



**MUSKOGEE ORGANIZATION FOR NARCOTIC AND
ALCOHOL REFERRAL COUNSELING AND HELP, INC.**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'
REPORT**

JUNE 30, 2014



Clothier & Company CPA's P.C.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Muskogee Organization for Narcotic and Alcohol
Referral Counseling and Help, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Muskogee Organization for Narcotic and Alcohol Referral Counseling and Help, Inc. (MONARCH) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statement of activities, functional expense, 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 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.

Auditors' Responsibility

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 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 auditors' 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 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 Muskogee Organization for Narcotic and Alcohol Referral Counseling and Help, Inc. as of June 30, 2014, and the

changes in its net assets and its cash flows for the year then ended in accordance 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 accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 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.

Supplementary Information

The budgetary comparison on pages 17 and 18 are the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison is fairly stated, in all material respects, in relation to the basic 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 September 3, 2014, on our consideration of MONARCH'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 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 MONARCH's internal control over financial reporting and compliance.



Clothier & Company CPA's
September 3, 2014

MONARCH, Inc.
Statement of Financial Position
June 30, 2014

ASSETS

Current Assets	
Cash and cash equivalents	\$ 14,747
Money-market cash	468,104
Monarch Auxiliary	1,514
Accounts receivable	166,722
Prepaid expenses	<u>19,145</u>
Total Current Assets	670,232
 Fixed Assets	
Land	61,622
Fixed assets	1,563,593
Accumulated depreciation	<u>(985,952)</u>
Total Fixed Assets	639,263
 Other Assets	
Loan closing costs	3,660
Accumulated amortization	<u>(2,105)</u>
Total Other Assets	<u>1,555</u>
 Total Assets	 \$ <u><u>1,311,050</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 45,689
Accrued wages	15,481
Accrued vacation wages	79,033
Payroll tax liabilities	<u>15,507</u>
Total Current Liabilities	155,710
 Net Assets	
Unrestricted	1,052,067
Increase (Decrease) in Net Assets	<u>103,273</u>
Total Net Assets	<u>1,155,340</u>
 Total Liabilities & Net Assets	 \$ <u><u>1,311,050</u></u>

See accompanying notes and independent auditors' report.

MONARCH, Inc.
Statement of Activities
June 30, 2014

UNRESTRICTED NET ASSETS

Revenue and Gains

DMHSAS income	\$	1,877,751
Insure Oklahoma		30,915
Employment services income		102,099
Food stamp income		128,726
Interest earned		1,222
Grant income		1,000
OP Clinic income		116,621
Other income		<u>7,729</u>

Total Revenue and Gains 2,266,063

Expenses

Program expenses		1,967,858
Administrative expenses		<u>194,932</u>

Total Expenses 2,162,790

Increase (Decrease) in

Unrestricted Net Assets 103,273

TEMPORARILY RESTRICTED NET ASSETS

Revenue and Gains

PERMANENTLY RESTRICTED NET ASSETS

Revenues and Gains

Increase (Decrease) in Net Assets \$ 103,273

See accompanying notes and independent auditors' report.

MONARCH, Inc.
Statement of Functional Expenses
June 30, 2014

	<u>Program</u>	<u>Gen/Admin</u>	<u>Total</u>
Personell Expenses:			
Salaries & Wages	\$1,212,694	\$134,744	\$1,347,438
Employee Benefits/Insurance	131,182	14,576	145,758
Staff Development/Training	13,048	1,450	14,498
Total Personell Expenses	<u>1,356,925</u>	<u>150,769</u>	<u>1,507,694</u>
Direct Program Costs:			
Direct Client Expense	188,474	0	188,474
Total Direct Program Costs	<u>188,474</u>	<u>0</u>	<u>188,474</u>
Administrative & Office Expenses:			
Insurance	47,842	5,316	53,158
Office/postage	14,899	1,655	16,554
Professional fees	16,432	1,826	18,258
Equipment/furniture repair	4,174	464	4,638
Accounting/auditing	41,639	4,627	46,266
Dues & subscriptions	2,476	275	2,751
Miscellaneous	1,900	211	2,111
CARF certification	995	0	995
Advertising	9,190	1,021	10,211
Total Administrative/Office Expenses	<u>139,547</u>	<u>15,395</u>	<u>154,942</u>
Occupancy & Maintenance Expenses:			
Kitchen/Housekeeping Expenses	25,020	2,780	27,800
Telephone/utilities	96,356	10,706	107,062
Rent Expense - Warner OP	24,000	0	24,000
Repairs/maintenance	50,320	5,591	55,911
Equipment	2,808	312	3,120
Total Occupancy/Maintenance Expenses	<u>198,504</u>	<u>19,389</u>	<u>217,893</u>
Transportation Expenses:			
Vehicle Operating Expenses	28,942	3,216	32,158
Total Transportation Expenses	<u>28,942</u>	<u>3,216</u>	<u>32,158</u>
Total Expenses	1,912,392	188,769	2,101,161
Depreciation/Amortization	55,466	6,163	61,629
Total Functional Expenses	<u><u>\$1,967,858</u></u>	<u><u>\$194,932</u></u>	<u><u>\$2,162,790</u></u>

See accompanying notes and independent auditors' report.

MONARCH, Inc.
Statement of Cash Flows
June 30, 2014

Cash Flows From Operating Activities:

Increase in Net Assets	\$ 103,273
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	61,629
Decrease/(Increase) in:	
Accounts receivable	108
Prepaid expense	720
Increase/(Decrease) in:	
Accounts payable	7,806
Accrued salaries	5,650
Accrued vacation	11,267
Accrued expenses	(196)
Net Cash Provided by Operating Activities	<u>190,257</u>

Cash Flows From Investing Activities:

Fixed asset additions	(75,677)
Sale of fixed assets	<u>0</u>
Net Cash Used by Investing Activities	<u>(75,677)</u>

Cash Flows From Financing Activities:

Proceeds from borrowings	0
Payments on borrowings	<u>0</u>
Net Cash Used by Financing Activities	<u>0</u>

Net Increase/(Decrease) in Cash and Cash Equivalents 114,580

Cash Balance, June 30, 2013 369,785

Cash Balance, June 30, 2014 \$ 484,365

Supplemental Disclosure of Cash Flow Information:

Cash paid for interest expense	<u><u>\$ 0</u></u>
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See accompanying notes and independent auditors' report.

MONARCH, INC.
Notes to the Financial Statements
June 30, 2014

1. SIGNIFICANT ACCOUNTING POLICIES

The Muskogee Organization for Narcotic and Alcohol Referral Counseling and Help, Inc. (MONARCH, INC.) is a nonprofit corporation organized December 19, 1983 and existing under the laws of the State of Oklahoma for the purpose of furnishing the necessary facilities, material and qualified personnel to provide alcohol/drug abuse treatment services. MONARCH, INC. began operations February 1, 1984 as an independent contractor operating under an annual fee-for-services contract with the Oklahoma Department of Mental Health and Substance Abuse Services, (the Department). The following is a summary of the more significant accounting policies employed by MONARCH, INC.

Basis of Accounting

The accompanying financial statements of MONARCH, INC. have been prepared on an accrual basis of accounting.

Cash

For the purpose of reporting cash flows, MONARCH, INC. considers all highly liquid instruments with an original maturity of three months or less to be cash.

Fixed Assets

Expenditures for physical properties are stated at cost. Donated assets are recorded at their estimated fair market values at dates of contribution.

Depreciation of physical properties is computed on the straight-line method over the estimated useful lives of the related assets. Expenditures for maintenance and repairs are charged to expenses as incurred. Additions to plant and equipment with a useful life of more than one year and a cost of more than \$500.00 are capitalized.

When assets are retired or otherwise disposed of, the assets and related allowances for depreciation are eliminated from the accounts.

Allocation of Supporting Services Expenditures

Although MONARCH'S present purpose is solely the operation of drug and alcohol abuse programs, for financial statement purposes, it allocates its expenses between those directly attributable to programs and management and general expenses. The allocation of each expense is made on the basis considered most appropriate for that element of cost.

Income Taxes

MONARCH, INC. Is a non-profit organization generally exempt from income taxes under Internal Revenue Code Section 501(c)(3).

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2011, 2012, and 2013 are subject to examination by the IRS, generally for three years after they were filed.

MONARCH, INC.
Notes to the Financial Statements
June 30, 2014

Description of Programs

Residential - Services are provided to adult women who are seeking alcohol/drug treatment services and are in need of a more restrictive environment. Services are provided for a minimum of thirty (30) days with an additional fifteen (15) days focused on relapse prevention. Both individual and group therapies address physical, psychological and social aspects of their life style.

Non-Medical Detoxification - These services are provided to those women in need of detoxification and who will enter either the Residential or Community Living programs.

Community Living (HWH) - Services are provided to pregnant/postpartum women and women with children. This program is designed to assist this population in a less restrictive environment than the residential program. It provides not only alcohol/drug treatment but also prenatal services, parenting skills and other services as needed.

Outpatient - This component has the least restrictive environment. It provides a variety of individual and group processes for clients. MONARCH opened an outpatient clinic in Warner, OK in October 2013.

For the fiscal year ended June 30, 2014, the following services were provided under the contract with the State of Oklahoma Department of Mental Health and Substance Abuse Services:

Federal Substance Abuse	\$	323,433
Federal Women W/Children		822,831
State Women W/Children		375,578
State Substance Abuse		355,909
Total	\$	1,877,751

2. SERVICE CONTRACTS

For the fiscal year ended June 30, 2014, MONARCH INC. entered the fee-for-service contracts that are set out in the accompanying schedule of federal and state financial assistance.

3. ACCOUNTS RECEIVABLE

Accounts receivable balance at June 30, 2014 consists of the following:

	Current	31-60 Days	61-90 Days	91+ Days	TOTAL
DMHSAS	151,880	0	0	0	151,880
Outpatient Clinic	11,554	399	0	0	11,953
Employment Services	1,238	413	1,238	0	2,889
	164,672	812	1,238	0	166,722

MONARCH, INC.
Notes to the Financial Statements
June 30, 2014

MONARCH, Inc. doesn't record an allowance for doubtful accounts because their main source of income is from state and federal grants. All receivables as of June 30, 2014 were collected within 60 days of the year end.

4. FURNITURE AND EQUIPMENT

Both the autos and fixtures are depreciated on a 5 year life, while the buildings are on a 20 year life. The following is a summary of the property, plant and equipment accounts at June 30, 2014:

	Cost Basis 6/30/13	Additions/ Deletions	Accumulated Depreciation/ 6/30/14	Book Value 6/30/14
Land	\$61,622	\$0	\$0	\$61,622
Fixed Assets	1,487,917	75,676	(985,952)	577,641
	\$183,427	\$0	(\$99,011)	\$639,263

5. MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

6. CASH

At June 30, 2014, the cash balance of \$484,365 of which \$484,365 is insured by the Federal Deposit Insurance Corporation. MONARCH, Inc. is participating in the CARDS (Certificate of Deposit Account Registry Service) through Armstrong Bank. CARDS provides FDIC coverage for all funds placed into certificates of deposit in the service and issued by other banks in the network in increments less than the standard FDIC maximum so, both principal and interest are eligible for complete FDIC protection.

7. CONCENTRATION OF REVENUE

The majority of MONARCH, INC. revenues (82.86%) result directly or indirectly from its annual contract with the State of Oklahoma Department of Mental Health and Substance Abuse Services. While these funds are expected to be available in future years, the State has no obligation to fund these programs beyond June 30, 2014.

8. EVALUATION OF SUBSEQUENT EVENTS

MONARCH'S management has evaluated subsequent events through the date which the financial statements were available to be issued and found only one item that needed disclosed. MONARCH signed a contract with DMHSAS on July 25, 2014 that was approved by the state on July 27, 2014.



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**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 of
Muskogee Organization for Narcotic and Alcohol
Referral Counseling and Help, Inc.
Muskogee, Oklahoma

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 Muskogee Organization for Narcotic and Alcohol Referral Counseling and Help, Inc. (MONARCH) (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MONARCH's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MONARCH'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 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 the 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 MONARCH'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 this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and no 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. According, this communication is not suitable for any other purpose.

Handwritten signature in cursive script that reads "Clothier & Company CPA's".

Clothier & Company, CPA's, P.C.
September 3, 2014

SUPPLEMENTAL INFORMATION

MONARCH, Inc.
Schedule of Federal and State Awards
June 30, 2014

Federal Awards:

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Award Amount	Revenue Recognized	Expenditures
U. S. Department of Health and Human Services				
Department of Mental Health & Substance Abuse Services				
Substance Abuse Prevention &				
Treatment Block Grant	93.959 ◆	1,146,264	1,146,264	
TANF	93.558	0	0	
Children Affected by Methamphetamine	93.243	0	0	
Drug Court Discretionary Program	16.585	0	0	
Total Federal Awards		1,146,264	1,146,264	

State Awards:

State Grantor/Program Title				
Department of Mental Health & Substance Abuse Services				
Drug Court		0	0	
Substance Abuse		731,487	731,487	
Total State Awards		731,487	731,487	
Totals		\$1,877,751	\$1,877,751	\$2,162,790

◆ Major Program

See notes and independent auditors' report.

MONARCH, Inc.
Budgetary Comparison
June 30, 2014

	Original Budget	Final Budget	Actual	Variance
Revenues:				
DMHSAS - Fed General Detox (02)	\$323,433	\$323,433	323,433	\$0
DMHSAS - Fed WWC Detox (23)	822,831	822,831	822,831	0
DMHSAS - State WWC Detox (23)	375,578	375,578	375,578	0
DMHSAS - State Gen Detox (02)	355,909	355,909	355,909	0
DMHSAS - Resident. Trt. Drug Ct	0	0	116,621	(116,621)
Food Stamp	120,000	120,000	128,725	(8,725)
Donations	3,000	3,000	8,730	(5,730)
Interest Income	1,080	1,080	1,222	(142)
Insure Oklahoma	14,400	14,400	30,915	(16,515)
Employment Services Income	84,000	84,000	102,099	(18,099)
Miscellaneous	200	200	-	200
Total Revenue	<u>\$2,100,431</u>	<u>\$2,100,431</u>	<u>2,266,063</u>	<u>(\$165,632)</u>
Expenses:				
Program Cost Expenses:				
Direct Client Expense	\$18,800	\$18,800	\$188,474	(\$169,674)
Medical Expenses	6,600	6,600	0	6,600
Food and Beverage Expense	156,000	156,000	0	156,000
Less: Employee Meals	(1,200)	(1,200)	0	(1,200)
Total Program Costs	<u>180,200</u>	<u>180,200</u>	<u>188,474</u>	<u>(8,274)</u>
Contract Services				
Accounting/Auditing Fees	43,000	43,000	46,266	(3,266)
Professional fee	12,000	12,000	18,258	(6,258)
Total Contract Services	<u>55,000</u>	<u>55,000</u>	<u>64,524</u>	<u>(9,524)</u>
Occupancy & Maintenance Expenses:				
Housekeeping & Kitchen Supplies	30,600	30,600	27,800	2,800
Insurance - Building	10,890	10,890	53,158	(42,268)
Maintenance & Repairs	24,000	24,000	55,911	(31,911)
Rent Expense-Warner	24,000	24,000	24,000	0
Security/Exterminating Services	7,100	7,100	0	7,100
Telephone/Utilities	108,200	108,200	107,062	1,138
Total Occupancy & Maintenance	<u>204,790</u>	<u>204,790</u>	<u>267,931</u>	<u>(63,141)</u>
Administrative & Office Expenses:				
Advertising & Promotional	3,600	3,600	10,211	(6,611)
Bank Service Charges & Fees	650	650	0	650
Board of Directors	1,200	1,200	0	1,200

See notes and independent auditors' report.

Dues & Membership Expense	2,760	2,760	2,751	9
Equipment Lease	4,272	4,272	0	4,272
Depreciation/Amortization Expense	0	0	61,629	(61,629)
Insurance	10,149	10,149	0	10,149
CARF Certification	0	0	995	(995)
Clinical Software/Support	3,120	3,120	3,120	0
Repairs & Maintenance=Equip	3,600	3,600	4,638	(1,038)
Miscellaneous Expense	900	900	2,111	(1,211)
Office Supplies/postage	14,250	14,250	16,554	(2,304)
Total Administrative & Office	<u>44,501</u>	<u>44,501</u>	<u>102,009</u>	<u>(57,508)</u>
Insurance-Workers Comp	183,193	183,193	145,758	37,435
Salaries & Wages	27,000	27,000	0	27,000
Staff Development/Training/Other	1,298,734	1,298,734	1,347,438	(48,704)
Total Personnel Expenses	<u>14,100</u>	<u>14,100</u>	<u>14,498</u>	<u>(398)</u>
	<u>1,523,027</u>	<u>1,523,027</u>	<u>1,507,694</u>	<u>15,333</u>
Transportation Expenses:				
Vehicle Expenses	<u>36,136</u>	<u>36,136</u>	<u>32,158</u>	<u>3,978</u>
Total Transportation	<u>36,136</u>	<u>36,136</u>	<u>32,158</u>	<u>3,978</u>
Total Expenses	<u>2,043,654</u>	<u>2,043,654</u>	<u>2,162,790</u>	<u>(119,136)</u>
Net Revenue Over (Under)				
Expenses	<u>\$56,777</u>	<u>\$56,777</u>	<u>\$103,273</u>	<u>\$46,496</u>

See notes and independent auditors' report.



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
Muskogee Organization for Narcotic and Alcohol
Referral Counseling and Help, Inc.
Muskogee, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited Muskogee Organization for Narcotic and Alcohol Referral Counseling and Help, Inc.'s (MONARCH) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of MONARCH's major federal programs for the year ended June 30, 2014. MONARCH'S major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of MONARCH's major federal programs 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 occurred. An audit includes examining, on a test basis, evidence about MONARCH'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 each major federal program. However, our audit does not provide a legal determination of MONARCH's compliance.

Opinion on Each Major Federal Program

In our opinion, Muskogee Organization for Narcotic and Alcohol Referral Counseling and Help, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

The management of Muskogee Organization for Narcotic and Alcohol Referral Counseling and Help, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements referred to above. In planning and performing our audit of compliance, we considered MONARCH's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 MONARCH'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 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 a material noncompliance with a type of compliance requirement of a federal 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 a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program 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 the 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 material weaknesses or significant deficiencies. 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.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of MONARCH as of and for the year ended June 30, 2014, and have issued our report thereon dated September 3, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 auditing standards generally accepted in the United States of America. In our opinion, the schedule of

expenditure of federal and state awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

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 the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Clothier & Company CPA's". The signature is written in black ink and is positioned above the printed name of the firm.

Clothier & Company CPA's

September 3, 2014

MONARCH, Inc.
Schedule of Findings and Questioned Costs
For the Period Ending June 30, 2014

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ___ yes X no
- Significant deficiency(ies) identified? ___ yes X none reported

Noncompliance material to financial statements noted? ___ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___ yes X no
- Significant deficiency(ies) identified? ___ yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported
in accordance with Section 510(a) of OMB Circular A-133 ___ yes X no

<u>CFDA Number(s)</u> 93.959	<u>Name of Federal Program of Cluster</u> U.S. Department of Health and Human Services, Department of Mental Health & Substance Abuse Services Substance Abuse Block Grant
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Dollar threshold used to distinguish
between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes ___ no

Section II – Financial Statements Findings

No findings.

Section III – Federal Award Findings and Questioned Costs

No findings.