

SUBSTANCE ABUSE SERVICES FOR CLAYTON COUNTY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2020

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**INDEPENDENT AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS**

To the Board of Directors
Substance Abuse Services for Clayton County, Inc.
Elkader, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Substance Abuse Services for Clayton County, Inc. (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year 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 U.S. generally accepted accounting principles; 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 audit. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 from 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 Organization'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 Organization'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 Substance Abuse Services for Clayton County, Inc., as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 12, 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 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 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 U.S. generally accepted auditing standards. In our opinion, except for the effects on the supplementary information on page 12 of preparing this information under guidelines used to report to funding agencies, as explained below, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The supplementary information on page 12 has been presented in a format which the Organization uses for internal reporting and reporting to funding sources and is not current U.S. generally accepted accounting principles. This information, shown on a fund basis, includes all contributed services, in-kind revenues and expenditures, and contributed services as expenditures.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2020, on our consideration of Substance Abuse Services for Clayton County, 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 solely 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 effectiveness of Substance Abuse Services for Clayton County, Inc.'s 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 Substance Abuse Services for Clayton County, Inc.'s internal control over financial reporting and compliance.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
October 26, 2020

SUBSTANCE ABUSE SERVICES FOR CLAYTON COUNTY, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2020

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 143,495
Accounts receivable	21,527
Accrued interest receivable	231
	<hr/>
Total current assets	165,253

OTHER ASSETS

Investments, at cost	48,474
Investments, at fair value	41,334
Property and equipment, net of accumulated depreciation	2,654
	<hr/>
Other assets	92,462
	<hr/>
Total assets	\$ 257,715

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 11,892
Salaries payable and benefits	1,186
Deferred revenue	447
Compensated absences	16,672
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Total current liabilities	30,197

NET ASSETS

Without donor restrictions	227,518
	<hr/>
Total liabilities and net assets	\$ 257,715

See Notes to Financial Statements.

SUBSTANCE ABUSE SERVICES FOR CLAYTON COUNTY, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS

Public Support and Revenue:	
Grants	\$ 183,501
Contributions	7,731
Sales	10,500
Interest	5,049
Municipality	1,431
In-kind contributions	62,358
	<hr/>
Total public support and revenue	270,570
	<hr/>
Expenses:	
Program services	245,859
Support services	6,811
	<hr/>
Total expenses	252,670
	<hr/>
Change in net assets without donor restrictions	17,900
	<hr/>
NET ASSETS, beginning of year	209,618
	<hr/>
NET ASSETS, end of year	\$ 227,518
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See Notes to Financial Statements.

SUBSTANCE ABUSE SERVICES FOR CLAYTON COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2020

	Program Services				Support Services		
	Clayton County	DFC Grant	Tobacco Grant	Iowa Partnerships for Success	Total	Agency	Total
EXPENSES							
Salaries and benefits	\$ 32,447	\$ 17,813	\$ 12,658	\$ 55,797	\$ 118,715	\$ 3,856	\$ 122,571
Advertising	58	176	18	3,540	3,792	18	3,810
Conferences and meetings	1,710	1,746	156	1,104	4,716		4,716
Travel	128	3,062	90	474	3,754	47	3,801
Contract services	1,065	13,733	637	16,673	32,108	334	32,442
Supplies	1,592	2,196	369	1,072	5,229	17	5,246
Rent		375			375		375
Miscellaneous	2,357	2,806	907	8,742	14,812	789	15,601
Depreciation					-	1,750	1,750
In-kind contributions	62,358				62,358		62,358
Total expenses	\$ 101,715	\$ 41,907	\$ 14,835	\$ 87,402	\$ 245,859	\$ 6,811	\$ 252,670

See Notes to Financial Statements.

SUBSTANCE ABUSE SERVICES FOR CLAYTON COUNTY, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets from operations	\$ 17,900
Adjustments to reconcile net increase in net assets to net cash provided by operating activities:	
Depreciation	1,750
Changes in:	
Accounts receivable	(5,560)
Accounts payable	9,595
Other accruals, net	34
	<hr/>
Net cash provided by operating activities	23,719
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(4,661)
	<hr/>
Net cash used in investing activities	(4,661)
	<hr/>
Net increase in cash	19,058
CASH AND CASH EQUIVALENTS	
Beginning of year	124,437
	<hr/>
End of year	\$ 143,495
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See Notes to Financial Statements.

SUBSTANCE ABUSE SERVICES FOR CLAYTON COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

1. Organization and Function and Significant Accounting Policies

a. Organization, Function and Nature of Activities

Substance Abuse Services for Clayton County, Inc. (the Organization) is a nonprofit corporation organized to provide education to the community and evaluations for substance abusers and support to their families. Services are provided primarily to residents of Clayton County. The Organization is governed by a nine-member Board of Clayton County citizens.

The Organization's financial statements are prepared in accordance with U.S. generally accepted accounting principles as prescribed by the Financial Accounting Standards Board for nonprofit corporations.

b. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

c. Net Assets

Substance Abuse Services for Clayton County, Inc. reports its information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions: net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's Board of Directors.

Net assets with donor restrictions: net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities. Substance Abuse Services for Clayton County, Inc. had no material net assets with donor restrictions as of June 30, 2020.

d. Cash and Cash Equivalents

For purposes of reporting the statement of cash flows, the Organization includes all cash accounts, money market accounts, and certificates of deposit with a maturity of 90 days or less as cash equivalents on the accompanying financial statements.

1. Organization and Function and Significant Accounting Policies (Continued)

e. Investments and Fair Values of Assets and Liabilities

Investments consisting of non-negotiable certificates of deposits are stated at cost, which approximates fair value. Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820-10 defines fair value, establishes a framework for measuring fair value, establishes a hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements. The three-level fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The Organization estimates the carrying value of the assets and liabilities approximates fair value.

f. Accounts Receivable

Management uses the allowance for doubtful accounts method in determining the write off of bad accounts. Management estimates that all receivables are fully collectible. Therefore, no allowance for doubtful accounts was provided.

g. Property and Equipment

Property and equipment are stated at cost. Expenditures for maintenance repairs and minor replacements are charged to the current year, while major replacements and betterments are capitalized. Depreciation is computed by the straight-line method with estimated useful life of five years.

h. Support and Revenue

Support in the statement of activities consists of nonreciprocal receipts of grants and contracts. Revenues are classified as private, county, or other revenues. Private revenues represent revenues, which the Organization has received from client services.

i. Income Taxes

Substance Abuse Services for Clayton County, Inc. is a nonprofit corporation qualifying for exempt status under Section 501(c)(3) of the Internal Revenue Code and therefore, has made no provision for federal income taxes in the accompanying financial statements. The Organization files the required annual informational return for organizations exempt from income tax. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the year ended June 30, 2020.

j. Compensated Absences

The Organization's employees receive vacation leave at various rates based on their years of service. Employees receive their allotted vacation time on their anniversary date. Personal time off accrues at the rate of four hours a month and employees may accumulate up to 96 hours personal time. These accumulations are recognized as expenses by the Organization when accrued. The employee is paid for any unused vacation and personal leave when the employee ends their employment with the Organization. The amount is computed based on hours available at their current rate of pay. Annual vacation and personal leave of \$16,672 is included on the statement of financial position.

NOTES TO FINANCIAL STATEMENTS

1. Organization and Function and Significant Accounting Policies (Continued)

k. Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist principally of accounts receivables and cash. Receivables are primarily from the U.S. government, the State of Iowa and local governments in Iowa. These receivables are uncollateralized.

l. Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, which are allocated on the basis of estimates of time and effort.

m. Management Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

2. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor, board, or other restrictions limiting their use, within one year of the balance sheet date, comprise the following as of June 30, 2020:

Cash and cash equivalents	\$ 143,495
Accounts receivable	21,527
Accrued interest receivable	<u>231</u>
	<u>\$ 165,253</u>

As part of the liquidity policy, cash in excess of daily requirements is invested in savings and money market funds. Financial assets are structured to be available as its general expenditures, liabilities, and other obligations come due.

3. Investments

As of June 30, 2020, certificates of deposit totaling \$48,474 are included in investments in the accompanying financial statements. The certificates bear interest ranging from 1.55% to 2.15% and have maturities up to fifty-one months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

NOTES TO FINANCIAL STATEMENTS

3. **Investments (Continued)**

Investments at June 30, 2020, carried at fair value, are composed of the following:

	Cost	Fair Value (Level 1)
Mutual funds	\$ 35,000	\$ 41,334
	\$ 35,000	\$ 41,334

Fair value of assets measured on a recurring basis at June 30, 2020 consist of the mutual funds shown above. Fair value for short-term investments is determined by level 1 inputs by reference to quoted market prices in active markets for identical assets and other relevant information generated by market transactions.

The following tabulation summarizes the relationship between cost and fair value of investment assets:

	Cost	Fair Value	Excess of Fair Value over Cost
Balance, beginning of year	\$ 35,000	\$ 37,558	\$ 2,558
Increase in unrealized gain on investments		3,776	3,776
Balance, end of year	\$ 35,000	\$ 41,334	\$ 6,334

The Organization incurred no direct investment expenses during the year ended June 30, 2020.

4. **Contributed Services**

Contributed services, which require special skills that would be purchased, if not donated, or create or enhance a nonfinancial asset are recognized in the statement of activities. The Organization did not receive any services that meet this requirement. Other donated services are from parents and others, which do not meet the requirements to be recognized in the financial statements.

5. **Contributed Facilities**

The Organization occupies without charge office space located in Clayton County. The estimated fair rental value of the premises is reported as contributions and contributed facilities in the accompanying financial statements. The amount of contributed facilities for the year ended June 30, 2020 is \$62,358.

6. **Support from Governmental Units**

The Organization receives substantially all of its support from federal, state, and local governments. The federal and state government is the source for 68% of the Organization's revenue and support. A significant reduction in the level of this support, if this were to occur, would have a material effect on the Organization's programs and activities.

NOTES TO FINANCIAL STATEMENTS

7. Property

At June 30, 2020, the major classifications of property are as follows:

Equipment	\$ 9,503
Less accumulated depreciation	<u>6,849</u>
	<u>\$ 2,654</u>

Depreciation expense totaled \$1,750 for the year ended June 30, 2020. No interest costs were capitalized during the year ended June 30, 2020.

8. Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Organization assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

9. Contingent Liabilities

The Organization participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the Organization may be required to reimburse the grantor government. As of June 30, 2020, significant amounts of grant expenditures have not been audited by granting authorities, but the Organization believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Organization.

The Organization's employees accumulate sick leave days for subsequent use at eight hours a month. Because the sick leave is non-vesting, the accumulations are not recognized as an expense by the Organization until used. The Organization's unrecognized accrued sick leave benefits totaled \$30,035 as of June 30, 2020. Sick leave becomes payable when used by the employees to the extent of the number of days of accumulation, which is limited to a maximum of 720 hours.

10. COVID-19

The recent COVID-19 outbreak in the United States has disrupted the Organization's operations. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Accordingly, the Organization expects this matter to impact its net assets, however, the related financial impact and duration cannot be reasonably estimated at this time. The Coronavirus Aid, Relief and Economic Security (CARES) Act was enacted in March 2020 in response to the outbreak, which among other things contains numerous tax, emergency funding and other provisions. The Organization is currently evaluating the impact of the CARES Act on its operations and cash flows.

11. Subsequent Events

Subsequent events were evaluated through October 26, 2020, which is the date the financial statements were available to be issued.

Supplementary Information

SUBSTANCE ABUSE SERVICES FOR CLAYTON COUNTY, INC.
 COMBINING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS
 For the Year Ended June 30, 2020

	Agency	Clayton County	DFC Grant	Tobacco Grant	Iowa Partnerships for Success	Total
PUBLIC SUPPORT AND REVENUE						
Grants		\$ 39,357	\$ 41,907	\$ 14,835	\$ 87,402	\$ 183,501
Contributions	\$ 7,731					7,731
Sales	10,500					10,500
Interest	5,049					5,049
Municipality	1,431					1,431
In-kind contributions		62,358	47,037	2,125		111,520
Total public support and revenue	24,711	101,715	88,944	16,960	87,402	319,732
EXPENSES						
Salaries and benefits	3,856	32,447	17,813	12,658	55,797	122,571
Advertising	18	58	176	18	3,540	3,810
Conferences and meetings		1,710	1,746	156	1,104	4,716
Travel	47	128	3,062	90	474	3,801
Contract services	334	1,065	13,733	637	16,673	32,442
Supplies	17	1,592	2,196	369	1,072	5,246
Rent			375			375
Miscellaneous	789	2,357	2,806	907	8,742	15,601
Depreciation	1,750					1,750
In-kind contributions		62,358	47,037	2,125		111,520
Total expenses	6,811	101,715	88,944	16,960	87,402	301,832
Increase in net assets	\$ 17,900	\$ -	\$ -	\$ -	\$ -	17,900
NET ASSETS, beginning of year						209,618
NET ASSETS, end of year						\$ 227,518

See Independent Auditor's Report.

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*

To the Board of Directors
Substance Abuse Services for Clayton County, Inc.
Elkader, Iowa

We have audited, in accordance with the U.S. generally accepted auditing standards 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 Substance Abuse Services for Clayton County, Inc. (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Substance Abuse Services for Clayton County, Inc.'s internal control over financial reporting (internal control) 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 Substance Abuse Services for Clayton County, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Substance Abuse Services for Clayton County, Inc.'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 Organization'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control described below that we consider to be a significant deficiency.

Segregation of Duties

Condition

The Organization's offices are not large enough to permit an adequate segregation of duties for effective internal controls. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

Criteria

Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Organization's financial statements.

Cause

The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing grant expenditure reports, preparing financial information for posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records.

Effect

This deficiency results in a reasonable possibility that the Organization would not be able to detect misstatements that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation

The Organization should review the operating procedures of the Organization's offices to obtain the maximum internal control possible under the circumstances utilizing currently available staff. While we do recognize that the Organization is not large enough to permit a segregation of duties for effective internal controls, we believe it is important the Board be aware that this condition does exist.

Views of Responsible Officials and Planned Corrective Actions

Management is cognizant of this limitation and will implement additional procedures whenever possible.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Substance Abuse Services for Clayton County, Inc.'s financial statements are free from 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*.

Substance Abuse Services for Clayton County, Inc.'s Response to Finding

Substance Abuse Services for Clayton County, Inc.'s response to the finding identified in our audit is described above. Substance Abuse Services for Clayton County, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this 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.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
October 26, 2020