

**LAKESIDE BEHAVIORAL HEALTHCARE, INC.
AND AFFILIATES**

**COMBINED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

Years Ended June 30, 2010 and 2009

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**MOORE STEPHENS
LOVELACE, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
Lakeside Behavioral Healthcare, Inc. and Affiliates
Orlando, Florida

We have audited the accompanying combined balance sheets of Lakeside Behavioral Healthcare, Inc. and Affiliates (the "Organization") as of June 30, 2010 and 2009, and the related combined statements of operations and changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2010 on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Neena Stephen Lovelace, P.A.

Certified Public Accountants

Orlando, Florida
November 29, 2010

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

COMBINED BALANCE SHEETS

June 30, 2010 and 2009

ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,722,400	\$ 3,292,247
Short-term investments	2,697,822	1,540,290
Current portion of assets whose use is limited	969,887	1,433,609
Accounts receivable, net	1,882,123	2,770,866
Pharmacy inventory	311,600	212,593
Other current assets	<u>645,115</u>	<u>166,435</u>
TOTAL CURRENT ASSETS	11,228,947	9,416,040
INVESTMENTS - DESIGNATED FOR CAPITAL REPLACEMENT	11,079,178	7,821,227
ASSETS WHOSE USE IS LIMITED	37,874	959,859
PROPERTY, BUILDINGS AND EQUIPMENT, NET	17,457,780	15,875,514
DEFERRED FINANCING COSTS, NET	183,337	194,121
OTHER ASSETS	<u>64,405</u>	<u>99,130</u>
TOTAL ASSETS	<u>\$ 40,051,521</u>	<u>\$ 34,365,891</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Current portion of long-term debt	\$ 650,000	\$ 660,067
Accounts payable and accrued expenses	1,237,419	947,077
Accrued salaries and benefits	577,813	460,303
Accrued compensated absences	750,000	756,981
Resident security deposits	3,321	2,996
Deferred revenue	<u>693,724</u>	<u>668,114</u>
TOTAL CURRENT LIABILITIES	3,912,277	3,495,538
INTEREST RATE SWAP LIABILITY	1,059,000	476,000
RESERVE FOR THIRD-PARTY PAYOR SETTLEMENTS	750,000	750,000
LONG-TERM DEBT, NET OF CURRENT PORTION AND UNAMORTIZED DISCOUNT	<u>14,937,876</u>	<u>15,565,527</u>
TOTAL LIABILITIES	20,659,153	20,287,065
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted	17,848,278	12,716,526
Temporarily restricted	<u>1,544,090</u>	<u>1,362,300</u>
TOTAL NET ASSETS	<u>19,392,368</u>	<u>14,078,826</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 40,051,521</u>	<u>\$ 34,365,891</u>

The accompanying notes are an integral part of the combined financial statements.

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
Years Ended June 30, 2010 and 2009

	2010	2009
UNRESTRICTED REVENUES AND SUPPORT		
Net client service revenue	\$ 24,653,745	\$ 20,092,026
Grant and contract revenues	17,926,401	18,953,767
Rental and other income	2,814,457	2,937,761
Contributions and donations	139,255	129,454
Investment income	447,513	212,423
	45,981,371	42,325,431
EXPENSES		
Salaries	20,380,284	20,033,823
Employee benefits	4,440,177	4,504,532
Professional fees	3,905,125	3,858,605
Medical and pharmacy	3,904,452	4,216,297
Building occupancy	2,592,597	2,268,489
Food services	1,280,886	1,227,422
Depreciation and amortization	1,229,867	1,065,346
Operating supplies	848,258	814,911
Other	752,154	769,881
Interest	613,488	569,889
Insurance	494,483	685,405
	40,441,771	40,014,600
TOTAL EXPENSES	40,441,771	40,014,600
INCOME FROM OPERATIONS	5,539,600	2,310,831
OTHER GAINS (LOSSES)		
Loss on debt refinancing	-	(1,779,780)
Change in fair value of interest rate swaps	(583,000)	(476,000)
Change in unrealized gain on investments	175,152	30,544
	(407,848)	(2,225,236)
TOTAL OTHER LOSSES	(407,848)	(2,225,236)
INCREASE IN UNRESTRICTED NET ASSETS	5,131,752	85,595
TEMPORARILY RESTRICTED CONTRIBUTIONS	181,790	-
INCREASE IN NET ASSETS	5,313,542	85,595
NET ASSETS - BEGINNING OF YEAR	14,078,826	13,993,231
NET ASSETS - END OF YEAR	\$ 19,392,368	\$ 14,078,826

The accompanying notes are an integral part of the combined financial statements.

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

COMBINED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 5,313,542	\$ 85,595
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,229,867	1,065,346
Gain on disposal of property and equipment	-	(1,750)
Loss on debt refinancing	-	1,779,780
Change in fair value of interest rate swaps	583,000	476,000
Change in unrealized gains on investments	(175,152)	(30,544)
Changes in operating assets and liabilities:		
Accounts receivable	888,743	(101,022)
Pharmacy inventory	(99,007)	7,464
Other assets	(443,955)	(94,579)
Accounts payable and accrued expenses	290,342	41,412
Accrued salaries and benefits	117,510	(862,483)
Accrued compensated absences	(6,981)	6,128
Deferred revenue	25,610	185,496
	<u>7,723,519</u>	<u>2,556,843</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments, net	(4,240,331)	(6,370,465)
Change in assets whose use is limited, net	1,386,032	1,773,842
Acquisition of property, buildings and equipment	(2,796,875)	(1,769,228)
Proceeds from sale of equipment	-	1,750
	<u>(5,651,174)</u>	<u>(6,364,101)</u>
NET CASH USED IN INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	22,400	16,175,278
Repayments on borrowings	(664,592)	(12,966,074)
Deferred financing costs	-	(204,905)
	<u>(642,192)</u>	<u>3,004,299</u>
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES		
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,430,153	(802,959)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,292,247</u>	<u>4,095,206</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,722,400</u>	<u>\$ 3,292,247</u>

The accompanying notes are an integral part of the combined financial statements.

**LAKESIDE BEHAVIORAL HEALTHCARE, INC.
AND AFFILIATES**

NOTES TO COMBINED FINANCIAL STATEMENTS

Years Ended June 30, 2010 and 2009

NOTE 1 - NATURE OF ORGANIZATION AND BASIS OF PRESENTATION

These combined financial statements include Lakeside Behavioral Healthcare, Inc. (“LBH”), Lakeside Behavioral Healthcare Foundation (the “Foundation”), and Lakeside Place, Inc. (“Lakeside Place”). The three entities are governed by Boards of Directors which include common, overlapping members. Collectively, LBH, the Foundation, and Lakeside Place are referred to herein as the Organization.

The Organization is a nonprofit behavioral healthcare system providing clinical, rehabilitative, and residential services. Its mission is to provide to the people of Central Florida compassionate, comprehensive, and cost-effective behavioral healthcare services that focus on individualized recovery. The Organization operated the following services in furtherance of its mission during the years ended June 30, 2010 and 2009:

- Assessment and screening services
- Medicare-certified specialty hospital unit
- Adult and children’s crisis stabilization units (CSU)
- Short-term residential units
- Multilevel residential treatment facilities
- Medication clinic and community pharmacy
- Adult and children’s outpatient therapeutic and case management services
- Lakeside Place, an independent living facility for persons with disabilities

In addition to the programs it provides, LBH also leases facilities to other organizations engaged in providing healthcare and social services.

Lakeside Place was incorporated to develop an 18-unit, independent living facility for persons with disabilities. Financing for the construction of the apartments was obtained from the U.S. Department of Housing and Urban Development (“HUD”). LBH is the sole member of Lakeside Place.

The Foundation is a charitable foundation established for the purpose of providing financial support to LBH.

All significant inter-organization accounts and transactions have been eliminated.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates

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

In the presentation of functional expenses (see Note 9), the Organization allocates its costs based on hours worked, square footage, specific identification, and other rational methods.

Cash and Cash Equivalents

The Organization considers all unrestricted, highly liquid investments with a maturity of three months or less when purchased, except those classified as assets whose use is limited and investments, to be cash equivalents.

Accounts Receivable

The Organization records accounts receivable at the estimated amounts receivable from clients, residents, third-party payors, and others at the time services or occupancy rights are provided. The Organization provides an allowance for doubtful accounts based upon the age of the receivable, historical collection experience, and client-specific credit evaluations. The Organization, by policy, provides care to all persons in need regardless of ability to pay. Generally, when a client has no third-party payor source, the fees for services provided ultimately prove to be uncollectible. However, it is difficult to establish on client intake whether the services provided will ultimately prove to be charity care. Accordingly, an allowance for doubtful accounts/charity care is established with the corresponding charge recorded to net client service revenue. The allowance for doubtful accounts/charity care at June 30, 2010 and 2009 was approximately \$4,891,000 and \$3,353,000, respectively.

Pharmaceutical Inventory

Purchased pharmacy drugs are recorded in inventory at the lower of cost, determined using the first-in, first-out method, or market value. LBH is the recipient of significant quantities of pharmacy drugs from donors who specify that they be dispensed only to specific clients. LBH has no discretion to dispense these drugs to other than the specified beneficiary clients. LBH does not record contribution income or related expenses for these transactions where it operates only as an agent between the donor and the specified beneficiary. LBH received pharmaceuticals valued at approximately \$1,161,000 and \$1,423,000 from these donors during the fiscal years ended June 30, 2010 and 2009, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are reported on the combined balance sheets at fair value. Fair value is determined using the quoted closing or latest bid prices. Realized gains and losses are calculated based on proceeds received less cost. The cost of securities sold is based on the specific-identification method. Changes in net unrealized gains and losses are reported in the combined statements of operations and changes in net assets and represent the change in the fair value of investments during the year.

Property, Buildings and Equipment

Property, buildings and equipment with an acquisition value in excess of \$1,000 are recorded at cost or, if donated, at fair market value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method using estimated lives ranging from 3-40 years.

Assets Whose Use Is Limited

Assets whose use is limited includes amounts set aside under provisions of borrowing and contractual arrangements. A detail of the amounts comprising assets whose use is limited is presented in Note 3 of these combined financial statements.

Deferred Financing Costs

During the year ended June 30, 2009, LBH incurred approximately \$205,000 of costs associated in obtaining the Series 2008 Bonds and the letter of credit (see Note 6). These costs are deferred and amortized over the terms of the related debt. Net deferred financing costs of approximately \$173,000 relating to the Series 1995 Bonds (see Note 6) were written off during the year ended June 30, 2009. Deferred financing costs of approximately \$205,000 in the combined balance sheets are presented net of accumulated amortization of approximately \$22,000 and \$11,000 at June 30, 2010 and 2009, respectively. Amortization expense relating to deferred financing costs amounted to approximately \$11,000 for each of the years ended June 30, 2010 and 2009.

Client Service Revenue

LBH has agreements with third-party payors that provide for payments to LBH at amounts different from established rates. Payment arrangements include reimbursed costs, discounted charges, and per diem payments. Client service revenue is reported at the estimated net realizable amounts from residents, clients, third-party payors, and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are included in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Client Service Revenue (Continued)

By policy, LBH provides care to all clients regardless of payor source or ability of the client to pay for services. The difference between LBH's standard rates for units of service and amounts expected to be received for those services were approximately \$5,456,000 and \$4,932,000 for the years ended June 30, 2010 and 2009, respectively.

Contributions and Donations

Contributions are recorded at their estimated fair values on the date of receipt.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Gifts of cash and other assets received with donor stipulations that limit the use of the donated assets are reported as a restricted contribution. When a restriction ends, or the purpose of the restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and are reported in the statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions in that period.

LBH was the beneficiary of two houses with a fair value of approximately \$182,000 during the year ended June 30, 2010. These houses were recorded as temporarily restricted contributions due to donor-imposed stipulations and must be used pursuant to the Organization's mission for a minimum of 15 years. LBH will recognize 1/15th or approximately \$12,000 per year as temporarily restricted net assets released from restriction subsequent to the year ended June 30, 2010 to account for the passage of time in accordance with the contribution agreements.

Individuals volunteer their time and effort in support of the Organization and its mission. When the Organization would ordinarily have had to pay for these services and there is an objectively determinable basis for measuring the cost that would have been paid, the Organization records the value of the volunteered services as support and expense in the period the services were provided. Otherwise, the volunteered services are not recorded. There were no volunteer services recorded during the fiscal years ended June 30, 2010 and 2009.

Fundraising costs amounted to approximately \$24,000 and \$21,000 for the fiscal years ended June 30, 2010 and 2009, respectively

Grant and Contract Revenues

Revenues under grants and contracts are recognized as expenditures are incurred or services are provided, as defined in the contract or grant agreement.

Deferred Revenue

Funding received in advance of the services being rendered is classified as deferred revenue. These amounts were approximately \$694,000 and \$668,000 at June 30, 2010 and 2009, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Income Taxes**

LBH, Lakeside Place, and the Foundation have each been recognized by the Internal Revenue Service as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income earned in furtherance of their tax-exempt purposes is exempt from federal and state income taxes. Income from certain of LBH's rental activities may be deemed unrelated to its tax-exempt purpose and, therefore, may be taxable. As of June 30, 2010, with certain exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal taxing authorities for any tax years prior to the tax year ended June 30, 2007.

Unrestricted Net Assets

Unrestricted net assets of the Organization include funds designated by the Board of Directors for a future program. Furthermore, unrestricted net assets include amounts designated for capital replacement. The composition of unrestricted net assets at June 30, 2010 and 2009, is as follows:

<u>Designation Classification</u>	<u>2010</u>	<u>2009</u>
Unrestricted net assets – undesignated	\$ 6,661,228	\$ 4,815,978
Unrestricted net assets – designated for capital replacement	11,079,178	7,821,227
Unrestricted net assets – board designated	<u>107,872</u>	<u>79,321</u>
	<u>\$ 17,848,278</u>	<u>\$ 12,716,526</u>

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation. Such reclassifications had no effect on the change in net assets for the year ended June 30, 2009.

Subsequent Events

In preparing the combined financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 29, 2010, the date the combined financial statements were issued.

NOTE 3 - ASSETS WHOSE USE IS LIMITED

The composition of assets limited as to use at June 30, 2010 and 2009 is presented in the following table:

	<u>2010</u>	<u>2009</u>
Restricted for construction projects under Series 2008		
Bonds (see Note 6):		
Cash equivalents	\$ 926,541	\$ 2,346,481
Health insurance imprest reserve	40,025	10,634
Resident and other deposits	3,321	3,035
HUD replacement reserves	<u>37,874</u>	<u>33,318</u>
Total assets whose use is limited	<u>\$ 1,007,761</u>	<u>\$ 2,393,468</u>

NOTE 4 - FAIR VALUE MEASUREMENTS AND INVESTMENTS

The carrying value of financial instruments approximates their fair value.

The fair value of financial instruments is based upon three levels of valuation techniques. The highest valuation technique is Level 1, which utilizes unadjusted quoted prices in active markets for identical assets or liabilities. The Level 2 valuation technique is used for quoted prices of similar assets or liabilities or when quoted prices are in markets that are not active. Level 3 is utilized when no observable data or little market activity is available.

Investments and assets whose use is limited were comprised of cash and cash equivalents, equity securities, and fixed income securities. As of June 30, 2010 and 2009, equity and fixed income securities are valued at the closing price reported on the most active market on which the individual securities are traded (Level 1).

The interest rate swaps are valued based on quoted data from the counterparty or swap consultant, derived with mathematical approximations of indirectly observable market data (Level 2). The carrying value of the Organization's variable rate debt approximates fair value at June 30, 2010.

The cost basis of investments and assets whose use is limited were approximately \$14,622,000 and \$11,738,000 at June 30, 2010 and 2009, respectively.

NOTE 5 - PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment are comprised of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Land	\$ 3,069,559	\$ 3,069,559
Buildings and improvements	21,691,375	18,661,932
Furniture and equipment	5,207,965	5,016,608
Vehicles	960,217	933,686
	<u>30,929,116</u>	<u>27,681,785</u>
Accumulated depreciation	<u>(14,411,121)</u>	<u>(13,245,635)</u>
	16,517,995	14,436,150
Construction in progress	939,785	1,439,364
Net property and equipment	<u>\$ 17,457,780</u>	<u>\$ 15,875,514</u>

Depreciation expense was approximately \$1,200,000 and \$1,050,000 for the years ended June 30, 2010 and 2009, respectively. Construction in progress consists primarily of costs associated with various unit renovations and other improvements (see Note 8). At June 30, 2010 and 2009, LBH had construction payables, including retainage, of approximately \$342,000 and \$26,000, respectively, included in accounts payable and accrued expenses in the combined balance sheets.

NOTE 6 - BORROWING ARRANGEMENTS

Bonds

Through July 2008, the Organization had borrowings under the 1995 Orange County Health Facility Bonds ("Series 1995 Bonds") issue agreements, bearing interest at rates ranging from 4.625% to 6.75%. The Series 1995 Bonds were collateralized by a first mortgage on certain land and buildings, and a pledge of net revenues and leases on the mortgaged property. The Series 1995 Bond issue agreements also contained certain covenants, including debt service requirements, restrictions on liens, leasing of mortgaged facilities, documentation of tenant eligibility, minimum reserve requirements, and delivery of financial information. These bonds were repaid in July 2008.

In July 2008, LBH issued Orange County Health Facilities Authority, Health Facility Variable Revenue and Refunding Bonds ("Series 2008 Bonds"), in the amount of \$16,220,000. Proceeds of the issuance were used for the defeasance of the Series 1995 Bonds, to pay off financial institution term loans, the funding of certain capital projects, and to pay certain costs of issuance.

The Series 2008 Bonds are due annually on July 1 through July 2027 and accrue interest at a variable rate determined weekly by the remarketing agent. The Indenture of Trust includes provisions for periodically adjusting the interest rate on the Series 2008 Bonds.

The Series 2008 Bonds are collateralized by an irrevocable letter of credit issued by a financial institution. The letter of credit expires on July 15, 2013 and is collateralized by net revenues and certain property. The letter of credit has certain financial and nonfinancial covenants, which include, among other things, that LBH maintain minimum debt service coverage and liquid assets to funded debt ratios. As of June 30, 2010, LBH is in compliance with its debt service coverage ratio and liquid assets to funded debt ratios.

The refunding and payment in full of the Series 1995 Bonds resulted in a loss of approximately \$1,780,000 for the year ended June 30, 2009.

Capital Advance

LBH entered into a capital advance agreement under the HUD Section 811 program to finance the construction of the Lakeside Place apartment building. The capital advance bears no interest and is not required to be repaid so long as the housing remains available to eligible, low-to-moderate income households for a period of 40 years. The capital advance is secured by a mortgage, which is collateralized by real property and equipment. The capital advance has been recorded at its original value of \$1,362,300. Because management intends to maintain Lakeside Place in accordance with the capital advance agreement, the capital advance is presented in the financial statements as a temporarily restricted net asset. The capital advance will be released from restriction upon completion of the 40-year period.

NOTE 6 - BORROWING ARRANGEMENTS (Continued)**Capital Advance (Continued)**

LBH's borrowing arrangements consisted of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Series 2008 Bonds, variable rate (.43% and 2.50% at June 30, 2010, and 2009, respectively) with interest payable monthly plus annual principal payments beginning in July 2009.	\$ 15,605,000	\$ 16,220,000
Vehicle and equipment loans	58,929	86,120
	15,663,929	16,306,120
Less current portion of long-term debt	(650,000)	(660,067)
Less unamortized bond discount	(76,053)	(80,526)
Total long-term debt	\$ 14,937,876	\$ 15,565,527

Aggregate maturities of long-term debt in each of the next five years and thereafter are approximately as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 650,000
2012	661,000
2013	673,000
2014	700,000
2015	730,000
Thereafter	<u>12,250,000</u>
Total	<u>\$ 15,664,000</u>

Cash paid for interest for the years ended June 30, 2010 and 2009, was approximately \$715,000 and \$624,000, respectively. Interest of approximately \$59,000 and \$83,000 was capitalized in connection with construction projects during the years ended June 30, 2010 and 2009, respectively.

NOTE 7 - INTEREST RATE SWAP AGREEMENTS

LBH entered into a swap agreement effective August 2008 ("August Swap") to hedge against increases in short-term interest rates. The August Swap fixes the rate of interest that LBH pays on its Series 2008 Bonds beginning September 2008 at 3.49% and receives interest at 67% of LIBOR. The August Swap has certain cancellation options and will expire in July 2027. The notional amounts on the August Swap were \$7,820,000 and \$8,165,000 at June 30, 2010 and 2009, respectively. The fair value of the August Swap resulted in liabilities of approximately \$939,000 and \$680,000 at June 30, 2010 and 2009, respectively.

LBH entered into a swap agreement, effective December 2008 ("December Swap"), to hedge against increases in short-term interest rates. The December Swap fixes the rate of interest that LBH pays on its Series 2008 Bonds beginning January 2009 at 2.18% and receives interest at 67% of LIBOR. The December Swap has certain

NOTE 7 - INTEREST RATE SWAP AGREEMENTS (Continued)

cancellation options and will expire in July 2027. The notional amount on the December Swap was \$7,785,000 and \$8,055,000 at June 30, 2010 and 2009. The fair value of the December Swap resulted in a (liability) asset of approximately (\$120,000) and \$204,000 at June 30, 2010 and 2009, respectively.

LBH recorded liabilities of \$1,059,000 and \$476,000, representing the amount it would have to pay to terminate the swap agreements at June 30, 2010 and 2009, respectively. Any payments made or received under the swap agreements are reflected as a decrease or increase in interest expense. The change in fair value of the swap agreements is reflected in the combined statements of operations and changes in net assets as a decrease in net assets of approximately \$583,000 and \$476,000 for the years ended June 30, 2010 and 2009, respectively.

NOTE 8 - COMMITMENTS AND CONTINGENCIES**Concentrations and Credit Risk**

LBH receives most of its revenues from the Medicaid and Medicare programs, the Substance Abuse and Mental Health (“SAMH”) program administered by the Florida Department of Children and Families, and from various contracts with Orange County. Governmental funding for healthcare programs is subject to statutory and regulatory changes, administrative rulings, interpretations of policy, intermediary determinations, and governmental funding restrictions, all of which may materially affect program reimbursement to service providers like LBH. Changes in the reimbursement policies of the programs, as a result of legislative and regulatory actions, could adversely affect LBH’s revenues.

The following tables provide a detail of LBH’s revenues for the years ended June 30, 2010 and 2009 by payor source.

Net client service revenue for the years ended June 30, 2010 and 2009 was comprised of the following:

	<u>2010</u>	<u>2009</u>
Medicaid	\$ 1,987,944	\$ 2,010,438
Medicare	5,752,789	5,194,586
Managed care	16,148,797	12,045,276
Clients and other third-party payors	764,215	841,726
	<u>\$ 24,653,745</u>	<u>\$ 20,092,026</u>

NOTE 8 - COMMITMENTS AND CONTINGENCIES (Continued)

Concentrations and Credit Risk (Continued)

Grant and contract revenues for the years ended June 30, 2010 and 2009 were comprised of the following:

	<u>2010</u>	<u>2009</u>
Florida Department of Children and Families	\$ 11,571,449	\$ 12,444,977
Orange County	5,905,344	5,636,756
Others	449,608	872,034
	<u>\$ 17,926,401</u>	<u>\$ 18,953,767</u>

Financial instruments which potentially subject LBH to concentrations of credit risk consist principally of cash and cash equivalents, investments deposited in financial institutions in excess of federally insured limits, assets whose use is limited, and accounts receivable. No credit-related losses have been incurred, or are expected, related to deposits in financial institutions. Management believes that the concentrations of credit risk with respect to accounts receivable from the Medicaid and Medicare programs is mitigated by the taxing authority of the governmental entities funding the programs.

Professional Liability Claims

LBH has purchased a commercial general and professional liability policy based on occurrence. LBH is subject to various general liability and medical malpractice claims arising in the course of its operations. These claims are in various stages of litigation and the outcomes are not predictable with certainty. These matters are subject to many uncertainties and it is possible that ultimate losses could exceed insurance coverage amounts. Management has included a provision for possible claims in excess of insurance coverage limits in these combined financial statements. Possible losses, in the event of an unfavorable outcome in these matters, could result in a material adverse effect on LBH's financial position.

Construction Commitments

LBH entered into contracts for renovations and other improvements for approximately \$3,388,000, of which \$2,737,000 has been paid as of June 30, 2010.

Employee Benefit Plan

LBH has a 403(b) defined-contribution pension plan (the "Plan"), which covers substantially all of its employees. The Plan includes vesting provisions on employer contributions, which require participants hired to be employed for two years to achieve 25% vesting, three years for 50% vesting, four years for 75% vesting, and five years for full vesting. Employer contributions are made at the discretion of management, subject to the approval of the Board of Directors, and net of non-vested forfeitures, and amounted to approximately \$258,000 and \$522,000 for the years ended June 30, 2010 and 2009, respectively.

NOTE 8 - COMMITMENTS AND CONTINGENCIES (Continued)**Regulatory Reviews and Settlements**

LBH maintains various licenses and accreditations issued by regulatory agencies and other bodies. The regulatory agencies and certain third-party payors make periodic reviews of LBH's compliance with laws and regulations resulting from its licensure and participation in various SAMH, Medicaid, Medicare, and other programs. Management has recorded a provision for estimated third-party payor settlements related to these reviews. The laws and regulations governing these programs are complex and are subject to interpretation, and noncompliance can result in significant regulatory action, including fines, penalties, and exclusion from the programs.

NOTE 9 - FUNCTIONAL EXPENSES

Operating expenses for the years ended June 30, 2010 and 2009 are summarized on a functional basis, as follows:

	<u>2010</u>	<u>2009</u>
Program services		
Inpatient services	\$ 14,977,776	\$ 14,668,253
Outpatient services	6,961,148	7,016,366
Pharmacy	3,152,903	3,233,835
Crisis support emergency	3,349,652	3,619,454
Residential services	1,182,236	1,148,688
FACT	938,906	905,766
Other	374,259	368,509
Transportation	680,837	639,317
Total program services	<u>31,617,717</u>	<u>31,600,188</u>
Supporting services	5,933,030	5,600,436
Administrative services	2,703,767	2,674,604
Total LBH expenses	<u>40,254,514</u>	<u>39,875,228</u>
Foundation and Lakeside Place expenses	132,100	123,099
Eliminations	55,157	16,273
Total expenses	<u>\$ 40,441,771</u>	<u>\$ 40,014,600</u>

SUPPLEMENTAL INFORMATION



**MOORE STEPHENS
LOVELACE, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON SUPPLEMENTAL INFORMATION**

To the Board of Directors of
Lakeside Behavioral Healthcare, Inc. and Affiliates
Orlando, Florida

We have audited the combined financial statements of Lakeside Behavioral Healthcare, Inc. and Affiliates as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated November 29, 2010, which contained an unqualified opinion on those combined financial statements. Our audits were performed for the purpose of forming an opinion on the combined financial statements as a whole. The supplemental combining information appearing on pages 17 through 22, the program/cost center's actual revenues and expenses schedule appearing on pages 23 and 24, and the schedule of state earnings appearing on page 25, are presented for the purpose of additional analysis, as required by the Department of Children and Families, and are not a required part of the combined financial statements. The schedule of expenditures of federal awards and state financial assistance for the year ended June 30, 2010, appearing on pages 28 and 29 is presented for the purpose of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and Chapter 10.650, Rules of the Auditor General, and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

A handwritten signature in cursive script, appearing to read 'Moore Stephens Lovelace, P.A.', is written in black ink.

Certified Public Accountants

Orlando, Florida
November 29, 2010

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

COMBINING BALANCE SHEETS

June 30, 2010

	<u>Lakeside Behavioral Healthcare, Inc.</u>	<u>Lakeside Behavioral Healthcare Foundation, Inc.</u>	<u>Lakeside Place, Inc.</u>	<u>Eliminations</u>	<u>Combined</u>
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 4,590,286	\$ 131,288	\$ 826	\$ -	\$ 4,722,400
Short-term investments	2,611,488	86,334	-	-	2,697,822
Current portion of assets whose use is limited	966,566	-	3,321	-	969,887
Accounts receivable, net	1,878,121	4,000	2	-	1,882,123
Pharmacy inventory	311,600	-	-	-	311,600
Other current assets	645,115	-	-	-	645,115
	<u>11,003,176</u>	<u>221,622</u>	<u>4,149</u>	<u>-</u>	<u>11,228,947</u>
TOTAL CURRENT ASSETS					
INVESTMENTS - DESIGNATED FOR CAPITAL REPLACEMENT	10,616,176	463,002	-	-	11,079,178
ASSETS WHOSE USE IS LIMITED	-	-	37,874	-	37,874
DUE FROM AFFILIATES	42,488	-	-	(42,488)	-
INTEREST IN NET ASSETS OF FOUNDATION	684,346	-	-	(684,346)	-
PROPERTY, BUILDINGS AND EQUIPMENT, NET	16,313,383	-	1,144,397	-	17,457,780
DEFERRED FINANCING COSTS, NET	183,337	-	-	-	183,337
OTHER ASSETS	63,405	-	1,000	-	64,405
	<u>\$ 38,906,311</u>	<u>\$ 684,624</u>	<u>\$ 1,187,420</u>	<u>\$ (726,834)</u>	<u>\$ 40,051,521</u>
TOTAL ASSETS					
LIABILITIES AND NET ASSETS (DEFICIT)					
CURRENT LIABILITIES					
Current portion of long-term debt	\$ 650,000	\$ -	\$ -	\$ -	\$ 650,000
Accounts payable and accrued expenses	1,237,419	-	-	-	1,237,419
Accrued salaries and benefits	577,813	-	-	-	577,813
Accrued compensated absences	750,000	-	-	-	750,000
Resident security deposits	-	-	3,321	-	3,321
Deferred revenue	693,724	-	-	-	693,724
	<u>3,908,956</u>	<u>-</u>	<u>3,321</u>	<u>-</u>	<u>3,912,277</u>
TOTAL CURRENT LIABILITIES					
INTEREST RATE SWAP LIABILITY	1,059,000	-	-	-	1,059,000
RESERVE FOR THIRD-PARTY PAYOR SETTLEMENTS	750,000	-	-	-	750,000
DUE TO AFFILIATES	-	278	42,210	(42,488)	-
LONG-TERM DEBT, NET OF CURRENT PORTION AND UNAMORTIZED DISCOUNT	14,937,876	-	-	-	14,937,876
	<u>20,655,832</u>	<u>278</u>	<u>45,531</u>	<u>(42,488)</u>	<u>20,659,153</u>
TOTAL LIABILITIES					
COMMITMENTS AND CONTINGENCIES					
NET ASSETS (DEFICIT)					
Unrestricted	18,068,689	684,346	(220,411)	(684,346)	17,848,278
Temporarily restricted	181,790	-	1,362,300	-	1,544,090
	<u>18,250,479</u>	<u>684,346</u>	<u>1,141,889</u>	<u>(684,346)</u>	<u>19,392,368</u>
TOTAL NET ASSETS (DEFICIT)					
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u>\$ 38,906,311</u>	<u>\$ 684,624</u>	<u>\$ 1,187,420</u>	<u>\$ (726,834)</u>	<u>\$ 40,051,521</u>

See Report of Independent Certified Public Accountants
on Supplemental Information.

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

COMBINING BALANCE SHEETS (Continued)

June 30, 2009

ASSETS	<u>Lakeside Behavioral Healthcare, Inc.</u>	<u>Lakeside Behavioral Healthcare Foundation, Inc.</u>	<u>Lakeside Place, Inc.</u>	<u>Eliminations</u>	<u>Combined</u>
CURRENT ASSETS					
Cash and cash equivalents	\$ 2,987,841	\$ 302,047	\$ 2,359	\$ -	\$ 3,292,247
Short-term investments	1,456,750	83,540	-	-	1,540,290
Current portion of assets whose use is limited	1,430,574	-	3,035	-	1,433,609
Accounts receivable, net	2,770,698	-	168	-	2,770,866
Pharmacy inventory	212,593	-	-	-	212,593
Other current assets	165,910	-	525	-	166,435
	<u>9,024,366</u>	<u>385,587</u>	<u>6,087</u>	<u>-</u>	<u>9,416,040</u>
TOTAL CURRENT ASSETS	9,024,366	385,587	6,087	-	9,416,040
INVESTMENTS - DESIGNATED FOR CAPITAL REPLACEMENT	7,558,449	262,778	-	-	7,821,227
ASSETS WHOSE USE IS LIMITED	926,541	-	33,318	-	959,859
DUE FROM AFFILIATES	32,408	-	-	(32,408)	-
INTEREST IN NET ASSETS OF FOUNDATION	610,020	-	-	(610,020)	-
PROPERTY, BUILDINGS AND EQUIPMENT, NET	14,704,139	-	1,171,375	-	15,875,514
DEFERRED FINANCING COSTS, NET	194,121	-	-	-	194,121
OTHER ASSETS	56,630	41,500	1,000	-	99,130
	<u>33,106,674</u>	<u>689,865</u>	<u>1,211,780</u>	<u>(642,428)</u>	<u>34,365,891</u>
TOTAL ASSETS	\$ 33,106,674	\$ 689,865	\$ 1,211,780	\$ (642,428)	\$ 34,365,891
LIABILITIES AND NET ASSETS (DEFICIT)					
CURRENT LIABILITIES					
Current portion of long-term debt	\$ 660,067	\$ -	\$ -	\$ -	\$ 660,067
Accounts payable and accrued expenses	867,756	79,321	-	-	947,077
Accrued salaries and benefits	460,303	-	-	-	460,303
Accrued compensated absences	756,981	-	-	-	756,981
Resident security deposits	-	-	2,996	-	2,996
Deferred revenue	668,114	-	-	-	668,114
	<u>3,413,221</u>	<u>79,321</u>	<u>2,996</u>	<u>-</u>	<u>3,495,538</u>
TOTAL CURRENT LIABILITIES	3,413,221	79,321	2,996	-	3,495,538
INTEREST RATE SWAP LIABILITY	476,000	-	-	-	476,000
RESERVE FOR THIRD-PARTY PAYOR SETTLEMENTS	750,000	-	-	-	750,000
DUE TO AFFILIATES	-	524	31,884	(32,408)	-
LONG-TERM DEBT, NET OF CURRENT PORTION AND UNAMORTIZED DISCOUNT	15,565,527	-	-	-	15,565,527
	<u>20,204,748</u>	<u>79,845</u>	<u>34,880</u>	<u>(32,408)</u>	<u>20,287,065</u>
TOTAL LIABILITIES	20,204,748	79,845	34,880	(32,408)	20,287,065
COMMITMENTS AND CONTINGENCIES					
NET ASSETS (DEFICIT)					
Unrestricted	12,901,926	610,020	(185,400)	(610,020)	12,716,526
Temporarily restricted	-	-	1,362,300	-	1,362,300
	<u>12,901,926</u>	<u>610,020</u>	<u>1,176,900</u>	<u>(610,020)</u>	<u>14,078,826</u>
TOTAL NET ASSETS (DEFICIT)	12,901,926	610,020	1,176,900	(610,020)	14,078,826
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 33,106,674	\$ 689,865	\$ 1,211,780	\$ (642,428)	\$ 34,365,891

See Report of Independent Certified Public Accountants
on Supplemental Information.

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES
COMBINING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

Year Ended June 30, 2010

	Lakeside Behavioral Healthcare, Inc.	Lakeside Behavioral Healthcare Foundation, Inc.	Lakeside Place, Inc.	Eliminations	Combined
UNRESTRICTED REVENUES AND SUPPORT					
Net client service revenue	\$ 24,653,745	\$ -	\$ -	\$ -	\$ 24,653,745
Grant and contract revenues	17,926,401	-	-	-	17,926,401
Rental and other income	2,766,853	-	66,773	(19,169)	2,814,457
Contributions and donations	54,809	84,446	-	-	139,255
Investment income	429,335	18,156	22	-	447,513
	45,831,143	102,602	66,795	(19,169)	45,981,371
EXPENSES					
Salaries	20,380,284	-	-	-	20,380,284
Employee benefits	4,440,177	-	-	-	4,440,177
Professional fees	3,892,985	2,450	20,859	(11,169)	3,905,125
Medical and pharmacy	3,904,452	-	-	-	3,904,452
Building occupancy	2,563,932	-	36,665	(8,000)	2,592,597
Food services	1,280,886	-	-	-	1,280,886
Depreciation and amortization	1,196,218	-	33,649	-	1,229,867
Operating supplies	848,017	-	241	-	848,258
Other	722,426	27,844	1,884	-	752,154
Interest	612,380	-	1,108	-	613,488
Insurance	487,083	-	7,400	-	494,483
Change in net assets of Foundation	(74,326)	-	-	74,326	-
	40,254,514	30,294	101,806	55,157	40,441,771
TOTAL EXPENSES	40,254,514	30,294	101,806	55,157	40,441,771
NET INCOME (LOSS) FROM OPERATIONS	5,576,629	72,308	(35,011)	(74,326)	5,539,600
OTHER GAINS (LOSSES)					
Change in fair value of interest rate swaps	(583,000)	-	-	-	(583,000)
Change in unrealized gain on investments	173,134	2,018	-	-	175,152
	(409,866)	2,018	-	-	(407,848)
TOTAL OTHER GAINS (LOSSES)	(409,866)	2,018	-	-	(407,848)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	5,166,763	74,326	(35,011)	(74,326)	5,131,752
TEMPORARILY RESTRICTED CONTRIBUTIONS	181,790	-	-	-	181,790
INCREASE (DECREASE) IN NET ASSETS	5,348,553	74,326	(35,011)	(74,326)	5,313,542
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	12,901,926	610,020	1,176,900	(610,020)	14,078,826
NET ASSETS (DEFICIT) - END OF YEAR	\$ 18,250,479	\$ 684,346	\$ 1,141,889	\$ (684,346)	\$ 19,392,368

See Report of Independent Certified Public Accountants
on Supplemental Information.

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

COMBINING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS *(Continued)*

Year Ended June 30, 2009

	Lakeside Behavioral Healthcare, Inc.	Lakeside Behavioral Healthcare, Foundation, Inc.	Lakeside Place, Inc.	Eliminations	Combined
REVENUES AND SUPPORT					
Net client service revenue	\$ 20,092,026	\$ -	\$ -	\$ -	\$ 20,092,026
Grant and contract revenues	18,953,767	-	-	-	18,953,767
Rental and other income	2,895,747	-	59,470	(17,456)	2,937,761
Investment income	192,562	19,704	157	-	212,423
Contributions and donations	90,770	38,684	-	-	129,454
	42,224,872	58,388	59,627	(17,456)	42,325,431
TOTAL REVENUES AND SUPPORT					
EXPENSES					
Salaries	20,033,823	-	-	-	20,033,823
Employee benefits	4,504,532	-	-	-	4,504,532
Professional fees	3,844,754	3,160	20,147	(9,456)	3,858,605
Medical and pharmacy	4,216,297	-	-	-	4,216,297
Building occupancy	2,245,765	-	30,724	(8,000)	2,268,489
Food services	1,227,422	-	-	-	1,227,422
Depreciation and amortization	1,030,380	-	34,966	-	1,065,346
Operating supplies	814,590	-	321	-	814,911
Other	742,358	26,372	1,151	-	769,881
Interest	568,781	-	1,108	-	569,889
Insurance	680,255	-	5,150	-	685,405
Change in net assets of Foundation	(33,729)	-	-	33,729	-
	39,875,228	29,532	93,567	16,273	40,014,600
TOTAL EXPENSES					
NET INCOME (LOSS) FROM OPERATIONS	2,349,644	28,856	(33,940)	(33,729)	2,310,831
OTHER GAINS (LOSSES)					
Loss on debt refinancing	(1,779,780)	-	-	-	(1,779,780)
Change in fair value of interest rate swap	(476,000)	-	-	-	(476,000)
Change in unrealized gain on investments	25,671	4,873	-	-	30,544
	(2,230,109)	4,873	-	-	(2,225,236)
TOTAL OTHER GAINS (LOSSES)					
INCREASE (DECREASE) IN NET ASSETS	119,535	33,729	(33,940)	(33,729)	85,595
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	12,782,391	576,291	1,210,840	(576,291)	13,993,231
NET ASSETS (DEFICIT) - END OF YEAR	\$ 12,901,926	\$ 610,020	\$ 1,176,900	\$ (610,020)	\$ 14,078,826

See Report of Independent Certified Public Accountants
on Supplemental Information.

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

COMBINING STATEMENTS OF CASH FLOWS

Year Ended June 30, 2010

	Lakeside Behavioral Healthcare, Inc.	Lakeside Behavioral Healthcare Foundation, Inc.	Lakeside Place, Inc.	Eliminations	Combined
CASH FLOWS FROM OPERATING ACTIVITIES					
Increase (decrease) in net assets	\$ 5,348,553	\$ 74,326	\$ (35,011)	\$ (74,326)	\$ 5,313,542
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:					
Depreciation and amortization	1,196,218	-	33,649	-	1,229,867
Change in fair value of interest rate swaps	583,000	-	-	-	583,000
Change in unrealized gains on investments	(173,134)	(2,018)	-	-	(175,152)
Changes in operating assets and liabilities:					
Accounts receivable	892,577	(4,000)	166	-	888,743
Pharmacy inventory	(99,007)	-	-	-	(99,007)
Amounts due from (to) affiliates	(10,080)	(246)	10,326	-	-
Other assets	(485,980)	41,500	525	-	(443,955)
Accounts payable and accrued expenses	369,663	(79,321)	-	-	290,342
Accrued salaries and benefits	117,510	-	-	-	117,510
Accrued compensated absences	(6,981)	-	-	-	(6,981)
Deferred revenues	25,610	-	-	-	25,610
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,757,949	30,241	9,655	(74,326)	7,723,519
CASH FLOWS FROM INVESTING ACTIVITIES					
Change in investments, net	(4,113,657)	(201,000)	-	74,326	(4,240,331)
Change in assets whose use is limited, net	1,390,549	-	(4,517)	-	1,386,032
Acquisition of property, buildings and equipment	(2,790,204)	-	(6,671)	-	(2,796,875)
Proceeds from sale of equipment	-	-	-	-	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(5,513,312)	(201,000)	(11,188)	74,326	(5,651,174)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings	22,400	-	-	-	22,400
Repayments on borrowings	(664,592)	-	-	-	(664,592)
NET CASH USED IN FINANCING ACTIVITIES	(642,192)	-	-	-	(642,192)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,602,445	(170,759)	(1,533)	-	1,430,153
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,987,841	302,047	2,359	-	3,292,247
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,590,286	\$ 131,288	\$ 826	\$ -	\$ 4,722,400

See Report of Independent Certified Public Accountants
on Supplemental Information.

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

COMBINING STATEMENTS OF CASH FLOWS *(Continued)*

Year Ended June 30, 2009

	Lakeside Behavioral Healthcare, Inc.	Lakeside Behavioral Healthcare, Foundation, Inc.	Lakeside Place, Inc.	Eliminations	Combined
CASH FLOWS FROM OPERATING ACTIVITIES					
Increase (decrease) in net assets	\$ 119,535	\$ 33,729	\$ (33,940)	\$ (33,729)	\$ 85,595
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:					
Depreciation and amortization	1,030,380	-	34,966	-	1,065,346
Gain on disposal of property and equipment	(1,750)	-	-	-	(1,750)
Loss on debt refinancing	1,779,780	-	-	-	1,779,780
Change in fair value of interest rate swaps	476,000	-	-	-	476,000
Change in unrealized gains on investments	(25,671)	(4,873)	-	-	(30,544)
Changes in operating assets and liabilities:					
Accounts receivable	(103,612)	-	2,590	-	(101,022)
Pharmacy inventory	7,464	-	-	-	7,464
Amounts due from (to) affiliates	(107)	524	(417)	-	-
Other assets	(57,554)	(37,000)	(25)	-	(94,579)
Accounts payable and accrued expenses	(31,109)	72,521	-	-	41,412
Accrued salaries and benefits	(862,483)	-	-	-	(862,483)
Accrued compensated absences	6,128	-	-	-	6,128
Deferred revenues	185,496	-	-	-	185,496
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,522,497	64,901	3,174	(33,729)	2,556,843
CASH FLOWS FROM INVESTING ACTIVITIES					
Change in investments, net	(6,512,189)	107,995	-	33,729	(6,370,465)
Change in assets whose use is limited, net	1,778,448	-	(4,606)	-	1,773,842
Acquisition of property, buildings and equipment	(1,769,228)	-	-	-	(1,769,228)
Proceeds from sale of equipment	1,750	-	-	-	1,750
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(6,501,219)	107,995	(4,606)	33,729	(6,364,101)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings	16,175,278	-	-	-	16,175,278
Repayments on borrowings	(12,966,074)	-	-	-	(12,966,074)
Deferred financing costs	(204,905)	-	-	-	(204,905)
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,004,299	-	-	-	3,004,299
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(974,423)	172,896	(1,432)	-	(802,959)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	3,962,264	129,151	3,791	-	4,095,206
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,987,841</u>	<u>\$ 302,047</u>	<u>\$ 2,359</u>	<u>\$ -</u>	<u>\$ 3,292,247</u>

See Report of Independent Certified Public Accountants
on Supplemental Information.

**SUBSTANCE ABUSE & MENTAL HEALTH SERVICES
ACTUAL COST CENTER REVENUE AND EXPENSES**

AGENCY: Lakeside Behavioral Healthcare, Inc.

CONTRACT #: GHJ21 PERIOD FROM: 7/1/2009 TO: 6/30/2010

PART I: ACTUAL FUNDING SOURCES & REVENUES

FUNDING SOURCES & REVENUES	STATE-SAMH-FUNDED COST CENTERS												Total for All State-Designated SAMH Cost Centers (D+E)	Non-SAMH Cost Center	Admin-istration	Total Funding (F+G)
	STATE-SAMH-FUNDED COST CENTERS						STATE-SAMH-FUNDED COST CENTERS									
	CSU	CCSU	FACT	FACT Incidental Funds	CCST	Medical Sys.	Short Term Residential	Room & Board Level II	Room & Board Level III	Total for State SAMH-Funded Cost Centers (C1+C2)	Total for Non-State-Funded SAMH Cost Centers	E				
IA. TOTAL STATE SAMH FUNDING	\$ 1,216,552	\$ 2,197,652	\$ 836,302	\$ 945,600	\$ 76,301	\$ 1,167,359	\$ 1,076,392	\$ 2,549,968	\$ 401,000	\$ 599,575	\$ 11,166,701	\$ -	\$ 11,166,701	\$ -	\$ -	\$ 11,166,701
(1) From the District funding this contract	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other District Contract Funding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(2) IDP - Line of Credit	-	-	-	-	-	-	404,749	-	-	-	404,749	-	404,749	-	-	404,749
IB. OTHER GOVT. FUNDING	-	-	15,454	-	-	-	-	-	-	-	15,454	30,775	46,229	-	-	46,229
(1) Other State Agency Funding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(2) Medicaid	12,442	-	-	-	-	115,930	153,466	-	-	-	281,740	1,705,859	1,987,599	-	-	1,987,599
(3) Local Government	1,978,765	1,163,040	273,783	-	-	3,726	1,988,273	-	-	-	5,407,607	432,923	5,840,530	143,394	-	5,983,924
(4) Federal Grants and Contracts	-	-	-	-	-	7,167	-	-	-	-	7,167	75,262	82,429	270,046	-	352,475
(5) In-kind from local govt. only	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOT. OTHER GOVT. FUNDING =	1,991,227	1,163,040	289,237	-	-	122,997	1,988,273	-	-	-	5,711,968	2,244,819	7,956,787	413,440	-	8,370,227
IC. ALL OTHER REVENUES	-	-	-	136	-	21,456	-	33,792	62,732	118,116	198,243	316,359	74,440	-	-	390,799
(1) 1st & 2nd Party Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(2) 3rd Party Payments (except Medicare)	64,314	560,850	1,347,384	226	-	245,316	928,393	345,087	-	3,491,570	7,634,679	11,126,249	5,401,865	-	-	16,528,114
(3) Medicare	-	-	-	-	-	-	57,237	-	-	57,237	1,590,351	1,637,588	4,105,053	-	-	5,742,641
(4) Contributions and Donations	-	-	-	-	-	1,740	-	-	-	1,740	5,931	7,671	199,305	-	-	206,976
(5) Other	-	1,865,399	-	-	-	-	-	-	-	1,865,399	4,600	1,869,999	1,150,937	-	-	3,020,936
(6) In-kind	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOT. ALL OTHER REVENUES =	64,314	2,426,249	1,347,384	362	-	247,056	1,007,086	345,087	62,732	5,534,062	9,423,804	14,957,866	10,931,600	-	-	25,889,466
TOTAL PROJECTED FUNDING =	\$ 3,272,093	\$ 5,786,941	\$ 2,472,923	\$ 945,962	\$ 76,301	\$ 1,537,412	\$ 2,645,421	\$ 4,983,328	\$ 434,792	\$ 662,307	\$ 22,817,480	\$ 11,668,623	\$ 34,486,103	\$ 11,345,040	\$ -	\$ 45,831,143

See Report of Independent Certified Public Accountants
on Supplemental Information.

**SUBSTANCE ABUSE & MENTAL HEALTH SERVICES
ACTUAL COST CENTER REVENUE AND EXPENSES (Continued)**

AGENCY: Lakeside Behavioral Healthcare, Inc.

CONTRACT #: GHJ21 PERIOD FROM: 7/1/2009 TO: 6/30/2010

PART II: ACTUAL EXPENSES

EXPENSE CATEGORIES	STATE-DESIGNATED SAMH COST CENTERS										Total Expenses (F+G+H+I+J)						
	A	B _{1A}	B _{1B}	B _{1C}	B _{1D}	B _{1E}	B _{1F}	B _{1G}	B _{1H}	B _{1I}		B _{1J}					
III. PERSONNEL EXPENSES																	
(1) Salaries	\$ 1,941,796	\$ 2,284,710	\$ 872,746	\$ 657,424	\$ -	\$ 759,172	\$ 973,815	\$ 2,201,124	\$ 183,224	\$ 183,735	\$ 10,059,746	\$ 1,810,174	\$ 11,869,920	\$ 2,775,106	\$ 4,110,893	\$ 1,624,365	\$ 20,380,284
(2) Fringe Benefits	457,520	474,250	178,556	113,872	-	188,871	143,344	448,232	47,435	54,832	2,106,912	383,101	2,490,013	648,898	996,945	304,321	4,440,177
TOTAL PERSONNEL EXPENSES =	2,399,316	2,758,960	1,051,302	771,296	-	948,043	1,117,159	2,649,356	232,659	238,567	12,166,658	2,193,275	14,359,933	3,424,004	5,107,838	1,928,686	24,820,461
III. OTHER EXPENSES																	
(1) Building Occupancy	215,819	427,145	200,074	46,797	-	101,498	78,541	401,323	119,604	283,017	1,873,818	437,199	2,311,017	880,128	530,392	-	3,760,150
(2) Professional Services	461,007	57,004	33,278	75	-	24,997	21,423	175,910	-	60	773,754	1,924,215	2,697,969	926,505	5,098	-	3,892,985
(3) Travel	7,629	1,121	45	1,413	-	30,869	756	1,026	1,026	18	43,662	36,477	80,139	20,144	4,501	308	105,092
(4) Equipment	-	-	-	-	-	-	-	270	-	270	270	-	270	1,820	7,212	954	10,256
(5) Food Services	63,229	352,201	69,053	1,782	-	1,217	231	403,405	31,772	1,647	924,537	40,322	964,859	334,615	(25,641)	7,053	1,280,886
(6) Medical and Pharmacy	44,934	280,527	58,866	-	-	2,016	408,790	374,652	1,900	5,130	1,194,890	2,279,879	3,474,769	425,001	4,056	626	3,904,452
(7) Subcontracted Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(8) Insurance	58,801	67,351	23,588	17,179	-	19,926	30,163	68,997	6,725	6,438	300,168	71,449	371,617	115,466	-	-	487,083
(9) Interest Paid	41,753	93,835	44,920	4,895	-	21,293	17,132	88,416	12,433	46,991	371,668	82,478	454,146	158,234	-	-	612,380
(10) Operating Supplies & Expenses	53,312	33,506	13,458	18,582	-	5,127	17,870	30,085	12,596	2,041	186,557	51,016	237,573	141,468	250,973	218,003	848,017
(11) Other	3,852	20,218	6,672	606	-	17,363	2,000	16,969	4,943	11,179	140,028	8,129	148,157	91,155	48,660	246,051	532,752
(12) Donated Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL OTHER EXPENSES =	950,336	1,332,908	447,954	91,309	76,301	224,306	576,906	1,561,542	190,989	357,061	5,809,352	4,931,164	10,740,516	3,094,536	825,191	775,081	15,434,053
TOT. PERSONNEL & OTH. EXP. =	3,349,652	4,091,868	1,499,256	862,605	76,301	1,172,349	1,894,065	4,210,898	423,659	595,628	17,976,010	7,124,439	25,100,449	6,518,540	5,933,029	2,703,767	40,254,514
III. DISTRIBUTED INDIRECT COSTS																	
(a) Other Support Costs (Optional)	590,223	903,805	373,691	144,000	-	220,071	286,124	898,671	90,620	201,008	3,708,213	845,093	4,563,306	1,379,723	(5,933,029)	-	-
Dietary	263,313	339,390	149,660	82,773	-	100,681	161,881	346,331	32,404	31,019	1,527,452	424,623	1,952,075	751,692	-	(2,703,767)	-
(b) Administration	873,536	1,243,195	523,351	228,773	-	320,752	448,005	1,245,002	123,024	232,027	5,235,665	1,269,716	6,505,381	2,131,415	(5,933,029)	(2,703,767)	-
TOT. DISTR'D INDIRECT COSTS =	1,727,072	2,486,385	1,046,702	455,546	-	541,425	734,910	2,143,673	246,048	464,054	10,471,330	2,539,432	12,500,116	3,262,833	(11,866,058)	(5,407,534)	-
TOTAL PROJECTED OPER. EXPENSES =	\$ 4,223,188	\$ 5,335,063	\$ 2,022,607	\$ 1,088,378	\$ 76,301	\$ 1,493,101	\$ 2,142,070	\$ 5,455,900	\$ 546,682	\$ 827,655	\$ 23,211,675	\$ 8,394,155	\$ 31,605,850	\$ 8,649,955	\$ -	\$ -	\$ 40,254,514
III. UNALLOWABLE COSTS																	
III. TOTAL SAMH LINES OF CREDIT EQUIVALENT =	\$ 4,223,188	\$ 5,335,063	\$ 2,022,607	\$ 1,088,378	\$ 76,301	\$ 1,493,101	\$ 2,142,070	\$ 5,455,900	\$ 546,682	\$ 827,655	\$ 23,211,675	\$ 8,394,155	\$ 31,605,830	\$ 8,649,955	\$ -	\$ -	\$ 40,254,514
TOT. ALLOWABLE PROJ'D OPERATING EXP. =																	
Excluding SAMH Credit Equivalent =	\$ 4,223,188	\$ 5,335,063	\$ 2,022,607	\$ 1,088,378	\$ 76,301	\$ 1,493,101	\$ 2,142,070	\$ 5,455,900	\$ 546,682	\$ 827,655	\$ 23,211,675	\$ 8,394,155	\$ 31,605,830	\$ 8,649,955	\$ -	\$ -	\$ 40,254,514

See Report of Independent Certified Public Accountants
on Supplemental Information.

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

SCHEDULE OF STATE EARNINGS

Year Ended June 30, 2010

1	Total Expenditures	\$ 40,254,514
2	Less Other State and Federal Funds	(2,085,825)
3	Less Non-Match SAMH Funds	(3,771,321)
4	Less Unallowable Costs (65E-14, F.A.C.)	(8,823,872)
5	Less Unallowable Patient Fees	<u>-</u>
6	Net Allowable Expenditures (Sum of lines 1, 2, 3, 4, and 5)	<u>\$ 25,573,496</u>
7	Maximum Available Earnings (Line 6 times 75%)	\$ 19,180,122
8	Amount of State Funds Requiring Match	<u>(6,373,479)</u>
9	Excess Match	<u>\$ 12,806,643</u>

See Report of Independent Certified Public Accountants
on Supplemental Information.

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

SCHEDULE OF BED-DAY AVAILABILITY PAYMENTS

Fiscal Year Ended June 30, 2010

Program	Cost Center	State Contracted Rate	Total Units of Service Provided	Total Units of Service Paid for by 3rd Party		Maximum # of Units Eligible for Payment by Department	Amounts Paid for Services by the Department	Maximum \$ Value of Units in Column F	Amount Owed to Department (G-H or \$0, whichever is greater)
				Contracts, Local Govt. or Other State Agencies	(D-E)				
	B	C	D	E	F	G	(F x C)	I	
Children's MH		\$ 309.64	7,296	3,547	3,749	\$ 836,302	\$ 1,160,840	\$ -	
Adult MH		\$ 293.74	20,607	11,691	8,916	\$ 2,197,652	\$ 2,618,986	\$ -	
Adult MH		\$ 253.33	21,540	8,758	12,782	\$ 2,643,570	\$ 3,238,064	\$ -	
Total Amount Owed to Department=							\$	\$	\$

Note: All cost centers are paid based upon "Bed-Day Availability."

See Report of Independent Certified Public Accountants on Supplemental Information.

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

SCHEDULE OF RELATED-PARTY TRANSACTION ADJUSTMENTS

Fiscal Year Ended June 30, 2010

	Related Party	Allocation of Related-Party Transactions Adjustment			
		State-Designated Cost Centers			
		1	2	3	TOTAL
Revenues From Grantee					
Rent	\$ -	\$ -	\$ -	\$ -	\$ -
Services	-	-	-	-	-
Interest	-	-	-	-	-
Other	-	-	-	-	-
Total Revenues From Grantee	-	-	-	-	-
Expenses Associated with Grantee Transactions					
Personnel Services	-	-	-	-	-
Depreciation	-	-	-	-	-
Interest	-	-	-	-	-
Other	-	-	-	-	-
Total Associated Expenses	-	-	-	-	-
Related-Party Transaction Adjustment	\$ -	\$ -	\$ -	\$ -	\$ -

Note: Related-party transactions appear to be at or below current market cost.

See Report of Independent Certified Public Accountants
on Supplemental Information.

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE**

Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Contract / Pass-Through Award Number	Federal Expenditures Recognized
FEDERAL AWARDS			
U.S. Department of Housing and Urban Development			
Supportive Housing for Persons with Disabilities	14.181	N/A	\$ 1,362,300
Section 8 Housing Assistance Payments Program - Special Allocations	14.195	FL29-Q991-004	<u>34,295</u>
Total U.S. Department of Housing and Urban Development			<u>1,396,595</u>
U.S. Department of Transportation			
Pass-through:			
Florida Department of Transportation	20.513	FL-5310-X029	35,280
U.S. Department of Education Rehabilitation Services Administration			
Pass-through:			
Florida Department of Labor and Employment Security			
ARRA - Division of Vocational Rehabilitation	84.390	VJ468	7,167
U.S. Department of Health and Human Services			
Pass-through:			
Florida Department of Children and Families			
Projects for Assistance in Transition from Homelessness	93.150	GHJ21	410,326
Block Grant for Community Mental Health Services	93.958	GHJ21	192,545
FACT Team	93.958	GHJ22	799,452
Homeless Services Network of Central Florida, Inc.			
Project Hope	93.243	1593213827A1	94,608
SHP Grant	93.243	FL0083B4H070800	75,262
Grand Avenue Economic Community Development Corp.			
Project Pathlight	93.243	1HM795M059094-01	<u>3,100</u>
Total U.S. Department of Health and Human Services			<u>1,575,293</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 3,014,335</u></u>

See Report of Independent Certified Public Accountants
on Supplemental Information.

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE (Continued)**

Year Ended June 30, 2010

State Grantor/Pass-Through Grantor Program or Cluster Title	State CSFA Number	Contract / Pass-Through Award Number	State Expenditures Recognized	Subrecipient Payments
STATE PROJECTS				
Florida Department of Children and Families				
Children's Baker Act Services	60.001	GHJ21	\$ 1,102,340	\$ -
Baker Act	60.006	GHJ21	3,112,259	-
Indigent Psychiatric Outpatient Services	60.039	GHJ21	32,212	-
Adult Community Mental Health Community Support Services	60.053	GHJ21	5,113,541	25,000
Adult Community Mental Health Community Support Services	60.053	GHJ22	213,991	-
Children's Mental Health Emergency Stabilization	60.057	GHJ21	21,082	-
Community Forensic Beds	60.114	GHJ21	160,495	-
Total Florida Department of Health and Human Services			<u>9,755,920</u>	<u>25,000</u>
TOTAL STATE FINANCIAL ASSISTANCE			<u>\$ 9,755,920</u>	
				<u>\$ 25,000</u>

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance includes the federal and state grant activity of Lakeside Behavioral Healthcare, Inc. and Affiliates and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and Chapter 10.650, Rules of the Auditor General. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

NOTE 2 - SUBRECIPIENTS

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance includes payments to subrecipients from state programs during the year.

See Report of Independent Certified Public Accountants
on Supplemental Information.



**MOORE STEPHENS
LOVELACE, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
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
Lakeside Behavioral Healthcare, Inc. and Affiliates
Orlando, Florida

We have audited the combined financial statements of Lakeside Behavioral Healthcare, Inc. and Affiliates (the "Organization") as of and for the year ended June 30, 2010, and have issued our report thereon dated November 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 combined financial statements will not be prevented, or detected and corrected on a timely basis.

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

To the Board of Directors of
Lakeside Behavioral Healthcare, Inc. and Affiliates

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's combined 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 combined financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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



Certified Public Accountants

Orlando, Florida
November 29, 2010



**MOORE STEPHENS
LOVELACE, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM
AND STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 AND
DEPARTMENT OF FINANCIAL SERVICES STATE PROJECTS
COMPLIANCE SUPPLEMENT**

To the Board of Directors of
Lakeside Behavioral Healthcare, Inc. and Affiliates
Orlando, Florida

Compliance

We have audited Lakeside Behavioral Healthcare, Inc. and Affiliates (the "Organization") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs and the requirements described in the Department of Financial Services State Projects Compliance Supplement for the year ended June 30, 2010. The Organization's major federal programs and state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs and state projects is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

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

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects for the year ended June 30, 2010.

To the Board of Directors of
Lakeside Behavioral Healthcare, Inc. and Affiliates

Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs and state projects. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program or state project to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

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



Certified Public Accountants

Orlando, Florida
November 29, 2010

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2010

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified		
Internal control over financial reporting:			
Material weakness(es) identified?	_____	Yes	_____ X _____ No
Significant deficiency(ies) identified not considered to be material weakness(es)?	_____	Yes	_____ X _____ None Reported
Noncompliance material to financial statements noted	_____	Yes	_____ X _____ No

Federal Awards and State Projects

Internal control over major federal awards programs and state projects:			
Material weakness(es) identified?	_____	Yes	_____ X _____ No
Significant deficiency(ies) identified not considered to be material weakness(es)?	_____	Yes	_____ X _____ None Reported
Type of auditor's report issued on compliance for major federal awards programs and state projects:	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a), or Chapter 10.650, Rules of the Auditor General	_____	Yes	_____ X _____ No

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS *(Continued)*

Year Ended June 30, 2010

SECTION I - SUMMARY OF AUDITOR'S RESULTS *(Continued)*

Federal Awards and State Projects *(Continued)*

Identification of major federal programs and major state projects:

Name of Federal Program or Cluster	CFDA Number(s)
Supportive Housing for Persons with Disabilities	14.181
ARRA - Division of Vocational Rehabilitation	84.390
Block Grant for Community Mental Health Services and FACT Team	93.958
State Projects	
Baker Act	60.006
Adult Community Mental Health Community Support Services	60.053
Dollar threshold used to distinguish between Type A and Type B programs for federal awards:	\$ 300,000
Dollar threshold used to distinguish between Type A and Type B programs for state projects:	\$ 300,000
Auditee qualified as low-risk auditee pursuant to OMB Circular A-133	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

SECTION II - FINANCIAL STATEMENT FINDINGS

Prior Year Comments: No findings were reported.

Current Year Comments: No findings were reported.

SECTION III - FEDERAL AWARDS AND STATE PROJECTS FINDINGS AND QUESTIONED COSTS

Prior Year Comments: No findings were reported.

Current Year Comments: No findings were reported.