center, Inc.'s internal control over financial reporting (internal control) 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 organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Clay Behavioral Health Center, Inc.'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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

This communication is intended solely for the information and use of management, the board of directors, others within the organization, and funding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

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Our comments and recommendations below, all of which have been discussed with appropriate members of management, are intended for operational or administrative efficiency, or for improving internal control. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

A. Prior Year Recommendations

1. Client Fees and Insurance Revenue

Last year we recommended the client fees account receivable balances be reduced to their net realizable value, the collection staff be informed of the cash collections and consideration be given to increasing the allowance account for potential losses in the insurance receivables. The client fee issues were substantially addressed in the current year.

2. Fundraising

We noted the governmental budget problems and recommended fundraising efforts continue to be a top priority. Fundraising continues to be a priority.

B. Current Year Recommendations

1. Client Fees

We noted you have aggressively valued your client fee receivables and are now recognizing only realizable amounts for income. We commend you for these actions and recommend you continue to emphasis collection efforts for client fees and insurance payments.

2. Fundraising

The governmental budget problems noted last year are now a reality at the county level. The significant reduction in support makes meeting your mission of providing services regardless of ability to pay in jeopardy without a significant increase in donations and fundraising. We recommend continuing your present fundraising efforts and consideration of other ways to raise contributions.

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3. Credit Risk

As disclosed in the financial statement's footnotes, the Center maintains funds in FDIC insured bank in excess of the insurance limits. We recommend continued monitoring of the bank balances.

4. Internal Controls

In accordance with recent accounting pronouncements, the organization is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the organization involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. You are also responsible for informing us of your knowledge of any allegations of fraud or suspected fraud affecting the organization received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the organization complies with applicable laws and regulations.

5. Segregation of Duties

There are inherent limitations on the proper segregation of duties in an accounting department the size of yours. However, some of those limitations may be overcome with the rotating of duties among staff members and the separation of responsibilities where possible. The Center uses cross-training, review of bank statements prior to their receipt by the business office, financial reporting to the Board and a review of all checks signed by your Vice President of Business Operations to overcome limited segregation of duties. The levels of security and access in your software may provide additional means to segregate duties and increase the opportunity for employees to discover errors in the normal course of performing their duties.

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If we can be of any assistance in implementing any of these recommendations, or in any other manner, please do not hesitate to call upon us.

Very truly yours,

A handwritten signature in cursive script that reads "James Knutzen & Associates".

James Knutzen & Associates, C.P.A.'s, P.A.