

Audit of State Financial Assistance Project

GEO Care, LLC

For the Fiscal Year Ended December 31, 2012



**CALER, DONTEN, LEVINE,
COHEN, PORTER & VEIL, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS

GEO Care, LLC

Audit of State Financial Assistance Project

For the Fiscal Year Ended December 31, 2012

AUDIT OF STATE FINANCIAL ASSISTANCE PROJECT

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Independent Auditor's Report on the Schedule
of Expenditures of State Financial Assistance

To the Board of Directors
GEO Care, LLC
Boca Raton, Florida

We have audited the accompanying Schedule of Expenditures of State Financial Assistance for the *Care and Treatment of Violent and Sexual Predator Program* (CSFA No. 60.041) of GEO Care, LLC (the "Company"), for the fiscal year ended December 31, 2012, and the related notes to the Schedule of Expenditures of State Financial Assistance.

Management's Responsibility for the Schedule of Expenditures of State Financial Assistance

Management is responsible for the preparation of the Schedule of Expenditures of State Financial Assistance in accordance with U.S. generally accepted accounting standards; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule of Expenditures of State Financial Assistance that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Schedule of Expenditures of State Financial Assistance based on our audit. We did not audit the financial statements of GEO Care, LLC. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the financial statements of GEO Care, LLC, is based solely on the report of the other auditors. The financial statements of GEO Care, LLC were not audited in accordance with *Government Auditing Standards*. We conducted our audit in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.650, Rules of the Auditor General. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Expenditures of State Financial Assistance is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule of Expenditures of State Financial Assistance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule of Expenditures of State Financial Assistance, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedule of Expenditures of State Financial Assistance in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule of Expenditures of State Financial Assistance.

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

Opinion

In our opinion, the Schedule of Expenditures of State Financial Assistance referred to above presents fairly, in all material respects, the Company's expenditures of state financial assistance under the *Care and Treatment of Violent and Sexual Predator Program* (CSFA No. 60.041) in conformity with U.S. generally accepted accounting principles.

*Cale, Dutton, Levine,
Cohen, Porter & Veil, P.A.*

West Palm Beach, Florida
May 3, 2013



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Independent Auditor's Report on Compliance With Requirements That Could Have a
Direct and Material Effect on Each Major State Project and on Internal Control Over
Compliance in Accordance With Chapter 10.650, Rules of the Auditor General

To the Board of Directors
GEO Care, LLC
Boca Raton, Florida

Report on Compliance for Each Major State Project

We have audited GEO Care, LLC's (the "Company") compliance with the types of compliance requirements described in the Department of Financial Services' State Projects Compliance Supplement that could have a direct and material effect on the Company's major State Project for the fiscal year ended December 31, 2012. The Company's major State Project is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State Project.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Company's major State Project based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and, Chapter 10.650, Rules of the Auditor General. Those standards and Chapter 10.650, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major State Project occurred. An audit includes examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major State Project. However, our audit does not provide a legal determination of the Company's compliance.

Opinion on Major State Project

In our opinion, the Company complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major State Project for the fiscal year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the Company is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Company's internal control over compliance with the types of requirements that could have a direct and material effect on the major State Project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major State Project and to test and report on internal control over compliance in accordance with Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Company'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 State Project on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State Project will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a State Project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

*Cale, Dauter, Levine,
Cohen, Porter & Veil, P.A.*

West Palm Beach, Florida
May 3, 2013

GEO Care, LLC

Schedule of Expenditures of State Financial Assistance

For the Fiscal Year Ended December 31, 2012

Grantor/ State Project Title	CSFA Number	Grantor Contract Number	Program Expenditures	Transfers to Subrecipients
State Financial Assistance				
Florida Department of Children and Families				
Direct Award				
Care and Treatment of Violent Sexual Predator Program	60.041	LI702	\$ 24,790,536	\$ 0
Total State Financial Assistance			\$ 24,790,536	\$ 0

See notes to schedule of expenditures of state financial assistance.

GEO Care, LLC.

Notes to Schedule of Expenditures of State Financial Assistance

For the Fiscal Year Ended December 31, 2012

Note 1 - Significant Accounting Policies

Basis of Accounting: The accompanying Schedule of Expenditures of State Financial Assistance includes expenditures for the *Care and Treatment of Violent Sexual Predator Program* (CSFA No. 60.041), the sole State Project, of GEO Care, LLC (the "Company") for the fiscal year ended December 31, 2012. The Schedule of Expenditures of State Financial Assistance has been prepared on the accrual basis of accounting and is presented in accordance with the provisions of Chapter 10.650, Rules of the Auditor General. Because the Schedule of Expenditures of State Financial Assistance presents only a selected portion of the operations of the Company, it is not intended to and does not present the financial position or results of operations and cash flows of the Company. The Company did not make any payments to subrecipients from State Project funds.

Reorganization: The GEO Group, Inc. ("GEO") completed a corporate restructuring in 2012 that resulted in the conversion of GEO into a Real Estate Investment Trust ("REIT"), effective January 1, 2013. In order to operate in compliance with the REIT rules of the Internal Revenue Code, GEO was required to divest itself of all health care facility assets and related management contracts. In preparation for the divestiture, key members of the GEO management team formed a new entity, GEO Care Holdings, LLC, to acquire the health care facility assets and related management contracts of GEO. On December 1, 2012, GEO assigned the Florida Department of Children and Families (the "Department") contract to GEO Care, Inc., a C Corporation and a wholly-owned subsidiary of GEO. GEO Care, Inc. was reorganized as a Florida limited liability company on December 26, 2012 and renamed GEO Care, LLC. On December 31, 2012, all of the equity interests of GEO Care, LLC, were purchased from GEO by GEO Care Holdings, LLC. On December 31, 2012, the restructuring was completed and all other health care facility assets and related management contracts previously owned by GEO were sold to GEO Care Holdings, LLC.

Fiscal Year: During the fiscal year ended December 31, 2012, the Company transitioned from a 52/53 week fiscal year to a calendar fiscal year. The fiscal year for the Company applicable to the Company's State Project contract with the Department was January 2, 2012 to December 31, 2012.

Note 2 - Reconciliation of Program Expenditures to Program Billings

The Company accrued State Financial Assistance expenditures on a fiscal year, which began on January 2, 2012 and ended on December 31, 2012, and billed the Department each calendar month. Accordingly, there is a difference between the State Financial Assistance expenditures recorded by the Company for the fiscal year ended December 31, 2012, and the billings to the Department for the calendar year ended December 31, 2012. The difference can be reconciled as follows:

Program expenditures recorded by the Company for the fiscal year January 2, 2012 through December 31, 2012	\$ 24,790,536
Program billings to the Department for the calendar year ended December 31, 2012	<u>24,858,375</u>
Difference in fiscal reporting periods	<u>\$ 67,839</u>

GEO Care, LLC.

Notes to Schedule of Expenditures of State Financial Assistance

For the Fiscal Year Ended December 31, 2012

Note 3 - Contingency

Amounts received or receivable from the Department are subject to audit and adjustment by the State of Florida. Any disallowed claims, including amounts already received, might constitute a liability of the Company for the return of those funds. In the opinion of management, all expenditures were in compliance with the terms of the contract agreements with the Department and applicable federal and state laws and regulations.

GEO Care, LLC

Schedule of Findings and Questioned Costs -
State Financial Assistance

For the Fiscal Year Ended December 31, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *Unqualified Opinion*
Internal control over financial reporting:
Material weakness(es) identified? Yes No
Significant deficiency(ies) identified that are not
considered to be material weakness? Yes No
Noncompliance material to financial statements noted? Yes No

State Financial Assistance Project

Internal control over major State Financial Assistance Project:
Material weakness(es) identified? Yes No
Significant deficiency(ies) identified that are not
considered to be material weakness? Yes No
Type of auditor's report issued on compliance for
major State Financial Assistance Project: *Unqualified Opinion*
Any audit findings disclosed that are required to be
reported in accordance with Chapter 10.650,
Rules of the Auditor General? Yes No

Identification of Major State Financial Assistance Project:

State Project **State CSFA No.**
Florida Department of Children and Families
Direct Award
Care and Treatment of Violent Sexual Predator Program 60.041
Dollar threshold used to distinguish between Type A and
Type B programs: \$ 743,716

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

None

GEO Care, LLC

Schedule of Findings and Questioned Costs -
State Financial Assistance (Continued)

For the Fiscal Year Ended December 31, 2012

SECTION IV - OTHER MATTERS

- a) A Corrective Action Plan is not required because there were no findings required to be reported for the State Project.
- b) A Summary Schedule of Prior Audit Findings is not required because there were no prior audit findings related to the State Project.
- c) A Management Letter is not required because there were no findings related to the State Project that were required to be reported in the Management Letter.