

GATEWAY COMMUNITY SERVICES, INC.
AND GATEWAY COMMUNITY SERVICES FOUNDATION, INC.

FINANCIAL REPORT

JUNE 30, 2011

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To the Board of Directors
Gateway Community Services, Inc.
and Gateway Community Services Foundation, Inc.
Jacksonville, Florida

Independent Auditor's Report

We have audited the accompanying combined statements of financial position of Gateway Community Services, Inc. and Gateway Community Services Foundation, Inc. as of June 30, 2011 and 2010 and the related combined statements of activities, functional expenses, and cash flows for the years then ended. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Gateway Community Services, Inc. and Gateway Community Services Foundation, Inc. as of June 30, 2011 and 2010 and the changes in its net assets 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 October 24, 2011, on our consideration of Gateway Community Services, Inc. and Gateway Community Services Foundation, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Independent Auditor's Report

(Continued)

Our audits were conducted for the purpose of forming an opinion on the combined financial statements of Gateway Community Services, Inc. and Gateway Community Services Foundation, Inc. as a whole. The schedule of expenditures of financial awards 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, schedule of state earnings, schedule of source and expenditure of city grant funds, and notes to the schedule of source and expenditure of city grant funds are presented for purposes of additional analysis and are not a required part of the combined 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 audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other 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 combined financial statements as a whole.

Smock, Davis & Nixon LLP

October 24, 2011

GATEWAY COMMUNITY SERVICES, INC.
AND GATEWAY COMMUNITY SERVICES FOUNDATION, INC.

COMBINED STATEMENTS OF FINANCIAL POSITION

June 30, 2011 and 2010

ASSETS	2011				2010			
	Gateway Community Services, Inc.	Gateway Community Services Foundation, Inc.	Elimination	Total	Gateway Community Services, Inc.	Gateway Community Services Foundation, Inc.	Elimination	Total
Current Assets:								
Cash and cash equivalents	675,323	54,400		729,723	1,528,939	48,050		1,576,989
Investments	274,668			274,668	274,585			274,585
Patient accounts receivable, net	127,677			127,677	161,810			161,810
Public support receivable	1,642,041			1,642,041	1,415,692			1,415,692
Prepaid expenses and other current assets	44,019			44,019	36,816			36,816
Deposits	1,003			1,003	1,003			1,003
Total current assets	2,764,731	54,400	0	2,819,131	3,418,845	48,050	0	3,466,895
Land, buildings and equipment	5,841,642	563,438		6,405,080	5,681,032	588,008		6,269,040
Total Assets	8,606,373	617,838	0	9,224,211	9,099,877	636,058	0	9,735,935
LIABILITIES AND NET ASSETS								
Current Liabilities:								
Accounts payable	225,251			225,251	157,633			157,633
Salary and wages payable	129,143			129,143	454,731			454,731
Accrued leave time payable	248,348			248,348	369,563			369,563
Payroll taxes and benefits payable	136,463			136,463	62,410			62,410
Third party payable	86,987			86,987	88,262			88,262
Other	48,002			48,002	40,800			40,800
Deferred revenue	14,500			14,500	14,500			14,500
Current portion - long-term debt	63,439	19,134		82,573	58,345	17,926		76,271
Total current liabilities	952,133	19,134	0	971,267	1,246,244	17,926	0	1,264,170
Long-term debt, non-current portion	321,653	59,334	0	380,987	385,091	78,362	0	463,453
Net Assets:								
Unrestricted	7,126,179	539,370		7,665,549	7,259,156	539,770		7,798,926
Temporarily Restricted	206,408			206,408	209,386			209,386
Total Net Assets	7,332,587	539,370	0	7,871,957	7,468,542	539,770	0	8,008,312
Total Liabilities and Net Assets	8,606,373	617,838	0	9,224,211	9,099,877	636,058	0	9,735,935

The Notes to Combined Financial Statements are an integral part of these statements.

GATEWAY COMMUNITY SERVICES, INC.
AND GATEWAY COMMUNITY SERVICES FOUNDATION, INC.

COMBINED STATEMENTS OF ACTIVITIES

Years Ended June 30, 2011 and 2010

	2011				2010			
	Gateway Community Services, Inc.	Gateway Community Services Foundation, Inc.	Elimination	Total	Gateway Community Services, Inc.	Gateway Community Services Foundation, Inc.	Elimination	Total
CHANGES IN UNRESTRICTED NET ASSETS:								
Revenues, Gains and Other Support:								
Public Support:								
State ADM grants	6,143,320			6,143,320	6,567,034			6,567,034
Other state and federal grants	1,669,887			1,669,887	1,422,455			1,422,455
Local government grants	5,684,331			5,684,331	6,097,024			6,097,024
Contributions	231,307			231,307	156,668	53,564		210,232
Total Public Support	13,728,845	0	0	13,728,845	14,243,181	53,564	0	14,296,745
Revenues:								
Net patient service revenue	411,701			411,701	484,588			484,588
Interest income	356	122		478	8,818	50		8,868
Other revenue	843,919	30,000	(30,000)	843,919	917,250	30,000	(30,000)	917,250
Net assets released from restrictions	77,978			77,978	77,978			77,978
Total Revenues	1,333,954	30,122	(30,000)	1,334,076	1,488,634	30,050	(30,000)	1,488,684
Total Unrestricted Revenues, Gains and Other Support	15,062,799	30,122	(30,000)	15,062,921	15,731,815	83,614	(30,000)	15,785,429
Expenses and Losses:								
Program Services:								
Assessment	328,064			328,064	280,271			280,271
Detoxification	1,753,496			1,753,496	2,022,072			2,022,072
Outpatient	1,544,417	24,570	(30,000)	1,538,987	1,477,094	24,570	(30,000)	1,471,664
Research	2,600,954			2,600,954	2,658,957			2,658,957
Residential II	2,136,622			2,136,622	2,324,846			2,324,846
Cutting Edge/Taste Buds	350,712			350,712	365,793			365,793
Room/Board with Supervision	189,570			189,570	210,396			210,396
Prevention	302,971			302,971	325,446			325,446
Intervention	75,131			75,131	75,230			75,230
Case Management	135,233			135,233	135,416			135,416
Non-ADM services	2,082,544	5,952		2,088,496	2,009,904	7,031		2,016,935
	11,499,714	30,522	(30,000)	11,500,236	11,885,425	31,601	(30,000)	11,887,026
Supporting Services:								
Clinical support	347,270			347,270	453,990			453,990
Operations support	1,005,245			1,005,245	1,048,446			1,048,446
Administration	2,343,547			2,343,547	2,534,458			2,534,458
	3,696,062	0	0	3,696,062	4,036,894	0	0	4,036,894
Total Expenses and Losses	15,195,776	30,522	(30,000)	15,196,298	15,922,319	31,601	(30,000)	15,923,920
Increase (decrease) in unrestricted net assets	(132,977)	(400)	0	(133,377)	(190,504)	52,013	0	(138,491)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:								
Contributions	75,000			75,000	75,000			75,000
Net Assets released from restrictions	(77,978)			(77,978)	(77,978)			(77,978)
Decrease in temporarily restricted net assets	(2,978)	0	0	(2,978)	(2,978)	0	0	(2,978)
Increase (decrease) in total net assets	(135,955)	(400)	0	(136,355)	(193,482)	52,013	0	(141,469)
Total net assets, beginning of year	7,468,542	539,770	0	8,008,312	7,662,024	487,757	0	8,149,781
Total net assets, end of year	7,332,587	539,370	0	7,871,957	7,468,542	539,770	0	8,008,312

The Notes to Combined Financial Statements are an integral part of these statements.

GATEWAY COMMUNITY SERVICES, INC.
AND GATEWAY COMMUNITY SERVICES FOUNDATION, INC.
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2011

	Program Services											Supporting Services				Total	
	Assessment	Detox-ification	Out-patient	Research	Residential	Cutting Edge/ Taste Buds	Room & Board with Supervision	Prevention	Intervention	Case Management	Non-ADM	Total Program Services	Clinical Support	Operations Support	Admin-istration		Total Supporting Services
Salaries	202,693	1,158,592	963,008	1,661,158	978,251	87,292	92,910	223,108	47,034	84,662	914,627	6,413,335	243,952	569,063	1,239,829	2,052,844	8,466,179
Fringe benefits	42,056	242,399	201,208	287,561	218,261	17,860	21,368	37,343	9,857	17,742	203,780	1,299,435	51,823	137,419	231,156	420,398	1,719,833
Contract or Temp employees	1,516	2,983	16,607	59,768	11,344	13,721	334		1,011	1,819	4,894	113,997		116	5	121	114,118
Total salaries and fringe benefits	246,265	1,403,974	1,180,823	2,008,487	1,207,856	118,873	114,612	260,451	57,902	104,223	1,123,301	7,826,767	295,775	706,598	1,470,990	2,473,363	10,300,130
Building occupancy	10,167	91,959	56,324	31,038	444,040	3,653	17,224	9,530	5,023	9,041	349,484	1,027,483	25,420	121,244	81,674	228,338	1,255,821
Professional services	38,902	727	57,744	273,468	50,120		7,704	3,380	124	222	11,525	443,916		5,122	188,047	193,169	637,085
Travel	3,304	1,174	22,259	91,932	5,276	1,079	77	7,751	1,226	2,208	4,201	140,487	2,842	5,903	16,210	24,955	165,442
Equipment costs	2,345	6,695	11,309	5,188	7,274		168	3,533	556	1,001	9,680	47,749	7,948	4,787	14,390	27,125	74,874
Food Services	12	54,817	154	3,490	125,538	166,083	16,874	2,664	10	17	220,193	589,852		7,523	6,520	14,043	603,895
Medical/pharmacy	5,137	122,395	59,953	70,459	38,689		2,760		3,683	6,629	25,510	335,215			106,506	106,506	441,721
Insurance	2,028	9,025	16,729	2,184	54,060	2,946	5,231	3,434	968	1,742	59,871	158,218	6,760	7,988	18,089	32,837	191,055
Interest											5,851	5,851		1,173	17,392	18,565	24,416
Operating supplies and expenses	16,083	32,733	70,496	110,842	161,069	35,564	18,358	12,161	3,318	5,972	149,691	616,287	7,845	122,975	95,287	226,107	842,394
Other expenses	597	1,264	2,373	927	5,110	4,491	186	67	106	191	5,488	20,800	175	7,167	184,333	191,675	212,475
Depreciation	3,224	28,733	60,823	2,939	37,590	18,023	6,376		2,215	3,987	123,701	287,611	505	14,765	144,109	159,379	446,990
Total direct expenses	81,799	349,522	358,164	592,467	928,766	231,839	74,958	42,520	17,229	31,010	965,195	3,673,469	51,495	298,647	872,557	1,222,699	4,896,168
Total program expenses	328,064	1,753,496	1,538,987	2,600,954	2,136,622	350,712	189,570	302,971	75,131	135,233	2,088,496	11,500,236	347,270	1,005,245	2,343,547	3,696,062	15,196,298
Clinical support	11,320	60,505	53,290	70,764	73,724		6,541		2,592	4,666	63,868	347,270	(347,270)			(347,270)	0
Operations support	20,115	203,714	94,697	159,479	248,226		22,023	18,577	4,607	8,292	225,515	1,005,245		(1,005,245)		(1,005,245)	0
Administration	68,959	368,589	324,639	546,727	449,123		39,848	63,685	15,792	28,426	437,759	2,343,547			(2,343,547)	(2,343,547)	0
Total expenses	428,458	2,386,304	2,011,613	3,377,924	2,907,695	350,712	257,982	385,233	98,122	176,617	2,815,638	15,196,298	0	0	0	0	15,196,298

The Notes to Combined Financial Statements are an integral part of this statement.

GATEWAY COMMUNITY SERVICES, INC.
AND GATEWAY COMMUNITY SERVICES FOUNDATION, INC.
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2010

	Program Services											Supporting Services				Total	
	Assessment	Detox-ification	Out-patient	Research	Residential	Cutting Edge/ Taste Buds	Room & Board with Supervision	Prevention	Intervention	Case Management	Non-ADM	Total Program Services	Clinical Support	Operations Support	Admin-istration		Total Supporting Services
Salaries	181,727	1,283,948	909,639	1,698,858	998,714	95,238	94,050	237,332	45,409	81,736	963,356	6,590,007	331,547	542,064	1,240,470	2,114,081	8,704,088
Fringe benefits	37,911	278,540	190,424	319,012	231,505	18,705	21,188	41,815	9,519	17,135	230,169	1,395,923	74,481	142,857	247,575	464,913	1,860,836
Contract or Temp employees	5,074	9,616	65,489	34,116	29,511	28,011	2,766	0	4,077	7,338	15,720	201,718	15	51,370	4,294	55,679	257,397
Total salaries and fringe benefits	224,712	1,572,104	1,165,552	2,051,986	1,259,730	141,954	118,004	279,147	59,005	106,209	1,209,245	8,187,648	406,043	736,291	1,492,339	2,634,673	10,822,321
Building occupancy	12,717	98,270	62,782	34,200	441,929	6,510	20,068	12,491	5,218	9,393	326,879	1,030,457	26,399	102,736	100,868	230,003	1,260,460
Professional services	17,274	27,853	25,066	182,176	66,652	0	7,559	329	15	26	10,519	337,469	0	0	240,253	240,253	577,722
Travel	4,134	2,964	16,717	119,872	6,060	918	366	13,042	754	1,358	7,865	174,050	1,989	4,311	19,518	25,818	199,868
Equipment costs	2,923	6,399	12,845	4,609	7,940	0	286	3,590	605	1,089	9,819	50,105	8,103	3,997	48,791	60,891	110,996
Food Services	21	71,356	280	367	162,064	163,396	20,525	(4)	18	32	121,089	539,144	0	5,472	26,091	31,563	570,707
Medical/pharmacy	6,905	155,754	59,257	51,229	17,978	0	2,718	0	3,455	6,220	8,335	311,851	0	0	119,167	119,167	431,018
Insurance	1,818	8,919	14,691	1,166	50,040	2,973	4,262	2,188	846	1,523	62,701	151,127	5,906	7,715	17,234	30,855	181,982
Interest	0	0	0	0	0	0	0	0	0	0	6,991	6,991	0	76	21,968	22,044	29,035
Operating supplies and expenses	5,145	45,451	48,709	157,110	268,615	26,907	29,536	10,711	2,894	5,209	122,012	722,299	4,870	170,304	96,450	271,624	993,923
Other expenses	1,682	3,659	8,730	53,443	4,947	5,427	618	3,952	442	796	9,313	93,009	175	4,179	210,701	215,055	308,064
Depreciation	2,940	29,343	57,035	2,799	38,891	17,708	6,454	0	1,978	3,561	122,167	282,876	505	13,365	141,078	154,948	437,824
Total direct expenses	55,559	449,968	306,112	606,971	1,065,116	223,839	92,392	46,299	16,225	29,207	807,690	3,699,378	47,947	312,155	1,042,119	1,402,221	5,101,599
Total program expenses	280,271	2,022,072	1,471,664	2,658,957	2,324,846	365,793	210,396	325,446	75,230	135,416	2,016,935	11,887,026	453,990	1,048,446	2,534,458	4,036,894	15,923,920
Clinical support	12,573	90,708	66,261	119,276	104,289	0	9,438	0	3,375	6,075	41,995	453,990	(453,990)			(453,990)	0
Operations support	17,277	234,414	91,055	163,913	269,512	0	24,391	20,062	4,638	8,348	214,836	1,048,446		(1,048,446)		(1,048,446)	0
Administration	61,663	444,880	324,978	585,001	511,495	0	46,290	71,602	16,552	29,793	442,204	2,534,458			(2,534,458)	(2,534,458)	0
Total expenses	371,784	2,792,074	1,953,958	3,527,147	3,210,142	365,793	290,515	417,110	99,795	179,632	2,715,970	15,923,920	0	0	0	0	15,923,920

The Notes to Combined Financial Statements are an integral part of this statement.

GATEWAY COMMUNITY SERVICES, INC.
AND GATEWAY COMMUNITY SERVICES FOUNDATION, INC.

COMBINED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2011 and 2010

	2011				2010			
	Gateway Community Services, Inc.	Gateway Community Services Foundation, Inc.	Elimination	Total	Gateway Community Services, Inc.	Gateway Community Services Foundation, Inc.	Elimination	Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Change in total net assets	(135,955)	(400)	0	(136,355)	(193,482)	52,013	0	(141,469)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:								
Depreciation and amortization	422,420	24,570		446,990	413,254	24,570		437,824
Forgiveness of long-term debt	(58,344)			(58,344)	(53,660)			(53,660)
Patient accounts and public support receivable	(192,216)			(192,216)	(191,056)			(191,056)
Prepaid expenses and other assets	(7,203)			(7,203)	6,887			6,887
Accounts payable and accrued expenses	(299,205)			(299,205)	78,503			78,503
Net cash provided by (used in) operating activities	<u>(270,503)</u>	<u>24,170</u>	<u>0</u>	<u>(246,333)</u>	<u>60,446</u>	<u>76,583</u>	<u>0</u>	<u>137,029</u>
CASH FLOWS FROM INVESTING ACTIVITIES								
Purchase of land, building and equipment	(583,030)			(583,030)	(342,008)	(53,564)		(395,572)
Purchase of Investments	(274,668)			(274,668)	(274,585)			(274,585)
Proceeds from sale of Investments	274,585			274,585	274,261			274,261
(Increase) decrease in assets limited as to use				0	43,237			43,237
Net cash used in investing activities	<u>(583,113)</u>	<u>0</u>	<u>0</u>	<u>(583,113)</u>	<u>(299,095)</u>	<u>(53,564)</u>	<u>0</u>	<u>(352,659)</u>
CASH FLOWS FROM FINANCING ACTIVITIES								
Principal payments on long-term debt		(17,820)		(17,820)		(16,679)		(16,679)
Net cash used in financing activities	<u>0</u>	<u>(17,820)</u>	<u>0</u>	<u>(17,820)</u>	<u>0</u>	<u>(16,679)</u>	<u>0</u>	<u>(16,679)</u>
Increase (decrease) in cash and cash equivalents	(853,616)	6,350	0	(847,266)	(238,649)	6,340	0	(232,309)
Cash and cash equivalents, beginning of year	1,528,939	48,050	0	1,576,989	1,767,588	41,710	0	1,809,298
Cash and cash equivalents, end of year	<u>675,323</u>	<u>54,400</u>	<u>0</u>	<u>729,723</u>	<u>1,528,939</u>	<u>48,050</u>	<u>0</u>	<u>1,576,989</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INFORMATION								
Cash paid for interest during the year		5,851	0	5,851	511	6,991	0	7,502

The Notes to Combined Financial Statements are an integral part of these statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities:

Gateway Community Services, Inc. (the "Organization") is a private not-for-profit organization incorporated under the laws of the State of Florida. The Organization offers comprehensive services to residents of Jacksonville, Florida and surrounding communities who suffer from alcoholism and drug abuse. The Organization extends their rehabilitative services to these individuals as well as to their family members, based on their ability to pay. The Organization is controlled by a Board of Directors consisting of volunteers from the community.

Financial Statement Presentation:

In accordance with generally accepted accounting principles, the Organization is required to report information regarding its financial positions and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Basis of Combination:

The combined statements include the accounts of Gateway Community Services Foundation, Inc., a not-for-profit organization which provides financial and other support services and programs to Gateway Community Services, Inc. All significant intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents:

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

The City of Jacksonville requires a separate bank demand and/or time deposit account for all city funds. The amount of city cash maintained as of June 30, 2011 and 2010 was \$4,985 and \$5,042, respectively.

Subsequent events:

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through the report date, the date the financial statements were available to be issued.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1. (Continued)

Land, Building and Equipment:

Land, building and equipment are recorded at historical cost or fair market value at date of donation. Land, building and equipment purchased in excess of \$1,500 is capitalized. Depreciation is computed using the straight-line method over the useful lives of the related assets. The Organization takes a full year of depreciation in the year of acquisition and no depreciation in the year of disposal. The State of Florida and the City of Jacksonville are entitled to the proceeds from the disposal of certain land, building and equipment, in accordance with grant provisions.

The Organization reports gifts of land, building, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. The Organization does not imply time restrictions expiring over the estimated useful life of contributed long lived assets.

Concentrations of Credit Risk:

The Organization's financial instruments that are exposed to concentration of credit risk consist primarily of cash and cash equivalents and certificates of deposit. The Organization places its cash and cash equivalents and certificates of deposit with high credit quality institutions. At such times the financial instruments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limits.

Public Support:

Public support from government grants are recorded based on the terms of the grantor allotment which generally provides that revenue is earned when the allowable costs or units of service of the specific grant provisions have been incurred or provided. Such revenue is subject to audit by the grantor and, if the examination results in a non-allowance of units of service or expenses, the Organization will be required to reimburse any overpayments.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1. (Continued)

Contributions:

In accordance with generally accepted accounting principles, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restriction. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Contributions consist primarily of in-kind contributions of occupancy and supplies expense, which are recorded as other revenue based on management's estimate of the fair market value of the space and merchandise utilized.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions.

Contributed Services:

No amounts have been reflected in the statements for donated services since no objective basis is available to measure the value of such services.

Net Patient Service Revenue:

Net patient service revenue is recorded at standard rates which are reduced by allowances based upon the client's financial capabilities and by amounts estimated by management to be non-reimbursable by third-party payors and state programs under the provisions of applicable program payment arrangements. Final determination of amounts earned is subject to third-party payor audit and retroactive adjustment.

Financial Statement Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 1. (Continued)

Income Taxes:

The Organizations are private not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code and Chapter 220.13 of the Florida Statutes, respectively.

The Organization applies generally accepted accounting principles related to income tax uncertainties, which it adopted on January 1, 2009. The Organization has determined that there were no unrecognized tax benefits for the years ended June 30, 2011 and 2010. The Organization files income taxes in the U.S. federal and state jurisdictions. Tax years that remain subject to examination by major tax jurisdictions are 2008 and forward.

Note 2. Investments

Investments as of June 30, 2011 and 2010 consists of certificates of deposits. The value of the certificates of deposit is \$274,668 and \$274,585 at June 30, 2011 and 2010.

Note 3. Patient Accounts Receivable

The Organization records receivables for services with private insurance and other receivables. A summary of these receivables at June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Private insurance	389,664	307,093
Other	76,248	110,067
	<u>465,912</u>	<u>417,160</u>
Less allowance for doubtful accounts	338,235	255,350
	<u>127,677</u>	<u>161,810</u>

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 4. Land, Building and Equipment

Major classes of land, building, equipment and accumulated depreciation are as follows:

	2011	2010
Land	1,039,565	1,039,565
Building and leasehold improvements	7,597,644	8,786,519
Equipment and furniture	979,877	2,280,883
Construction in progress	398,228	31,011
	10,015,314	12,137,978
Less accumulated depreciation	(3,610,234)	(5,868,938)
Land, building and equipment	6,405,080	6,269,040

Depreciation expense for the year ended June 30, 2011 and 2010 was approximately \$446,990 and \$437,824, respectively.

Note 5. Long-Term Debt

Long-term debt obligations are as follows:

	2011	2010
Mortgage Note – Lexington/Edgewood/University	78,468	96,288
Department of Juvenile Justice Note	132,417	190,761
Duval County Finance Authority Note	69,791	69,791
Jacksonville Housing Authority Note	182,884	182,884
	463,560	539,724
Less current portion	(82,573)	(76,271)
	380,987	463,453

Mortgage Note – Lexington/Edgewood/University:

The Organization has a Mortgage Note Agreement with a financial institution. The note is payable in monthly installments of \$1,973 including interest at 6.54% through its maturity at May 20, 2017. The note is secured by a mortgage on real property.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 5. (Continued)

DJJ Note:

The Organization has a note payable dated December 31, 2001 with the Department of Juvenile Justice for the Organization's Impact House facility. The loan has imputed interest at 8.4% and will be forgiven over a ten year period beginning December 31, 2003.

DCFA Note:

The Organization has a note payable dated June 30, 2004 with the Duval County Finance Authority for \$165,000 to conduct a program, activity, or project. The loan has imputed interest at 5.75% and will be forgiven on June 30, 2019.

JHA Note:

The Organization has a note payable dated June 30, 2005 with the Jacksonville Housing Authority for \$576,000 to conduct a program, activity, or project. The loan has imputed interest at 5.75% and will be forgiven on June 30, 2025.

Aggregate principal payments and loan forgiveness on long-term debt in the succeeding years are due as follows:

Year ended June 30, 2012	82,573
2013	89,402
2014	21,800
2015	17,110
2016	0
Thereafter	<u>252,675</u>
	<u><u>463,560</u></u>

Interest related to the debt instruments that were charged to expense during the years ended June 30, 2011 and 2010 was approximately \$22,417 and \$28,842, respectively.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 6. Operating Leases

The Organization entered into an operating lease in 1992 for a facility in which it provides adolescent residential substance abuse services. The Organization will pay annual rental payments of \$110,800 for a term of ten years with three optional renewal terms of five years each subsequent to the end of the initial ten-year term. This lease was terminated effective July 31, 2011 and the Organization moved to another facility to provide adolescent residential substance abuse services. The Organization will pay annual rental payments of \$118,860 for a term of three years for the new adolescent residential substance abuse location. The Organization also leases other buildings and equipment under operating leases expiring in various years through 2014.

As of June 30, 2011, future minimum lease payments under non-cancelable operating leases are as follows:

Year ended June 30, 2012	176,633
2013	167,400
2014	147,110
Thereafter	<u>0</u>
	<u><u>491,143</u></u>

Rental expense under operating leases was approximately \$305,040 and \$294,897 for the years ended June 30, 2011 and 2010, respectively.

Note 7. Dependency on Governmental Support

The Organization receives a substantial amount of support from federal, state and local governmental agencies. A reduction in the level of future support from the state or local governmental agencies could have a substantial effect on the Organization's programs and activities.

Note 8. In-kind Donations

During the years ended June 30, 2011 and 2010, the Organization received in-kind donations of \$120,000 for rental space.

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 9. Pension Plans

Effective September 1, 1993 the Organization established a defined contribution retirement plan, which covers all employees meeting certain eligibility requirements. In accordance with the agreement with the retirement fund, employee and employer contributions are a percentage of the participating employees' salary. The Organization's contributions are limited to a percentage of the employee contributions as determined by the Board of Directors on an annual basis. Total contributions made by the Organization for 2011 and 2010 were \$0 and \$107,347, respectively.

Note 10. Net Assets Released from Restriction

Net assets were released from restrictions due to acquisitions of land, building and equipment of \$75,000 for the year ended June 30, 2011 and 2010, respectively, and incurring depreciation expense of \$2,978 in 2011 and 2010 related to a temporarily restricted building donated in 2000.

Note 11. Temporarily Restricted Net Assets

Temporarily restricted net assets of \$206,408 and \$209,386 consist of various fixed assets that are available for providing program services for the fiscal years ended June 30, 2011 and 2010, respectively.

Note 12. Related Party

During 2000, a foundation was formed by the name of "The Recovery Research Foundation, Inc." (the "Foundation") for the purpose of providing financial and other support services to the Organization. On February 10, 2006, the Foundation changed its name to Gateway Community Services Foundation, Inc.

Expenses for both 2011 and 2010 include \$30,000 paid to the Foundation in building rent which has been eliminated in the combined financial statements.

Note 13. Fair Value Measurements

The Organization applies generally accepted accounting principles for fair value measurements of financial assets and liabilities. These accounting principles define fair value and establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques. The three levels of inputs used to measure fair value are as follows:

NOTES TO COMBINED FINANCIAL STATEMENTS

Note 13. (Continued)

Level 1 - Values measured using quoted prices in active markets for identical investments.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The carrying amounts reflected in the statements of financial position for cash and cash equivalents, patient and public receivables, accounts payable, accrued expenses and deferred revenue approximates fair value due to the relative terms and/or short maturity of these financial instruments. Investments are reflected in the accompanying financial statements at fair value. The fair value of notes payable at June 30, 2011 and 2010 approximates carrying value due to the variable and imputed interest rates in effect.

The following is a summary of the levels within the fair value hierarchy for the Organization's assets measured at fair value on a recurring basis as of June 30, 2011 and 2010:

Fair Value Measurements on a Recurring Basis as of June 30, 2011				
	Level 1	Level 2	Level 3	Total
Assets:				
Investments				
Certificates of deposit		274,668		274,668
Total	0	274,668	0	274,668
Fair Value Measurements on a Recurring Basis as of June 30, 2010				
	Level 1	Level 2	Level 3	Total
Assets:				
Investments				
Certificates of deposit		274,585		274,585
Total	0	274,585	0	274,585

OTHER FINANCIAL INFORMATION

GATEWAY COMMUNITY SERVICES, INC. AND
GATEWAY COMMUNITY SERVICES FOUNDATION, INC.
SCHEDULE OF EXPENDITURES OF FINANCIAL AWARDS

For the Year Ended June 30, 2011

Federal/State Grantor/Pass-Through Grantor/Federal Program/State Project	CFDA CSFA Number	Contract Number	Program or Award Amount	Accrued Revenue at June 30, 2010	Cash Received	Disburse- ments/ Expenses	Accrued Revenue at June 30, 2011
FEDERAL PROGRAMS:							
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:							
Passed through Florida Department of Children and Family Services:							
Adult Substance Abuse:							
Block Grants for Prevention and Treatment of Substance Abuse	93.959	DD032	2,445,515	120,041	120,041		0
Block Grants for Prevention and Treatment of Substance Abuse	93.959	DD032	2,495,996		1,961,021	2,495,996	534,975
Block Grants for Prevention and Treatment of Substance Abuse	93.959	DDZ03	50,690		50,690	50,690	0
Passed through Baker Community Counseling Services, Inc.							
Block Grants for Prevention and Treatment of Substance Abuse	93.959	59-3570-480		2,045	2,045	0	0
Passed through Clay County Behavioral Health Center, Inc.							
Block Grants for Prevention and Treatment of Substance Abuse	93.959	5-2219-317		5,960	66,679	60,719	0
Passed through Nassau County Sutton Place Behavioral Health, Inc.							
Block Grants for Prevention and Treatment of Substance Abuse	93.959				9,222	9,222	0
Passed through St. Johns County Board of County Commissioners							
Block Grants for Prevention and Treatment of Substance Abuse	93.959	RES 09-234		23,921	23,921		0
Block Grants for Prevention and Treatment of Substance Abuse	93.959	RES 2010-300			105,009	124,497	19,488
				<u>151,967</u>	<u>2,338,628</u>	<u>2,741,124</u>	<u>554,463</u>
Passed through Family Support Services of North Florida, Inc.:							
Temporary Assistance for Needy Families	93.558	DJ031			8,078	8,078	0
Passed through Florida Department of Children and Family Services:							
Temporary Assistance for Needy Families	93.558	DD032	157,749		128,469	157,749	29,280
Temporary Assistance for Needy Families	93.558		119		1	1	0
				<u>0</u>	<u>136,548</u>	<u>165,828</u>	<u>29,280</u>
Passed through Family Support Services of North Florida, Inc.:							
Stephanie Tubbs Jones Child Welfare Services Program	93.645	DJ031			1,877	1,877	0
Passed through Florida Department of Children and Family Services:							
Stephanie Tubbs Jones Child Welfare Services Program	93.645		119		7	7	0
				<u>0</u>	<u>1,884</u>	<u>1,884</u>	<u>0</u>

GATEWAY COMMUNITY SERVICES, INC. AND
GATEWAY COMMUNITY SERVICES FOUNDATION, INC.
SCHEDULE OF EXPENDITURES OF FINANCIAL AWARDS

For the Year Ended June 30, 2011

Federal/State Grantor/Pass-Through Grantor/Federal Program/State Project	CFDA CSFA Number	Contract Number	Program or Award Amount	Accrued Revenue at June 30, 2010	Cash Received	Disburse- ments/ Expenses	Accrued Revenue at June 30, 2011
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:							
Passed through Family Support Services of North Florida, Inc.: Foster Care_Title IV-E	93.658	DJ031			14,838	14,838	0
Passed through Florida Department of Children and Family Services: Foster Care_Title IV-E	93.658		119	33	33	33	0
				<u>0</u>	<u>14,871</u>	<u>14,871</u>	<u>0</u>
Passed through Family Support Services of North Florida, Inc.: Adoption Assistance	93.659	DJ031			5,785	5,785	0
Passed through Florida Department of Children and Family Services: Adoption Assistance	93.659		119	10	10	10	0
				<u>0</u>	<u>5,795</u>	<u>5,795</u>	<u>0</u>
Passed through Florida Department of Children and Family Services: Social Services Block Grant	93.667		119		21	21	0
Passed through Family Support Services of North Florida, Inc.: Promoting Safe and Stable Families	93.556	DJ031			286	286	0
Passed through Family Support Services of North Florida, Inc.: Child Abuse and Neglect State Grants	93.669	DJ031			9	9	0
Passed through the City of Jacksonville, Florida HIV Emergency Relief Project Grants	93.914	9479	146,820	8,715	114,783	106,068	0
HIV Emergency Relief Project Grants	93.914	9479-09	54,323		12,844	31,324	18,480
				<u>8,715</u>	<u>127,627</u>	<u>137,392</u>	<u>18,480</u>
Passed through Northeast Florida Healthy Start Coalition Maternal and Child Health Services Block Grant to the States	93.994			4,868	95,871	98,825	7,822

GATEWAY COMMUNITY SERVICES, INC. AND
GATEWAY COMMUNITY SERVICES FOUNDATION, INC.
SCHEDULE OF EXPENDITURES OF FINANCIAL AWARDS

For the Year Ended June 30, 2011

Federal/State Grantor/Pass-Through Grantor/Federal Program/State Project	CFDA CSFA Number	Contract Number	Program or Award Amount	Accrued Revenue at June 30, 2010	Cash Received	Disburse- ments/ Expenses	Accrued Revenue at June 30, 2011
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:							
Passed through the University of Miami							
Drug Abuse and Addiction Research Programs	93.279	5U10DA13720-04	28,234	7,988	11,377	5,389	2,000
Drug Abuse and Addiction Research Programs	93.279	5U10DA13720-04	18,704			17,303	17,303
Drug Abuse and Addiction Research Programs	93.279	CTN-0028	14,311	2,912	2,912		0
Drug Abuse and Addiction Research Programs	93.279	CTN-0014	51,350	18,898	33,618	14,720	0
Drug Abuse and Addiction Research Programs	93.279	CTN-0014	21,407			18,410	18,410
Drug Abuse and Addiction Research Programs	93.279	CTN-0031	212,737	31,439	12,522	10,950	29,867
Drug Abuse and Addiction Research Programs	93.279	CTN-0046	231,773	71,521	114,298	42,777	0
Drug Abuse and Addiction Research Programs	93.279	CTN-0046	251,172			171,568	171,568
Drug Abuse and Addiction Research Programs	93.279	CTN-0037	292,123	103,354	180,019	76,665	0
Drug Abuse and Addiction Research Programs	93.279	CTN-0037	284,643		154,904	270,064	115,160
				236,112	509,650	627,846	354,308
Passed through Florida State Fourth Circuit Court							
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	5 H79-TI019942-02	300,000	117,915	157,853	39,938	0
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	CO5004-09	300,000		110,410	151,478	41,068
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:							
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	5 H79-TI019760-02	450,000	51,187	215,267	164,080	0
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	5 H79-TI019760-02	450,000		291,571	327,169	35,598
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	5 H79-TI018264-04	400,000	53,587	180,550	126,963	0
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	5 H79-TI018264-04	400,000		291,637	325,137	33,500
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	5 H79-TI020100-02	400,000	12,093	66,829	54,736	0
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	5 H79-TI020100-02	400,000		268,739	285,224	16,485
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	5 U79-SM058764-02	400,000	31,604	163,294	131,690	0
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	5 U79-SM058764-02	400,000		252,752	281,874	29,122

GATEWAY COMMUNITY SERVICES, INC. AND
GATEWAY COMMUNITY SERVICES FOUNDATION, INC.
SCHEDULE OF EXPENDITURES OF FINANCIAL AWARDS

For the Year Ended June 30, 2011

Federal/State Grantor/Pass-Through Grantor/Federal Program/State Project	CFDA CSFA Number	Contract Number	Program or Award Amount	Accrued Revenue at June 30, 2010	Cash Received	Disburse- ments/ Expenses	Accrued Revenue at June 30, 2011
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:							
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	5 H79-TI019155-03	500,000	35,607	153,826	118,219	0
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	5 H79-TI019155-03	500,000		23,069	23,069	0
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	1 H79-TI019578-01	468,916	42,416	143,453	101,037	0
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	1 H79-TI019578-01	468,916		295,696	334,992	39,296
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	1 H79-TI020870-01	300,000	24,303	97,292	72,989	0
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	1 H79-TI020870-01	300,000		164,090	184,643	20,553
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	TI-10-012	400,000		165,074	185,927	20,853
				<u>368,712</u>	<u>3,041,402</u>	<u>2,909,165</u>	<u>236,475</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:							
Supportive Housing Program	14.235	FL0128B4H100802	61,705	6,984	51,462	44,478	0
Supportive Housing Program	14.235	FL0128B4H101003	61,705		6,858	15,445	8,587
Supportive Housing Program	14.235	FL0129B4H100802	54,727	4,415	42,559	38,144	0
Supportive Housing Program	14.235	FL0129B4H101003	54,728		4,512	9,951	5,439
				<u>11,399</u>	<u>105,391</u>	<u>108,018</u>	<u>14,026</u>
Passed through the City of Jacksonville, Florida							
Housing Opportunities for Persons with AIDS	14.241	7024-96	65,000	5,000	23,268	18,268	0
Housing Opportunities for Persons with AIDS	14.241	FL29H10F001	66,000		42,048	48,594	6,546
				<u>5,000</u>	<u>65,316</u>	<u>66,862</u>	<u>6,546</u>
Passed through the City of Jacksonville, Florida							
ARRA - Homeless Prevention and Rapid Re-Housing Program	14.257	S09UY120006	26,240	4,275	7,705	3,430	0
ARRA - Homeless Prevention and Rapid Re-Housing Program	14.257	S09UY120006	31,003		30,403	30,403	0
Passed through the Emergency Services and Homeless Coalition of Jacksonville, Inc.							
ARRA - Homeless Prevention and Rapid Re-Housing Program	14.257		35,580		35,580	35,580	0
				<u>4,275</u>	<u>73,688</u>	<u>69,413</u>	<u>0</u>
U.S. DEPARTMENT OF AGRICULTURE:							
Passed through the Florida Department of Education National School Lunch Program	10.555	01-0364		8,216	82,294	81,421	7,343

GATEWAY COMMUNITY SERVICES, INC. AND
GATEWAY COMMUNITY SERVICES FOUNDATION, INC.
SCHEDULE OF EXPENDITURES OF FINANCIAL AWARDS

For the Year Ended June 30, 2011

Federal/State Grantor/Pass-Through Grantor/Federal Program/State Project	CFDA CSFA Number	Contract Number	Program or Award Amount	Accrued Revenue at June 30, 2010	Cash Received	Disburse- ments/ Expenses	Accrued Revenue at June 30, 2011
U.S. DEPARTMENT OF JUSTICE:							
Passed through the City of Jacksonville							
Edward Byrne Memorial Justice Assistance Grant Program	16.738	7024-99	65,320	4,277	22,599	18,322	0
Edward Byrne Memorial Justice Assistance Grant Program	16.738	9479-07	35,000		14,460	36,908	22,448
				4,277	37,059	55,230	22,448
Passed through the Florida State Attorney's Office							
Drug Court Discretionary Grant Program	16.585		530,000	8,913	21,563	37,088	24,438
Total Expenditures of Federal Awards				812,454	6,657,903	7,121,078	1,275,629
STATE PROJECTS:							
FLORIDA DEPARTMENT OF CHILDREN AND FAMILIES:							
Substance Abuse Detoxification Services for Children	60.028	DD032	443,802	0	443,802	443,802	0
FLORIDA DEPARTMENT OF CHILDREN AND FAMILIES:							
Substance Abuse Treatment and Aftercare Services for Children	60.030	DD032	1,672,463	173,122	173,122		0
Substance Abuse Treatment and Aftercare Services for Children	60.030	DD032	1,323,096	0	1,323,096	1,323,096	0
Passed through St. Johns County Board of County Commissioners							
Substance Abuse Treatment and Aftercare Services for Children	60.030	RES 2010-300			36,081	36,081	0
				173,122	1,532,299	1,359,177	0
FLORIDA DEPARTMENT OF CHILDREN AND FAMILIES:							
Substance Abuse Detoxification Services for Adults	60.031	DD032	424,521		424,521	424,521	0
Passed through St. Johns County Board of County Commissioners							
Substance Abuse Detoxification Services for Adults	60.031	RES 2010-300			48,762	48,762	0
				0	473,283	473,283	0
FLORIDA DEPARTMENT OF CHILDREN AND FAMILIES:							
Substance Abuse Treatment and Aftercare Services for Adults	60.033	DD032	582,490	48,541	48,541		0
Substance Abuse Treatment and Aftercare Services for Adults	60.033	DD032	551,725		551,725	551,725	0
Passed through St. Johns County Board of County Commissioners							
Substance Abuse Treatment and Aftercare Services for Adults	60.033	RES 2010-300			23,063	23,063	0
				48,541	623,329	574,788	0
FLORIDA DEPARTMENT OF CHILDREN AND FAMILIES:							
Passed through Family Support Services of North Florida, Inc.:							
Community Based Care (CBC) Supports	60.094	DJ031		0	18,267	25,292	7,025

GATEWAY COMMUNITY SERVICES, INC. AND
GATEWAY COMMUNITY SERVICES FOUNDATION, INC.
SCHEDULE OF EXPENDITURES OF FINANCIAL AWARDS

For the Year Ended June 30, 2011

Federal/State Grantor/Pass-Through Grantor/Federal Program/State Project	CFDA CSFA Number	Contract Number	Program or Award Amount	Accrued Revenue at June 30, 2010	Cash Received	Disburse- ments/ Expenses	Accrued Revenue at June 30, 2011
FLORIDA DEPARTMENT OF JUVENILE JUSTICE:							
Passed through First Coast Management Services, Inc. Mental Health Services	80.011	X1521		9,395	167,000	170,925	13,320
FLORIDA DEPARTMENT OF JUVENILE JUSTICE:							
Delinquency Non-Secure Residential Services	80.016	R-2042	820,520	136,892	549,220	412,328	0
Delinquency Non-Secure Residential Services	80.016	R-2042	820,520		338,592	405,932	67,340
				<u>136,892</u>	<u>887,812</u>	<u>818,260</u>	<u>67,340</u>
Total Expenditures of State Projects				<u>367,950</u>	<u>4,145,792</u>	<u>3,865,527</u>	<u>87,685</u>
GENERAL STATE FUNDING:							
FLORIDA DEPARTMENT OF CHILDREN AND FAMILIES:							
Substance Abuse Treatment and Aftercare services for Adults		DD032	725,000	60,417	60,417		0
Temporary Assistance for Needy Families		DD032	5,268		5,268	5,268	0
Substance Abuse Treatment and Aftercare services for Adults		DD032	741,126		741,126	741,126	0
Substance Abuse Treatment and Aftercare services for Adults			119		47	47	0
Passed through Baker Community Counseling Services, Inc.					4,294	5,316	1,022
Passed through Florida Council on Compulsive Gambling, Inc			10,000	1,000	10,000	10,000	1,000
Passed through Community Partnership for Children					18,310	18,310	0
Florida Medicaid Program				<u>37,524</u>	<u>372,441</u>	<u>366,084</u>	<u>31,167</u>
Total Expenditures of General State Funding				<u>98,941</u>	<u>1,211,903</u>	<u>1,146,151</u>	<u>33,189</u>
LOCAL ASSISTANCE:							
FLORIDA STATE ATTORNEY'S OFFICE:							
Passed through the City of Jacksonville, Florida Intensive Delinquency Diversion Services (City Teen Court)				<u>360</u>	<u>2,490</u>	<u>2,670</u>	<u>540</u>

GATEWAY COMMUNITY SERVICES, INC. AND
GATEWAY COMMUNITY SERVICES FOUNDATION, INC.
SCHEDULE OF EXPENDITURES OF FINANCIAL AWARDS

For the Year Ended June 30, 2011

Federal/State Grantor/Pass-Through Grantor/Federal Program/State Project	CFDA CSFA Number	Contract Number	Program or Award Amount	Accrued Revenue at June 30, 2010	Cash Received	Disburse- ments/ Expenses	Accrued Revenue at June 30, 2011
LOCAL ASSISTANCE:							
CITY MENTAL HEALTH AND WELFARE:							
Passed through the City of Jacksonville, Florida							
Alcohol Trust Fund		7024-97	583,988	44,110	162,428	118,318	0
Alcohol Trust Fund		9479-02	604,307		336,507	444,682	108,175
Residential, Homeless, Detox, and Transitional Living		7024-95	372,400	31,916	122,388	90,112	(360)
Residential, Homeless, and Transitional Living		9479-04	372,400		224,079	279,574	55,495
Residential, Homeless, and Transitional Living		7024-94	245,802	22,898	81,220	58,322	0
Residential, Homeless, and Transitional Living		9479-05	245,802		147,006	183,398	36,392
Keep Kids Drug Free					35,000	35,000	0
Title XX Day Care					52,782	52,782	0
Substance Abuse Geriatric Education Services (SAGES)		7024-98	36,446	2,530	14,756	12,226	0
Substance Abuse Geriatric Education Services (SAGES)		9479-06	15,096		13,935	15,096	1,161
Gang Intervention		9479-10	250,000			9,602	9,602
				101,454	1,190,101	1,299,112	210,465
LOCAL GRANTS:							
Sulzbacher				34,533	63,000	63,000	34,533
Total Expenditures of Local Assistance				136,347	1,255,591	1,364,782	245,538
Total Expenditures of Federal Awards and State Financial Assistance and Local Assistance				1,415,692	13,271,189	13,497,538	1,642,041

**GATEWAY COMMUNITY SERVICES, INC.
AND GATEWAY COMMUNITY SERVICES FOUNDATION, INC.**

NOTES TO SCHEDULE OF EXPENDITURES OF FINANCIAL AWARDS

For The Year Ended June 30, 2011

1. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of financial awards includes the federal, state and local grant activity of Gateway Community Services, Inc. and is prepared 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 the requirements described in the Executive Office of the Governor's State Projects Compliance Supplement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Type A programs are those federal programs and state projects with expenditures greater than or equal to \$300,000, respectively. All other programs are considered Type B.

2. PASS-THROUGH AWARDS

The Organization receives certain federal awards and state financial assistance from pass-through awards of the State, local government and other entities. The total amount of such pass-through awards is included on the supplementary schedule of expenditures of financial awards.

3. TRANSFERS TO SUBRECIPIENTS

The Organization transferred \$98,261 of federal awards from contract number 5 H79-TI018264-04 and \$57,852 from contract number 5 H79-TI019760-02 for the fiscal year ended June 30, 2011 to an unrelated third party.

GATEWAY COMMUNITY SERVICES, INC.
AND GATEWAY COMMUNITY SERVICES FOUNDATION, INC.

SCHEDULE OF STATE EARNINGS

For the Year Ended June 30, 2011

	<u>2011</u>
1. Total Expenditures	15,195,776
2. Less Other State and Federal Funds	(6,112,636)
3. Less Non-Match SAMH Funds	(3,157,182)
4. Less Unallowable Costs per 65E-14, F.A.C.	<u>(39,514)</u>
5. Total Allowable Expenditures (Sum of lines 1, 2, 3, and 4)	<u><u>5,886,444</u></u>
6. Maximum Available Earnings (Line 5 times 75%)	4,414,833
7. Amount of State Funds Requiring Match	<u>2,986,183</u>
8. Amount Due to Department (Subtract line 7 from 6. If negative, the amount of the difference is due the department up to the amount of line 7.)	<u><u>1,428,650</u></u>

GATEWAY COMMUNITY SERVICES, INC.
SCHEDULE OF SOURCE AND EXPENDITURES OF CITY GRANT FUNDS
For the Year Ended June 30, 2011

Contract #	Contract Period	Total Budget	Receipts/Expenditures		Balance Remaining 2011
Alcohol Trust Fund					
7024-97	10/1/09-9/30/10		10/1/09-6/30/10	7/1/10-9/30/10	
Receipts:		593,988	428,595	164,133	1,260
Expenditures:					
Salaries which do not include those prohibited by 118.301 {vi, vii}		414,779	316,834	97,010	
Payroll taxes and benefits		47,444	34,690	11,606	
Occupancy expenses					
Maintenance & repairs		10,960	8,675	2,285	
Telephone		7,265	6,815	434	
Utilities		26,491	18,908	6,906	
Insurance		4,600	3,416	1,158	
Office expenses		2,212	1,063	1,000	
Equipment expenses					
Rentals & leases		3,004	2,188	803	
Vehicle expenses - Fuel & maintenance		7,088	6,281	807	
Vehicle expenses - Other insurance		1,550	1,189	361	
Direct client expenses					
Food		37,269	23,858	13,411	
Personal		600	600	0	
Transportation		600	450	150	
Physician services and medical supplies		1,500	2,050	(550)	
Allocated management and general		28,626	45,689	(17,063)	
Total Expenditures		593,988	472,706	118,318	2,964

GATEWAY COMMUNITY SERVICES, INC.
SCHEDULE OF SOURCE AND EXPENDITURES OF CITY GRANT FUNDS
For the Year Ended June 30, 2011

Contract #	Contract Period	Total Budget	Receipts/Expenditures	Balance Remaining 2011
Alcohol Trust Fund				
9479-02	10/1/10-9/30/11		10/1/10-6/30/11	
Receipts:		604,307	334,581	269,726
Expenditures:				
Salaries which do not include those prohibited by 118.301 {vi, vii}		402,546	299,963	
Payroll taxes and benefits				
FICA & Med. Tax.		35,269	22,948	
Health Insurance		25,146	16,851	
Retirement		2	0	
Workers Comp		4,370	1,989	
Unemployment tax		5,915	3,980	
Group Life		680	361	
Dental		720	350	
EAP		165	123	
Occupancy expenses				
Maintenance & repairs		7,005	4,907	
Telephone		8,800	8,386	
Utilities		34,500	21,086	
Insurance		5,001	3,573	
Office expenses				
Office & Janitorial supplies		8,512	5,211	
Postage		3		
Printing & Advertising		1		
Publications		2		
Staff Training		2		
Professional Fees & Service		2		
Background		2		
Other-Equip under \$1,000		101	100	
Other-Taxes/Agency License		1	1	
Travel expenses not related to entertainment or amusement		201		
Equipment rentals & leases		3,900	2,391	
Vehicle expenses				
Fuel & maintenance		5,000	3,221	
Insurance		1,620	1,077	
Direct client expenses				
Food		52,941	47,239	
Personal		700	500	
Transportation		700	425	
Medical		500		
Total Expenditures		604,307	0	444,682
				159,625

GATEWAY COMMUNITY SERVICES, INC.
SCHEDULE OF SOURCE AND EXPENDITURES OF CITY GRANT FUNDS

For the Year Ended June 30, 2011

Contract #	Contract Period	Total Budget	Receipts/Expenditures		Balance Remaining 2011
Residential, Homeless, and Transitional Living					
7024-95 (Prof 2)	10/1/09-9/30/10		10/1/09-6/30/10	7/1/10-9/30/10	
Receipts:		372,400	229,613	122,388	20,399
Expenditures:					
Salaries which do not include those prohibited by 118.301 {vi, vii}		142,034	102,149	33,938	
Payroll taxes and benefits		37,829	27,321	8,058	
Occupancy expenses					
Telephone		16,799	10,266	5,742	
Utilities		39,090	29,047	9,603	
Maint. & repairs		24,006	11,624	6,609	
Insurance Prop. & Gen.		9,296	6,809	2,487	
Office expenses					
Office & other		2,877	1,899	796	
Postage		424	42		
Other equip < 1000		4,575	3,012	638	
Other Taxes & Licenses		350	139	170	
Travel expenses not related to entertainment or amusement		485	432	53	
Equipment expenses rent/ lease		2,319	1,482	503	
Vehicle Fuel & Maintenance		4,802	3,387	800	
Vehicle Insurance		963	714	231	
Direct client expenses					
Food		27,385	16,323	11,062	
Personal		4,061	1,970	197	
Transportation		1,668	1,258	84	
Other - recreational		483	35	167	
Clinical and support services					
Allocated management and general		52,954	43,980	8,974	
Total Expenditures		372,400	261,889	90,112	20,399

GATEWAY COMMUNITY SERVICES, INC.
SCHEDULE OF SOURCE AND EXPENDITURES OF CITY GRANT FUNDS
For the Year Ended June 30, 2011

Contract #	Contract Period	Total Budget	Receipts/Expenditures	Balance Remaining 2011
Residential, Homeless, Detox and Transitional Living				
9479-04 (Prof 2)	10/1/10-9/30/11		10/1/10-6/30/11	
Receipts:		372,400	224,079	148,321
Expenditures:				
Salaries which do not include those prohibited by 118.301 {vi, vii}		121,572	92,625	
Payroll taxes and benefits		34,321	23,565	
Occupancy expenses				
Telephone		13,800	11,059	
Utilities		39,021	29,403	
Maint. & repairs		42,234	27,026	
Insurance Prop. & Gen.		9,000	6,831	
Office expenses				
Supplies		2,700	1,943	
Postage		60	21	
Printing / Adv		180	96	
Publications		1		
Staff Training		1		
Directors/Officers Insurance		1		
Contract/ Prof. fees & service		900	373	
Background Screenings		1		
Other equip < 1000		4,200	2,448	
Other Taxes & Licenses		360	71	
Travel expenses not related to entertainment or amusement		1,150	455	
Equipment expenses		2,100	1,440	
Vehicle Fuel & Maintenance		6,280	5,613	
Vehicle Insurance		960	733	
Direct client expenses				
Food		61,320	54,580	
Medical supplies		1,500	1,051	
Personal		1,800	133	
Transportation		3,000	564	
Other - recreational		900	765	
Allocated management and general		25,038	18,779	
Total Expenditures		372,400	279,574	92,826

GATEWAY COMMUNITY SERVICES, INC.
SCHEDULE OF SOURCE AND EXPENDITURES OF CITY GRANT FUNDS
For the Year Ended June 30, 2011

Contract #	Contract Period	Total Budget	Receipts/Expenditures		Balance Remaining 2011
Alumni House					
7024-94 (Prof 1)	10/1/09-9/30/10		10/1/09-6/30/10	7/1/10-9/30/10	
Receipts:		245,802	148,346	81,220	16,236
Expenditures:					
Salaries which do not include those prohibited by 118.301 {vi, vii}		88,273	61,355	25,220	
Payroll taxes and benefits		24,788	17,321	4,954	
Occupancy expenses					
Telephone		8,263	6,804	1,459	
Utilities		26,435	20,023	6,338	
Maint. & repairs		12,233	7,889	4,344	
Insurance Prop. & Gen.		5,833	4,527	1,306	
Office expenses					
Supplies		1,728	1,271	457	
Postage		424	28		
Other equip < 1000		5,576	2,003	421	
Other Taxes & Licenses		350	92	113	
Travel expenses not related to entertainment or amusement		485	293	75	
Equipment expense Lease/Rental		3,320	988	332	
Vehicle Fuel & Maintenance		3,074	2,240	528	
Vehicle Insurance		864	475	152	
Direct client expenses					
Food		23,676	10,853	7,555	
Personal		1,761	1,301	130	
Allocated management and general		38,719	33,781	4,938	
Total Expenditures		245,802	171,244	58,322	16,236

GATEWAY COMMUNITY SERVICES, INC.
SCHEDULE OF SOURCE AND EXPENDITURES OF CITY GRANT FUNDS
For the Year Ended June 30, 2011

Contract #	Contract Period	Total Budget	Receipts/Expenditures	Balance Remaining 2011
Alumni House				
9479-05 (Prof 1)	10/1/10-9/30/11		10/1/10-6/30/11	
Receipts:		245,802	147,006	98,796
Expenditures:				
Salaries which do not include those prohibited by 118.301 {vi, vii}		80,927	61,137	
Payroll taxes and benefits		22,588	15,554	
Occupancy expenses				
Telephone		9,200	7,300	
Utilities		26,564	19,653	
Maint. & repairs		28,277	18,370	
Insurance Prop. & Gen.		6,000	4,509	
Office expenses				
Supplies		1,800	1,036	
Postage		40	14	
Printing & Adv.		120	63	
Publications		1		
Staff Training		1		
Directors & Officers Insur.		1		
Contract./Prof fees & service		600	246	
Background Screenings		1		
Other equip < 1000		2,800	1,616	
Other Taxes & Licenses		240	47	
Travel expenses not related to entertainment or amusement		700	300	
Equipment expenses				
Lease & rental		1,400	951	
Vehicle expenses				
Fuel & Maint.		3,920	3,705	
Insurance		640	484	
Direct client expenses				
Food		40,875	36,024	
Medical supplies		1,000	694	
Personal		1,200	193	
Transportation		2,000	301	
Recreational supplies		600	472	
Other - Miscellaneous		1		
Allocated management and general		14,306	10,729	
Total Expenditures		245,802	0	183,398
				62,404

GATEWAY COMMUNITY SERVICES, INC.
SCHEDULE OF SOURCE AND EXPENDITURES OF CITY GRANT FUNDS
For the Year Ended June 30, 2011

Contract #	Contract Period	Total Budget	Receipts/Expenditures		Balance Remaining 2011
Substance Abuse Geriatric Education Services (SAGES)					
7024-98	10/1/09 - 9/30/10		10/1/09-6/30/10	7/1/10-9/30/10	
Receipts:		36,446	21,335	15,104	7
Expenditures:					
Compensation		25,182	18,451	6,731	
Payroll Taxes		1,926	1,411	515	
Printing & Advertising		4,114	0	4,107	
Professional Fees & Service		3,000	0	3,000	
Equipment		0	0		
Allocated Management & Gen O/H		2,224	4,003	(1,779)	
Total Expenditures		36,446	23,865	12,574	7
Substance Abuse Geriatric Education Services (SAGES)					
9479-06	10/1/10 - 9/30/11			10/1/10-6/30/11	
Receipts:		15,096		13,935	1,161
Expenditures:					
Compensation		14,023		14,023	
Payroll Taxes		1,073		1,073	
Total Expenditures		15,096	0	15,096	0
Housing Opportunities for Persons with AIDS					
7024-96	10/1/09 - 9/30/10		10/1/09-6/30/10	7/1/10-9/30/10	
Receipts:		65,000	39,770	19,706	5,524
Expenditures:					
Support Services		60,450	37,794	17,132	
Administrative Costs		4,550	3,413	1,137	
Total Expenditures		65,000	41,207	18,269	5,524
Housing Opportunities for Persons with AIDS					
9479-03 (FL29H10F001)	10/1/10 - 9/30/11			10/1/10-6/30/11	
Receipts:		66,000		42,048	23,952
Expenditures:					
Support Services		61,450		45,181	
Administrative Costs		4,550		3,413	
Total Expenditures		66,000	0	48,594	17,406

GATEWAY COMMUNITY SERVICES, INC.
SCHEDULE OF SOURCE AND EXPENDITURES OF CITY GRANT FUNDS
For the Year Ended June 30, 2011

Contract #	Contract Period	Total Budget	Receipts/Expenditures		Balance Remaining 2011
Ryan White - Title I					
9479	3/1/10 - 2/28/11		3/1/10-9/30/10	10/1/10-2/28/11	
Receipts:		146,820	72,848	73,434	538
Expenditures:					
Outpatient		136,203	87,029	9,633	
Residential		10,617	49,179	441	
Total Expenditures		<u>146,820</u>	<u>136,208</u>	<u>10,074</u>	538
Ryan White - Title I					
9479-09	3/1/11 - 2/28/12			3/1/11-6/30/11	
Receipts:		54,323		12,844	41,479
Expenditures:					
Substance Abuse Services					
Outpatient		15,575		244	
Residential Level II		38,748		31,080	
Total Expenditures		<u>54,323</u>	<u>0</u>	<u>31,324</u>	22,999
Justice Assistance Grant					
7024-99	10/1/09 - 9/30/10		10/1/09-6/30/10	7/1/10-9/30/10	
Receipts:		65,230	28,171	37,059	0
Expenditures:					
Compensation		51,000	27,316	27,702	
Payroll Taxes and Benefits		11,730	4,132	3,982	
Supplies		1,500		1,098	
Equipment		1,000	1,000		
Total Expenditures		<u>65,230</u>	<u>32,448</u>	<u>32,782</u>	0
Justice Assistance Grant					
9479-07	10/1/10 - 9/30/11			10/1/10-6/30/11	
Receipts:		35,000			35,000
Expenditures:					
Compensation		32,900		20,695	
Payroll Taxes and Benefits		2,100		1,581	
Total Expenditures		<u>35,000</u>	<u>0</u>	<u>22,276</u>	12,724

GATEWAY COMMUNITY SERVICES, INC.
SCHEDULE OF SOURCE AND EXPENDITURES OF CITY GRANT FUNDS
For the Year Ended June 30, 2011

Contract #	Contract Period	Total Budget	Receipts/Expenditures		Balance Remaining 2011
Homeless Prevention and Rapid Re-Housing Program					
7024-93 (S09UY120006)	10/1/09 - 9/30/10		10/1/09-6/30/10	7/1/10-9/30/10	
Receipts:		37,244	18,535	7,705	11,004
Expenditures:					
Compensation		33,677	21,420	3,430	
Travel		2,967	790		
Supplies		600	600		
Total Expenditures		37,244	22,810	3,430	11,004
Homeless Prevention and Rapid Re-Housing Program					
9479-08 (S09UY120006)	10/1/10 - 9/30/11			10/1/10-6/30/11	
Receipts:		31,003		30,403	600
Expenditures:					
Compensation		30,008		30,008	
Travel		395		395	
Supplies		600			
Total Expenditures		31,003	0	30,403	600
Gang Intervention					
9479-10	5/2011 - 5/2016			5/1/11-6/30/11	
Receipts:		250,000			250,000
Expenditures:					
Compensation		165,600		5,161	
Payroll Taxes and Benefits		36,432		431	
Recruitment & marketing					
Printing		2,000			
Bus Art or billboards		9,000			
Equipment					
Cell phones		4,680			
Laptops		4,000		4,000	
Transportation		10,560			
General Operating		7,728			
Consultants		10,000			
Total Expenditures		250,000		9,592	240,408

**GATEWAY COMMUNITY SERVICES, INC.
AND GATEWAY COMMUNITY SERVICES FOUNDATION, INC.**

NOTES TO SCHEDULE OF SOURCE AND EXPENDITURE OF CITY GRANT FUNDS

For The Year Ended June 30, 2011

BASIS OF ACCOUNTING

The accompanying schedule of source and expenditure of city grant funds includes grant activity related to funding from the various departments within the City of Jacksonville.

The information in this schedule is presented in accordance with the requirements of Ordinance Code Chapter 118.208(e) of the City of Jacksonville, Florida. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CONTRACT 7024-97

The remaining expenditures balance of \$2,964 for contract number 7024-97 reflects expenditures that will not be earned under the contract. The Organization has contacted the City of Jacksonville and informed them that they will be sending them a check for \$1,704 for an overpayment on the contract expenditures.

CONTRACT 9479-02

The remaining expenditures balance of \$159,625 for contract number 9479-02 reflects expenditures to be incurred during the remaining contract period.

CONTRACT 7024-95

The remaining expenditures balance of \$20,399 for contract number 7024-95 reflects expenditures that will not be earned under the contract.

CONTRACT 9479-04

The remaining expenditures balance of \$92,826 for contract number 9479-04 reflects expenditures to be incurred during the remaining contract period.

CONTRACT 7024-94

The remaining expenditures balance of \$16,236 for contract number 7024-94 reflects expenditures that will not be earned under the contract.

CONTRACT 9479-05

The remaining expenditures balance of \$62,404 for contract number 9479-05 reflects expenditures to be incurred during the remaining contract period.

**GATEWAY COMMUNITY SERVICES, INC.
AND GATEWAY COMMUNITY SERVICES FOUNDATION, INC.**

NOTES TO SCHEDULE OF SOURCE AND EXPENDITURE OF CITY GRANT FUNDS

For The Year Ended June 30, 2011

CONTRACT 7024-98

The remaining expenditures balance of \$7 for contract number 7024-98 reflects expenditures that will not be earned under the contract.

CONTRACT 9479-06

The Organization has fully earned the 2011 contract for the Substance Abuse Geriatric Education Services (SAGES) and expects to be reimbursed \$1,161 subsequent to the Organization's fiscal year end.

CONTRACT 7024-96

The remaining expenditures balance of \$5,524 for contract number 7024-96 reflects expenditures that will not be earned under the contract.

CONTRACT 9479-03

The remaining expenditures balance of \$17,406 for contract number 9479-03 (FL29H10F001) reflects expenditures to be incurred during the remaining contract period.

CONTRACT 9479

The remaining expenditures balance of \$538 for contract number 9479 reflects expenditures that will not be earned under the contract.

CONTRACT 9479-09

The remaining expenditures balance of \$22,999 for contract number 9479-09 reflects expenditures to be incurred during the remaining contract period.

CONTRACT 7024-99

This contract was fully earned as of June 30, 2011 and the Organization has been fully reimbursed by the City of Jacksonville.

**GATEWAY COMMUNITY SERVICES, INC.
AND GATEWAY COMMUNITY SERVICES FOUNDATION, INC.**

NOTES TO SCHEDULE OF SOURCE AND EXPENDITURE OF CITY GRANT FUNDS

For The Year Ended June 30, 2011

CONTRACT 9479-07

The remaining expenditures balance of \$12,724 reflects expenditures to be incurred during the remaining contract period. The Organization expects to be reimbursed \$22,276 subsequent to the Organization's fiscal year end.

CONTRACT 7024-93

The remaining expenditures balance of \$11,004 reflects expenditures that the City of Jacksonville approved to carryover to contract #9479-08 to be earned during that contract period.

CONTRACT 9479-08

The remaining expenditures balance of \$600 for contract number 9479-08 reflects expenditures that will not be earned under the contract and the Organization will not request reimbursement. The Organization has been reimbursed for all expenditures incurred under this contract.

CONTRACT 9479-10

The remaining expenditures balance of \$240,408 reflects expenditures to be incurred during the remaining contract period. The Organization expects to be reimbursed \$9,592 subsequent to the Organization's fiscal year end.



SMOAK, DAVIS & NIXON LLP
Certified Public Accountants
Providing Integrated Financial Solutions

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To the Board of Directors
Gateway Community Services, Inc.
and Gateway Community Services Foundation, Inc.
Jacksonville, Florida

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

We have audited the combined financial statements of Gateway Community Services, Inc. and Gateway Community Services Foundation, Inc. as of and for the year ended June 30, 2011, and have issued our report thereon dated October 24, 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 Gateway Community Services, Inc. and Gateway Community Services Foundation 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 the Organization'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 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.

To the Board of Directors
Gateway Community Services, Inc.
and Gateway Community Services Foundation, Inc.
Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gateway Community Services, Inc.'s and Gateway Community Services Foundation 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 Director's, management, others within the Organization, and federal, state, and local awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Smeath, Davis + Nixon LLP

October 24, 2011



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To the Board of Directors
Gateway Community Services, Inc.
and Gateway Community Services Foundation, Inc.
Jacksonville, Florida

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

Compliance

We have audited Gateway Community Services, Inc. and Gateway Community Services Foundation, Inc. compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (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 the Organization's major federal programs and state projects for the year ended June 30, 2011. The Organization'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 the Organization's management. Our responsibility is to express an opinion on the Organization'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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.650, Rules of the Auditor General. Those standards, 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 the Organization'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 of the Organization's compliance with those requirements.

To the Board of Directors
Gateway Community Services, Inc.
and Gateway Community Services Foundation, Inc.
Page Two

In our opinion, the Organization complied, in all material respects, with the compliance 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, 2011.

Internal Control Over Compliance

Management of the Organization 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 the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program or state project to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance 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 the Organization'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 the Board of Director's, management, others within the Organization, and federal, state, and local awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Smoak, Davis + Nixon LLP

October 24, 2011

GATEWAY COMMUNITY SERVICES, INC.
AND GATEWAY COMMUNITY SERVICES FOUNDATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2011

SUMMARY OF AUDITOR'S RESULTS

Financial Statement Section

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	_____ Yes <u> X </u> No
Reportable condition(s) identified not considered to be weaknesses?	_____ Yes <u> X </u> No
Noncompliance material to financial statement noted?	_____ Yes <u> X </u> No

Federal Awards Section

Dollar Threshold used to determine Federal Type A programs:	300,000
Auditee qualified as low-risk auditee for federal awards purposes?	<u> X </u> Yes _____ No

Type of auditor's report on compliance for major programs: projects:	Unqualified
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Type of auditor's report on compliance for major programs:	
Material weakness(es) identified?	_____ Yes <u> X </u> No
Were reportable condition(s) identified not considered to be weakness(es)?	_____ Yes <u> X </u> No
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section 501(a)) and Chapter 10.650, Rules of the Auditor General?	_____ Yes <u> X </u> No

GATEWAY COMMUNITY SERVICES, INC.
AND GATEWAY COMMUNITY SERVICES FOUNDATION, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – FEDERAL PROGRAMS

For the Year Ended June 30, 2011

SUMMARY OF AUDITOR'S RESULTS

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Identification of major state financial assistance projects:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
60.028	Substance Abuse Detoxification Services for Children
60.030	Substance Abuse Treatment and Aftercare Services for Children
60.033	Substance Abuse Treatment and Aftercare Services for Adults

SCHEDULE OF FINANCIAL STATEMENT FINDINGS

None

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS
AND STATE FINANCIAL ASSISTANCE PROJECTS**

None

SCHEDULE OF PRIOR AUDIT FINDINGS

None – No prior audit findings to be reported

MANAGEMENT LETTER

None – No findings required to be reported

CORRECTIVE ACTION PLAN

None – No findings are reported