

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

YEARS ENDED JUNE 30, 2013 AND 2012

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

YEARS ENDED JUNE 30, 2013 AND 2012

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1 - 3
Balance sheets	4
Statements of operations and deficit	5
Statements of cash flows	6 - 7
Notes to financial statements	8 - 13
Accompanying information to financial statements:	
Personnel expenses	14
Operating expenses	14
Schedule of expenditures of State Financial Assistance	15
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	16 - 17
Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major State Project and on Internal Control over Compliance in Accordance with Chapter 10.650, Rules of the Auditor General	18 - 20
Schedule of Findings and Questioned costs	21 - 23



Independent Auditors' Report

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of Psychotherapeutic Services of Florida, Inc. (a wholly-owned Subsidiary of Associated Service Specialists, Inc.), which comprise the balance sheet as of June 30, 2013 and 2012, and the related statements of operations and deficit, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with *Chapter 10.650, Rules of the Auditor General*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Psychotherapeutic Services of Florida, Inc. as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

Other information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 2013 and 2012 information presented on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of state financial assistance, as required by §215.97, Florida Statutes; Rules of the Auditor General, Chapter 10.650, and Chapter 69I-5, Florida Administrative Code, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related 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 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 financial statements as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2013 on our consideration of Psychotherapeutic Services of Florida, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Psychotherapeutic Services of Florida, Inc.'s internal control over financial reporting and compliance.

*Nardone, Pielson & Company, P.A.*

Timonium, MD  
December 27, 2013

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

BALANCE SHEETS

JUNE 30, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Current assets:		
Cash	\$ 700	\$ 200
Accounts receivable, net of allowance for doubtful accounts of \$29,500 in 2012	187,880	286,226
Due from affiliates	<u>188,580</u>	<u>324,567</u>
Property:		
Furniture and equipment	12,371	12,371
Less accumulated depreciation	<u>6,433</u>	<u>2,474</u>
	<u>5,938</u>	<u>9,897</u>
Deferred income taxes	<u>14,500</u>	<u>30,300</u>
	<u>\$ 209,018</u>	<u>\$ 651,190</u>

LIABILITIES AND SHAREHOLDER'S DEFICIT

Current liabilities:		
Due to affiliates	\$ 437,536	\$1,020,120
Accounts payable	6,420	3,465
Accrued payroll and payroll taxes	42,069	39,374
Benefits payable	12,079	12,647
Payable, other	743	
Income taxes payable	<u>862</u>	<u>1,464</u>
	<u>499,709</u>	<u>1,077,070</u>
Commitments and contingencies		
Shareholder's deficit:		
Common stock, \$1 par; authorized, issued and outstanding 100 shares	100	100
Receivable, common stock	( 100)	( 100)
Deficit	<u>( 290,691)</u>	<u>( 425,880)</u>
	<u>( 290,691)</u>	<u>( 425,880)</u>
	<u>\$ 209,018</u>	<u>\$ 651,190</u>

See notes to financial statements.

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

STATEMENTS OF INCOME AND DEFICIT  
YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Revenues:		
State projects	\$ 578,891	\$ 697,921
Medicaid and other	<u>1,094,869</u>	<u>781,036</u>
	1,673,760	1,478,957
Personnel expenses	<u>1,127,928</u>	<u>1,026,263</u>
	545,832	452,694
Operating expenses	<u>365,437</u>	<u>329,179</u>
	<u>180,395</u>	<u>123,515</u>
Other income (expenses):		
Loss on disposal of assets		( 1,686)
Miscellaneous, net	<u>658</u>	<u>32,383</u>
	<u>658</u>	<u>30,697</u>
Income before income tax expense	181,053	154,212
Income tax expense	<u>45,864</u>	<u>32,126</u>
Net income	135,189	122,086
Deficit, beginning	( <u>425,880</u> )	( <u>547,966</u> )
Deficit, ending	( <u>\$ 290,691</u> )	( <u>\$ 425,880</u> )

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Net income	\$ <u>135,189</u>	\$ <u>122,086</u>
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	3,959	3,056
Loss on sale of assets		1,686
Change in deferred tax asset	15,800	14,200
Bad debts		17,645
Change in assets and liabilities:		
(Increase) decrease in:		
Receivables	98,346	99,071
Due from affiliates	324,567	( 215,946)
Increase (decrease) in:		
Due to affiliates	( 582,584)	( 3,842)
Accounts payable and payable, other	3,698	( 4,382)
Payroll and payroll taxes	2,695	( 15,665)
Benefits payable	( 568)	( 13,395)
Income taxes payable	( <u>602</u> )	( <u>1,371</u> )
Total adjustments	( <u>134,689</u> )	( <u>116,201</u> )
Net cash provided by operating activities	<u>500</u>	<u>5,885</u>
Cash flows from investing activities:		
Purchase of property		( <u>12,371</u> )
Net increase (decrease) in cash	500	( 6,486)
Cash, beginning	<u>200</u>	<u>6,686</u>
Cash, ending	<u>\$ 700</u>	<u>\$ 200</u>

See notes to financial statements.

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

STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED JUNE 30, 2013 AND 2012

Supplemental disclosure of cash flow information:

Cash paid during the year for:

	<u>2013</u>	<u>2012</u>
Income taxes	<u>\$ 1,464</u>	<u>\$ 30,755</u>
Interest	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>

See notes to financial statements.

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

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

1. Significant accounting policies and business of the Company:

Entity:

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

Revenue and cost recognition:

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

Use of estimates:

The timely preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Property:

Property is recorded at cost and depreciated over the estimated useful lives of the assets. The Company's policy is to capitalize qualifying purchases that improve or extend the life of the property. The costs of equipment and vehicles reverting back to the contracting agency upon termination or completion of the contract are charged to operations in the period incurred. Depreciation expense for the years ended June 30, 2013 and 2012 were \$3,959 and \$3,056 respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2013 AND 2012

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

Accounts receivable:

Trade receivables are recorded at net realizable value consisting of the carrying amount less an allowance for doubtful accounts. Management's estimate of any allowance is based on historical collection experience and a review of the current status of accounts receivable. When an account is past due and attempts have been made to collect the receivable through legal or other means, the amount is considered uncollectible and is written off against the allowance balance.

Income taxes:

The Company accounts for and provides for disclosure of uncertain tax positions in accordance with the Financial Accounting Standards Board ("FASB") Codification 740 *Income Taxes*. The standard prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It requires that an entity recognize in the financial statements the impact of a tax position if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The standard also provides clarification on de-recognition, balance sheet classification, interest and penalties, and footnote disclosures. There were no significant uncertain tax positions taken by the Company as of June 30, 2013. Tax returns for fiscal years ending June 30, 2013, 2012, and 2011 remain subject to examination by the taxing authorities.

2. Affiliates:

The following companies are affiliated by common ownership or control:

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2013 AND 2012

2. Affiliates (continued):

The Kent Center, Inc. ( the Center) is a Maryland nonprofit organization affiliated under common control effective July, 2011. Psychotherapeutic Services Association is a nonprofit Delaware organization. The remaining affiliated companies are for-profit Delaware companies. The Company is also affiliated with several inactive corporations not listed above.

The Company incurred administrative, physician and rental fees of \$182,352 and \$153,849 payable to affiliated companies for the years ended June 30, 2013 and 2012, respectively. Intercompany receivables and payables are due on demand.

3. Profit sharing plan:

The Company and its affiliates maintain a defined contribution profit sharing plan covering substantially all of its employees. Contributions to this plan are made at the discretion of the Board of Directors. There were no employer contributions for the Company for the years ended June 30, 2013 and 2012. Employees may elect the method and timing of their cash payments in accordance with the plan agreement.

4. Commitments:

Operating leases:

The Company leases office space, equipment and vehicles under various operating leases. Rent expense was \$24,827 and \$26,428 for the years ended June 30, 2013 and 2012, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2013 AND 2012

5. Contingencies:

Debt:

In May, 2003, the Company and the affiliated entities (the companies), see Note 2, signed a line-of-credit agreement with M&T Bank for \$4,000,000. The line-of-credit was reduced several times before reaching \$2,250,000 in December, 2010 and increasing to \$2,500,000 in December 2012. The agreement stated interest at the bank's variable commercial rate plus 1% with a restatement in December, 2012 to 4% above the one-month libor rate adjusting daily. Advances are subject to borrowing base limitations with respect to accounts receivable. The loan is collateralized by a first lien on all of the Company's and the affiliates' assets. The loans are guaranteed by two shareholders and two related parties of ASSI. Effective December 31, 2012, the loans are collateralized by a Deed of Trust, Security Agreement and Assignment of Leases and Rents for certain property held by the Kent Center. The cost and book value of this property at June 30, 2013 are approximately \$295,300 and \$183,800, respectively. The loan agreement requires the Companies to meet certain covenants.

The line-of-credit agreement requires payment of interest on a monthly basis. The line is subject to review prior to renewal on its maturity date of December 31, 2013. The unused portions of the line-of-credit as of June 30, 2013 and 2012 were approximately \$657,200 and \$1,045,300, respectively.

The applicable libor rate at June 30, 2013 was .19428%. The bank's variable commercial rate at June 30, 2012 was 4.00%.

Letter of credit agreements:

The Companies have a \$230,000 and \$412,500 outstanding letter of credit agreement with M&T Bank as of June 30, 2013 and 2012, respectively. The letter was issued in conjunction with the credit facilities described above and is included in calculating availability under the \$2,500,000 revolving credit facility.

PSYCHOTHERAPEUTIC SERVICES OF FLORIDA, INC.  
(A wholly-owned Subsidiary of Associated Service Specialists, Inc.)  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2013 AND 2012

5. Contingencies (continued):

Revenue:

The Company receives a substantial amount of its revenue from state governments, all of which is subject to audit by the respective governments. Until such audits have been completed and final settlement reached, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management of the Company believes that no significant liability will result from audit adjustments.

6. Major contracts:

The Company provides services under contracts with the State of Maryland. The contracts vary in length and several extend for multiple years and provide for renewal. Through November, 2013, the Company had renewed several contracts through or beyond June, 2014. The continuation of these contracts is based on the availability of state funds.

7. Income taxes:

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

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

	<u>2013</u>	<u>2012</u>	
Deferred tax asset	\$ 14,500	\$ 30,300	
Valuation allowance for deferred tax asset	( <u>    - 0 -</u> )	( <u>    - 0 -</u> )	
	<u>\$ 14,500</u>	<u>\$ 30,300</u>	

The temporary differences that gives rise to the Company's net deferred tax asset is attributable to federal and state net operating losses which expire 2018 through 2027 and allowances for doubtful accounts.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2013 AND 2012

7. Income taxes (continued):

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

The income tax provision consists of the following:

	<u>2013</u>	<u>2012</u>
Federal	\$ 30,064	\$ 32,126
Deferred	15,800	- 0 -
State	<u>- 0 -</u>	<u>- 0 -</u>
	<u>\$ 45,864</u>	<u>\$ 32,126</u>

In 2013 and 2012, the Company filed a consolidated federal tax return with its affiliated companies. In 2013 and 2012, federal tax expense was allocated to this Company based on the estimated expense of the Company filing separately. Accordingly, a portion of the related liabilities are due to affiliated companies.

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

8. Concentration of credit risk:

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

9. Subsequent events:

Management has evaluated subsequent events through December 27, 2013, the date on which the financial statements were available to be issued.

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

PERSONNEL AND OPERATING EXPENSES

YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Personnel expenses:		
Insurance and workers' compensation	\$ 53,836	\$ 62,458
Salaries, payroll taxes, and benefits	<u>1,074,092</u>	<u>963,805</u>
	<u>\$1,127,928</u>	<u>\$1,026,263</u>
Operating expenses:		
Administrative fees	\$ 182,352	\$ 153,849
Advertising and recruiting	1,461	3,687
Association/conference fees		40
Bad debts		17,645
Contractual services	47,686	41,113
Depreciation	3,959	3,056
Equipment and renovations	1,055	693
Insurance, office and other	41,157	32,469
Licenses, permits and fees	1,866	867
Miscellaneous	9,221	5,098
Rent - building	21,352	23,309
Rent - equipment and furnishings	3,475	3,119
Repairs - building and grounds	5,731	1,327
Repairs - equipment	989	240
Supplies	19,838	13,467
Telephone	10,354	6,877
Training	5,101	1,512
Transportation expense	<u>9,840</u>	<u>20,811</u>
	<u>\$ 365,437</u>	<u>\$ 329,179</u>

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

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

YEAR ENDED JUNE 30, 2013

State Agency/ Pass-through Grantor/ State Project	CSFA Number	Agency or Pass-through Number	Current Year Expenditures	Transfers To Subrecipients
State of Florida, Department of Juvenile Justice:				
Juvenile Assessment Center	80.020	P2039	*\$ 578,891	- 0 -
TOTAL STATE FINANCIAL ASSISTANCE			<u>\$ 578,891</u>	<u>- 0 -</u>

Note to Schedule of Expenditures of State Financial Assistance:

A - Basis of Presentation:

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

\* Major state project

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

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

We have audited, in accordance with the 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, the financial statements of Psychotherapeutic Services of Florida, Inc. (a wholly-owned subsidiary of Associated Service Specialists, Inc.), which comprise the balance sheet as of June 30, 2013, and the related statements of operations and deficit, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 27, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Psychotherapeutic Services of Florida, Inc.'s internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Psychotherapeutic Services of Florida, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

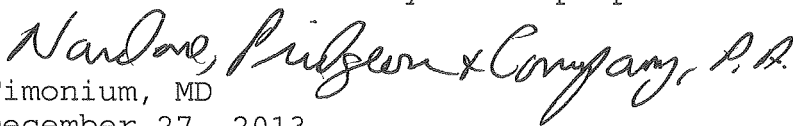
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

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

#### **Purpose of this Report**

The purpose of the report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Timonium, MD  
December 27, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
FOR EACH MAJOR STATE PROJECT AND REPORT ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY CHAPTER 10.650, RULES OF THE AUDITOR GENERAL

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

**Report on Compliance for Each Major State Project**

We have audited the Psychotherapeutic Services of Florida, Inc. (a wholly-owned Subsidiary of Associated Service Specialists, Inc.) compliance with the types of compliance requirements described in the *Department of Financial Services' State Projects Compliance Supplement*, that could have a direct and material effect on each of its major state projects for the year ended June 30, 2013. Psychotherapeutic Services of Florida, Inc.'s major state project is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major state project.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Psychotherapeutic Services of Florida, Inc.'s major state projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Chapter 10.650, Rules of the Auditor General*. Those standards 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 state project occurred. An audit includes examining, on a test basis, evidence about Psychotherapeutic Services of Florida, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major State project. Our audit does not provide a legal determination on Psychotherapeutic Services of Florida, Inc.'s compliance.

### **Opinion on Each Major State Project**

In our opinion, Psychotherapeutic Services of Florida, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state projects for the year ended June 30, 2013.

### **Report on Internal Control Over Compliance**

Management of Psychotherapeutic Services of Florida, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered Psychotherapeutic Services of Florida, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on a major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each State project and to test and report on internal control over compliance in accordance with Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Psychotherapeutic Services of Florida, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a state project on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or as combination of deficiencies, in internal control over compliance with the type of compliance requirement of a State project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and results of that testing based on the requirements of Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

*Nardone, Pidgeon & Company, P.A.*

Timonium, MD  
December 27, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -

STATE PROJECTS

YEAR ENDED JUNE 30, 2013

**A: SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unmodified opinion on the basic financial statements of Psychotherapeutic Services of Florida, Inc.
2. No significant deficiencies relating to the audit of the financial statements of Psychotherapeutic Services of Florida, Inc. are reported in the "Report on 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*."
3. No instances of noncompliance material to the financial statements of Psychotherapeutic Services of Florida, Inc. were disclosed during the audit.
4. No significant deficiencies in internal control over major state projects are reported in the "Independent Auditors Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major State Project and on Internal Control over Compliance in Accordance with Chapter 10.650, Rules of the Auditor General."
5. The auditors' report on compliance with requirements that could have a direct and material effect on each major state projects of Psychotherapeutic Services of Florida, Inc., expresses an unqualified opinion.
6. Our audit disclosed no findings related to the major state projects required to be disclosed under Chapter 10.656 Rules of the Auditor General.
7. The project tested as a major state project is:
  - A. State of Florida, Department of Juvenile Justice, Juvenile Assessment Center, CSFA #80.020; Contract #P2039; Year ended June 30, 2013.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -

STATE PROJECTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

**A: Summary of Auditors' Results (continued):**

8. The threshold used to distinguish between Type A and Type B projects was \$173,667 for major state projects, which represents the larger of \$100,000 or 30% of total state financial assistance expended.

**B: FINDINGS - FINANCIAL STATEMENTS**

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

**C. FINDINGS AND QUESTIONED COSTS - MAJOR STATE PROJECTS:**

A.

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

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

**D. PRIOR FINDINGS:**

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -

STATE PROJECTS (CONTINUED)

YEAR ENDED JUNE 30, 2013

**D. PRIOR FINDINGS:**

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

**E: OTHER ISSUES:**

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