

PSYCHOTHERAPEUTIC SERVICES OF
FLORIDA, INC.
(A wholly-owned Subsidiary of
Associated Service Specialists, Inc.)

YEARS ENDED JUNE 30, 2010 AND 2009

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(A wholly-owned Subsidiary of Associated Service Specialists, Inc.)

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Independent Auditors' Report

Board of Directors
Psychotherapeutic Services of Florida, Inc.
Chestertown, Maryland

We have audited the accompanying balance sheets of Psychotherapeutic Services of Florida, Inc. (a wholly-owned Subsidiary of Associated Service Specialists, Inc.) as of June 30, 2010 and 2009, and the related statements of operations and deficit, and cash flows for the years then ended. The financial statements are the responsibility of Psychotherapeutic Services of Florida, Inc.'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 and in accordance with *Chapter 10.650, Rules of the Auditor General*. 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 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 Psychotherapeutic Services of Florida, Inc. as of June 30, 2010 and 2009, and the results of its operations and its 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 September 30, 2010 on our consideration of Psychotherapeutic Services of Florida, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

Our audits were conducted to form an opinion on the 2010 and 2009 basic financial statements taken as a whole. The 2010 and 2009 information on page 14 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The 2010 and 2009 information on page 14 has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2010 and 2009 basic financial statements taken as a whole.

The accompanying schedule of expenditures of state financial assistance on page 15 is presented for additional analysis in accordance with §215.97, Florida Statutes; Rules of the Auditor General, Chapter 10.650, and Chapter 69I-5, Florida Administrative Code and is not a required part of the 2010 basic financial statements. The accompanying cost center funding source and revenue schedule for FACT contracts and schedule of related party transaction adjustments on pages 16 - 17 are presented for additional analysis as required by the Psychotherapeutic Services of Florida, Inc.'s contracts with the Department of Children and Families, State of Florida and are not required parts of the 2010 basic financial statements. Such information on pages 16 - 17 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2010 basic financial statements taken as a whole.

NarDove, Pitzgeon & Company, P.A.

September 30, 2010

PSYCHOTHERAPEUTIC SERVICES OF FLORIDA, INC.
(A wholly-owned Subsidiary of Associated Service Specialists, Inc.)

BALANCE SHEETS

JUNE 30, 2010 AND 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Current assets:		
Cash	\$ 8,677	
Accounts receivable, net of allowance for doubtful accounts of \$29,500 and \$49,200 in 2010 and 2009, respectively	277,533	\$ 406,060
Due from affiliates	27,188	25,800
Prepaid expenses	<u>13,303</u>	<u>22,410</u>
	<u>326,701</u>	<u>454,270</u>
Property:		
Furniture and equipment	51,023	95,710
Transportation equipment	56,165	78,061
Leasehold improvements	<u>18,614</u>	<u>36,514</u>
	125,802	210,285
Less accumulated depreciation	<u>106,478</u>	<u>151,700</u>
	<u>19,324</u>	<u>58,585</u>
Deferred income taxes	<u>126,700</u>	<u>211,000</u>
	<u>\$ 472,725</u>	<u>\$ 723,855</u>

See notes to financial statements.

LIABILITIES AND SHAREHOLDER'S DEFICIT

	2010	2009
Current liabilities:		
Bank overdraft		\$ 973
Current portion of long-term debt		14,909
Due to affiliates	\$1,122,578	1,446,051
Accounts payable	12,719	30,786
Accrued payroll and payroll taxes	49,204	71,179
Benefits payable	24,159	31,569
Income taxes payable	325	
	<u>1,208,985</u>	<u>1,595,467</u>
Long-term debt		<u>5,202</u>
Commitments and contingencies		
Shareholder's deficit:		
Common stock, \$1 par; authorized, issued and outstanding 100 shares	100	100
Receivable, common stock	(100)	(100)
Deficit	(736,260)	(876,814)
	<u>(736,260)</u>	<u>(876,814)</u>
	<u>\$ 472,725</u>	<u>\$ 723,855</u>

PSYCHOTHERAPEUTIC SERVICES OF FLORIDA, INC.
(A wholly-owned Subsidiary of Associated Service Specialists, Inc.)

STATEMENTS OF OPERATIONS AND DEFICIT

YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Revenues:		
Federal and state match programs	\$ 892,720	\$ 892,725
State projects	1,455,795	2,403,526
Medicaid and other	<u>787,153</u>	<u>1,041,203</u>
	<u>3,135,668</u>	<u>4,337,454</u>
Personnel expenses	<u>1,787,738</u>	<u>2,873,928</u>
	1,347,930	1,463,526
Operating expenses	<u>1,068,246</u>	<u>1,681,926</u>
	<u>279,684</u>	<u>(218,400)</u>
Other income (expenses):		
Loss on disposal of assets	(18,264)	
Interest income	2	19
Interest expense	(1,083)	(2,695)
Miscellaneous, net	<u>70</u>	<u>1,371</u>
	<u>(19,275)</u>	<u>(1,305)</u>
Income (loss) before income tax benefit	260,409	(219,705)
Income tax (benefit) expense	<u>119,855</u>	<u>(25,800)</u>
Net income (loss)	140,554	(193,905)
Deficit, beginning	<u>(876,814)</u>	<u>(682,909)</u>
Deficit, ending	<u>(\$ 736,260)</u>	<u>(\$ 876,814)</u>

See notes to financial statements.

PSYCHOTHERAPEUTIC SERVICES OF FLORIDA, INC.
(A wholly-owned Subsidiary of Associated Service Specialists, Inc.)

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Net income (loss)	\$ <u>140,554</u>	(\$ <u>193,905</u>)
Adjustment to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	19,261	33,360
Bad debts	15,681	128,900
Loss on sale of assets	18,264	
Change in deferred tax asset	84,300	
Change in assets and liabilities:		
(Increase) decrease in:		
Receivables	112,846	(22,771)
Due from affiliates	(1,388)	(21,537)
Prepaid expenses	9,107	(4,557)
Increase (decrease) in:		
Net bank overdraft borrowings payments	(973)	973
Due to affiliates	(323,473)	126,046
Accounts payable	(18,067)	(28,256)
Payroll and payroll taxes	(21,975)	3,812
Benefits payable	(7,410)	(1,470)
Income taxes payable	<u>325</u>	<u> </u>
Total adjustments	(<u>113,502</u>)	<u>214,500</u>
Net cash provided by operating activities	<u>27,052</u>	<u>20,595</u>
Cash flows from investing activities:		
Proceeds from sale of assets	7,081	
Purchase of property	(<u>10,547</u>)	(<u>9,362</u>)
Cash flows used in investing activities	(<u>3,466</u>)	(<u>9,362</u>)
Cash flows from financing activities:		
Payment on long-term debt	(<u>14,909</u>)	(<u>18,629</u>)
Net increase (decrease) in cash	8,677	(7,396)
Cash, beginning	<u>- 0 -</u>	<u>7,396</u>
Cash, ending	<u>\$ 8,677</u>	<u>\$ - 0 -</u>

See notes to financial statements.

PSYCHOTHERAPEUTIC SERVICES OF FLORIDA, INC.
(A wholly-owned Subsidiary of Associated Service Specialists, Inc.)

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2010 AND 2009

Supplemental disclosure of cash flow information:

Cash paid during the year for:

	<u>2010</u>	<u>2009</u>
Income taxes	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
Interest	<u>\$ 1,083</u>	<u>\$ 2,695</u>

Supplemental schedule of noncash financing activities:

During fiscal year 2010 the Company sold to an affiliated entity a vehicle with a book value of \$7,859 for payment of \$2,657 and the assumption of the related note balance of \$5,202.

See notes to financial statements.

PSYCHOTHERAPEUTIC SERVICES OF FLORIDA, INC.
(A wholly-owned Subsidiary of Associated Service Specialists, Inc.)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2010 AND 2009

1. Significant accounting policies and business of the Company:

Entity:

Psychotherapeutic Services of Florida, Inc. (the Company) is a behavioral healthcare services organization that provides clinical, rehabilitative and case management services in Florida. The Company was incorporated October 18, 1995 as Psychotherapeutic Juvenile Services, Inc. and changed its name on March 7, 2001. The Company is a 100% owned subsidiary of Associated Service Specialists, Inc.

Revenue and cost recognition:

Revenue under cost reimbursement contracts is recognized as costs are incurred. Revenue under fee for service contracts is recognized as services are rendered. Cash received for contract fees before services are rendered is recorded as deferred revenue.

Use of estimates:

The timely 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.

Property:

Property is recorded at cost and depreciated over the estimated useful lives of the assets. The Company's policy is to capitalize qualifying purchases that improve or extend the life of the property. The costs of equipment and vehicles reverting back to the contracting agency upon termination or completion of the contract are charged to operations in the period incurred.

Accounts receivable:

Accounts receivable are reported with an allowance for doubtful accounts. Management's estimate of any allowance is based on historical collection experience and a review of the current status of accounts receivable.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2010 AND 2009

1. Significant accounting policies and business of the Company (continued):

Recent accounting pronouncements:

In June, 2009, the Financial Accounting Standards Board (FASB) issued FASB ASC 105, *Generally Accepted Accounting Principles*, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, the Company has updated references to GAAP in its financial statements issued for the period ended June 30, 2010. The adoption of FASB ASC 105 did not impact the Company's financial position or results of operations.

On July 1, 2009, the Company adopted the standard on accounting for and disclosure of uncertain tax positions in accordance with the Financial Accounting Standards Board ("FASB") Codification 740 *Income Taxes*. The standard prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It requires that an entity recognize in the financial statements the impact of a tax position if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The standard also provides clarification on de-recognition, balance sheet classification, interest and penalties, and footnote disclosures. The adoption of this standard on July 1, 2009, did not have a material effect on the Company's financial statements. There were no significant uncertain tax positions taken by the Company as of June 30, 2010. Tax returns for fiscal years ending June 30, 2010, 2009, and 2008 remain subject to examination by the taxing authorities.

PSYCHOTHERAPEUTIC SERVICES OF FLORIDA, INC.
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2010 AND 2009

2. Affiliates:

The following companies are affiliated by common ownership or control:

Associated Service Specialists, Inc. (ASSI)
Psychotherapeutic Services, Inc.
Psychotherapeutic Rehabilitation Services, Inc.
Psychotherapeutic Children's Services, Inc.
Psychotherapeutic Management Services, Inc.
Psychotherapeutic Treatment Services, Inc.
Psychotherapeutic Community Services Association
Psychotherapeutic Services of Southern Maryland, Inc.

Psychotherapeutic Community Services Association is a nonprofit Delaware organization. The remaining affiliated companies are for-profit Delaware companies. The Company is also affiliated with several inactive corporations not listed above.

The Company incurred administrative, physician and rental fees of \$358,434 and \$482,184 payable to affiliated companies for the years ended June 30, 2010 and 2009, respectively. Intercompany receivables and payables are due on demand.

3. Profit sharing plan:

The Company and its affiliates maintain a defined contribution profit sharing plan covering substantially all of its employees. Contributions to this plan are made at the discretion of the Board of Directors. There were no employer contributions for the Company for the years ended June 30, 2010 and 2009. Employees may elect the method and timing of their cash payments in accordance with the plan agreement.

PSYCHOTHERAPEUTIC SERVICES OF FLORIDA, INC.
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2010 AND 2009

4. Debt:

During the year ended 2008, the Company capitalized several vehicles under capital lease agreements. Future minimum rental payments required under the capital lease agreement were as follows:

Year ended June 30, 2009:

2010	\$15,920
2011	<u>5,373</u>
Total minimum lease payments	21,293
Less amounts representing interest	(<u>1,182</u>)
	20,111
Current portion	(<u>14,909</u>)
Long-term debt	<u>\$ 5,202</u>

The book values of the capitalized assets at June 30, 2009 were \$19,358. In June, 2010 the vehicles were sold at their book values to an affiliated entity and a related liability was assumed by the affiliated entity.

5. Commitments:

Operating leases:

The Company leases office space, equipment and vehicles under various operating leases. Rent expense was \$89,308 and \$90,948 for the years ended June 30, 2010 and 2009, respectively.

Following is a schedule by year of approximate future minimum rental payments required under noncancellable leases as of June 30:

<u>Fiscal Year Ended</u>	<u>Amount</u>
2011	<u>\$ 11,700</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2010 AND 2009

6. Contingencies:

Debt:

In May, 2003, the Company and the affiliated entities (the Companies), see Note 2, signed a line-of-credit agreement with Wilmington Trust Bank for \$4,000,000. In December, 2008, the line-of-credit was reduced to \$3,250,000, and in December 2009, reduced to \$2,750,000. The agreement states interest at the bank's variable commercial rate through December, 2008, and subsequently at the bank's variable commercial rate plus 1%. The loan is collateralized by a first lien on all of the Company's and the affiliates' assets. Advances are subject to borrowing base limitations with respect to accounts receivable. The loans are guaranteed by two shareholders and two related parties of ASSI and collateralized by certain personal real estate of these shareholders and related parties. The loan agreement requires the Companies to meet certain covenants, one of which the Companies did not meet. The bank has waived its right to call the debt as a result of this violation.

The line-of-credit agreement requires payment of interest on a monthly basis. The line is subject to review prior to renewal on its maturity date of December 31, 2010. The unused portions of the line-of-credit as of June 30, 2010 and 2009 were approximately \$1,095,300 and \$950,800, respectively.

The bank's variable commercial rate at June 30, 2010 and 2009 was 4.00%.

Letter of credit agreements:

The Companies have four letter of credit agreements outstanding with Wilmington Trust Bank as of June 30, 2010. The first letter, amended in April 2009, to reflect a reduction from \$400,000 to \$300,000, renews annually and is in place for the Companies' general obligations. This letter is secured by ASSI's certificate of deposit in the same respective amount. The second letter of credit, in the amount of \$550,000 was issued in conjunction with the credit facilities described above and is included in calculating availability under the \$3,250,000 revolving credit facility. The remaining letters of credit were issued in conjunction with the renewal of the Companies' workers compensation policy. These letters in the amounts of \$275,000, and \$60,000, expire in fiscal year 2011, and are secured by ASSI's certificates of deposit of the same respective amounts.

PSYCHOTHERAPEUTIC SERVICES OF FLORIDA, INC.
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2010 AND 2009

7. Major contracts:

The Company provides services under contracts with the State of Florida. The contracts vary in length and several extend for multiple years and provide for renewal. Through September, 2010, the Company had renewed several contracts through or beyond June, 2011. The continuation of these contracts is based on the availability of state funds.

8. Income taxes:

Deferred tax assets and liabilities are recorded for temporary differences between the financial statement and tax basis of assets and liabilities using the currently enacted tax rate expected to be in effect when the taxes are actually paid or recovered.

The net deferred tax asset presented in the balance sheet includes the following:

	<u>2010</u>	<u>2009</u>
Deferred tax asset	\$162,100	\$338,200
Valuation allowance for deferred tax asset	(<u>35,400</u>)	(<u>127,200</u>)
	<u>\$126,700</u>	<u>\$211,000</u>

The temporary differences that gives rise to the Company's net deferred tax asset is attributable to federal and state net operating losses which expire 2018 through 2025 and allowances for doubtful accounts.

The valuation allowance was established to reduce the deferred tax asset amount to the amount that will more likely than not be realized. This reduction is necessary due to uncertainty of the Company's ability to utilize all of the net operating loss carryforwards before they expire.

PSYCHOTHERAPEUTIC SERVICES OF FLORIDA, INC.
(A wholly-owned Subsidiary of Associated Service Specialists, Inc.)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2010 AND 2009

8. Income taxes (continued):

The income tax provision consists of the following:

	<u>2010</u>	<u>2009</u>
Federal	\$ 35,555	(\$ 25,800)
Deferred	84,300	- 0 -
State	<u>- 0 -</u>	<u>- 0 -</u>
	<u>\$ 119,855</u>	<u>(\$ 25,800)</u>

In 2010 and 2009, the Company filed a consolidated federal tax return with its affiliated companies. In 2010, federal tax expense was allocated to this Company based on the estimated expense of the Company filing separately. In 2009, the federal tax benefit was allocated to this Company based on its taxable loss to the total losses of the affiliated companies. Accordingly, a portion of the related liabilities/receivables are due to/from affiliated companies.

The variation in the customary relationship between income tax expense and pretax accounting income is caused primarily by permanent differences and allowances for doubtful accounts.

9. Concentration of credit risk:

Substantially all receivables are from the State of Florida and affiliated companies. The Company does not require any collateral on these receivables.

10. Subsequent events:

Management has evaluated subsequent events through September 30, 2010, the date on which the financial statements were available to be issued.

PSYCHOTHERAPEUTIC SERVICES OF FLORIDA, INC.
(A wholly-owned Subsidiary of Associated Service Specialists, Inc.)

PERSONNEL AND OPERATING EXPENSES

YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Personnel expenses:		
Insurance and workers' compensation	\$ 34,696	\$ 280,294
Salaries, payroll taxes, and benefits	<u>1,753,042</u>	<u>2,593,634</u>
	<u>\$1,787,738</u>	<u>\$ 2,873,928</u>
Operating expenses:		
Administrative fees	\$ 358,434	\$ 482,184
Advertising and recruiting	1,640	4,482
Association/conference fees	5,666	8,918
Bad debts	15,681	128,900
Contractual services	72,168	142,889
Depreciation	19,261	33,360
Equipment and renovations	138	956
Insurance, office and other	78,373	111,476
Licenses, permits and fees	5,950	2,872
Miscellaneous	6,814	16,408
Rent - building	70,500	71,323
Rent - equipment and furnishings	18,808	19,625
Repairs - building and grounds	6,165	18,365
Repairs - equipment	7,911	13,858
Supplies	294,484	433,668
Telephone	19,713	32,336
Training	858	2,321
Transportation expense	82,597	124,791
Utilities	<u>3,085</u>	<u>33,194</u>
	<u>\$1,068,246</u>	<u>\$ 1,681,926</u>

PSYCHOTHERAPEUTIC SERVICES OF FLORIDA, INC.
(A wholly-owned Subsidiary of Associated Service Specialists, Inc.)

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

YEAR ENDED JUNE 30, 2010

<u>State Agency/ Pass-through Grantor/ State Project</u>	<u>CSFA Number</u>	<u>Agency or Pass-through Number</u>	<u>Current Year Expenditures</u>	<u>Transfers To Subrecipients</u>
State of Florida, Department of Children and Families: Adult Community Mental Health Florida Assertive Community Treatment Teams	60.042	CH811	\$ 253,684	\$ - 0 -
Subtotal - State of Florida Department of Children and Families			<u>253,684</u>	<u>- 0 -</u>
State of Florida, Department of Juvenile Justice: Delinquency Non- Secure Residential Services	80.016	R2030	<u>99,566</u>	<u>- 0 -</u>
Juvenile Assessment Center	80.020	P2039	* <u>444,824</u>	<u>- 0 -</u>
Diversion Services	80.022	R6K01	* <u>657,721</u>	<u>- 0 -</u>
Subtotal - State of Florida Department of Juvenile Justice			<u>1,202,111</u>	<u>- 0 -</u>
TOTAL STATE FINANCIAL ASSISTANCE			<u>\$1,455,795</u>	<u>\$ - 0 -</u>

Note to Schedule of Expenditures of State Financial Assistance:

A - Basis of Presentation:

The Schedule of Expenditures of State Financial Assistance includes the state project activity of Psychotherapeutic Services of Florida, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of §215.97, Florida Statutes; Rules of the Auditor General, Chapter 10.650; and Chapter 69I-5, Florida Administrative Code. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

* Major state projects

PSYCHOTHERAPEUTIC SERVICES OF FLORIDA, INC.
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COST CENTER FUNDING SOURCE AND REVENUE SCHEDULE
FOR FLORIDA ASSERTIVE COMMUNITY TREATMENT PROGRAMS

YEAR ENDED JUNE 30, 2010

G/A - Adult Community Mental Health:

<u>Contract</u>	<u>ADAMH Trust Fund</u>	<u>O&MTF/ FGTF</u>	<u>FACT Enhancements</u>	<u>Total</u>
CH811	<u>\$ 107,272</u>	<u>\$ 892,720</u>	<u>\$ 253,684</u>	<u>\$ 1,253,676</u>

PSYCHOTHERAPEUTIC SERVICES OF FLORIDA, INC.
(A wholly-owned Subsidiary of Associated Service Specialists, Inc.)

SCHEDULE OF RELATED PARTY TRANSACTION ADJUSTMENTS

YEAR ENDED JUNE 30, 2010

NONE



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*

Board of Directors
Psychotherapeutic Services of Florida, Inc.
Chestertown, Maryland

We have audited the financial statements of Psychotherapeutic Services of Florida, Inc. (a wholly-owned subsidiary of Associated Service Specialists, Inc.) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 30, 2010. 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 Psychotherapeutic Services of Florida, 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 Psychotherapeutic Services of Florida, 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 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 Psychotherapeutic Services of Florida, 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*.

This report is intended solely for the information and use of the Board of Directors, management, and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Nardone, Bridgeman & Company, P.A.

September 30, 2010

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH CHAPTER 10.650, RULES OF THE AUDITOR GENERAL

Board of Directors
Psychotherapeutic Services of Florida, Inc.
Chestertown, Maryland

Compliance

We have audited the compliance of Psychotherapeutic Services of Florida, Inc. (a wholly-owned Subsidiary of Associated Service Specialists, Inc.) with the types of compliance requirements described in the *Department of Financial Services' State Projects Compliance Supplement*, that are applicable to each of its major state projects for the year ended June 30, 2010. Psychotherapeutic Services of Florida, Inc.'s major state projects are identified in the summary of auditors' 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 state projects is the responsibility of Psychotherapeutic Services of Florida, Inc.'s management. Our responsibility is to express an opinion on Psychotherapeutic Services of Florida, 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 *Chapter 10.650 Rules of the Auditor General*. Those standards 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 state project occurred. An audit includes examining, on a test basis, evidence about Psychotherapeutic Services of Florida, 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 Psychotherapeutic Services of Florida, Inc.'s compliance with those requirements.

In our opinion, Psychotherapeutic Services of Florida, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major state projects for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Psychotherapeutic Services of Florida, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state projects. In planning and performing our audit, we considered Psychotherapeutic Services of Florida, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with 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 Psychotherapeutic Services of Florida, Inc.'s internal control over compliance.

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 noncompliance with a type of compliance requirement of a 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 state program 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 would not necessarily identify all deficiencies in internal control 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 the Board of Directors, management, and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Nardone, Pridgen & Company, P.A.

December 2, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -

STATE PROJECTS

YEAR ENDED JUNE 30, 2010

A: SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of Psychotherapeutic Services of Florida, Inc.
2. No significant deficiencies relating to the audit of the financial statements of Psychotherapeutic Services of Florida, Inc. are reported in the "Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*."
3. No instances of noncompliance material to the financial statements of Psychotherapeutic Services of Florida, Inc. were disclosed during the audit.
4. No significant deficiencies in internal control over major state projects are reported in the "Independent Auditors' Report on Compliance and Internal Control over Compliance Applicable to Each Major State Project."
5. The auditors' report on compliance for major state projects of Psychotherapeutic Services of Florida, Inc., expresses an unqualified opinion.
6. Our audit disclosed no findings related to the major state projects required to be disclosed under Chapter 10.656 Rules of the Auditor General.
7. The projects tested as major state projects are:
 - A.
State of Florida, Department of Juvenile Justice, Juvenile Assessment Center, CSFA #80.020; Contract #P2039
 - B.
State of Florida, Department of Juvenile Justice, Diversion Services, CSFA #80.022; Contract #R6K01

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -

STATE PROJECTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

A: Summary of Auditors' Results (continued):

8. The threshold used to distinguish between Type A and Type B projects was \$300,000 for major state projects.

B: FINDINGS - FINANCIAL STATEMENTS

No findings were noted which are required to be reported in accordance with *Government Auditing Standards*.

C. FINDINGS AND QUESTIONED COSTS - MAJOR STATE PROJECTS:

A.

State of Florida, Department of Juvenile Justice, Juvenile Assessment Center, CSFA #80.020; #P2039:

No findings or questioned costs were noted which are required to be reported in accordance with Rules of the Auditor General, Section 10.654(1)(h).

B.

State of Florida, Department of Juvenile Justice, Diversion Services, CSFA #80.022, Contract #R6K01:

No findings or questioned costs were noted which are required to be reported in accordance with Rules of the Auditor General, Section 10.654(1)(h).

D. PRIOR FINDINGS:

No Summary Schedule of Prior Audit Findings under Chapter 10.656 (3)(d)(5) is required because there were no prior audit findings related to State projects.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -

STATE PROJECTS (CONTINUED)

YEAR ENDED JUNE 30, 2010

D. PRIOR FINDINGS:

No Summary Schedule of Prior Audit Findings under Chapter 10.656 (3) (d) (5) is required because there were no prior audit findings related to State projects.

E: OTHER ISSUES:

There were no additional findings required to be reported in a management letter under Chapter 10.656 (3) (e), Rules of the Auditor General. No Corrective Action Plan is required because there were no findings required to be reported under the Florida Single Audit Act.