

**NASSAU COUNTY MENTAL HEALTH,  
ALCOHOLISM AND DRUG ABUSE  
COUNCIL, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

**JUNE 30, 2010**

**NASSAU COUNTY MENTAL HEALTH, ALCOHOLISM  
AND DRUG ABUSE COUNCIL, INC.**

**TABLE OF CONTENTS**

<b>INDEPENDENT AUDITOR’S REPORT .....</b>	<b>1</b>
 <b>FINANCIAL STATEMENTS:</b>	
Statement of Financial Position .....	3
Statement of Activities.....	4
Statement of Functional Expenses .....	5
Statement of Cash Flows .....	6
Notes to Financial Statements.....	7
 <b>REPORTS IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS OF THE GOVERNMENT ACCOUNTING OFFICE (GAO), PROVISIONS OF THE U.S. OFFICE OF MANAGEMENT AND BUDGET (OMB) CIRCULAR A-133 AND CHAPTER 10.650, RULES OF THE AUDITOR GENERAL:</i></b>	
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 <i>Government Auditing Standards</i> .....	13
 Independent Auditor’s Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Federal Program and State Project and on Internal Control over Compliance in Accordance with OMB CircularA-133 and Chapter 10.650, <i>Rules of the Auditor General</i> .....	15
 <b>SUPPLEMENTAL INFORMATION:</b>	
Schedule of Expenditures of Federal Awards and State Financial Assistance .....	17
Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance.....	19
Schedule of Findings and Questioned Costs - Federal Awards and State Financial Assistance.....	20
Management Letter .....	22
Management’s Response.....	24



**Harbeson, Fletcher & Bateh, LLP**  
Certified Public Accountants

E. Cobb Harbeson  
John C. Fletcher, Jr.  
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**INDEPENDENT AUDITOR'S REPORT**

February 28, 2011

To the Board of Directors of  
Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.

We have audited the accompanying statement of financial position of Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc. (a nonprofit organization) as of June 30, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc. as June 30, 2010, and the changes in its net assets and its cash flows for the year 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 February 28, 2011, on our consideration of Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and Chapter 10.650, *Rules of the Auditor General*, 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 other additional procedures, including comparing and reconciling such information directly to the underlying accounting 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Harbeson, Fletcher & Bates, LLP*

**NASSAU COUNTY MENTAL HEALTH, ALCOHOLISM  
AND DRUG ABUSE COUNCIL, INC.  
STATEMENT OF FINANCIAL POSITION  
June 30, 2010**

**ASSETS**

Current assets:	
Cash and cash equivalents	\$219,363
Accounts receivable	183,663
Prepaid expenses	<u>70,369</u>
Total current assets	473,395
Property and equipment, net of accumulated depreciation (Note 3)	386,056
Investment in Yulee Professional Plaza, LLC (Note 4)	<u>30,652</u>
	<u>\$890,103</u>

**LIABILITIES AND NET ASSETS**

Current liabilities:	
Mortgage note payable, due within one year (Note 5)	\$ 7,603
Equipment notes payable, due within one year (Note 6)	12,441
Accounts payable and accrued expenses	98,486
Accrued compensated absences	<u>49,717</u>
Total current liabilities	168,247
Mortgage note payable, due after one year (Note 5)	194,827
Equipment notes payable, due after one year (Note 6)	14,072
Payable to Yulee Professional Plaza, LLC (Note 7)	<u>17,972</u>
Total liabilities	395,118
Net assets:	
Unrestricted	<u>494,985</u>
Total net assets	<u>494,985</u>
	<u>\$890,103</u>

See Independent Auditor's Report and Notes to Financial Statements.

**NASSAU COUNTY MENTAL HEALTH, ALCOHOLISM  
AND DRUG ABUSE COUNCIL, INC.  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2010**

**Revenues and Other Support**

Grants and contracts	\$2,242,614
Medicaid reimbursements	1,174,323
Client fees	123,083
Third-party income	114,125
In-kind contributions	95,158
Contributions and other	<u>33,470</u>

**Total revenues and other support** 3,782,773

**Expenses**

**Program Services:**

Adult mental health	1,460,999
Adult substance abuse	430,404
Children's mental health	649,434
Children's substance abuse	<u>796,028</u>
Total program services	<u>3,336,865</u>

**Supporting Services:**

Management and general	454,687
Fundraising	<u>16,995</u>
Total supporting services	<u>471,682</u>

**Total expenses** 3,808,547

**Decrease in unrestricted net assets** (25,774)

Unrestricted net assets, beginning of year 520,759

Unrestricted net assets, end of year \$ 494,985

See Independent Auditor's Report and Notes to Financial Statements.

**NASSAU COUNTY MENTAL HEALTH, ALCOHOLISM  
AND DRUG ABUSE COUNCIL, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended June 30, 2010**

	Program Services				Supporting Services			Total Expenses
	Adult Mental Health	Adult Substance Abuse	Children's Mental Health	Children's Substance Abuse	Management and General	Fundraising	Total Supporting Services	
<b>Salaries and related expenses:</b>								
Salaries	\$ 903,840	\$ 188,762	\$ 305,408	\$ 349,568	\$ 194,396	\$ -	\$ 194,396	\$ 1,941,974
Payroll taxes and benefits	145,025	54,836	65,019	76,550	59,787	-	59,787	401,217
<b>Total salaries and related expenses</b>	<b>1,048,865</b>	<b>243,598</b>	<b>370,427</b>	<b>426,118</b>	<b>254,183</b>	<b>-</b>	<b>254,183</b>	<b>2,343,191</b>
<b>Other expenses:</b>								
Building occupancy	109,655	53,455	32,539	43,215	17,394	-	17,394	256,258
In-kind occupancy match	-	-	-	115,500	-	-	-	115,500
Equipment repairs and maintenance	12,401	9,768	5,366	7,230	11,896	-	11,896	46,661
Food services	15,207	506	-	-	-	-	-	15,713
Office supplies and expense	8,247	2,555	3,339	11,585	3,457	-	3,457	29,183
Telephone and internet	27,514	5,281	7,091	9,407	21,627	-	21,627	70,920
Postage and shipping	3,773	-	11	-	722	-	722	4,506
Medical expenses	4,648	35,713	-	-	147	-	147	40,508
Subcontractor services	124,785	41,560	197,282	133,713	65,712	-	65,712	563,052
Client assistance and incidentals	2,522	752	875	595	-	-	-	4,744
Purchased therapeutic services	3,601	7,500	8,609	3,165	-	-	-	22,875
Printing and publications	528	666	-	2,185	8,924	578	9,502	12,881
Education and training	434	-	-	2,708	494	-	494	3,636
Travel and transportation	14,069	2,061	6,394	19,654	26,875	-	26,875	69,053
Payroll processing	4,195	2,353	1,740	1,023	921	-	921	10,232
Insurance	11,433	8,747	4,857	7,432	8,183	-	8,183	40,652
Professional fees and services	14,233	3,450	5,371	6,559	1,601	-	1,601	31,214
Fundraising expenses	-	-	-	-	-	16,417	16,417	16,417
Advertising and promotion	4,873	276	322	500	5,741	-	5,741	11,712
Bank charges and fees	-	-	-	-	1,891	-	1,891	1,891
Dues and subscriptions	10,889	7,460	3,694	2,043	3,671	-	3,671	27,757
Taxes and licenses	284	1,643	-	1,785	634	-	634	4,346
Interest	14,126	-	-	-	697	-	697	14,823
Depreciation	22,751	3,033	1,517	1,517	9,100	-	9,100	37,918
Miscellaneous	1,966	27	-	94	10,817	-	10,817	12,904
<b>Total other expenses</b>	<b>412,134</b>	<b>186,806</b>	<b>279,007</b>	<b>369,910</b>	<b>200,504</b>	<b>16,995</b>	<b>217,499</b>	<b>1,465,356</b>
<b>Total expenses</b>	<b>\$ 1,460,999</b>	<b>\$ 430,404</b>	<b>\$ 649,434</b>	<b>\$ 796,028</b>	<b>\$ 454,687</b>	<b>\$ 16,995</b>	<b>\$ 471,682</b>	<b>\$ 3,808,547</b>

See Independent Auditor's Report and Notes to Financial Statements.

**NASSAU COUNTY MENTAL HEALTH, ALCOHOLISM  
AND DRUG ABUSE COUNCIL, INC.  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2010**

**Cash flows from operating activities**

Decrease in net assets	\$ (25,774)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	37,918
Equity in loss of Yulee Professional Plaza, LLC	1,134
Decrease (increase) in operating assets:	
Accounts receivable	55,321
Prepaid expenses	(4,969)
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	10,597
Accrued compensated absences	4,781
Payable to Yulee Professional Plaza, LLC	<u>17,972</u>
<b>Net cash provided by operating activities</b>	<b><u>96,980</u></b>

**Cash flows from investing activities**

Purchase of property and equipment	<u>(9,705)</u>
<b>Net cash used for investing activities</b>	<b><u>(9,705)</u></b>

**Cash flows from financing activities**

Principal payments on mortgage note payable	(24,498)
Principal payments on equipment notes payable	<u>(10,989)</u>
<b>Net cash used for financing activities</b>	<b><u>(35,487)</u></b>

**Net increase in cash and cash equivalents** 51,788

Cash and cash equivalents, beginning of year 167,575

**Cash and cash equivalents, end of year** **\$219,363**

**Supplemental disclosures of cash flow information:**

Cash paid for interest totaled \$14,848 for the year ended June 30, 2010.

**Noncash investing and financing activities:**

The Organization financed the acquisition of certain vehicles with long-term notes totaling \$37,502.

See Independent Auditor's Report and Notes to Financial Statements.



**NASSAU COUNTY MENTAL HEALTH, ALCOHOLISM  
AND DRUG ABUSE COUNCIL, INC.**  
**(A Not-for-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**Note 1 - Organization and Operations**

Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc. (the "Organization") was incorporated as a non-profit organization on August 6, 1986. The Organization provides outpatient mental health and substance abuse treatment, counseling and prevention services for the residents of Nassau County, Florida. The Organization is funded primarily by Federal and state grants and contracts. The Organization also receives reimbursements from Medicaid and other third-party providers for qualifying outpatient services rendered to clients who are eligible for such assistance.

**Note 2 - Summary of Significant Accounting Policies**

**Basis of Accounting**

The Organization derives most of its revenues from Federal and state grants and contracts, Medicaid reimbursements, and fees for services rendered to its clients. Assets, liabilities, revenues and expenses are recorded on the accrual basis of accounting. Consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

**Financial Statement Presentation and Contributions**

In accordance with FASB ASC 958, *Not-for-Profit Entities*, the Organization 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.

In accordance with FASB ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Time-restricted contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the time restriction.

See Independent Auditor's Report.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Organization had no temporarily restricted or permanently restricted net assets at June 30, 2010.

#### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash and cash equivalents.

#### **Property and Equipment and Depreciation**

Expenditures for property and equipment in excess of \$1,500 are capitalized at cost. Donated assets are capitalized and recorded as support at their fair market values the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation of property and equipment is computed using primarily accelerated methods based on the assets' estimated useful lives ranging from 3 to 40 years. At the time property or equipment is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and profit or loss is recognized thereon. Ordinary maintenance and repairs are charged to expenses when incurred.

#### **Compensated Absences**

The Organization's employees may accrue paid time off based upon their length of service, subject to certain limitations. Paid time off is recorded as an expense and liability at the time the accrued compensation is earned by the employee. Employees are paid for such accrued vacation and personal days upon resignation (with proper written two weeks notice provided to the Organization).

#### **Functional Expenses**

The costs of providing the various program services and other activities for the Organization have been summarized in the statement of functional expenses. Costs and expenses incurred directly for a specific program service are recorded as an expense for that particular program. Functional expenses not identifiable with a specific program service are allocated to program services, management and general and other activities based on the estimated personnel effort involved in each program service generally measured by the ratio of gross payroll expenses for each program service to the total gross payroll expenses for all program services.

#### **In-kind Donations**

In-kind donations are reflected as contributions at their fair value at date of donation and are reported as unrestricted support unless explicit donor restrictions specify how donated assets must be used. The Organization recognizes the fair value of contributed services if such services create or enhance financial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed.

See Independent Auditor's Report.

In connection with its *Project Success* program, the Organization receives the free use of office space in certain middle and high schools throughout Nassau County, Florida. For the year ended June 30, 2010, the value of the donated office space reported as both in-kind contributions income and occupancy match expense in the accompanying statement of activities totaled \$115,500.

**Income Taxes**

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

**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 certain 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. Estimates also affect the reported amounts of revenues and expenses and change in net assets during the reporting period. Actual results could differ from those estimates.

**Subsequent Event**

In accordance with FASB ASC 855, *Subsequent Events*, management has evaluated subsequent events through February 28, 2011, the date which the financial statements were available to be issued.

**Note 3 - Property and Equipment**

Property and equipment are summarized as follows:

	<u>Estimated Useful Lives</u>	
Land		\$ 13,000
Buildings and improvements	7-39	507,570
Office and computer equipment	3-7	231,531
Furniture and fixtures	5-7	30,731
Vehicles	5	76,692
Leasehold improvements	7-15	<u>35,520</u>
		895,044
Less accumulated depreciation		<u>(508,988)</u>
		<u>\$386,056</u>

Depreciation expense totaled \$37,918 for the year ended June 30, 2010.

See Independent Auditor's Report.

#### **Note 4 - Investment in Yulee Professional Plaza, LLC**

During the fiscal year ended June 30, 2008, the Organization acquired a membership interest in Yulee Professional Plaza, LLC (the "LLC"), a limited liability company engaged in rental real estate activities in Yulee, Florida. The Organization acquired its 5% membership interest by contributing \$7,500 in cash and incurring a long-term obligation payable to the LLC totaling \$23,700. Under the terms of the LLC agreement, the Organization is required to make monthly payments of \$198 over a period of 120 months through January 31, 2018 to fulfill the \$23,700 membership contribution (see Note 7).

The LLC is also the lessor/landlord of the Yulee office building in which the Organization conducts its principal activities (See Note 8).

#### **Note 5 - Mortgage Note Payable**

The Organization refinanced its mortgage note payable with First Coast Community Bank during the year ended June 30, 2009. The mortgage note is collateralized by its Hilliard office site property. Monthly payments under the note are \$1,657, including interest at 6.125% through May 5, 2014, at which time the principal balance is due. At June 30, 2010, the outstanding balance on the mortgage note was \$202,430. Interest expense on the mortgage note totaled \$13,307 for the year ended June 30, 2010.

Approximate annual principal maturities of the mortgage note payable are as follows:

Year Ending <u>June 30,</u>	
2011	\$ 7,603
2012	8,086
2013	8,599
2014	<u>178,142</u>
	<u>\$202,430</u>

#### **Note 6 - Equipment Notes Payable**

On July 29, 2009, the Organization acquired two vehicles through long-term debt financing with Community First Credit Union. The notes are payable in monthly installments totaling \$1,137, including interest at 5.75%, and are secured by the acquired vehicles. At June 30, 2010, outstanding balances under the notes totaled \$26,513. Interest expense totaled \$1,516 for the year ended June 30, 2010. Estimated annual principal maturities of the equipment notes payable are as follows: 2011 - \$12,441; 2012 - \$13,176; and 2013 - \$896.

See Independent Auditor's Report.

**Note 7 - Payable to Yulee Professional Plaza, LLC**

In connection with its operating agreement with Yulee Professional Plaza, LLC (Note 4), the Organization is required to make monthly payments of \$198 over a period of 120 months through January 31, 2018, to fulfill its total LLC membership contribution of \$23,700. The outstanding LLC membership liability to Yulee Professional Plaza totaled \$17,972 at June 30, 2010. During the year ended June 30, 2010, the Organization reclassified amounts totaling \$20,342 previously recorded as in-kind contributions.

**Note 8 - Operating Leases**

The Organization has a noncancellable operating lease agreement for its Yulee office facility. The Yulee property lease agreement is with Yulee Professional Plaza, LLC (see Note 4). Current monthly payments due under the lease are \$16,001 through January 31, 2010, with annual adjustment increases over the duration of the 10-year lease expiring January 31, 2018. The lease agreement contains an additional 10-year renewal option at the end of the initial 10-year term.

The Organization also leases certain office equipment under various noncancellable operating lease agreements. The leases require monthly payments of \$1,859 through January 2013. Additionally, office space in Fernandina Beach is leased under an operating lease agreement requiring monthly payments of \$1,500 through June 30, 2013. Future estimated minimum rental payments under agreements classified as operating leases are as follows:

Year Ending <u>June 30,</u>	
2011	\$ 239,807
2012	244,975
2013	241,490
2014	216,071
2015	221,124
Thereafter	<u>597,525</u>
	<u>\$1,760,992</u>

Total rent expense under operating leases totaled \$235,995 for the year ended June 30, 2010.

### **Note 9 - Profit Sharing Plan**

The Organization has a defined contribution 401(k) retirement plan (the "Plan") covering substantially all employees who have completed at least three months of service and are 21 years of age. The Organization matches 50% of the participants' contributions to the Plan up to a maximum of 3% of the employee's compensation. Employer contributions to the Plan totaled \$25,429 for the year ended June 30, 2010.

### **Note 10 - Concentrations of Credit Risk**

The Organization maintains its operating cash account and a savings account at one bank. These accounts are currently insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per depositor. The Organization has not experienced any losses in such accounts.

For the year ended June 30, 2010, approximately 41% of the Organization's total revenues and support was earned through its contracts with the state of Florida Department of Children and Families to provide adult and children mental health and substance abuse services. In addition, Medicaid billings for outpatient services provided by the Organization accounted for 31% of total revenues and support.

### **Note 11 - Commitments and Contingencies**

#### **Contingencies**

Federal, state and local grant awards are subject to audit by the respective grantor agencies. Such audits may result in requests for reimbursement if the grantor agencies determine that the terms of the related grant contract have not been complied with. It is management's opinion that no material liabilities will result from any such audits.

### **Note 12 - Uncertain Tax Positions**

The Company has adopted accounting guidance for uncertainty in income taxes under the provisions of FASB ASC 740, *Income Taxes*. The Company files annually a *Return of Organization Exempt from Income Tax* (Form 990) which is subject to examination by the Internal Revenue Service (IRS) for a period of generally three years after it is filed. Management believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.



**Harbeson, Fletcher & Bateh, LLP**

Certified Public Accountants

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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**

February 28, 2011

To the Board of Directors

Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.

We have audited the financial statements of Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc. as of and for the year ended June 30, 2010, and have issued our report thereon dated February 28, 2011. We conducted our audit 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.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Nassau County Mental Health, Alcoholism and Drug Abuse Council, 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 Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

*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.

Our consideration of 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 over financial reporting that might be deficiencies, 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 Nassau County Mental Health, Alcoholism and Drug Abuse Council, 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc. in a separate letter dated February 28, 2011.

This report is intended solely for the information and use of management, the Board of Directors, others within the Organization, Federal and state-awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Harbeson, Fletcher & Bates, LLP*





## Harbeson, Fletcher & Bateh, LLP

Certified Public Accountants

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John C. Fletcher, Jr.  
Raymond Z. Bateh  
M. Ronald Hargraves, Jr.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
FEDERAL PROGRAM AND STATE PROJECT AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
AND CHAPTER 10.650, RULES OF THE AUDITOR GENERAL**

February 28, 2011

To the Board of Directors of  
Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.

### **Compliance**

We have audited Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the requirements described in the Department of Financial Services' State Projects Compliance Supplement that could have a direct and material effect on each of Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s major federal programs and state projects for the year ended June 30, 2010. Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s major federal programs and state projects are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and state projects is the responsibility of Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s management. Our responsibility is to express an opinion on Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s compliance based on our audit.

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*, and Chapter 10.650, *Rules of the Auditor General*. Those standards and OMB Circular A-133, and Chapter 10.650, *Rules of the Auditor General*, 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 or state project occurred. An audit includes examining, on a test basis, evidence about Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s 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. Our audit does not provide a legal determination on Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s compliance with those requirements.

In our opinion, Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects for the year ended June 30, 2010.

### **Internal Control over Compliance**

Management of Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs and state projects. In planning and performing our audit, we considered Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program or state project in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with OMB Circular A-133 and Chapter 10.650, *Rules of the Auditor General*, 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 Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s 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 or state project 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 or state project will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the Organization, and federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*Harbeson, Fletcher & Bates, LLP*

## **SUPPLEMENTAL INFORMATION**

**NASSAU COUNTY MENTAL HEALTH, ALCOHOLISM  
AND DRUG ABUSE COUNCIL, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE  
For the Year Ended June 30, 2010**

**FEDERAL AWARDS**

<b><u>Federal/State Agency, Pass-through Entity Federal Program/State Project</u></b>	<b><u>CFDA Number</u></b>	<b><u>Contract Number</u></b>	<b><u>Expenditures</u></b>
<b><u>U.S. Department of Health and Human Services</u></b>			
<i>Passed through the Florida Department of Children and Families:</i>			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	DDZ01	\$108,328
Block Grants for Prevention and Treatment of Substance Abuse	93.959	DH667	362,665
Block Grants for Community Mental Health Services	93.958	DH667	107,701
Substance Abuse & Mental Health Services - Projects of Regional & National Significance	93.243	RO1152	81,485
Temporary Assistance for Needy Families	93.558	DH667	39,324
<b><u>U.S. Department of Health and Human Services</u></b>			
<i>Passed through the Florida Agency for Health Care Administration:</i>			
Medical Assistance Program	93.778	5820-1062-00-Q	15,000
<b><u>U.S. Department of Health and Human Services</u></b>			
<i>Direct program:</i>			
Drug-Free Communities Support Program	93.276		90,858
<b><u>U.S. Department of Education</u></b>			
<i>Passed through the Florida Department of Law Enforcement:</i>			
Safe and Drug-Free Schools and Communities	84.186	2009-DFC-NASS-1-X1-015	<u>59,585</u>
<b>Total expenditures of federal awards</b>			<b><u>\$864,946</u></b>

See Accompanying Notes to Schedule of Expenditures of Federal Awards  
and State Financial Assistance.

**NASSAU COUNTY MENTAL HEALTH, ALCOHOLISM  
AND DRUG ABUSE COUNCIL, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE  
For the Year Ended June 30, 2010**

**STATE FINANCIAL ASSISTANCE**

<b><u>Federal/State Agency, Pass-through Entity Federal Program/State Project</u></b>	<b><u>CSFA Number</u></b>	<b><u>Contract Number</u></b>	<b><u>Expenditures</u></b>
<b><u>Florida Department of Children and Families</u></b>			
Adult Community Mental Health-Community Support Services	60.053	DH667	\$533,931
Children's Mental Health Emergency Stabilization	60.057	DH667	30,826
Substance Abuse Treatment and Aftercare Services for Children	60.030	DH667	106,811
Substance Abuse Detoxification Services for Adults	60.031	DH667	3,346
Substance Abuse Treatment and Aftercare Services for Adults	60.033	DH667	89,881
Indigent Psychiatric Outpatient Services	60.039	DH667	2,808
Adult Community Mental Health-Emergency Stabilization	60.054	DH667	34,050
Substance Abuse Prevention Services for Children	60.029	DH667	<u>28,934</u>
<b>Total expenditures of state financial assistance</b>			<b><u>\$830,587</u></b>

See Accompanying Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance.

**NASSAU COUNTY MENTAL HEALTH, ALCOHOLISM  
AND DRUG ABUSE COUNCIL, INC.  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE  
For the Year Ended June 30, 2010**

**Note 1 - Basis of Accounting**

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal and state grant activity of Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.650, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**NASSAU COUNTY MENTAL HEALTH, ALCOHOLISM  
AND DRUG ABUSE COUNCIL, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -  
FEDERAL PROGRAMS AND STATE PROJECTS  
For the Year Ended June 30, 2010**

**Section A: Summary of Auditor's Results**

1. The auditor's report expresses an unqualified opinion on the Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc. basic financial statements.
2. No significant deficiencies in internal control were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc. were disclosed during the audit.
4. No significant deficiencies in internal control over major Federal programs or State projects were identified during the audit.
5. The auditor's report on compliance with requirements applicable to the major Federal award programs and State projects for Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc. expresses an unqualified opinion.
6. Our audit disclosed no findings required to be reported related to major Federal programs and State projects for Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.
7. The **Federal** programs tested as major programs included the following:  
*U.S. Department of Health and Human Services:*  
CFDA #93.958 - Block Grants for Community Health Services  
CFDA #93.959 - Block Grants for Prevention and Treatment of Substance Abuse  
  
The **State** projects tested as major projects included the following:  
*Florida Department of Children and Families:*  
CSFA #60.053 - Adult Community Mental Health-Community Support Services  
CSFA #60.030 - Substance Abuse Treatment and Aftercare Services for Children  
CSFA #60.033 - Substance Abuse Treatment and Aftercare Services for Adults
8. The threshold for distinguishing Type A and B programs/projects was \$300,000 for major **Federal** programs and \$300,000 for major **State** projects.
9. Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc. was determined to be a low-risk auditee pursuant to OMB Circular A-133.

**Section B: Findings - Financial Statements**

None - as stated in Section A above.

**Section C: Findings and Questioned Costs - Major Federal Programs**

None - as stated in Section A above.

**Section D: Findings and Questioned Costs - Major State Projects**

None - as stated in Section A above.

**Section E: Other Issues**

No Summary Schedule of Prior Audit Findings is required since there were no prior audit findings related to Federal programs or State projects.

No corrective action plan is required since there were no findings required to be reported under the Federal or State Single Audit Acts.





**Harbeson, Fletcher & Bateh, LLP**  
Certified Public Accountants

E. Cobb Harbeson  
John C. Fletcher, Jr.  
Raymond Z. Bateh  
M. Ronald Hargraves, Jr.

**MANAGEMENT LETTER**

February 28, 2011

To the Board of Directors of  
Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.

We have audited the financial statements of the Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc. as of and for the year ended June 30, 2010, and have issued our report thereon dated February 28, 2011.

We conducted our audit 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*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, Independent Auditor's Report on Compliance with Requirements Applicable to each major Federal Program and State Project and on Internal Control over Compliance, and Schedule of Findings and Questioned Costs - Federal Programs and State Projects. Disclosures in those reports and schedule, which are dated February 28, 2011, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.650, *Rules of the Auditor General*, which requires disclosure in the management letter of violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement or State project amounts that is less than material but more than inconsequential. In addition, for matters that are inconsequential to the determination of financial statements or State project amounts, considering both quantitative and qualitative factors, the following may be reported based on professional judgment: (1) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, and (2) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures; (b) failures to properly record financial transactions; and (c) inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit disclosed the following matters required to be disclosed:

**Improved Accounts Receivable Reconciliation Procedures**

During the current year audit, we noted that certain accounts receivable subsidiary detail reports generated by the Organization's *Knight Integrated Software* (KIS) software application did not agree to the corresponding general ledger account balances, thus resulting in additional reconciliation procedures by accounting personnel. We recommended in our previous year audit the full integration of the KIS billing software application with the Organization's general ledger accounting software (*QuickBooks*). This implementation was necessary not only to improve the efficiency of procedures related to accomplishing the accrual basis of accounting for billing of client outpatient services, but also to allow the Organization the ability to better monitor outstanding accounts receivable and collections related to third-party insurance billings in a more efficient manner.

However, in performing certain accounts receivable audit procedures, we determined that some reports produced by KIS related to accounts receivable balances were not always accurate when comparing report balances to the general ledger. Therefore, we recommend that Organization management and accounting personnel perform an extensive assessment of the effectiveness and reliability of the KIS software. Such assessment should include, among other things, the performance of additional reconciliation or other procedures to ensure that subsidiary detail accounts receivable reports generated from KIS will agree to the Organization's accounting records. Additionally, the Organization should assess the availability of more efficient and fully integrated accounting software package options, including modules specific to the frequent billings of outpatient services, to improve the adequacy and reliability of the Organization's accounting and billing records.

\* \* \* \* \*

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

*Harbeson, Fletcher & Bateh, LLP*



**Sutton Place Behavioral Health, Inc.**

Help for Today. Hope for Tomorrow.

463142 SR 200 - Yulee, FL 32097 - (904) 225-8280 Fax (904) 225-8232

March 24, 2011

Harbeson, Fletcher & Bateh, LLP  
Attention: M. Ronald Hargraves, Jr.  
637 Park Street  
Jacksonville, FL 32204

Dear Mr. Hargraves:

The following information is submitted in response to the management letter dated February 28, 2011 of the Fiscal Year 2009/2010 audit.

Improved Accounts Receivable Reconciliation Procedures: Due to the nature of KIS software and its use for the data aspects of our reporting, we agree that KIS has certain limitations as related to financial reporting. We remain in the process of creating, refining and attempting to request from KIS financial reports that would be more reliable and accurate for use by the Organization in monitoring and reconciling its receivables. Concurrently, we are in the process of implementing systems outside of KIS that would provide a greater reliability for the receivables system. Due to the significant expense of a new software system, the Organization, however, is presently only able to utilize its current accounting software application and KIS. We will explore other accounting and billing software alternatives, but due to recent health care reform legislation and its effects on the various facets of the Organization's program services, we believe it is not presently in the best fiscal interest of the Organization to change our software. We expect to implement an updated version of QuickBooks to have better tracking within our financial software as of July 1, 2011.

If further information is needed, please feel free to contact me at (904) 225-8280, ext. 416.

Sincerely,

Lauren Pagel, PhD  
Chief Executive Officer

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Hilliard Office  
371015 Eastwood Rd. • Hilliard, FL 32046  
(904) 845-7777 Fax (904) 845-7621

Sutton Place Behavioral Health is a not-for-profit behavioral healthcare provider, funded in part by the State of Florida, Department of Children and Families, and Nassau County Board of Commissioners.