

CIRCLES OF CARE, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

As of and for the year ended June 30, 2012

and

INDEPENDENT AUDITOR'S REPORT

CIRCLES OF CARE, INC.
MELBOURNE, FLORIDA

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DAVIES, HOUSER & SECREST, CPA, P.A.

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Shareholders/Directors

*Edward R. Christensen
Stephen A. Ellis
Todd M. Russell*

Directors Emeritus

*Floyd C. Lemmon
William R. Kidd*

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Circles of Care, Inc.
Melbourne, Florida

We have audited the accompanying balance sheet of Circles of Care, Inc. (a nonprofit organization) as of June 30, 2012, and the related statements of operations and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of Circles of Care, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Circles of Care, Inc., as of June 30, 2012, and the results of its operations and changes in net assets, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 17, 2012, on our consideration of Circles of Care, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants, 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 audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is required by the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and the Rules of the Florida Department of Financial Services. The accompanying schedules of revenues, program/cost center actual expenses and revenues, state earnings for alcohol, drug abuse, and mental health services, bed-day availability payments, and related party transactions adjustments are required by the Florida Department of Children and Families. These schedules are presented for purposes of supplementary analysis and are not a required part of the basic 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.

A handwritten signature in cursive script that reads "Davies, Houser & Secrest". The signature is written in dark ink and is positioned above the typed name of the firm.

Davies, Houser & Secrest, CPA, P.A.
December 17, 2012

FINANCIAL STATEMENTS

CIRCLES OF CARE, INC.

BALANCE SHEET
June 30, 2012

ASSETS

Current assets:	
Cash and cash equivalents	\$ 10,540,097
Investments	5,185,876
Patient accounts receivable, net of allowances for contractual adjustments and uncollectible accounts of \$1,883,399	1,370,950
Inventories, other receivables, and prepaid items	<u>4,566,775</u>
Total current assets	<u>21,663,698</u>
Assets limited as to use:	
Internally designated for renewal and replacement	7,000,000
Interest in charitable remainder trust	<u>41,000</u>
Total assets limited as to use	<u>7,041,000</u>
Property and equipment, at cost or fair market value, if donated, net of accumulated depreciation:	
Buildings and improvements	7,446,963
Furniture and equipment	1,410,802
Land	<u>1,072,500</u>
Property and equipment, at depreciated cost	<u>9,930,265</u>
Total assets	<u>\$ 38,634,963</u>

The accompanying notes are an integral part of this financial statement.

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 413,270
Accrued payroll, payroll taxes, and vested leave	2,174,682
Accrued liabilities - other	2,289,380
Current portion of bonds payable	<u>198,082</u>
Total current liabilities	<u>5,075,414</u>
Long-term debt:	
Bonds payable	5,461,800
Obligations under cash flow hedges (Note 9)	<u>160,000</u>
Total liabilities	<u>10,697,214</u>
Contingencies and commitments (Note 8)	
Net assets:	
Unrestricted	27,873,416
Temporarily restricted	<u>64,333</u>
Total net assets	<u>27,937,749</u>
Total liabilities and net assets	<u>\$ 38,634,963</u>

The accompanying notes are an integral part of this financial statement.

CIRCLES OF CARE, INC.

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
For the year ended June 30, 2012

Changes in unrestricted net assets:	
Revenues and support:	
Net patient service revenue (Notes 12 and 13)	\$ 15,406,190
Government contracts and other support:	
State Mental Health Contract	9,235,778
Medicaid	2,278,567
Other government funding	1,801,222
Other support	190,552
Pharmacy	9,685,486
Assets released from restrictions	<u>14,000</u>
	38,611,795
Rental income	621,114
Investment income	<u>339,919</u>
Total unrestricted revenues and support	<u>39,572,828</u>
Expenses:	
Salaries and employee benefits	21,719,271
Other operating expenses	<u>15,831,298</u>
Total expenses	<u>37,550,569</u>
Excess of revenues, gains, and other support over expenses	2,022,259
Change in net unrealized gains and losses on other than trading securities	(246,193)
Gain on derivative investments	<u>85,000</u>
Increase in unrestricted net assets	1,861,066
Change in temporarily restricted net assets:	
Assets released from restrictions	<u>(14,000)</u>
Change in temporarily restricted net assets	<u>(14,000)</u>
Change in net assets	1,847,066
Net assets at beginning of year	<u>26,090,683</u>
Net assets at end of year	<u>\$ 27,937,749</u>

The accompanying notes are an integral part of this financial statement.

CIRCLES OF CARE, INC.

STATEMENT OF CASH FLOWS
For the year ended June 30, 2012

Cash flows from operating activities:	
Cash received from patients	\$ 14,609,104
Cash received from state contracts and other support	14,209,649
Cash received from pharmacy	8,284,941
Cash received from rents	621,114
Interest and dividends received	206,150
Cash paid to suppliers and employees	(35,004,180)
Interest paid	<u>(223,687)</u>
Net cash provided by operating activities	<u>2,703,091</u>
Cash flows from investing activities:	
Payments for acquisition of assets	(571,547)
Proceeds from sale and maturities of assets	3,425,299
Purchase of investments	<u>(3,614,558)</u>
Net cash used in investing activities	<u>(760,806)</u>
Cash flows from financing activities:	
Principal payments of long-term debt	(189,382)
Proceeds from bonds	<u>530,949</u>
Net cash provided by financing activities	<u>341,567</u>
Net increase in cash and cash equivalents	2,283,852
Cash and cash equivalents at beginning of year	<u>8,256,245</u>
Cash and cash equivalents at end of year	<u><u>\$ 10,540,097</u></u>

The accompanying notes are an integral part of this financial statement.

Reconciliation of change in net assets to net cash provided by operating activities:

Change in net assets	\$ <u>1,847,066</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	762,766
Net realized and unrealized losses on sale of investments on other than trading securities	112,425
Gain on derivative investments	(85,000)
Change in assets and liabilities:	
Decrease in patient accounts receivable	115,914
Increase in inventories, other receivables, and prepaid items	(464,151)
Decrease in accounts payable	(371,166)
Increase in accrued payroll, payroll taxes, and vested leave	65,552
Increase in accrued liabilities - other	<u>719,685</u>
Total adjustments	<u>856,025</u>
Net cash used in operating activities	\$ <u><u>2,703,091</u></u>

The accompanying notes are an integral part of this financial statement.

CIRCLES OF CARE, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the year ended June 30, 2012

NOTE 1 - REPORTING ENTITY

Circles of Care, Inc. (CoC) is a local mental healthcare system operating in Brevard County, Florida. The organization provides a full range of mental health services to the residents of Brevard County (the County), including an inpatient psychiatric facility, a crisis stabilization unit, outpatient counseling services, and many other mental health services for children and adults.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

CoC prepares its financial statements in accordance with guidelines established in the American Institute of Certified Public Accountants Audit and Accounting Guide, "Health Care Organizations."

B. Display of Net Assets by Class

The accompanying financial statements have been prepared in conformity with the disclosure and display requirements set forth in the "Not-for-Profit Entities" topic of the Financial Accounting Standards Board (FASB) Accounting Codifications. Accordingly, the net assets of CoC are reported in each of the following three classes: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The nature of the restrictions results from donor-imposed restrictions; otherwise, the assets are unrestricted. CoC has elected to report donor-restricted contributions, whose restrictions are met in the same reporting period, as unrestricted support. In addition, CoC is required to present a statement of cash flows.

C. Contributions

As set forth in the "Not-for-Profit Entities" topic of the FASB Accounting Codifications, CoC records contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. In the absence of donor-imposed time restrictions on the use of the assets, gifts of long-lived assets are reported as unrestricted support. Program and time-restricted contributions are required to be reported as temporarily restricted support and then reclassified to unrestricted net assets upon expiration of the restrictions.

D. Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers, and others, excluding Medicaid, for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. A retroactive Medicare adjustment is included in net patient service revenue for the year ended June 30, 2012 (see Note 8).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Allowance for Doubtful Accounts

Management determines an allowance for doubtful accounts based on age-weighted collection percentages, historical collection experience, and source of payment for services rendered (i.e. private-pay patients, Medicaid, Medicare, and other third-party payers). Private-pay receivables are charged off when payment options are exhausted. All account balances are reserved 90% once they exceed 180 days.

F. Charity Care

CoC identifies charity care patients using the same criteria used by the State of Florida Agency for Health Care Administration. It is the policy of CoC that a patient, whose income does not exceed 150% of the current federal poverty guidelines, will be classified as a charity care patient. Additionally, if the patient's total charges exceed 25% of the patient's annual income, the patient will be classified as a charity care patient, unless the patient's income exceeds four times the federal poverty level for a family of four. Because CoC does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as gross patient service revenue.

G. Property and Equipment

Property and equipment acquisitions in excess of \$1,000 are recorded at cost, including capitalized interest, if purchased or constructed, and estimated fair market value, if donated.

Depreciation is computed on the straight-line basis for all depreciable assets. Depreciation expense for the year ended June 30, 2012, was \$762,766. Expected useful lives for various asset classes are as follows:

Buildings and improvements	10 - 40 years
Furniture and equipment	5 - 10 years
Other assets	3 - 10 years

H. Contributions

Donated services are recorded at fair market value as contributions and capital additions when either of the following conditions is met.

- The donated services create or enhance nonfinancial assets (such as a building).
- The donated services are provided by entities that normally provide specialized services for compensation and those services are normally purchased by CoC.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support, unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, CoC reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. CoC reclassifies temporarily restricted net assets to unrestricted net assets at that time.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Income Taxes

CoC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as a charitable organization. Federal informational returns are subject to examination by the IRS, generally three years after they are filed.

J. Cash Flows

For the purposes of the statement of cash flows, CoC considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents. Cash and cash equivalents, which are part of assets limited by the Board of Directors, are not considered to be cash or cash equivalents for purposes of the cash flows presentation.

K. Inventories

Inventories consist of pharmaceuticals and medical supplies and are stated at the lower of cost or market determined by the first-in, first-out method.

L. Investments and Investment Income

As set forth in the "Not-for-Profit Entities" topic of the FASB Accounting Codification, subtopic "Investments Debt and Equity Securities," investments in all debt securities and equity securities with readily determinable fair values are reported at fair value in the balance sheet. Accordingly, investments in all debt securities and equity securities with readily determinable fair values are reported at fair market value in the balance sheet. Investments, other than debt and equity securities with readily determinable fair values, are reported at cost, if purchased, or estimated at fair value at the date of the gift, if donated. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenues, gains, and other support over expenses, unless the income or loss is restricted by the donor or a law. Unrealized gains and losses on investments are excluded from the excess of revenues, gains, and other support over expenses, unless the investments are trading securities.

M. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 3 - PROPERTY AND EQUIPMENT

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Land	\$ 1,072,500	\$ 0	\$ 1,072,500
Buildings and improvements	15,117,513	7,670,550	7,446,963
Furniture and equipment	<u>3,400,924</u>	<u>1,990,122</u>	<u>1,410,802</u>
	<u>\$19,590,937</u>	<u>\$ 9,660,672</u>	<u>\$ 9,930,265</u>

NOTE 4 - INVESTMENTS

A. Assets Internally Designated for Renewal and Replacement

The composition of assets whose use is internally designated for future asset renewal and replacement at June 30, 2012, is set forth in the following table. Marketable debt and equity securities are stated at fair market value. Assets internally designated for renewal and replacement include \$120,000 for future potential losses due to uninsured windstorm damage.

Cash and cash equivalents	\$ 325,531
Marketable debt securities	1,687,653
Marketable equity securities	<u>4,986,816</u>
	<u>\$ 7,000,000</u>

B. Investments

Marketable debt securities	\$ 739,471
Marketable equity securities	2,862,477
Certificates of deposit	<u>1,583,928</u>
	<u>\$ 5,185,876</u>

Investment income and gains from assets limited as to use, cash equivalents, and investments, net of investment custodial and advisory fees of \$33,308 for fiscal year ended June 30, 2012, are comprised of the following:

Income:	
Interest and dividend income	\$ 206,150
Realized gains on sales of securities	<u>133,769</u>
	<u>\$ 339,919</u>
Other changes in unrestricted net assets:	
Change in net unrealized gains (losses) on other than trading securities	<u>\$ (246,193)</u>

NOTE 5 - FAIR VALUE MEASUREMENTS

FASB ASC 820-10-20 defines fair value as “the exit price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date.” FASB ASC 820-10-50 requires investments to be grouped into three categories, based on certain criteria as noted below.

Level 1: Fair value is determined by using quoted prices for identical assets or liabilities in active markets.

Level 2: Fair value is determined by using other than quoted prices that are observable for the asset or liability (e.g., quoted prices for identical assets or liabilities in inactive markets, quoted prices for similar assets or liabilities in active markets, observable inputs other than quoted prices, and inputs derived principally from or corroborated by observable market data by correlation or other means).

Level 3: Fair value is determined by using inputs based on management assumptions that are not directly observable.

NOTE 5 - FAIR VALUE MEASUREMENTS (continued)

Fair values of assets measured on a recurring basis at June 30, 2012, are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 1,583,928	\$ 1,583,928	\$ 0	\$ 0
Marketable debt securities	2,427,124	2,427,124	0	0
Marketable equity securities	7,849,293	7,849,293	0	0
Interest in charitable remainder trust	41,000	0	0	41,000
Total investments	<u>\$ 11,901,345</u>	<u>\$ 11,860,345</u>	<u>\$ 0</u>	<u>\$ 41,000</u>

Management values the interest in a charitable remainder trust as the present value of the estimated future benefit (see Note 14).

NOTE 6 - LAND AND LAND IMPROVEMENT DONATIONS - ASSETS UNDER CAPITAL LEASE

Land with an estimated market value of \$400,000 was given to CoC for the site of the South County facility. Under the terms of a bond/lease agreement with the County, the land had been deeded to the County for the term of the lease. After all required lease payments were made, the title to the land, along with any existing facility, reverted to CoC.

During the construction period, the County provided certain paving and land improvements for the South County facility at a cost to the County of \$142,262. These costs were donated to CoC and have been included as buildings and improvements.

On May 27, 2009, CoC entered into a lease with the City of Melbourne Airport Authority (the Authority) on approximately 3.16 acres of land with a right of first refusal on adjacent land. Under the agreement, CoC received a deferral of lease payments, as it constructed the new facility and obtained a certificate of occupancy. The term of the lease is for 40 years beginning with the date construction was completed with two 5-year options to renew. The initial annual base rent, for the first ten years, is \$68,774, payable in equal monthly installments of \$5,731.13. No base rent was payable during the construction period and the Authority waived 50% of the base rent for the first twelve months after the rent commencement date. After an initial ten-year period, the base rent will be increased based on changes to the Consumer Price Index every five years. At the end of the lease term, the improvements erected on the property shall become the property of the Authority.

NOTE 6 - LAND AND LAND IMPROVEMENT DONATIONS - ASSETS UNDER CAPITAL LEASE (continued)

Minimum future rental payments under operating leases, which have remaining non-cancelable lease terms in excess of one year, for each of the succeeding five years are as follows:

For the years ending June 30:	
2013	\$ 68,774
2014	68,774
2015	68,774
2016	68,774
2017	<u>68,774</u>
Total	<u>\$ 343,870</u>

Lease expense recorded under the land lease agreement was \$54,444 for the year ended June 30, 2012.

NOTE 7 - INTEREST EXPENSE

The total interest expense of \$223,687, paid in 2012, represents interest incurred on the bonds issued by the County and other debt associated with capital acquisitions and improvements placed in service in prior years. This interest was paid from earnings on limited use investments and unrestricted revenue.

NOTE 8 - CONTINGENCIES AND COMMITMENTS

A. Medicare Reimbursement

Revenue received under the Medicare reimbursement agreement is subject to audit and retroactive adjustment by the Medicare intermediary agency. Management records additional receivables and payables relating to Medicare based on the Medicare Cost Reimbursement reports. The retroactive Medicare adjustments are reported in net patient service revenue in the year in which the funds are paid out or received. All Medicare reports, for the years ended June 30, 2011, and prior, have been audited or subjected to a desk review and final settlements have been determined.

B. Pending Litigation

As is common in the healthcare industry, CoC is in the process of defending a number of lawsuits. Counsel has advised management that, at this stage of the proceedings, they cannot offer an opinion as to the probable outcome of these cases. Management believes the suits hold little merit and is vigorously defending its position.

C. Concentration of Credit Risk

CoC places its temporary cash investments with financial institutions. The amount of credit exposure in excess of federally insured limits was \$4,127,715, at June 30, 2012.

NOTE 8 - CONTINGENCIES AND COMMITMENTS (continued)

D. Self-insurance

CoC has decided to discontinue the windstorm portion of its property coverage and to self-insure against future loss. This decision was made in response to rapidly escalating premiums, higher deductibles, and undesirable upgrade requirements on certain facilities. Coupled with the decision to discontinue windstorm coverage, CoC has also decided to terminate business interruption coverage, due to its inability to collect on this portion of insurance coverage in the past. The decision to discontinue these types of coverage and opt for self-insurance reflects a growing trend among both for-profit and non-profit entities throughout the State of Florida, as obtaining affordable, cost effective coverage becomes increasingly more difficult.

As a result of these decisions, management, in consultation with the Board of Directors, has decided to designate \$120,000 as a reserve for potential uninsured future losses as of June 30, 2012. It is management's intent to continue to add to this reserve until such time it feels the potential loss is reasonably covered.

NOTE 9 - BONDS PAYABLE

Concurrent with the negotiation of the land lease (see Note 6), CoC entered into a commitment for financing with Bank of America for the purpose of financing the acquisition, construction, and equipping of a new 30-bed healthcare facility to be utilized as an involuntary mental health treatment facility authorized pursuant to Chapter 394, Part I, Florida Statutes (commonly known as "Baker Act Crisis Stabilization Unit"); renovation of the existing healthcare facilities at 400 E. Sheridan Road, Melbourne, Florida; and payment of issuance costs of the financing agreement. Collectively, these undertakings are referred to as the Project.

Under this commitment, CoC was entitled to borrow up to \$6.75 million, not to exceed the lower of the appraised value or 75% of the cost of the subject property, collateralized by new and existing real estate facilities and a first security interest on personal property of the borrower. The terms of the loan were interest only for twelve months, then principal and interest, payable monthly based on a 240-month mortgage style amortization, with the loan to be repaid in full on every fifth anniversary of the closing. Interest was payable at 63.702% of the thirty-day LIBOR, plus 200 basis points, with an option to swap the floating rate option for the tax-exempt term loan to an effective fixed rate based on market conditions.

Subsequent to the execution of the land lease and commitment for financing, CoC entered into a revised financing agreement with Bank of America (the Bank) and the City of Melbourne, Florida (the City), in which the City issued, and the Bank agreed to purchase, \$5 million of Series 2009A and \$1 million of Series 2009B Revenue Bonds (the Series 2009A and B Bonds).

On October 29, 2009, the terms of the Series 2009A and B Bonds were finalized and the bond agreements executed. Both the Series 2009A and B Bonds are subject to the terms and conditions of a loan agreement, mortgage, and promissory note between CoC and the City. Under the terms of the mortgage, CoC agreed to various covenants and granted a security interest in its assets and rights to revenue. CoC is prohibited from incurring any future indebtedness, above certain specified limitations, under the terms of the agreement.

Upon the issuance of the Series 2009A and B Bonds, the Bank agreed to purchase them in a private placement in exchange for an assignment of the loan agreement, mortgage, and promissory note. The terms of the agreement stipulate that all amounts advanced by the Bank to the City, pursuant to the bond purchase agreements, are deemed to be simultaneously loaned by the City to CoC, so that the amount of the loan equals the aggregate amount advanced by the Bank. Under the terms of the note, CoC promises to pay the Bank, as assignee of the City, the principal advanced, plus accrued interest on such principal.

NOTE 9 - BONDS PAYABLE (continued)

The terms of the Series 2009A Bonds were interest only until October 31, 2010, payable at 63.702% of the thirty-day LIBOR, plus 200 basis points. Equal monthly installments of principal, based on a 240-month mortgage life, plus accrued interest, commenced November 1, 2010.

The terms of the Series 2009B Bonds were interest only until October 31, 2010, payable at the thirty-day LIBOR, plus 195 basis points. Equal monthly installments of principal, based on a 240-month mortgage life, plus accrued interest, commenced November 1, 2010.

For so long as the Series 2009A and B Bonds are owned by the same registered owner, any additional payment of principal made by the City (or CoC on its behalf), with respect to the Series 2009A and B Bonds, shall be deemed a payment of principal on the Series 2009B Bonds until such time the Series 2009B Bonds shall have been paid in full.

CoC retains the option to swap the floating rate to a tax-exempt term loan effective fixed rate, based on market conditions. Unless the Bank, in its sole and absolute discretion, determines otherwise, the principal amount and all accrued and unpaid interest shall be subject to mandatory prepayment on every fifth anniversary of the commencement date.

On June 29, 2009, CoC executed an interest rate swap with the Bank on \$1 million of the available funding under the commitment for financing. The interest rate swap was effective July 1, 2010, and matures July 1, 2014. Under the terms of the swap, the Bank receives a fixed interest rate of 4.5% and pays the same 63.702% of the thirty-day LIBOR, plus 200 basis points, provided for in the commitment for financing, thus effectively converting \$1 million of the available variable rate debt to a fixed 4.5% mortgage.

On October 2, 2009, CoC executed a second interest rate swap with the Bank on an additional \$2 million of the available funding under the commitment for financing. The second interest rate swap was effective July 1, 2010, and matures July 1, 2014. Under the terms of the swap, the Bank receives a fixed interest rate of 4.1% and pays the same 63.702% of the thirty-day LIBOR, plus 200 basis points, provided for in the commitment for financing, thus converting \$2 million of the available variable rate debt to a fixed 4.1% mortgage.

On November 16, 2009, CoC executed a third interest rate swap with the Bank on an additional \$1.5 million of the available funding under the revised financing agreement. The third interest rate swap was effective July 1, 2010, and matures July 1, 2014. Under the terms of the swap, the Bank receives a fixed interest rate of 4.02% and pays the same 63.702% of the thirty-day LIBOR, plus 200 basis points, provided for in the revised financing agreement, thus converting \$1.5 million of the available variable rate debt to a fixed 4.02% mortgage.

All the interest rate swap agreements noted above have been designated by management as fair value hedging instruments and are deemed to be 100% effective. In entering the swaps, it was management's intention to limit exposure to future increases in interest rates from their historic lows. Taken together, the three executed swaps have converted \$4.5 million of variable rate loan commitment to fixed rate mortgages, with a weighted average interest rate of 4.16%.

It is management's intent to allow the remaining portion of bonded indebtedness to remain subjected to the variable rate interest contained in the bond agreement.

During the year ended June 30, 2012 a gain of \$85,000 was recognized on these designated and qualifying fair value hedging instruments. Since there is no ineffective portion of hedging instruments, no gain or loss has been excluded from the assessment of hedge effectiveness.

NOTE 9 - BONDS PAYABLE (continued)

As of June 30, 2012, CoC had borrowed \$4,991,361 through the Series 2009A Bonds and \$1,000,000 through the Series 2009B Bonds under the revised financing agreement. Since the swap agreements went into effect as of July 1, 2010, repayment of the advances under the original commitment for financing and revised financing agreement commenced during the year ended June 30, 2011, and totaled \$146,358 and \$51,724 for the Series 2009A and 2009B Bonds, respectively.

The following repayment of the advances under the original commitment for financing and revised financing agreement have been determined in accordance with the payments due under the swap agreements.

Series 2009A and B Bonds payable are collateralized by security interest in assets and rights to revenue. Terms and conditions are described above.

Bonds payable	\$5,659,882
Less amount due within one year	<u>198,082</u>
Long-term portion	<u>\$5,461,800</u>

Estimated maturities of the Series 2009A and B Bonds, for each of the succeeding five years and in the aggregate, are as follows:

	<u>Series</u> <u>2009A</u>	<u>Series</u> <u>2009B</u>	<u>Total</u>
Fiscal years ending June 30:			
2013	\$ 146,358	\$ 51,724	\$ 198,082
2014	164,528	51,724	216,252
2015 and thereafter	<u>4,291,706</u>	<u>755,760</u>	<u>5,047,466</u>
Total	<u>\$ 4,602,592</u>	<u>\$ 859,208</u>	<u>\$ 5,461,800</u>

NOTE 10 - MALPRACTICE INSURANCE PLAN

CoC has a claims-made professional liability insurance policy that provides coverage for all medical malpractice claims made subsequent to January 1, 1987, and reported to the insurance carrier. Coverage limits under this policy are \$1,000,000, per occurrence, and \$5,000,000 aggregate for all claims under the policy. Losses from asserted claims and unasserted claims identified under CoC incident reporting system are accrued, along with other losses not identified by the system. This accrual is based on past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. The reserves for such losses are \$120,000, as of June 30, 2012.

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Included in temporarily restricted net assets is an amount awarded CoC by the State of Florida, Department of Children and Families (DCF) in May 1993, to be used to renovate the short-term residential facility located on Hickory Street, Melbourne, Florida. The original award of \$280,000 stipulated that, if the building ceased to be used for a DCF approved program, the unamortized portion of the award must be returned. The award is amortized over 20 years. During fiscal year ended June 30, 2003, CoC sold the renovated facility.

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS (continued)

CoC received authorization from DCF to transfer the remaining unamortized award to a newly renovated facility at Sheridan Road. For the fiscal year ended June 30, 2012, \$14,000 of temporarily restricted net assets were released to unrestricted net assets. The remaining unamortized balance in temporarily restricted net assets is \$23,333, for fiscal year ended June 30, 2012. Also included in temporarily restricted net assets is the present value of future gifts, as fully explained in Note 14. The future gifts are valued at \$41,000, for the fiscal year ended June 30, 2012.

NOTE 12 - NET PATIENT SERVICE REVENUE

Gross patient service revenue is recorded on the accrual basis in the period in which services are provided at established rates. Contractual and policy adjustments are recorded as deductions from gross patient service revenue to determine net patient service revenue. Net Medicaid revenue is required to be reported separately.

Net patient service revenue consists of the following:

Gross patient service revenue	\$ 34,245,799
Less provisions for contractual and policy adjustments and Medicaid	<u>18,839,609</u>
Net patient service revenue	<u>\$ 15,406,190</u>

NOTE 13 - CHARITY CARE

The amount of charges forgone for services and supplies, furnished under the charity care policy of CoC, was \$11,415,000, for the fiscal year ended June 30, 2012.

NOTE 14 - FUTURE GIFTS

CoC has been named the remainder beneficiary of a charitable remainder trust. As set forth in the "Not-for-Profit Entities" topic of the FASB Accounting Codifications, the interest in the trust has been recorded at the present value of the estimated future benefits to be received when the trust terminates and CoC receives the remaining trust assets. This interest has been valued at \$41,000 as of June 30, 2012. In addition, CoC has been named as a contingent remainderman by another charitable remainder trust. However, since the trust cannot be valued with any certainty at this time, no amount has been included in these financial statements.

NOTE 15 - PENSION

CoC sponsors a defined contribution pension plan that covers substantially all employees. The pension plan is funded by CoC contributions and voluntary employee contributions. There are no unfunded past service costs associated with the pension plan. Pension expenses were \$1,550,709, for the fiscal year ended June 30, 2012.

NOTE 16 - SUPPORT FROM THE STATE OF FLORIDA WHICH REQUIRED MATCH

CoC received a substantial portion of its support from the State of Florida, under grant contract number GHJ-08 for the fiscal year ended June 30, 2012 with DCF's Alcohol, Drug Abuse, and Mental Health Program. Historically, this contract was renegotiated annually and a maximum

NOTE 16 - SUPPORT FROM THE STATE OF FLORIDA WHICH REQUIRED MATCH
(continued)

amount established during the negotiation process so that income was earned on a unit of service basis. That is, income can be recognized only to the extent to which eligible services are performed. The contracts required a 25% local match for certain community mental health services. These matching requirements have been fulfilled for the year ended June 30, 2012.

As of July 1 2012, DCF amended and assigned the contract between the DCF and CoC to Central Florida Cares Health System, Inc. (CFCHS), in order to implement the requirements of Section 394.9082, Florida Statutes, and reflect the appropriations approved by the Florida Legislature for the state fiscal year ended June 30, 2013. Currently CoC has the ability to appoint one individual to the Board of Directors of CFCHS but, it does not possess control over the actions and decisions of CFCHS. Under the contract, CFCHS (a behavioral health administrative and management organization) serves as the managing entity and, as such, is assigned all of DCF's rights, powers, duties, and obligations under the contract and relieves DCF of all responsibilities, duties, and obligations for performance under the contract. It is believed that the assignment of the contract to CFCHS will assure continuity in the delivery of service and is considered a transitional measure until a more permanent contractual relation is established between CFCHS and CoC.

The initial contract for the fiscal year ended June 30, 2013 (GH302), provided a total of \$9,260,778. The contract amount was subsequently amended to reduce CoC's funding to \$9,073,715, a reduction of \$187,063 or approximately 2.02% of the total contract. Pursuant to the amended and assigned contract, the contract amount was discounted an additional 4.19% in order to provide funding for the managing entity's expenses in administering the contract. This total contract amount is to remain in effect until the contract is further amended or replaced. Accordingly, CoC anticipates a reduction in funding in excess of \$560,000 from fiscal year 2011/2012 levels under the amended and assigned contract for the year ending June 30, 2013.

NOTE 17 - DONATED SERVICES AND GOODS

CoC received in-kind pharmaceuticals from drug manufacturers to assist with the treatment of patients at CoC. The goods were valued at \$1,595,000, for the fiscal year ended June 30, 2012. Donated pharmaceuticals valued at \$1,006,462 have been included in inventory, as of June 30, 2012.

NOTE 18 - PROGRAM, ADMINISTRATION, AND FUNDRAISING EXPENSES

CoC expended the following amounts on program, administration, and fundraising expenses for the fiscal year ended June 30, 2011:

Program	\$ 35,506,143
Administration	2,044,426
Fundraising	<u>0</u>
Total	<u>\$ 37,550,569</u>

NOTE 19 - SUBSEQUENT EVENTS

On December 17, 2012 CoC executed an agreement to purchase a building for \$2,085,000.

CoC has evaluated subsequent events through December 17, 2012, the date which the financial statements are available to be issued.

SUPPLEMENTARY INFORMATION

CIRCLES OF CARE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
For the year ended June 30, 2012

Employer Identification Number: 59-1101553

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA/ CSFA Number</u>	<u>Pass-through Entity and/ or Contract Number</u>	<u>Program or Award Amount</u>	<u>Amounts Expended</u>
Federal awards passed through from the State of Florida				
U.S. Department of Health and Human Services:				
Public Health Services - II:				
Projects for Assistance in Transition from Homelessness	93.150	GHJ-08	\$90,744	\$ 90,744
Block Grant for Community Mental Health Services	93.958	GHJ-08	\$401,944	401,944
Block Grant for Prevention and Treatment of Substance Abuse	93.959	GHJ-08	\$1,209,109	<u>1,209,109</u>
Total expenditures of federal awards				<u>1,701,797</u>
State of Florida assistance:				
Department of Children and Families:				
Children's Baker Act Services	60.001	GHJ-08	\$570,614	570,614
Baker Act	60.006	GHJ-08	\$2,271,262	2,271,262
Indigent Psychiatric Outpatient Services	60.039	GHJ-08	\$17,742	17,742
Community Forensic Beds	60.114	GHJ-08	\$54,180	<u>54,180</u>
Total expenditures of state financial assistance				<u>2,913,798</u>
Total expenditures of federal awards and state financial assistance				<u>\$ 4,615,595</u>

Amounts expended were determined in accordance with generally accepted accounting principles (accrual basis), less depreciation, plus capital additions, if any. There were no noncash amounts included in amounts expended.

CIRCLES OF CARE, INC.

SCHEDULE OF REVENUES
For the year ended June 30, 2012

State SAMH grants:	
Adult community mental health	\$ 6,243,860
Adult substance abuse	2,088,930
Children's mental health	722,650
Children's substance abuse	<u>205,338</u>
Total state SAMH grant GHJ-08	<u>9,260,778</u> (1)
Other government funding:	
Local government	1,801,222
Medicaid	2,278,567
Other state grants	<u>0</u>
Total other government funding	<u>4,079,789</u>
All other funding and revenues:	
Medicare	3,093,771
First- and third-party fees	12,312,419 (2)
Contributions and donations	25,588
In-kind expenditures	0
Investment revenue	178,726
Rental revenue	621,114
Pharmacy revenue	9,685,486
Other	<u>164,964</u>
Total nongovernment funding	<u>26,082,068</u>
Total all funding and revenues	<u>\$ 39,422,635</u>

(1) Includes \$25,000 in pass-through revenue for the drop-in center, not included in the statement of operations and changes in net assets.

(2) Includes a grossed-up amount of \$913,000, which is offset in the statement of operations and changes in net assets by \$913,000 of bad debt expense.

CIRCLES OF CARE, INC.

PROGRAM/COST CENTER ACTUAL EXPENSES AND REVENUES
For the year ended June 30, 2012

FUNDING SOURCES & REVENUES	Adult Mental Health										Total AMH
	Incidental Expenses	Medical Outpatient	CCST	Crisis Stabilization	Room & Board Sup. II	Room & Board Sup. III	Drop-in Center	Inpatient	Crisis Support		
Total state SAMH funding: District Seven funding (1)	\$ 25,140	\$ 1,151,638	\$ 752,792	\$ 2,266,750	\$ 1,025,000	\$ 413,840	\$ 25,000	\$ 157,880	\$ 425,820	\$ 6,243,860	
Other government funding:											
Other state funding	0	0	0	0	0	0	0	0	0	0	
Medicaid	0	216,991	0	0	0	0	0	0	0	216,991	
Local government	0	540,679	0	755,583	0	0	0	69,422	141,940	1,507,624	
Federal government	0	0	0	0	0	0	0	0	0	0	
In-kind (local government)	0	0	0	0	0	0	0	0	0	0	
Total other government funding	0	757,670	0	755,583	0	0	0	69,422	141,940	1,724,615	
All other funding and revenues:											
Net first-party fees (2)	0	106,901	0	20,929	0	0	0	0	0	127,830	
Net third-party fees (except Medicare) (2)	0	1,228,066	0	1,545,845	0	0	0	0	0	2,773,911	
Medicare (2)	0	190,319	0	0	0	0	0	0	0	190,319	
Donations and contributions	0	0	0	0	0	0	0	0	0	0	
Other revenue	0	1,388,564	0	0	550,659	449,196	0	0	0	2,388,419	
In-kind	0	0	0	0	0	0	0	0	0	0	
Total nongovernment funding	0	2,913,850	0	1,566,774	550,659	449,196	0	0	0	5,480,479	
Total all funding and revenues	\$ 25,140	\$ 4,823,158	\$ 752,792	\$ 4,589,107	\$ 1,575,659	\$ 863,036	\$ 25,000	\$ 227,302	\$ 567,760	\$ 13,448,954	

Adult Mental Health

EXPENSE CATEGORIES	Incidental Expenses	Medical Outpatient	CCST	Crisis Stabilization	Room & Board Sup.II	Room & Board Sup.III	Drop-in Center	Inpatient	Crisis Support	Total AMH
Personnel expenses:										
Salaries and contractual services	\$ 2,199	\$ 1,747,081	\$ 566,337	\$ 2,795,850	\$ 682,092	\$ 219,271	\$ 0	\$ 146,743	\$ 418,374	\$ 6,577,927
Fringe benefits	590	292,795	190,625	773,030	263,872	101,949	0	47,057	110,124	1,780,042
Total personnel expenses	2,789	2,039,876	756,962	3,568,880	945,964	321,220	0	193,800	528,498	8,357,969
Operating expenses:										
Building occupancy	4,948	73,957	53,734	457,996	279,401	84,548	0	14,968	8,763	978,315
Professional services	8	93,858	2,284	153,322	2,964	1,105	0	23,813	1,404	278,758
Travel	4	27,538	12,078	27,402	2,229	1,202	0	262	6,079	76,794
Food services	0	154	19,746	223,876	116,241	89,513	0	10,481	485	460,496
Medical and pharmacy	24,404	1,430,188	0	320,551	165,857	138,468	0	9,104	0	2,088,572
Subcontract services	0	0	0	0	0	0	25,000	0	0	25,000
Insurance	86	86,650	23,508	91,354	24,337	14,204	0	6,506	13,922	260,567
Interest	28	19,500	521	178,712	134	113	0	18	0	199,026
Operating supplies	60	92,978	33,883	236,725	57,303	17,667	0	12,352	19,531	470,499
Equipment costs	0	1,685	5,625	7,506	25,661	9,908	0	426	177	50,988
Donated items	0	0	0	0	0	0	0	0	0	0
HMO expense	0	0	0	0	0	0	0	0	0	0
Other (1)	0	0	0	0	0	0	0	0	0	0
Total operating expenses	29,538	1,826,508	151,379	1,697,444	674,127	356,728	25,000	77,930	50,361	4,889,015
Total personnel and operating expenses	32,327	3,866,384	908,341	5,266,304	1,620,091	677,948	25,000	271,730	578,859	13,246,984
Distributed indirect cost:										
Administration	1,927	260,122	54,141	315,383	96,564	40,408	0	16,811	34,502	819,858
Total allowable operating expenses	34,254	4,126,506	962,482	5,581,687	1,716,655	718,356	25,000	288,541	613,361	14,066,842
Unallowable costs	299	538,207	8,413	49,007	15,005	6,279	0	95,103	5,361	717,674
Total actual operating expenses	\$ 34,553	\$ 4,664,713	\$ 970,895	\$ 5,630,694	\$ 1,731,660	\$ 724,635	\$ 25,000	\$ 383,644	\$ 618,722	\$ 14,784,516
Capital expenditures	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

(1) Includes \$25,000 in pass-through revenue and expense for the drop-in center not included in the statement of operations and changes in net assets.

(2) Net of bad debts of \$913,000.

CIRCLES OF CARE, INC.

PROGRAM/COST CENTER ACTUAL EXPENSES AND REVENUES
For the year ended June 30, 2012
(continued)

	Children's Mental Health			Adult Substance Abuse			Total ASA	Detox	Children Substance Abuse	Total for State SAMH Funded	Total for Non-state Funded SAMH	Total for All State Designated SAMH	Administrative	Total Revenues
	Crisis Stabilization	Crisis Support	Total CMH	Medical Outpatient	Residential Level I	Detox								
FUNDING SOURCES & REVENUES														
Total state SAMH funding:														
District Seven funding (1)	\$ 709,566	\$ 13,084	\$ 722,650	\$ 4,212	\$ 675,863	\$ 1,362,848	\$ 46,007	\$ 2,088,930	\$ 205,338	\$ 9,260,778	\$ 0	\$ 9,260,778	\$ 0	\$ 9,260,778
Other government funding:														
Other state funding	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Medicaid	0	0	0	0	0	0	0	0	0	216,991	2,061,576	2,278,567	0	2,278,567
Local government	236,522	4,361	240,883	0	0	0	0	0	0	1,748,507	52,715	1,801,222	0	1,801,222
Federal government	0	0	0	0	0	0	0	0	0	0	0	0	0	0
In-kind (local government)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total other government funding	236,522	4,361	240,883	0	0	0	0	0	0	1,965,498	2,114,291	4,079,789	0	4,079,789
All other funding and revenues:														
Net first-party fees (2)	23,210	0	23,210	0	3,380	3,490	0	7,070	1,956	160,066	217,711	377,777	0	377,777
Net third-party fees (except Medicare) (2)	954,445	0	-954,445	0	51,769	51,395	0	103,164	80,447	3,911,967	7,109,675	11,021,642	0	11,021,642
Medicare (2)	0	0	0	0	0	0	0	0	0	190,319	2,903,452	3,093,771	0	3,093,771
Donations and contributions	0	0	0	0	0	0	0	0	0	0	25,588	25,588	0	25,588
Other revenue	80,220	0	80,220	0	6,105	11,091	0	17,196	1,817	2,487,652	8,162,638	10,650,290	0	10,650,290
In-kind	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total nongovernment funding	1,057,875	0	1,057,875	0	61,454	65,976	0	127,430	84,220	6,750,004	18,419,064	25,169,068	0	25,169,068
Total all funding and revenues	\$ 2,003,963	\$ 17,445	\$ 2,021,408	\$ 4,212	\$ 737,317	\$ 1,428,824	\$ 46,007	\$ 2,216,360	\$ 289,558	\$ 17,976,280	\$ 20,533,355	\$ 38,509,635	\$ 0	\$ 38,509,635

CIRCLES OF CARE, INC.

SCHEDULE OF STATE EARNINGS FOR ALCOHOL,
 DRUG ABUSE, AND MENTAL HEALTH SERVICES - MATCH CALCULATION
 For the year ended June 30, 2012

Total expenditures	\$ 37,359,350
Less:	
Medicaid and other state and federal funds	(2,278,567)
No-match ADM funds	(3,985,244)
Unallowable costs per 65E-14, FAC	<u>(1,598,272)</u>
Total allowable expenditures	<u>\$ 29,497,267</u>
Total amount of state earnings (\$29,497,267 x 75%)	<u>\$ 22,122,950</u>
Amount of state performance contract funds received, excluding non-match portion	<u>\$ 5,275,534</u>
Amount due to department	<u>\$ 0</u>

CIRCLES OF CARE, INC.

SCHEDULE OF BED-DAY AVAILABILITY PAYMENTS

For the year ended June 30, 2012

Program	Cost Center	State Contracted Rate	Total Units of Service Provided	Total Units of Service Paid by Third-party Contracts, Local Gov't or Other State Agencies	Maximum Number of Units Eligible for Payment by Department	Amount Paid for Services by the Department	Maximum \$ Value of Units in Column F	Amount Owed to Department (G-H or \$0, whichever is greater)
A	B	C	D	E	F	G	H	I
CMH	Crisis Stabilization	\$347	4,745	1,249	3,496	\$709,566	\$1,213,112	\$0
AMH	Crisis Stabilization	\$347	18,250	2,439	15,811	\$2,266,750	\$5,486,417	\$0
ASA	Detox	\$236	7,300	216	7,084	\$1,362,848	\$1,671,824	\$0
CSA	Detox	\$236	1,095	105	990	\$205,339	\$233,640	\$0
Total Amount Owed to Department =								\$0

CIRCLES OF CARE, INC.

SCHEDULE OF RELATED PARTY TRANSACTIONS ADJUSTMENTS
For the year ended June 30, 2012

There were no related party transactions adjustments during the year ended June 30, 2012.



DAVIES, HOUSER & SECREST, CPA, P.A.

BUSINESS CONSULTANTS AND FAMILY WEALTH PLANNERS

Shareholders/Directors

Edward R. Christensen

Stephen A. Ellis

Todd M. Russell

Directors Emeritus

Floyd C. Lemmon

William R. Kidd

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

Board of Directors
Circles of Care, Inc.
Melbourne, Florida

We have audited the financial statements of Circles of Care, Inc. (a nonprofit organization), as of and for the year ended June 30, 2012, and have issued our report thereon, dated December 17, 2012. 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 Circle of Care, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of Circle of Care Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Circle of Care Inc.'s internal control over financial reporting.


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

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

Compliance and Other Matters

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

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



Davies, Houser & Secret, CPA, P.A.
December 17, 2012



DAVIES, HOUSER & SECREST, CPA, P.A.

BUSINESS CONSULTANTS AND FAMILY WEALTH PLANNERS

Shareholders/Directors

*Edward R. Christensen
Stephen A. Ellis
Todd M. Russell*

Directors Emeritus

*Floyd C. Lemmon
William R. Kidd*

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

Board of Directors
Circles of Care, Inc.
Melbourne, Florida

Compliance

We have audited the compliance of Circles of Care, Inc. (a nonprofit organization), with the types of compliance requirements described in the OMB Circular A-133, "Compliance Supplement" and the requirements described in the Department of Financial Services State Projects Compliance Supplement, that could have a direct and material effect on each of Circles of Care's major federal programs and state projects for the year ended June 30, 2012. Circles of Care'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 Circles of Care's management. Our responsibility is to express an opinion on Circles of Care's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations"; and Chapter 10.650, Rules of the Auditor General. Those standards, 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 Circles of Care, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary under the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Circles of Care, Inc.'s compliance with those requirements.

In our opinion, Circles of Care, 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 and state projects for the year ended June 30, 2012.

Internal Control Over Compliance

The management of Circles of Care, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs and state projects. In planning and performing our audit, we considered Circles of Care, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program or state project in order to determine our 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 Circles of Care, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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 for the information and use of the Board of Directors, management, federal and state awarding agencies and pass-through entities, and the Auditor General of the State of Florida, and it is not intended to be, and should not be, used by anyone other than these specified parties.



Davies, Houser & Secrest, CPA, P.A.
December 17, 2012

CIRCLES OF CARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FEDERAL AWARDS
 For the year ended June 30, 2012

I. Summary of Auditor's Results	Answers
1. Type of report issued on financial statements	Unqualified
2. Significant deficiencies in internal control disclosed by the audit of the financial statements	None
3. Noncompliance which is material to the audited financial statements	None
4. Significant deficiencies in internal control over major programs disclosed by the audit	None
5. Type of report on compliance for major programs	Unqualified
6. Audit findings required to be reported by Paragraph .510 of OMB Circular A-133	None
7. Identification of Major Federal Programs U.S. Department of Health and Human Services: Public Health Service – II: Block Grant for Community Mental Health Services Block Grant for Prevention and Treatment of Substance Abuse	CFDA #93.958 CFDA #93.959
8. Dollar threshold for Type A programs	\$300,000
9. Low risk auditee	Yes
II. Findings required to be reported in accordance with generally accepted <i>Government Auditing Standards</i>	None
III. Findings and questioned costs for federal awards as defined in Paragraph .510 of OMB Circular A-133 for the current year	None

CIRCLES OF CARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
STATE FINANCIAL ASSISTANCE PROJECTS
For the year ended June 30, 2012

I. Summary of Auditor's Results	Answers
1. Type of report issued on financial statements	Unqualified
2. Significant deficiencies in internal control disclosed by the audit of the financial statements	None
3. Noncompliance which is material to the audited financial statements	None
4. Significant deficiencies in internal control over major projects disclosed by the audit	None
5. Type of report on compliance for major projects	Unqualified
6. Audit findings required to be reported by Auditor General's Rule 10.656	None No Management Letter Issued
7. Identification of Major State Projects Department of Children and Families: Baker Act	CSFA #60.006
8. Dollar threshold for Type A projects	\$300,000
II. Findings required to be reported in accordance with generally accepted <i>Government Auditing Standards</i>	None
III. Findings and questioned costs for state financial assistance as defined by Auditor General's Rule 10.654(1)(h)(4)	None
IV. Prior year audit findings	None

CIRCLES OF CARE, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FEDERAL AWARDS PROGRAMS
For the year ended June 30, 2012

No prior year findings.