

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

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

**JUNE 30, 2011**

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

**TABLE OF CONTENTS**

**INDEPENDENT AUDITOR’S REPORT .....1**

**FINANCIAL STATEMENTS:**

Statement of Financial Position .....3  
Statement of Activities.....4  
Statement of Functional Expenses.....5  
Statement of Cash Flows .....6  
Notes to Financial Statements.....7

**REPORTS IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS OF THE GOVERNMENT ACCOUNTING OFFICE  
(GAO), PROVISIONS OF THE U.S. OFFICE OF MANAGEMENT  
AND BUDGET (OMB) CIRCULAR A-133 AND CHAPTER 10.650,  
RULES OF THE AUDITOR GENERAL:***

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*.....13

Independent Auditor’s Report on Compliance with Requirements  
that Could Have a Direct and Material Effect on Each Major  
Federal Program and State Project and on Internal Control over  
Compliance in Accordance with OMB CircularA-133 and  
Chapter 10.650, *Rules of the Auditor General*.....15

**SUPPLEMENTAL INFORMATION:**

Schedule of Expenditures of Federal Awards and State Financial Assistance .....17  
Notes to Schedule of Expenditures of Federal Awards and  
State Financial Assistance.....19  
Schedule of Findings and Questioned Costs - Federal Awards and  
State Financial Assistance.....20  
Management Letter .....22  
Management’s Response.....25



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

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**INDEPENDENT AUDITOR'S REPORT**

November 22, 2011

To the Board of Directors of

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

We have audited the accompanying statement of financial position of Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc. (a nonprofit organization) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2011, on our consideration of Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and Chapter 10.650, *Rules of the Auditor General*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other additional procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Harbeson, Fletcher & Bates, LLP*

**NASSAU COUNTY MENTAL HEALTH, ALCOHOLISM  
AND DRUG ABUSE COUNCIL, INC.  
STATEMENT OF FINANCIAL POSITION  
June 30, 2011**

**ASSETS**

Current assets:	
Cash and cash equivalents	\$111,090
Accounts receivable	386,787
Prepaid expenses	<u>4,968</u>
Total current assets	502,845
Property and equipment, net of accumulated depreciation (Note 3)	356,901
Investment in Yulee Professional Plaza, LLC (Note 4)	<u>31,152</u>
	<u>\$890,898</u>

**LIABILITIES AND NET ASSETS**

Current liabilities:	
Mortgage note payable, due within one year (Note 5)	\$ 8,297
Equipment notes payable, due within one year (Note 6)	13,156
Accounts payable and accrued expenses	103,826
Accrued compensated absences	<u>50,404</u>
Total current liabilities	175,683
Mortgage note payable, due after one year (Note 5)	174,974
Equipment notes payable, due after one year (Note 6)	1,131
Payable to Yulee Professional Plaza, LLC (Note 7)	<u>15,602</u>
Total liabilities	367,390
Net assets:	
Unrestricted	<u>523,508</u>
Total net assets	<u>523,508</u>
	<u>\$890,898</u>

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

**NASSAU COUNTY MENTAL HEALTH, ALCOHOLISM  
AND DRUG ABUSE COUNCIL, INC.  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2011**

**Revenues and Other Support**

Grants and contracts	\$2,186,271
Medicaid reimbursements	1,221,868
Client fees	139,041
Third-party income	64,131
In-kind contributions	115,500
Contributions and other	<u>13,587</u>

**Total revenues and other support** 3,740,398

**Expenses**

**Program Services:**

Adult mental health	1,432,887
Adult substance abuse	419,490
Children's mental health	517,590
Children's substance abuse	<u>856,511</u>
Total program services	<u>3,226,478</u>

**Supporting Services:**

Management and general	485,202
Fundraising	<u>195</u>
Total supporting services	<u>485,397</u>

**Total expenses** 3,711,875

**Increase in unrestricted net assets** 28,523

Unrestricted net assets, beginning of year 494,985

Unrestricted net assets, end of year \$ 523,508

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

**NASSAU COUNTY MENTAL HEALTH, ALCOHOLISM  
AND DRUG ABUSE COUNCIL, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended June 30, 2011**

	<u>Program Services</u>					<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Adult Mental Health</u>	<u>Adult Substance Abuse</u>	<u>Children's Mental Health</u>	<u>Children's Substance Abuse</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	
<b>Salaries and related expenses:</b>									
Salaries	\$ 908,644	\$ 178,211	\$ 282,211	\$ 373,188	\$ 1,742,254	\$ 250,380	\$ -	\$ 250,380	\$ 1,992,634
Payroll taxes and benefits	149,477	38,623	44,551	80,067	312,718	86,336	-	86,336	399,054
<b>Total salaries and related expenses</b>	<b><u>1,058,121</u></b>	<b><u>216,834</u></b>	<b><u>326,762</u></b>	<b><u>453,255</u></b>	<b><u>2,054,972</u></b>	<b><u>336,716</u></b>	<b><u>-</u></b>	<b><u>336,716</u></b>	<b><u>2,391,688</u></b>
<b>Other expenses:</b>									
Building occupancy	112,713	49,431	22,183	56,567	240,894	25,340	-	25,340	266,234
In-kind occupancy match	-	-	-	115,500	115,500	-	-	-	115,500
Equipment repairs and maintenance	18,615	9,804	5,690	10,691	44,800	11,443	-	11,443	56,243
Food services	16,742	475	724	183	18,124	69	-	69	18,193
Office supplies and expense	8,147	2,585	3,406	3,979	18,117	2,258	-	2,258	20,375
Telephone and internet	28,005	5,714	6,714	9,197	49,630	16,686	-	16,686	66,316
Postage and shipping	1,879	1,128	301	150	3,458	301	-	301	3,759
Medical expenses	6,919	44,622	-	-	51,541	-	-	-	51,541
Subcontractor services	50,687	42,127	121,533	165,809	380,156	33,798	-	33,798	413,954
Client assistance and incidentals	2,697	2,887	249	659	6,492	-	-	-	6,492
Purchased therapeutic services	13,313	7,971	8,772	3,820	33,876	-	-	-	33,876
Printing and publications	281	135	-	6,335	6,751	1,195	-	1,195	7,946
Education and training	746	590	57	420	1,813	3,874	-	3,874	5,687
Employee relations	5,569	3,341	891	446	10,247	891	-	891	11,138
Travel and transportation	17,477	3,951	6,521	6,948	34,897	19,550	-	19,550	54,447
Payroll processing	5,552	3,331	888	444	10,215	888	-	888	11,103
Insurance	18,974	8,793	3,934	10,065	41,766	4,512	-	4,512	46,278
Professional fees and services	12,746	3,180	4,945	6,275	27,146	1,760	-	1,760	28,906
Fundraising expenses	-	-	-	-	-	-	195	195	195
Advertising and promotion	2,880	98	97	98	3,173	8,731	-	8,731	11,904
Bank charges and fees	-	-	-	-	-	3,193	-	3,193	3,193
Dues and subscriptions	10,925	6,555	1,748	874	20,102	1,748	-	1,748	21,850
Taxes and licenses	1,894	2,082	250	2,000	6,226	318	-	318	6,544
Interest	13,341	-	-	-	13,341	496	-	496	13,837
Depreciation	23,625	3,239	1,715	2,667	31,246	6,859	-	6,859	38,105
Miscellaneous	1,039	617	210	129	1,995	4,576	-	4,576	6,571
<b>Total other expenses</b>	<b><u>374,766</u></b>	<b><u>202,656</u></b>	<b><u>190,828</u></b>	<b><u>403,256</u></b>	<b><u>1,171,506</u></b>	<b><u>148,486</u></b>	<b><u>195</u></b>	<b><u>148,681</u></b>	<b><u>1,320,187</u></b>
<b>Total expenses</b>	<b><u>\$ 1,432,887</u></b>	<b><u>\$ 419,490</u></b>	<b><u>\$ 517,590</u></b>	<b><u>\$ 856,511</u></b>	<b><u>\$ 3,226,478</u></b>	<b><u>\$ 485,202</u></b>	<b><u>\$ 195</u></b>	<b><u>\$ 485,397</u></b>	<b><u>\$ 3,711,875</u></b>

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

**NASSAU COUNTY MENTAL HEALTH, ALCOHOLISM  
AND DRUG ABUSE COUNCIL, INC.  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2011**

<b><u>Cash flows from operating activities</u></b>	
Increase in net assets	\$ 28,523
Adjustments to reconcile increase in net assets to net cash used for operating activities:	
Depreciation	38,105
Equity in income of Yulee Professional Plaza, LLC	(500)
Decrease (increase) in operating assets:	
Accounts receivable	(203,123)
Prepaid expenses	65,401
Increase (decrease) in operating liabilities:	
Accounts payable and accrued expenses	5,340
Accrued compensated absences	687
Payable to Yulee Professional Plaza, LLC	<u>(2,370)</u>
<b>Net cash used for operating activities</b>	<b><u>(67,937)</u></b>
<b><u>Cash flows from investing activities</u></b>	
Purchase of property and equipment	<u>(8,950)</u>
<b>Net cash used for investing activities</b>	<b><u>(8,950)</u></b>
<b><u>Cash flows from financing activities</u></b>	
Principal payments on mortgage note payable	(19,160)
Principal payments on equipment notes payable	<u>(12,226)</u>
<b>Net cash used for financing activities</b>	<b><u>(31,386)</u></b>
<b>Net decrease in cash and cash equivalents</b>	<b>(108,273)</b>
Cash and cash equivalents, beginning of year	<u>219,363</u>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$111,090</u></b>

**Supplemental disclosures of cash flow information:**

Cash paid for interest totaled \$14,490 for the year ended June 30, 2011.

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



**NASSAU COUNTY MENTAL HEALTH, ALCOHOLISM  
AND DRUG ABUSE COUNCIL, INC.**  
**(A Not-for-Profit Corporation)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2011**

**Note 1 - Organization and Operations**

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

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

**Basis of Accounting**

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

**Financial Statement Presentation and Contributions**

In accordance with FASB ASC 958, *Not-for-Profit Entities*, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

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

See Independent Auditor's Report.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Organization had no temporarily restricted or permanently restricted net assets at June 30, 2011.

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

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

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

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

#### **Compensated Absences**

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

#### **Functional Expenses**

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

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

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

See Independent Auditor's Report.

In connection with its *Project Success* program, the Organization receives the free use of office space in certain middle and high schools throughout Nassau County, Florida. For the year ended June 30, 2011, the value of the donated office space reported as both in-kind contributions income and occupancy match expense in the accompanying statement of activities totaled \$115,500.

**Income Taxes**

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

**Use of Estimates**

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

**Subsequent Event**

In accordance with FASB ASC 855, *Subsequent Events*, management has evaluated subsequent events through November 22, 2011, the date which the financial statements were available to be issued.

**Note 3 - Property and Equipment**

Property and equipment are summarized as follows:

	<u>Estimated Useful Lives</u>	
Land		\$ 13,000
Buildings and improvements	7-39	516,520
Office and computer equipment	3-7	231,531
Furniture and fixtures	5-7	30,731
Vehicles	5	76,692
Leasehold improvements	7-15	<u>35,520</u>
		903,994
Less accumulated depreciation		<u>(547,093)</u>
		<u>\$356,901</u>

Depreciation expense totaled \$38,105 for the year ended June 30, 2011.

See Independent Auditor's Report.

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

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

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

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

The Organization has a mortgage note payable with First Coast Community Bank which was formerly refinanced during the year ended June 30, 2009. The mortgage note is collateralized by its Hilliard office property. On March 20, 2011, the Organization executed a modification of the mortgage note with the bank. Under the terms of the modification, monthly payments are \$1,537, including interest at 5.65% through March 20, 2016, at which time the remaining principal balance is due. Monthly payments prior to the modification were \$1,657, including interest at 6.125%. At June 30, 2011, the outstanding balance on the mortgage note was \$183,270. Interest expense on the mortgage note totaled \$12,596 for the year ended June 30, 2011.

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

Year Ending <u>June 30,</u>	
2012	\$ 8,297
2013	8,778
2014	9,288
2015	9,826
2016	<u>147,082</u>
	<u>\$183,271</u>

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

On July 29, 2009, the Organization acquired two vehicles through long-term debt financing with Community First Credit Union. The notes are payable in monthly installments totaling \$1,137, including interest at 5.75%, and are secured by the acquired vehicles. Outstanding balances under the notes totaled \$14,287 at June 30, 2011. Interest expense totaled \$1,241 for the year ended June 30, 2011. Estimated annual principal maturities of the equipment notes payable are as follows: 2012 - \$13,156; and 2013 - \$1,131.

See Independent Auditor's Report.

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

In connection with its operating agreement with Yulee Professional Plaza, LLC (Note 4), the Organization is required to make monthly payments of \$198 over a period of 120 months through January 31, 2018, to fulfill its total LLC membership contribution of \$23,700. The outstanding LLC membership liability to Yulee Professional Plaza totaled \$15,602 at June 30, 2011.

**Note 8 - Operating Leases**

The Organization has a noncancellable operating lease agreement for its Yulee office facility. The Yulee property lease agreement is with Yulee Professional Plaza, LLC (see Note 4). Current monthly payments due under the lease are \$16,837 through January 31, 2012, with annual adjustment increases over the duration of the 10-year lease expiring January 31, 2018. The lease agreement contains an additional 10-year renewal option at the end of the initial 10-year term.

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

Year Ending	
<u>June 30,</u>	
2012	\$ 244,975
2013	241,490
2014	216,071
2015	221,124
2016	226,941
Thereafter	<u>350,919</u>
	<u>\$1,501,520</u>

Total rent expense under operating leases totaled \$242,642 for the year ended June 30, 2011.

### **Note 9 - Retirement Plan**

The Organization has a defined contribution 401(k) retirement plan (the "Plan") covering substantially all employees who have completed at least three months of service and are 21 years of age. The Organization matches 50% of the participants' contributions to the Plan up to a maximum of 3% of the employee's compensation. Employer contributions to the Plan totaled \$24,025 for the year ended June 30, 2011.

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

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

For the year ended June 30, 2011, approximately 43% of the Organization's total revenues and support was earned through its contracts with the Florida Department of Children and Families to provide adult and children mental health and substance abuse services. In addition, Medicaid billings for outpatient services provided by the Organization accounted for 33% of total revenues and support.

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

#### **Contingencies**

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

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

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



# Harbeson, Fletcher & Bateh, LLP

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

November 22, 2011

To the Board of Directors

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

We have audited the financial statements of Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc. as of and for the year ended June 30, 2011, and have issued our report thereon dated November 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc. in a separate letter dated November 22, 2011.

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

*Harbeson, Fletcher & Bates, LLP*





# Harbeson, Fletcher & Bateh, LLP

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

November 22, 2011

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

### **Compliance**

We have audited Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the requirements described in the Department of Financial Services' State Projects Compliance Supplement that could have a direct and material effect on each of Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s major federal programs and state projects for the year ended June 30, 2011. Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s major federal programs and state projects are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and state projects is the responsibility of Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s management. Our responsibility is to express an opinion on Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.650, *Rules of the Auditor General*. Those standards and OMB Circular A-133, and Chapter 10.650, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc.'s compliance with those requirements.

In our opinion, Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects for the year ended June 30, 2011.

### **Internal Control over Compliance**

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

*Harbeson, Fletcher & Bateh, LLP*

## **SUPPLEMENTAL INFORMATION**

**NASSAU COUNTY MENTAL HEALTH, ALCOHOLISM  
AND DRUG ABUSE COUNCIL, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE  
For the Year Ended June 30, 2011**

**FEDERAL AWARDS**

<b><u>Federal/State Agency, Pass-through Entity Federal Program/State Project</u></b>	<b><u>CFDA Number</u></b>	<b><u>Contract Number</u></b>	<b><u>Expenditures</u></b>
<b><u>U.S. Department of Health and Human Services</u></b>			
<i>Passed through the Florida Department of Children and Families:</i>			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	DDZ01	\$108,328
Block Grants for Prevention and Treatment of Substance Abuse	93.959	DH667	406,038
Block Grants for Community Mental Health Services	93.958	DH667	107,701
Temporary Assistance for Needy Families	93.558	DH667	39,324
<b><u>U.S. Department of Health and Human Services</u></b>			
<i>Passed through the Florida Agency for Health Care Administration:</i>			
Medical Assistance Program	93.778	5820-1062-00-Q	12,249
<b><u>U.S. Department of Health and Human Services</u></b>			
<i>Direct program:</i>			
Drug-Free Communities Support Program	93.276		122,722
<b><u>U.S. Department of Education</u></b>			
<i>Passed through the Florida Department of Law Enforcement:</i>			
Safe and Drug-Free Schools and Communities	84.186	2009-DFC-NASS-1-X1-015	<u>16,725</u>
<b>Total expenditures of federal awards</b>			<b><u>\$813,087</u></b>

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

**NASSAU COUNTY MENTAL HEALTH, ALCOHOLISM  
AND DRUG ABUSE COUNCIL, INC.  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE  
For the Year Ended June 30, 2011**

**STATE FINANCIAL ASSISTANCE**

<b><u>Federal/State Agency, Pass-through Entity Federal Program/State Project</u></b>	<b><u>CSFA Number</u></b>	<b><u>Contract Number</u></b>	<b><u>Expenditures</u></b>
<b><u>Florida Department of Children and Families</u></b>			
Adult Community Mental Health-Community Support Services	60.053	DH667	\$578,412
Substance Abuse Treatment and Aftercare Services for Children	60.030	DH667	178,363
Children's Mental Health Emergency Stabilization	60.057	DH667	25,826
Substance Abuse Treatment and Aftercare Services for Adults	60.033	DH667	89,881
Indigent Psychiatric Outpatient Services	60.039	DH667	2,808
Adult Community Mental Health-Emergency Stabilization	60.054	DH667	34,052
Children's Mental Health Community Support Services	60.055	DH667	5,487
Substance Abuse Prevention Services for Children	60.029	DH667	<u>28,934</u>
<b>Total expenditures of state financial assistance</b>			<b><u>\$943,763</u></b>

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

**NASSAU COUNTY MENTAL HEALTH, ALCOHOLISM  
AND DRUG ABUSE COUNCIL, INC.  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE  
For the Year Ended June 30, 2011**

**Note 1 - Basis of Accounting**

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

**NASSAU COUNTY MENTAL HEALTH, ALCOHOLISM  
AND DRUG ABUSE COUNCIL, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -  
FEDERAL PROGRAMS AND STATE PROJECTS  
For the Year Ended June 30, 2011**

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

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

**Section B: Findings - Financial Statements**

None - as stated in Section A above.

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

None - as stated in Section A above.

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

None - as stated in Section A above.

**Section E: Other Issues**

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

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





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

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

**MANAGEMENT LETTER**

November 22, 2011

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

We have audited the financial statements of the Nassau County Mental Health, Alcoholism and Drug Abuse Council, Inc. as of and for the year ended June 30, 2011, and have issued our report thereon dated November 22, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters, Independent Auditor's Report on Compliance with Requirements Applicable to each major Federal Program and State Project and on Internal Control over Compliance, and Schedule of Findings and Questioned Costs - Federal Programs and State Projects. Disclosures in those reports and schedule, which are dated November 22, 2011, should be considered in conjunction with this management letter.

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

### **Billing and Accounts Receivable Software Assessment**

As noted in previous year audits, certain accounts receivable subsidiary detail reports generated by the Organization's *Knight Integrated Software* (KIS) software billing application, at times, have not agreed to the corresponding general ledger control account balances. We have also previously recommended that the Organization consider the implementation of procedures that will achieve, at a minimum, an improved integration of the KIS billing application with the Organization's *QuickBooks* accounting software. The desired result of such implementation was to not only improve the efficiency of procedures related to accomplishing the accrual basis of accounting for billing of client outpatient services, but also to better monitor outstanding accounts receivable and collections related to third-party insurance billings in a more efficient and timely manner.

During the current year audit, we have again noted that certain billing-related subsidiary reports produced by KIS related to third-party accounts receivable balances were not always accurate when comparing report balances to the general ledger. Therefore, we reiterate our previous recommendation that Organization management and accounting personnel perform an extensive assessment of the effectiveness and reliability of its KIS software. Additionally, the Organization should assess the availability of more efficient and fully integrated accounting software package options, including modules specific to the frequent billings of outpatient services, to improve the adequacy and reliability of the Organization's accounting and billing records.

### **Allowance for Contractual Adjustments on Billed Services**

The Organization derives a significant amount of its support from mental health and substance abuse services provided to its clients, and accepts certain insurance from clients for submission of amounts billed to third-party insurers. Depending on the insurer, the Organization typically will not receive payment in full of the actual gross amount billed for the service. Upon remittance of payment from the third-party insurer, the Organization adjusts the relevant third-party income account based on the difference between previously billed amounts and the actual payment received from the insurance provider.

While we concur with the above accounting treatment, we believe that the Organization should assess, as practical, recording a contractual adjustment allowance percentage at the time services are rendered and billed to the third-party insurer. This estimated allowance could be based on the historical experience of collectible amounts as compared to billings (per third-party insurer). As a result, both interim and year end financial statements reported by management may more clearly reflect the estimated contractual losses on billed revenue amounts, and additionally, generally result in less significant adjustments upon actual payments by third-party insurers on clients' accounts.

**Functional Expense Allocation Methodology**

Presently, the Organization allocates its functional expenses not directly identifiable with a specific program service based primarily on projections of the benefits derived from each program function, and the services that will be provided by its staff personnel. Upon completion of the annual audit, management reviews the actual services provided to update the final functional expense allocations. While this method does achieve a functional allocation of expenses required by nonprofit generally accepted accounting principles, we recommend that the Organization review and update, on a more frequent basis than annually, its functional expense allocation method. Documentation that should be maintained by the Organization supporting the allocation methodology should include the following: actual allocation calculations; basis of calculations, for example, head counts of FTE's by department or function; and trend information for prior years for comparison to current year allocations. As a result, interim and year end financial statements reported by management would depict a more representative account of expenses allocated to each program service, management and general, or development and fund-raising activity.

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

*Harbeson, Fletcher & Bates, LLP*



**Sutton Place Behavioral Health, Inc.**

Help for Today. Hope for Tomorrow.

463142 SR 200 - Yulee, FL 32097 (904) 225-8280 Fax (904) 225-8232  
December 5, 2011

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

Dear Mr. Hargraves:

The following information is submitted in response to the management letter dated November 22, 2011 for the fiscal year 2010/2011 audit.

Billing and Accounts Receivable Software Assessment: We continue to be in the process of creating, refining and attempting to receive accurate data from KIS financial reports that would be more reliable for the Organization. We are exploring other accounting and billing software alternatives at this point in time for a better mechanism for accounts receivable as well as the pending health care reform and electronic health record requirements. We feel we will be implementing new software within the next twelve (12) months, with a six-month implementation timeline to go live with the new software. KIS does not have the capability to do what is required in this industry for accounts receivable, and we have exhausted all means in which to improve upon the accuracy of reporting in this area. In our search for new software, and given the issues we have with KIS, billings and accounts receivable are the primary factors on our list of needs for the new software.

Allowance for Contractual Adjustments on Billed Services: With our current software, it is difficult to implement a systematic review of the adjustments for billed services. As stated above, KIS is not capable of tracking or providing accurate data prior to the collections of services, so only gives us reporting of these items once payments are received. With the research on the new software, and the increased incidence in billing third party payors for fees for service, we also need software able to handle this aspect. This requirement is also a priority on our list of needs for the new software.

Functional Expense Allocation Methodology: Currently, we do our functional allocations based on a projection of what services will be provided by staff, and where program services will be utilized. Upon completion of the audit, a review is done on actual services provided to update the final functional expenses provided. Going forward, we will review this quarterly, and amend allocations as necessary to provide a more current basis for program expenses. We will review the allocations and expenses by program with the Finance Committee as well as with Executive Management.

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

Sincerely,

Laureen Pagel, PhD  
Chief Executive Officer

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

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