

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

**COMBINED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

Years Ended June 30, 2012 and 2011

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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, 2012 and 2011, 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 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 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, 2012 and 2011, 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 8, 2012 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.

A handwritten signature in blue ink that reads "Moore Stephens Lovelace, P.A.".

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
November 8, 2012

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

COMBINED BALANCE SHEETS

June 30, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,037,320	\$ 4,208,144
Short-term investments	3,362,187	1,762,780
Current portion of assets whose use is limited	18,087	5,095
Accounts receivable, net	5,543,978	4,641,436
Pharmacy inventory	350,502	308,480
Other current assets	<u>718,722</u>	<u>377,274</u>
TOTAL CURRENT ASSETS	12,030,796	11,303,209
INVESTMENTS - DESIGNATED FOR CAPITAL REPLACEMENT		
ASSETS WHOSE USE IS LIMITED	16,369,335	14,124,314
PROPERTY, BUILDINGS AND EQUIPMENT, NET	37,751	33,216
DEFERRED FINANCING COSTS, NET	16,786,674	17,381,426
OTHER ASSETS	<u>161,768</u>	<u>172,552</u>
TOTAL ASSETS	<u>\$ 45,451,387</u>	<u>\$ 43,079,535</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Current portion of long-term debt	\$ 670,000	\$ 650,000
Accounts payable and accrued expenses	886,062	1,204,185
Accrued salaries and benefits	1,156,586	1,119,320
Accrued compensated absences	901,964	796,675
Resident security deposits	3,394	3,306
Deferred revenue	<u>14,851</u>	<u>524,358</u>
TOTAL CURRENT LIABILITIES	3,632,857	4,297,844
INTEREST RATE SWAP LIABILITY	1,853,000	825,000
RESERVE FOR THIRD-PARTY PAYOR SETTLEMENTS	599,108	750,000
LONG-TERM DEBT, NET OF CURRENT PORTION AND UNAMORTIZED DISCOUNT	<u>13,612,895</u>	<u>14,287,294</u>
TOTAL LIABILITIES	19,697,860	20,160,138
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted	24,233,675	21,387,426
Temporarily restricted	<u>1,519,852</u>	<u>1,531,971</u>
TOTAL NET ASSETS	<u>25,753,527</u>	<u>22,919,397</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 45,451,387</u>	<u>\$ 43,079,535</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, 2012 and 2011

	2012	2011
UNRESTRICTED REVENUES AND SUPPORT		
Net client service revenue	\$ 27,441,659	\$ 23,876,632
Grant and contract revenues	20,686,656	20,427,388
Rental and other income	1,029,736	1,006,560
Investment income	601,808	626,679
Contributions and donations	53,246	73,561
Net assets released from restriction	12,119	12,119
TOTAL UNRESTRICTED REVENUES AND SUPPORT	49,825,224	46,022,939
EXPENSES		
Salaries	22,661,039	21,463,211
Employee benefits	5,704,389	5,388,307
Professional fees	3,932,846	3,945,406
Medical and pharmacy	4,758,058	4,324,924
Building occupancy	2,843,861	2,686,974
Food services	1,335,490	1,292,017
Depreciation and amortization	1,266,087	1,263,526
Operating supplies	1,048,283	900,976
Other	886,964	862,896
Interest	570,100	642,061
Insurance	551,612	497,932
TOTAL EXPENSES	45,558,729	43,268,230
INCOME FROM OPERATIONS	4,266,495	2,754,709
OTHER GAINS (LOSSES)		
Change in fair value of interest rate swaps	(1,028,000)	234,000
Change in unrealized gain on investments	(392,246)	550,439
TOTAL OTHER LOSSES	(1,420,246)	784,439
INCREASE IN UNRESTRICTED NET ASSETS	2,846,249	3,539,148
TEMPORARILY RESTRICTED NET ASSETS		
Net assets released from restrictions	(12,119)	(12,119)
INCREASE IN NET ASSETS	2,834,130	3,527,029
NET ASSETS - BEGINNING OF YEAR	22,919,397	19,392,368
NET ASSETS - END OF YEAR	\$ 25,753,527	\$ 22,919,397

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, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 2,834,130	\$ 3,527,029
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,266,087	1,263,526
Change in fair value of interest rate swaps	1,028,000	(234,000)
Change in unrealized (gains) losses on investments	392,246	(550,439)
Loss on disposal of fixed assets	46,675	-
Changes in operating assets and liabilities:		
Accounts receivable	(902,542)	(2,759,312)
Resident security deposits, net	-	(15)
Pharmacy inventory	(42,022)	3,120
Other assets	(341,691)	267,428
Accounts payable and accrued expenses	(318,123)	(33,234)
Accrued salaries and benefits	37,266	541,507
Accrued compensated absences	105,289	46,675
Reserve for third-party payor settlements	(150,892)	-
Deferred revenue	(509,507)	(169,366)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,444,916	1,902,919
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments, net	(4,236,674)	(1,559,655)
Change in assets whose use is limited, net	(17,441)	969,450
Acquisition of property, buildings and equipment	(702,752)	(1,171,914)
NET CASH USED IN INVESTING ACTIVITIES	(4,956,867)	(1,762,119)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of borrowings	(658,873)	(655,056)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,170,824)	(514,256)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,208,144	4,722,400
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2,037,320	\$ 4,208,144

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, 2012 and 2011

NOTE 1 - NATURE OF ORGANIZATION AND BASIS OF PRESENTATION

These combined financial statements include Lakeside Behavioral Healthcare, Inc. (“LBH”), Lakeside Behavioral Healthcare Foundation, Inc. (the “Foundation”), and Lakeside Place, Inc. (“Lakeside Place”). The three entities are governed by separate Boards of Directors which include certain common 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, 2012 and 2011:

- Assessment and screening services
- Medicare-certified specialty hospital unit
- Adult and children’s crisis stabilization units (CSU)
- Short-term residential units
- Multi-level 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 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 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, 2012 and 2011 was approximately \$6,795,000 and \$6,455,000, 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 \$2,126,000 and \$1,328,000 from these donors during the fiscal years ended June 30, 2012 and 2011, 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 carrying value. The carrying value 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

Deferred financing costs of approximately \$205,000 in the combined balance sheets are presented net of accumulated amortization of approximately \$43,000 and \$32,000 at June 30, 2012 and 2011, respectively. Amortization expense relating to deferred financing costs amounted to approximately \$11,000 for each of the years ended June 30, 2012 and 2011.

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.

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 was approximately \$4,324,000 and \$4,219,000 for the years ended June 30, 2012 and 2011, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2012 and 2011.

Fundraising costs amounted to approximately \$23,000 and \$22,000 for the fiscal years ended June 30, 2012 and 2011, 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 \$15,000 and \$524,000 at June 30, 2012 and 2011, 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, 2012, 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 most recent three years.

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, 2012 and 2011, is as follows:

Designation Classification	2012	2011
Unrestricted net assets – undesignated	\$ 7,731,667	\$ 7,139,583
Unrestricted net assets – designated for capital replacement	16,369,335	14,124,314
Unrestricted net assets – board designated	132,673	123,529
	<u>\$ 24,233,675</u>	<u>\$ 21,387,426</u>

Temporarily restricted net assets are subject to donor-imposed restrictions that expire upon the passage of time or once specific actions are undertaken by the Organization. These net assets are released and reclassified to unrestricted net assets from which they are expended.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation. Such reclassifications had no effect on the change in net assets for the year ended June 30, 2011.

Subsequent Events

In preparing the combined financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 8, 2012, 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, 2012 and 2011 is presented in the following table:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents		
Health insurance imprest reserve	\$ 14,693	\$ 1,787
Resident security deposits	3,394	3,308
HUD replacement reserves	<u>37,751</u>	<u>33,216</u>
Total assets whose use is limited	<u>\$ 55,838</u>	<u>\$ 38,311</u>

Market value approximates cost for these assets.

NOTE 4 - INVESTMENTS

The composition of investments at June 30, 2012 and 2011 is as follows:

	<u>2012</u>	
	<u>Fair Value</u>	<u>Cost</u>
Money market mutual funds	\$ 5,257,722	\$ 5,257,722
Certificates of deposit	1,563,257	1,561,972
Equities	3,250,505	2,904,227
Fixed income	9,320,144	9,297,596
Real estate	160,276	126,377
Tangible assets	<u>179,618</u>	<u>225,600</u>
	19,731,522	<u>\$ 19,373,494</u>
Less current portion	<u>(3,362,187)</u>	
Total long-term portion	<u>\$ 16,369,335</u>	
	<u>2011</u>	
	<u>Fair Value</u>	<u>Cost</u>
Money market mutual funds	\$ 1,842,063	\$ 1,842,063
Certificates of deposit	1,172,699	1,161,947
Equities	3,339,990	2,740,422
Fixed income	9,157,020	9,053,088
Real estate	130,794	113,700
Tangible assets	<u>244,528</u>	<u>225,600</u>
	15,887,094	<u>\$ 15,136,820</u>
Less current portion	<u>(1,762,780)</u>	
Total long-term portion	<u>\$ 14,124,314</u>	

The fair value of financial instruments is based upon three levels of valuation techniques. Level 1 valuation techniques use 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.

NOTE 4 - INVESTMENTS (Continued)

As of June 30, 2012 and 2011, equity and fixed income securities, exchange-traded certificates of deposit, and real estate and tangible asset mutual funds 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). It is impracticable to determine the fair value of the Organization's variable rate debt because of the credit enhancement.

The following summarizes investment income for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Interest income	\$ 375,604	\$ 391,063
Net realized gains/losses	<u>226,204</u>	<u>235,616</u>
	<u>\$ 601,808</u>	<u>\$ 626,679</u>

NOTE 5 - PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment are comprised of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Land	\$ 3,069,559	\$ 3,069,559
Buildings and improvements	23,458,624	22,749,084
Furniture and equipment	2,510,177	5,989,373
Vehicles	<u>799,994</u>	<u>1,072,972</u>
	29,838,354	32,880,988
Accumulated depreciation	<u>(13,051,680)</u>	<u>(15,659,391)</u>
	16,786,674	17,221,597
Construction in progress	<u>-</u>	<u>159,829</u>
Net property and equipment	<u>\$ 16,786,674</u>	<u>\$ 17,381,426</u>

Depreciation expense was approximately \$1,251,000 and \$1,248,000 for the years ended June 30, 2012 and 2011, respectively. Construction in progress consists primarily of costs associated with various unit renovations and other improvements (see Note 8). At June 30, 2012 and 2011, LBH had construction payables, including retainage, of approximately \$-0- and \$126,000, respectively, included in accounts payable and accrued expenses in the combined balance sheets.

During 2012, the Organization disposed of assets with a combined cost of approximately \$3,913,000 and accumulated depreciation of approximately \$3,866,000, resulting in a loss on disposal of approximately \$47,000, which is recorded in other expense in the combined statement of operations and changes in net assets. There were no disposals in the year ended June 30, 2011.

NOTE 6 - BORROWING ARRANGEMENTS

Bonds

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 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, 2014 and is collateralized by net revenues and certain property. The letter of credit has certain financial and non-financial covenants, which include, among other things, that LBH maintain minimum debt service coverage and liquid assets to funded debt ratios. As of June 30, 2012, LBH is in compliance with its debt service coverage ratio and liquid assets to funded debt ratios.

Capital Advance

The Organization 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.

LBH's borrowing arrangements consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Series 2008 Bonds, variable rate (.70% and .55% at June 30, 2012, and 2011, respectively), with interest payable monthly, plus annual principal payments beginning in July 2009.	\$ 14,350,000	\$ 14,990,000
Vehicle and equipment loans	-	18,873
	<u>14,350,000</u>	<u>15,008,873</u>
Less current portion of long-term debt	(670,000)	(650,000)
Less unamortized bond discount	(67,105)	(71,579)
Total long-term debt	<u>\$ 13,612,895</u>	<u>\$ 14,287,294</u>

NOTE 6 - BORROWING ARRANGEMENTS (Continued)

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>
2013	\$ 670,000
2014	700,000
2015	730,000
2016	765,000
2017	795,000
Thereafter	<u>10,690,000</u>
Total	<u>\$ 14,350,000</u>

Cash paid for interest for the years ended June 30, 2012 and 2011, was approximately \$570,000 and \$643,000, respectively. There was no interest capitalized in connection with construction projects during the years ended June 30, 2012 and 2011.

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 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 \$7,102,500 and \$7,468,000 at June 30, 2012 and 2011, respectively. The fair value of the August Swap resulted in liabilities of approximately \$1,240,000 and \$787,000 at June 30, 2012 and 2011, respectively.

LBH also 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 at 2.18% and receives interest at 67% of LIBOR. The December Swap has certain cancellation options and will expire in July 2027. The notional amount on the December Swap was \$7,247,500 and \$7,523,000 at June 30, 2012 and 2011, respectively. The fair value of the December Swap resulted in liabilities of approximately \$613,000 and \$38,000 at June 30, 2012 and 2011, respectively.

LBH recorded liabilities of \$1,853,000 and \$825,000, representing the amount it would have to pay to terminate the swap agreements at June 30, 2012 and 2011, 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 an increase (decrease) in net assets of approximately (\$1,028,000) and \$234,000 for the years ended June 30, 2012 and 2011, respectively. As of June 30, 2012, the Organization is exposed to the risk of counterparty nonperformance in the amount of the Swap Agreements’ fair value; however, counterparty nonperformance is not anticipated.

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, 2012 and 2011 by payor source.

Net client service revenue for the years ended June 30, 2012 and 2011 was comprised of the following:

	<u>2012</u>	<u>2011</u>
Medicaid	\$ 2,098,384	\$ 1,929,167
Medicare	7,442,026	6,713,433
Managed care	17,091,349	14,320,731
Clients and other third-party payors	809,900	913,301
	<u>\$ 27,441,659</u>	<u>\$ 23,876,632</u>

Grant and contract revenues for the years ended June 30, 2012 and 2011 were comprised of the following:

	<u>2012</u>	<u>2011</u>
Florida Department of Children and Families	\$ 11,483,842	\$ 11,465,885
Orange County	5,756,650	5,716,162
Others	3,446,164	3,245,341
	<u>\$ 20,686,656</u>	<u>\$ 20,427,388</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, interest rate swaps, 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.

NOTE 8 - COMMITMENTS AND CONTINGENCIES (Continued)

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. Such 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 a construction contract in May 2011 for an improvement for approximately \$656,000, of which \$7,727 had been paid as of June 30, 2011. The improvement was completed during the year ended June 30, 2012 and no amounts remain payable as of June 30, 2012.

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 \$668,000 and \$541,000 for the years ended June 30, 2012 and 2011, respectively.

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 Substance Abuse and Mental Health, Medicaid, Medicare, Agency for Health Care Administration and other programs. Management has recorded a provision for estimated regulatory 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.

Leases

The Organization has entered into a leasing arrangement with a third party to lease approximately 19,000 square feet of its facility at Mercy Drive. The lease was entered into in July 2008 and expires in June 2013. The lease calls for the payment of base rent, which increases 4% on each anniversary date. Base rent at inception was \$255,180, and the Organization recognized approximately \$287,000 and \$276,000 in rental income for the years ended June 30, 2012 and 2011, respectively.

NOTE 8 - COMMITMENTS AND CONTINGENCIES (Continued)**Leases (Continued)**

The Organization also has entered into a leasing arrangement with another third party to lease its facilities on West Kennedy Boulevard. The lease was entered into in September 2007 and expires in September 2017. The lease calls for the payment of base rent of \$114,491, which increases 3% on each anniversary date. In addition, an amendment calls for the payment of \$500 a month for parking. During the years ended June 30, 2012 and 2011, the Organization recorded approximately \$135,000 and \$130,000, respectively.

Minimum rents expected to be received during the next five years and thereafter are approximately:

<u>Year Ending June 30,</u>	<u>Amount</u>
2013	\$ 436,000
2014	142,000
2015	147,000
2016	152,000
2017	155,000
Thereafter	<u>39,000</u>
Total	<u>\$ 1,071,000</u>

NOTE 9 - FUNCTIONAL EXPENSES

Operating expenses for the years ended June 30, 2012 and 2011 are summarized on a functional basis, as follows:

	<u>2012</u>	<u>2011</u>
Program services		
Inpatient services	\$ 15,945,388	\$ 15,677,090
Outpatient services	8,041,899	7,488,476
Pharmacy	3,756,335	3,403,933
Crisis support emergency	3,720,861	3,508,779
Residential services	1,390,174	1,271,367
FACT	1,037,484	987,023
Other	1,197,818	853,995
Transportation	<u>753,224</u>	<u>743,190</u>
Total program services	<u>35,843,183</u>	<u>33,933,853</u>
Supporting services	6,148,124	6,128,689
Administrative services	<u>3,435,804</u>	<u>2,980,986</u>
Total LBH expenses	<u>45,427,111</u>	<u>43,043,528</u>
Foundation and Lakeside Place expenses	148,815	131,433
Eliminations	<u>(17,197)</u>	<u>93,269</u>
Total expenses	<u>\$ 45,558,729</u>	<u>\$ 43,268,230</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, 2012 and 2011, and have issued our report thereon dated November 8, 2012, 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 18 through 23, the program/cost center's actual revenues and expenses schedule appearing on pages 24 and 25, and the schedule of state earnings appearing on page 26, 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, 2012, appearing on pages 29 and 30 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.

Moore Stephens Lovelace, P.A.

MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
November 8, 2012

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

COMBINING BALANCE SHEETS

June 30, 2012

ASSETS	Lakeside Behavioral Healthcare, Inc.	Lakeside Behavioral Healthcare Foundation, Inc.	Lakeside Place, Inc.	Eliminations	Combined
CURRENT ASSETS					
Cash and cash equivalents	\$ 1,976,623	\$ 60,497	\$ 200	\$ -	\$ 2,037,320
Short-term investments	3,274,689	87,498	-	-	3,362,187
Current portion of assets whose use is limited	14,693	-	3,394	-	18,087
Accounts receivable, net	5,543,519	-	459	-	5,543,978
Pharmacy inventory	350,502	-	-	-	350,502
Other current assets	718,722	-	-	-	718,722
TOTAL CURRENT ASSETS	11,878,748	147,995	4,053	-	12,030,796
INVESTMENTS - DESIGNATED FOR CAPITAL REPLACEMENT	15,703,639	665,696	-	-	16,369,335
ASSETS WHOSE USE IS LIMITED	-	-	37,751	-	37,751
DUE FROM AFFILIATES	46,058	-	-	(46,058)	-
INTEREST IN NET ASSETS OF FOUNDATION	813,550	-	-	(813,550)	-
PROPERTY, BUILDINGS AND EQUIPMENT, NET	15,708,407	-	1,078,267	-	16,786,674
DEFERRED FINANCING COSTS, NET	161,768	-	-	-	161,768
OTHER ASSETS	64,063	-	1,000	-	65,063
TOTAL ASSETS	<u>\$44,376,233</u>	<u>\$ 813,691</u>	<u>\$ 1,121,071</u>	<u>\$ (859,608)</u>	<u>\$45,451,387</u>
LIABILITIES AND NET ASSETS (DEFICIT)					
CURRENT LIABILITIES					
Current portion of long-term debt	\$ 670,000	\$ -	\$ -	\$ -	\$ 670,000
Accounts payable and accrued expenses	886,062	-	-	-	886,062
Accrued salaries and benefits	1,156,586	-	-	-	1,156,586
Accrued compensated absences	901,964	-	-	-	901,964
Resident security deposits	-	-	3,394	-	3,394
Deferred revenue	14,851	-	-	-	14,851
TOTAL CURRENT LIABILITIES	3,629,463	-	3,394	-	3,632,857
INTEREST RATE SWAP LIABILITY	1,853,000	-	-	-	1,853,000
RESERVE FOR THIRD-PARTY PAYOR SETTLEMENTS	599,108	-	-	-	599,108
DUE TO AFFILIATES	-	141	45,917	(46,058)	-
LONG-TERM DEBT, NET OF CURRENT PORTION AND UNAMORTIZED DISCOUNT	13,612,895	-	-	-	13,612,895
TOTAL LIABILITIES	19,694,466	141	49,311	(46,058)	19,697,860
COMMITMENTS AND CONTINGENCIES					
NET ASSETS (DEFICIT)					
Unrestricted	24,524,215	813,550	(290,540)	(813,550)	24,233,675
Temporarily restricted	157,552	-	1,362,300	-	1,519,852
TOTAL NET ASSETS (DEFICIT)	<u>24,681,767</u>	<u>813,550</u>	<u>1,071,760</u>	<u>(813,550)</u>	<u>25,753,527</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u>\$44,376,233</u>	<u>\$ 813,691</u>	<u>\$ 1,121,071</u>	<u>\$ (859,608)</u>	<u>\$45,451,387</u>

See Report of Independent Certified Public Accountants
on Supplemental Information.

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

COMBINING BALANCE SHEETS *(Continued)*

June 30, 2011

	Lakeside Behavioral Healthcare, Inc.	Lakeside Behavioral Healthcare Foundation, Inc.	Lakeside Place, Inc.	Eliminations	Combined
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 4,157,076	\$ 50,771	\$ 297	\$ -	\$ 4,208,144
Short-term investments	1,675,282	87,498	-	-	1,762,780
Current portion of assets whose use is limited	1,787	-	3,308	-	5,095
Accounts receivable, net	4,638,082	3,187	167	-	4,641,436
Pharmacy inventory	308,480	-	-	-	308,480
Other current assets	377,274	-	-	-	377,274
TOTAL CURRENT ASSETS	11,157,981	141,456	3,772	-	11,303,209
INVESTMENTS - DESIGNATED FOR CAPITAL REPLACEMENT	13,468,305	656,009	-	-	14,124,314
ASSETS WHOSE USE IS LIMITED	-	-	33,216	-	33,216
DUE FROM AFFILIATES	34,822	-	-	(34,822)	-
INTEREST IN NET ASSETS OF FOUNDATION	796,648	-	-	(796,648)	-
PROPERTY, BUILDINGS AND EQUIPMENT, NET	16,269,690	-	1,111,736	-	17,381,426
DEFERRED FINANCING COSTS, NET	172,552	-	-	-	172,552
OTHER ASSETS	63,818	-	1,000	-	64,818
TOTAL ASSETS	\$ 41,963,816	\$ 797,465	\$ 1,149,724	\$ (831,470)	\$ 43,079,535
LIABILITIES AND NET ASSETS (DEFICIT)					
CURRENT LIABILITIES					
Current portion of long-term debt	\$ 650,000	\$ -	\$ -	\$ -	\$ 650,000
Accounts payable and accrued expenses	1,204,185	-	-	-	1,204,185
Accrued salaries and benefits	1,119,320	-	-	-	1,119,320
Accrued compensated absences	796,675	-	-	-	796,675
Resident security deposits	-	-	3,306	-	3,306
Deferred revenue	524,358	-	-	-	524,358
TOTAL CURRENT LIABILITIES	4,294,538	-	3,306	-	4,297,844
INTEREST RATE SWAP LIABILITY	825,000	-	-	-	825,000
RESERVE FOR THIRD-PARTY PAYOR SETTLEMENTS	750,000	-	-	-	750,000
DUE TO AFFILIATES	-	817	34,005	(34,822)	-
LONG-TERM DEBT, NET OF CURRENT PORTION AND UNAMORTIZED DISCOUNT	14,287,294	-	-	-	14,287,294
TOTAL LIABILITIES	20,156,832	817	37,311	(34,822)	20,160,138
COMMITMENTS AND CONTINGENCIES					
NET ASSETS (DEFICIT)					
Unrestricted	21,637,313	796,648	(249,887)	(796,648)	21,387,426
Temporarily restricted	169,671	-	1,362,300	-	1,531,971
TOTAL NET ASSETS (DEFICIT)	21,806,984	796,648	1,112,413	(796,648)	22,919,397
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 41,963,816	\$ 797,465	\$ 1,149,724	\$ (831,470)	\$ 43,079,535

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, 2012

	Lakeside Behavioral Healthcare, Inc.	Lakeside Behavioral Healthcare Foundation, Inc.	Lakeside Place, Inc.	Eliminations	Combined
UNRESTRICTED REVENUES AND SUPPORT					
Net client service revenue	\$ 27,441,659	\$ -	\$ -	\$ -	\$ 27,441,659
Grant and contract revenues	20,686,656	-	-	-	20,686,656
Rental and other income	993,581	-	70,254	(34,099)	1,029,736
Investment income	553,443	48,349	16	-	601,808
Contributions and donations	24,403	40,962	-	-	65,365
TOTAL UNRESTRICTED REVENUES AND SUPPORT	49,699,742	89,311	70,270	(34,099)	49,825,224
EXPENSES					
Salaries	22,661,039	-	-	-	22,661,039
Employee benefits	5,704,389	-	-	-	5,704,389
Professional fees	3,926,788	-	17,221	(11,163)	3,932,846
Medical and pharmacy	4,758,058	-	-	-	4,758,058
Building occupancy	2,818,803	-	47,994	(22,936)	2,843,861
Food services	1,335,490	-	-	-	1,335,490
Depreciation and amortization	1,230,349	-	35,738	-	1,266,087
Operating supplies	1,048,283	-	-	-	1,048,283
Other	847,620	37,892	1,452	-	886,964
Interest	568,992	-	1,108	-	570,100
Insurance	544,202	-	7,410	-	551,612
Change in net assets of Foundation	(16,902)	-	-	16,902	-
TOTAL EXPENSES	45,427,111	37,892	110,923	(17,197)	45,558,729
NET INCOME (LOSS) FROM OPERATIONS	4,272,631	51,419	(40,653)	(16,902)	4,266,495
OTHER GAINS (LOSSES)					
Change in fair value of interest rate swaps	(1,028,000)	-	-	-	(1,028,000)
Change in unrealized gain on investments	(357,729)	(34,517)	-	-	(392,246)
TOTAL OTHER GAINS (LOSSES)	(1,385,729)	(34,517)	-	-	(1,420,246)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	2,886,902	16,902	(40,653)	(16,902)	2,846,249
NET ASSETS RELEASED FROM RESTRICTIONS	(12,119)	-	-	-	(12,119)
INCREASE (DECREASE) IN NET ASSETS	2,874,783	16,902	(40,653)	(16,902)	2,834,130
NET ASSETS - BEGINNING OF YEAR	21,806,984	796,648	1,112,413	(796,648)	22,919,397
NET ASSETS - END OF YEAR	\$ 24,681,767	\$ 813,550	\$ 1,071,760	\$ (813,550)	\$ 25,753,527

See Report of Independent Certified Public Accountants
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LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

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

Year Ended June 30, 2011

	Lakeside Behavioral Healthcare, Inc.	Lakeside Behavioral Healthcare, Foundation, Inc.	Lakeside Place, Inc.	Eliminations	Combined
UNRESTRICTED REVENUES AND SUPPORT					
Net client service revenue	\$ 23,876,632	\$ -	\$ -	\$ -	\$ 23,876,632
Grant and contract revenues	20,427,388	-	-	-	20,427,388
Rental and other income	959,490	-	66,103	(19,033)	1,006,560
Investment income	604,700	21,962	17.00	-	626,679
Contributions and donations	35,441	50,239	-	-	85,680
TOTAL UNRESTRICTED REVENUES AND SUPPORT	45,903,651	72,201	66,120	(19,033)	46,022,939
EXPENSES					
Salaries	21,463,211	-	-	-	21,463,211
Employee benefits	5,388,307	-	-	-	5,388,307
Professional fees	3,934,865	1,210	20,364	(11,033)	3,945,406
Medical and pharmacy	4,324,924	-	-	-	4,324,924
Building occupancy	2,665,545	-	29,429	(8,000)	2,686,974
Food services	1,292,017	-	-	-	1,292,017
Depreciation and amortization	1,228,136	-	35,390	-	1,263,526
Operating supplies	900,888	-	88	-	900,976
Other	827,152	34,627	1,117	-	862,896
Interest	640,953	-	1,108	-	642,061
Insurance	489,832	-	8,100	-	497,932
Change in net assets of Foundation	(112,302)	-	-	112,302	-
TOTAL EXPENSES	43,043,528	35,837	95,596	93,269	43,268,230
NET INCOME (LOSS) FROM OPERATIONS	2,860,123	36,364	(29,476)	(112,302)	2,754,709
OTHER GAINS (LOSSES)					
Change in fair value of interest rate swap	234,000	-	-	-	234,000
Change in unrealized gain on investments	474,501	75,938	-	-	550,439
TOTAL OTHER GAINS (LOSSES)	708,501	75,938	-	-	784,439
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	3,568,624	112,302	(29,476)	(112,302)	3,539,148
TEMPORARILY RESTRICTED CONTRIBUTIONS	(12,119)	-	-	-	(12,119)
INCREASE (DECREASE) IN NET ASSETS	3,556,505	112,302	(29,476)	(112,302)	3,527,029
NET ASSETS - BEGINNING OF YEAR	18,250,479	684,346	1,141,889	(684,346)	19,392,368
NET ASSETS - END OF YEAR	\$ 21,806,984	\$ 796,648	\$ 1,112,413	\$ (796,648)	\$ 22,919,397

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LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

COMBINING STATEMENTS OF CASH FLOWS

Year Ended June 30, 2012

	<u>Lakeside Behavioral Healthcare, Inc.</u>	<u>Lakeside Behavioral Healthcare Foundation, Inc.</u>	<u>Lakeside Place, Inc.</u>	<u>Eliminations</u>	<u>Combined</u>
CASH FLOWS FROM OPERATING ACTIVITIES					
Increase (decrease) in net assets	\$ 2,874,783	\$ 16,902	\$ (40,653)	\$ (16,902)	\$ 2,834,130
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:					
Depreciation and amortization	1,230,349	-	35,738	-	1,266,087
Change in fair value of interest rate swaps	1,028,000	-	-	-	1,028,000
Change in unrealized (gains) losses on investments	357,729	34,517	-	-	392,246
Loss on disposal of fixed assets	46,675	-	-	-	46,675
Changes in operating assets and liabilities:					
Accounts receivable	(905,437)	3,187	(292)	-	(902,542)
Pharmacy inventory	(42,022)	-	-	-	(42,022)
Amounts due from (to) affiliates	(11,236)	(676)	11,912	-	-
Other assets	(341,693)	-	2	-	(341,691)
Accounts payable and accrued expenses	(318,123)	-	-	-	(318,123)
Accrued salaries and benefits	37,266	-	-	-	37,266
Accrued compensated absences	105,289	-	-	-	105,289
Reserve for third-party payor settlements	(150,892)	-	-	-	(150,892)
Deferred revenues	(509,507)	-	-	-	(509,507)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,401,181	53,930	6,707	(16,902)	3,444,916
CASH FLOWS FROM INVESTING ACTIVITIES					
Change in investments, net	(4,209,372)	(44,204)	-	16,902	(4,236,674)
Change in assets whose use is limited, net	(12,906)	-	(4,535)	-	(17,441)
Acquisition of property, buildings and equipment	(700,483)	-	(2,269)	-	(702,752)
NET CASH USED IN INVESTING ACTIVITIES	(4,922,761)	(44,204)	(6,804)	16,902	(4,956,867)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayments of borrowings	(658,873)	-	-	-	(658,873)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,180,453)	9,726	(97)	-	(2,170,824)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>4,157,076</u>	<u>50,771</u>	<u>297</u>	<u>-</u>	<u>4,208,144</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,976,623</u>	<u>\$ 60,497</u>	<u>\$ 200</u>	<u>\$ -</u>	<u>\$ 2,037,320</u>

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LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

COMBINING STATEMENTS OF CASH FLOWS (Continued)

Year Ended June 30, 2011

	Lakeside Behavioral Healthcare, Inc.	Lakeside Behavioral Healthcare, Foundation, Inc.	Lakeside Place, Inc.	Eliminations	Combined
CASH FLOWS FROM OPERATING ACTIVITIES					
Increase (decrease) in net assets	\$ 3,556,505	\$ 112,302	\$ (29,476)	\$ (112,302)	\$ 3,527,029
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:					
Depreciation and amortization	1,228,136	-	35,390	-	1,263,526
Change in fair value of interest rate swaps	(234,000)	-	-	-	(234,000)
Change in unrealized (gains) losses on investments	(474,501)	(75,938)	-	-	(550,439)
Changes in operating assets and liabilities:					
Accounts receivable	(2,759,960)	813	(165)	-	(2,759,312)
Resident security deposits, net	-	-	(15)	-	(15)
Pharmacy inventory	3,120	-	-	-	3,120
Amounts due from (to) affiliates	7,666	539	(8,205)	-	-
Other assets	267,428	-	-	-	267,428
Accounts payable and accrued expenses	(33,234)	-	-	-	(33,234)
Accrued salaries and benefits	541,507	-	-	-	541,507
Accrued compensated absences	46,675	-	-	-	46,675
Deferred revenues	(169,366)	-	-	-	(169,366)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,979,976	37,716	(2,471)	(112,302)	1,902,919
CASH FLOWS FROM INVESTING ACTIVITIES					
Change in investments, net	(1,553,724)	(118,233)	-	112,302	(1,559,655)
Change in assets whose use is limited, net	964,779	-	4,671	-	969,450
Acquisition of property, buildings and equipment	(1,169,185)	-	(2,729)	-	(1,171,914)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(1,758,130)	(118,233)	1,942	112,302	(1,762,119)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayments of borrowings	(655,056)	-	-	-	(655,056)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(433,210)	(80,517)	(529)	-	(514,256)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	4,590,286	131,288	826	-	4,722,400
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,157,076	\$ 50,771	\$ 297	\$ -	\$ 4,208,144

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 # GH121 and GH122 PERIOD FROM: 07/01/11 TO: 06/30/12

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	Administration	Total Funding (F+G)				
	STATE DESIGNATED SAMH COST CENTERS																	
	B ₁₋₄	B ₂₋₃	B _{2-b}	B _{2-a}	FACT Incidental Funds	FACT	CCST	Medical Sys.	Short Term Residential	Room & Board Level II					Room & Board Level III	Total for State SAMH-Funded Cost Centers (C ₁ +...+C ₁₂)	E	F
IA. TOTAL STATE SAMH FUNDING																		
(1) From the District funding this contract	\$ 1,217,966	\$ 2,197,652	\$ 884,275	\$ 945,600	\$ 76,901	\$ 1,209,260	\$ 1,076,992	\$ 2,655,790	\$ 415,864	\$ 599,575	\$ 11,079,095	\$ -	\$ -	\$ 11,079,095	\$ -	\$ -	\$ 11,079,095	\$ -
Other District Contract Funding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(2) IDP - Line of Credit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IB. OTHER GOVT. FUNDING																		
(1) Other State Agency Funding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(2) Medicaid	5,972	-	100	-	600	142,362	112,208	-	-	-	261,242	1,728,357	1,989,599	1,989,599	(811)	-	1,989,288	-
(3) Local Government	1,978,765	1,163,040	-	-	-	-	6,388	1,995,273	-	-	5,136,486	342,134	5,478,620	148,294	-	-	5,626,914	-
(4) Federal Grants and Contracts	-	-	-	-	-	13,341	-	-	-	8,159	21,500	464,495	483,995	483,995	-	-	1,062,393	-
(5) In-Kind from local govt. only	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOT. OTHER GOVT. FUNDING =	1,984,757	1,163,040	100	600	600	155,703	118,596	1,989,273	8,159	137,085	5,419,228	2,551,263	7,970,491	754,381	-	-	8,724,872	-
IC. ALL OTHER REVENUES																		
(1) 1st & 2nd Party Payments	4,675	4,462	4,528	-	-	12,368	59,458	19,300	52,745	193,252	284,784	223,565	506,349	-	-	-	506,349	-
(2) 3rd Party Payments (except Medicare)	49,331	937,985	1,487,986	2,783	-	259,029	903,571	799,321	-	-	4,439,356	7,275,134	11,714,460	6,211,868	-	-	17,926,358	-
(3) Medicare	(15)	-	-	6	-	-	57,234	-	-	-	57,225	2,016,641	2,073,866	4,996,393	-	-	7,030,259	-
(4) Contributions and Donations	-	-	-	-	-	1,000	-	-	-	3,774	4,774	3,240	8,014	16,389	-	-	24,403	-
(5) Other	-	2,148,429	-	-	-	-	-	246,600	-	29	2,397,058	17,261	2,414,319	1,587,340	-	-	4,001,659	-
(6) In-Kind	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOT. ALL OTHER REVENUES =	54,041	3,090,876	1,497,812	2,789	272,395	1,014,263	1,067,221	1,067,221	52,745	137,085	7,183,197	9,535,841	16,719,038	12,771,990	-	-	29,491,028	-
TOTAL PROJECTED FUNDING =	\$ 3,256,194	\$ 6,451,569	\$ 2,176,187	\$ 948,389	\$ 76,901	\$ 1,637,358	\$ 2,613,998	\$ 5,712,274	\$ 468,609	\$ 744,789	\$ 24,089,297	\$ 12,097,104	\$ 36,179,371	\$ 13,526,371	\$ -	\$ -	\$ 49,699,742	\$ -

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 and GHJ22

PERIOD FROM: 7/1/2011 TO: 6/30/2012

PART II: ACTUAL EXPENSES

EXPENSE CATEGORIES	STATE-DESIGNATED SAMH COST CENTERS										Tot. for All State-Designated SAMH Cost Centers (D+E)	Other Support Costs (Optional) H	Adminis-tration I	Total Expenses (F+G+H+I+J)			
	STATE SAMH-FUNDED COST CENTERS																
A	B _{1a}	B _{2a}	B _{3a}	B _{4a}	B _{5a}	B _{6a}	B _{7a}	B _{8a}	B _{9a}	B _{10a}	D	E	F	G	H	I	J
IIA. PERSONNEL EXPENSES	\$ 2,231,286	\$ 2,428,491	\$ 887,272	\$ 706,986	\$ -	\$ 903,706	\$ 1,286,295	\$ 2,480,534	\$ 237,718	\$ 188,698	\$ 11,310,978	\$ 2,350,702	\$ 13,861,680	\$ 3,192,205	\$ 4,080,113	\$ 1,777,041	\$ 22,661,039
(1) Salaries	587,225	589,224	203,896	135,872	-	257,274	219,381	582,168	72,821	58,158	2,706,019	586,576	3,302,595	821,315	1,175,025	405,454	5,704,389
(2) Fringe Benefits	2,816,521	3,017,715	1,871,168	842,870	-	1,160,980	1,505,546	3,082,702	310,539	226,856	14,016,997	2,947,278	16,964,275	3,953,520	5,265,138	2,192,495	28,365,428
IIIB. OTHER EXPENSES	212,534	470,206	144,441	66,480	-	208,017	113,323	384,803	161,610	382,177	2,102,591	355,720	2,458,311	780,600	588,316	221,825	4,049,152
(1) Building Occupancy	2,505	98,129	27,679	90	-	25,000	44,600	111,510	-	255	307,798	1,937,492	2,245,290	979,164	74,516	274,645	3,573,615
(2) Professional Services	83,196	357,001	67,304	914	-	1,399	173	414,845	26,588	57	951,417	52,067	1,003,494	365,061	(44,089)	11,034	1,385,490
(3) Travel	62,515	354,180	46,615	-	15,808	1,621	442,403	484,668	1,028	2,162	1,391,010	2,833,718	4,224,728	528,895	4,361	74	4,789,058
(4) Equipment	353,173	-	-	-	-	-	-	-	-	-	353,173	-	353,173	-	-	-	353,173
(5) Food Services	57,421	65,084	20,431	16,080	-	21,080	33,559	68,374	7,524	5,819	295,342	84,998	380,340	113,267	-	50,695	544,202
(6) Insurance	36,156	88,724	28,980	9,114	-	40,905	22,557	75,523	14,417	47,822	384,178	61,651	425,829	108,000	-	35,163	568,992
(7) Subcontracted Services	82,151	44,581	10,867	21,954	-	15,780	25,043	36,004	17,180	5,168	258,718	56,514	315,232	175,951	306,578	250,622	1,048,283
(8) Interest Paid	12,717	18,861	3,101	4,112	61,083	50,828	1,714	13,177	4,620	6,532	174,785	53,306	228,081	240,101	92,326	280,230	830,718
(9) Operating Supplies & Expenses	802,338	1,492,776	348,388	117,714	76,901	364,610	683,372	1,578,904	232,077	389,892	6,196,982	5,435,466	11,634,446	3,290,939	1,072,008	1,124,288	17,061,683
(10) Other	3,720,859	4,510,491	1,420,566	960,584	76,901	1,525,590	2,189,018	4,541,606	543,516	626,848	20,215,979	8,382,744	28,598,723	7,244,459	6,277,146	3,396,783	45,427,111
(12) Donated Items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL OTHER EXPENSES =	881,301	932,960	315,899	158,842	-	314,795	358,048	905,420	111,690	220,933	3,895,888	903,399	4,803,287	1,344,837	(6,277,146)	129,022.00	-
TOT. PERSONNEL & OTH. EXP. =	3,40,808	415,411	165,519	95,203	-	132,672	217,119	421,248	44,633	34,515	1,867,928	619,186	2,487,114	948,991	-	(3,435,605)	-
TOT. DISTRD INDIRECT COSTS =	921,909	1,348,371	482,418	254,045	-	447,467	575,187	1,326,666	156,323	255,448	5,767,816	1,522,585	7,290,401	2,293,528	(6,277,146)	(3,306,783)	-
TOTAL PROJECTED OPER. EXPENSES =	\$ 4,842,768	\$ 5,855,862	\$ 1,902,884	\$ 1,214,629	\$ 76,901	\$ 1,973,057	\$ 2,764,165	\$ 5,986,274	\$ 699,839	\$ 882,296	\$ 25,893,785	\$ 9,905,329	\$ 35,889,124	\$ 9,537,887	\$ -	\$ -	\$ 45,427,111
IIIE. TOTAL SAMH LINES OF CREDIT EQUIVALENT =	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOT. ALLOWABLE PROJTD OPERATING EXP.	\$ 4,842,768	\$ 5,855,862	\$ 1,902,984	\$ 1,214,629	\$ 76,901	\$ 1,973,057	\$ 2,764,165	\$ 5,986,274	\$ 699,839	\$ 882,296	\$ 25,885,795	\$ 9,905,329	\$ 35,888,124	\$ 9,537,887	\$ -	\$ -	\$ 45,427,111
Excluding SAMH Credit Equivalent =	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

IIIE. TOTAL SAMH LINES OF CREDIT EQUIVALENT =

TOT. ALLOWABLE PROJTD OPERATING EXP. Excluding SAMH Credit Equivalent =

See Report of Independent Certified Public Accountants
on Supplemental Information.

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

SCHEDULE OF STATE EARNINGS

Year Ended June 30, 2012

1	Total Expenditures	\$ 45,427,111
2	Less Other State and Federal Funds	(3,502,705)
3	Less Non-Match SAMH Funds	(4,831,750)
4	Less Unallowable Costs (65E-14, F.A.C.)	(9,833,317)
5	Less Unallowable Patient Fees	<u>-</u>
6	Net Allowable Expenditures (Sum of lines 1, 2, 3, 4, and 5)	<u>\$ 27,259,339</u>
7	Maximum Available Earnings (Line 6 times 75%)	\$ 20,444,504
8	Amount of State Funds Requiring Match	<u>(6,289,202)</u>
9	Excess Match	<u>\$ 14,155,302</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, 2012

Program	Cost Center	State Contracted Rate	Total Units of Service Provided	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)
				Local Govt. or Other State Agencies	(D-E) F				
Children's MH		\$ 309.64	7,296	2,628	4,668	\$ 684,278	\$ 1,445,400	\$ -	
Adult MH		\$ 293.74	20,808	13,583	7,225	\$ 1,832,065	\$ 2,122,272	\$ -	
Adult MH		\$ 253.33	21,540	9,831	11,709	\$ 2,604,129	\$ 2,966,241	\$ -	
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, 2012

	Related Party	Allocation of Related-Party Transactions Adjustment State-Designated Cost Centers			TOTAL
		1	2	3	
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, 2012

<u>Federal Grantor/Pass-Through Grantor Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Contract / Grant Number</u>	<u>Federal Expenditures Recognized</u>
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	32,373
Pass-through:			
City of Orlando			
Community development block grant - CDBG	14.218	B-10-MC-12-0015	8,159
Homeless Services Network of Central Florida, Inc.			
SHP Grant	14.235	FL0083B4H070800	147,894
SHP Grant Permanent Housing	14.235	FL0330B4H070900	18,996
Subtotal			<u>166,890</u>
Total U.S. Department of Housing and Urban Development			1,569,722
U.S. Department of Justice			
Pass-through:			
Orange County, Florida			
DJMH Collaboration	16.745	2010 MO BX 0025	86,185
STOP Violence Against Women Formula Program	16.588	N/A	21,698
Total U.S. Department of Justice			<u>107,883</u>
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	<u>13,341</u>
Total U.S. Department of Education Rehabilitation Services Administration			13,341
U.S. Department of Health and Human Services			
Substance Abuse and Mental Health Services Administration (SAMHSA)			
Pass-through:			
Orange County, Florida			
Wraparound	93.104	5U79SM059038-02	99,880
Florida Department of Children and Families			
Projects for Assistance in Transition from Homelessness	93.150	GHJ21	452,226
Lakeside Primary and Behavioral Healthcare Integration	93.243	5H79SM059716-02	480,587
Pass-through:			
Homeless Services Network of Central Florida, Inc.			
Project Hope	93.243	1593213827A1	20,630
Grand Avenue Economic Community Development Corp.			
Project Pathlight	93.243	1HM795M059094-01	81,490
Subtotal			<u>582,707</u>
Florida Department of Children and Families			
Orange County Healthy Start	93.994	COSDR	113,534
Block Grants For Community Mental Health	93.958	GHJ21/GHJ22	492,957
Total U.S. Department of Health and Human Services			<u>1,741,304</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 3,432,250</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, 2012

<u>State Grantor/Pass-Through Grantor Program or Cluster Title</u>	<u>State CSFA Number</u>	<u>Contract / Grant Number</u>	<u>State Expenditures Recognized</u>	<u>Transfer To Subrecipient</u>
STATE PROJECTS				
Florida Department of Children and Families				
Children's Baker Act Services	60.001	GHJ21	\$ 950,310	\$ -
Baker Act	60.006	GHJ21	3,112,260	-
Indigent Psychiatric Outpatient Services	60.039	GHJ21	32,212	-
Community Forensic Beds	60.114	GHJ21	139,813	-
Total Florida Department of Children and Families			<u>4,234,595</u>	<u>-</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$ 4,234,595</u>	<u>\$ -</u>

NOTE - 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 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.

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, 2012, and have issued our report thereon dated November 8, 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 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.



MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
November 8, 2012



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
CHAPTER 10.650 RULES OF THE AUDITOR GENERAL

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

Compliance

We have audited the compliance of Lakeside Behavioral Healthcare, Inc. and Affiliates (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget ("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 its major federal programs and state projects for the year ended June 30, 2012. 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*; 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 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, 2012.

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.



MOORE STEPHENS LOVELACE, P.A.
Certified Public Accountants

Orlando, Florida
November 8, 2012

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

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?	<u> </u>	Yes	<u> X </u> No
Significant deficiency(ies) identified?	<u> </u>	Yes	<u> X </u> None Reported
Noncompliance material to financial statements noted	<u> </u>	Yes	<u> X </u> No

Federal Awards and State Financial Assistance

Internal control over major federal programs and state projects:			
Material weakness(es) identified?	<u> </u>	Yes	<u> X </u> No
Significant deficiency(ies) identified?	<u> </u>	Yes	<u> X </u> None Reported
Type of auditor's report issued on compliance for major federal 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 10.656, Rules of the Auditor General?	<u> </u>	Yes	<u> X </u> No

LAKESIDE BEHAVIORAL HEALTHCARE, INC. AND AFFILIATES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS *(Continued)*

Year Ended June 30, 2012

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/CSFA Number(s)
Supportive Housing for Persons with Disabilities	14.181
Projects for Assistance in Transition from Homelessness	93.150
State Projects	
Baker Act	60.006
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.