

**INDEPENDENT AUDITORS' REPORT
AND
COMBINING FINANCIAL STATEMENTS**

**MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA**

JUNE 30, 2012

**INDEPENDENT AUDITORS' REPORT
AND
COMBINING FINANCIAL STATEMENTS**

**MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA**

JUNE 30, 2012

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Meridian Behavioral Healthcare, Inc.
Gainesville, Florida

We have audited the accompanying combining balance sheet of Meridian Behavioral Healthcare, Inc. (the Corporation) a nonprofit corporation, as of June 30, 2012, and the related combining statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These combining financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these combining financial statements based on our audit. We did not audit the financial statements of the New Horizons Properties, which represent 10.9%, (1.5%), and 1.1%, respectively, of the assets, net assets, and revenues of the Corporation. Those financial statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the New Horizons Properties, is based solely on the reports of the other auditors. The prior year summarized comparative information has been derived from the Corporation's 2011 combining financial statements and in our report dated October 20, 2011, we expressed an unqualified opinion on those combining financial statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combining financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the combining financial statements referred to above present fairly, in all material respects, the financial position of the Corporation and its New Horizons Properties as of June 30, 2012, and the respective changes in net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants

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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Directors
Meridian Behavioral Healthcare, Inc.
Gainesville, Florida

INDEPENDENT AUDITORS' REPORT
(Concluded)

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2012, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the combining financial statements as a whole. The accompanying schedules of functional revenues and expenses; state earnings for alcohol, drug abuse, and mental health services - Circuits 3 and 8, and schedule of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by the State of Florida Department of Children and Families; 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 are not a required part of the combining financial statements. The information has been subjected to the auditing procedures applied in the audit of the combining financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combining financial statements or to the combining 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 combining financial statements taken as a whole.

Purvis, Gray and Company, LLP

October 19, 2012
Gainesville, Florida

**MANAGEMENT'S DISCUSSION AND ANALYSIS
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The management's discussion and analysis of Meridian Behavioral Healthcare, Inc.'s financial performance offers an overview of the agency's financial activities during the fiscal year that ended June 30, 2012. While the analysis provides a snapshot of Meridian's performance as a whole, the reader is directed to the basic financial statements and the notes to these for a more detailed understanding of the financial performance.

FINANCIAL HIGHLIGHTS

- The assets of Meridian Behavioral Healthcare, Inc. exceeded its liabilities at the close of the fiscal year ended June 30, 2012, by \$9.38 million. Total net assets increased \$172 thousand during the year ended June 30, 2012. Total net assets were divided as follows at June 30, 2012: Invested in Capital Assets, Net of Related Debt of \$1.64 million; Endowed Investments of \$372 thousand; and Unrestricted of \$7.36 million for total ending Net Assets of \$9.38 million.
- State and Federal revenues accounted for \$11.88 million or 37% of total revenue. Medicaid accounted for \$13.04 million or 41%. County revenues accounted for \$1.25 million or 4% of total revenue and other county revenues totaled \$1.8 million or 6% of revenues. The remaining \$3.5 million or 12% of revenue was generated principally from client and insurance fees, other contracts, and interest income.
- Salaries and benefits of \$22 million represented 70% of total expense. This is an increase of \$1.66 million over fiscal year 2011. Contractual services represented \$1.2 million or 3.9% of total expenses for a total of \$23.3 million or 74% of Meridian Behavioral Healthcare, Inc.'s total expenses of \$31.3 million. Equipment and facilities expenses and related interest expense accounted for \$2.28 million or 7.2% of total expenses. Expenses related to program operating costs such as insurance, supplies and travel represented \$2.47 million or 7.8% of total expenses.
- Total assets decreased \$465 thousand, a .27% decrease from 2011. Total liabilities decreased \$648 thousand, an 8.1% decrease.

USING THIS ANNUAL FINANCIAL REPORT

This report consists of a series of financial statements, the notes to those statements, and supplementary information to allow readers to review the financial activities of Meridian Behavioral Healthcare, Inc. as a whole or to obtain more detailed information, as the reader may prefer.

OVERVIEW OF THE FINANCIAL STATEMENTS

The "totals" column in each financial statement that follows is designed to give the reader a broad overview of Meridian's operations as a whole, including the financially interrelated organizations. The Balance Sheet presents information on assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in net assets may represent a useful indicator of whether Meridian's financial position is improving or deteriorating. However, in evaluating Meridian Behavioral Healthcare Inc.'s overall position, other non-financial factors should also be considered. Other factors include: the current economic situation, changes in governmental contracts for services, the age and condition of Meridian's buildings and equipment, and other contributing factors.

Meridian's financial statements are prepared on the accrual basis of accounting. This basis takes into account all revenues earned and all expenses incurred in the current year, regardless of when cash is received or paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)

REPORTING MERIDIAN BEHAVIORAL HEALTHCARE'S MOST SIGNIFICANT FUNDS

Meridian Behavioral Healthcare, Inc. is involved in one business-type activity: providing a variety of behavioral health and social services designed to help children and adults with behavioral problems. These services include treatment for mental illness and substance abuse, improve their functioning in the community, remain in intact families, and maintain their self-sufficiency. This activity is recorded in a single enterprise fund:

Net Assets

	Fiscal Year 2012	Fiscal Year 2011	% Change
Current Assets, Including Restricted	\$ 9,851,816	\$ 10,375,014	(5.04%)
Property and Equipment, Net	6,421,018	6,273,229	2.36%
Other Assets	236,930	390,122	(39.27%)
Total Assets	16,509,764	17,038,365	(3.10%)
Current Liabilities, Including Restricted	6,970,120	3,054,550	128%
Long-Term Liabilities	277,390	4,770,023	(94.18%)
Total Liabilities	7,247,510	7,824,573	(7.38%)
Net Assets Invested in Capital Assets			
Net of Related Debt	1,465,291	1,283,758	14.14%
Restricted			
Endowed Investments	372,047	372,047	0%
Net Assets - Unrestricted	7,424,916	7,557,987	(1.75%)
Total Net Assets	\$ 9,262,254	\$ 9,213,792	0.53%

Revenues, Expenses, and Changes in Net Assets

Revenues - State and Federal	\$ 11,886,822	\$ 12,001,888	.97%
Revenues - County	1,250,612	1,268,030	1.3%
Revenues - Medicare, Medicaid, Insurance, and Other	18,328,784	17,901,250	2.39%
Total Operating Revenues	31,466,218	31,171,168	.95%
Expenses - Salaries, Benefits, and Other Professional Services	(23,310,095)	(22,470,617)	3.74%
Expenses - Program Operating	(4,535,862)	(5,011,569)	(9.49%)
Expenses - Other Operating	(3,293,787)	(2,992,279)	10.06%
Total Operating Expenses	(31,139,744)	(30,474,465)	2.18%
Non Operating Revenues/(Expenses)	(278,012)	(121,449)	129%
Change in Net Assets	\$ 48,462	\$ 575,254	(70%)

MANAGEMENT'S DISCUSSION AND ANALYSIS
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)

FINANCIAL ANALYSIS OF MERIDIAN BEHAVIORAL HEALTHCARE, INC. AS A WHOLE

The Balance Sheet provides an overall view of Meridian Behavioral Healthcare, Inc. as of year-end, over time, and can serve as a useful indicator of Meridian Behavioral Healthcare, Inc.'s financial position.

Total assets decreased from \$17,038,365 in fiscal year 2011 to \$16,510,295 in fiscal year 2012, a decrease of \$528,070. This decrease in total assets is largely due to a decrease in Cash and Cash Equivalents. Cash and Cash Equivalents decreased by \$969,165.

Total liabilities decreased from \$7,824,573 in fiscal year 2011 to \$7,247,510 in fiscal year 2012, a decrease of \$577 thousand. This decrease is due to a \$420,420 decrease in liabilities from Notes, Mortgages and Bonds Payable and Interest Rate Swap of \$101,690, as well as a \$177,832 decrease in Accrued Salaries and Payroll Taxes.

The Statement of Revenues, Expenses, and Changes in Net Assets report the financial operations of the center during the current fiscal year. \$11.9 million or 37.8% of Meridian Behavioral Healthcare, Inc.'s \$31 million of revenue in 2012 was earned from services provided contracted by the Department of Children and Families (DCF) of the State of Florida and other State and Federal agencies. Client, Medicare, Medicaid, and Insurance Fees represented \$14.6 million or 46.4% of fiscal year 2012 revenues. The other significant revenue source in fiscal year 2012 was contracts with the eleven counties in which Meridian Behavioral Healthcare, Inc.'s, for which the funding totaled \$1.25 million or 4% of revenues, and other county revenues totaled \$1.8 million (5.8% of revenues). Total revenues remained relatively even with an increase of \$295 thousand from fiscal year ending 2011 to fiscal year ending 2012.

Salaries and benefits, professional development, and contractual services account for \$23.3 million or 75% of Meridian Behavioral Healthcare, Inc.'s \$31.1 million total expenses in fiscal year 2012. Equipment, facilities, and related interest expense accounted for \$2.28 million or 72% of total expenses. Expenses related to program operating expenses such as insurance, supplies and travel represented \$3 million or 9.5% of total expenses. Total expenses increased from \$30.5 million in fiscal year 2011 to \$31.1 million in fiscal year 2012, an increase of \$665 thousand.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2012, Meridian Behavioral Healthcare Inc. had \$6.42 million, net of accumulated depreciation, invested in capital assets such as furniture and equipment, land and buildings and improvements. This amount represents an increase of \$147 thousand or a 2% increase.

Debt

At year-end, Meridian had \$4.9 million in short and long-term notes and mortgages payable related to existing land and buildings, including \$76,117 in related interest rate swaps, compared to \$5.3 million at the end of fiscal year 2011.

Additional information concerning Meridian's debt can be found in the notes to the financial statements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

CURRENT ECONOMIC CONDITION AND OUTLOOK

Meridian Behavioral Healthcare Inc. is a not-for-profit corporation that provides a variety of services including outreach, prevention, treatment services to adults and children who suffer from mental illnesses and substance use disorders, supported employment, and housing programs. Services are primarily offered in a ten-county area of North Central Florida. On June 30, 2012, Meridian's primary revenue sources included contracts with the Florida Department of Children and Families \$11.6 million, (37% of total revenues), other State and Federal contracts \$228 thousand (.1% of total revenues), various Medicaid plans totaling \$13 million (41.1% of revenues), and County government, \$1.25 million (4% of revenues) and other county.

Meridian's strategic planning process emphasizes service excellence, stewardship, practice excellence, and allocation of the right resources to support these. Annual activities support the maintenance of financial stability and promotion of consumer/social impacts called for by our mission. Meridian also continuously seeks new initiatives that will improve consumer outcomes and the company's financial position. This process includes the ability to respond quickly to changes in market conditions, or to opportunities for new initiatives. During fiscal year ending 2012, Meridian continued delivering services to the majority of its Medicaid consumers through a pre-paid, capitated contract. Our Medicaid budget has remained stable as a result of this funding stream.

In fiscal year ending 2012, Meridian focused on further developing the Meridian Electronic Health Record (MEHR)'s business intelligence capabilities, which has continued to improve revenue capture while complying with new requirements for healthcare providers, such as "meaningful use" criteria. Additionally, assisted by a grant, Meridian is implementing tele-health capabilities across its clinics. During fiscal year ending 2012, Meridian's Advancement Department reached out to potential donors through continued improvement and participation of Meridian's Board of Associates. They represent business and community leaders who support community engagement. Advancement activities created donation opportunities and achieved paid, in-kind and equipment donations of \$1.55 million, an increase of \$221 thousand over prior year, largely through increases in the Patient Assistance Program.

As in the prior two years, we saw a continued emphasis on Forensic Services, Opioid Treatment Program (OTP), Outpatient Rehab Services, and CSU Emergency Services where demand has continued to grow. Integration of behavioral health and primary care continues to be developed in order to more effectively address client's medical concerns as well as mental health/substance abuse needs. Additionally, it will increase access to behavioral health services in primary care settings. We have added several sites this year, and will likely to continue to expand this presence.

Our operation, given the current financial crisis, will continue to be impacted by the declines in State and Federal revenues, initiatives to reform Medicaid and to transition DCF contracts to private Managing Entities. Reductions in program funding and these changes in DCF revenue administration could create reductions in service volume and access to care. The Affordable Care Act will also bring additional challenges during the next several years. The impact on services is not fully known at this time, though clearly managed care approaches will bring both delivery methods changes and limit care. The increasing transition of Medicaid to a managed care model offers the challenge of increased competition and possible service payment decreases or service reductions.

We have been preparing for these system transformations and are prepared to meet these challenges by reducing service lines and delivery structure, reducing expenses and managing the accompanying financial changes. New initiatives continue to be explored that can bring additional service to the consumers who form our primary population and that can further improve the financial health of the organization.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Concluded)**

CURRENT ECONOMIC CONDITION AND OUTLOOK (Concluded)

Other than those noted above, Meridian's management is not aware of any current facts, decisions, or conditions that are expected to have a significant effect on the financial condition of the agency during fiscal year 2013.

**CONTACTING MERIDIAN BEHAVIORAL HEALTHCARE, INC.'S FINANCIAL
MANAGEMENT**

This financial report is designed to provide readers with a general overview of Meridian's finances and to reflect its accountability for the revenues received. Any questions or requests for additional information can be sent to the Finance Department, Meridian Behavioral Healthcare, Inc., P.O. Box 141750, Gainesville, Florida 32614-1750.

COMBINING BALANCE SHEET
JUNE 30, 2012,
WITH COMBINED TOTALS FOR JUNE 30, 2011
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA

ASSETS

	Meridian	New	Totals	
	Behavioral Healthcare, Inc.	Horizons Properties	2012 Combined	2011 Combined
Current Assets				
Cash and Cash Equivalents	\$ 2,902,881	\$ 23,658	\$ 2,926,539	\$ 3,926,418
Certificates of Deposit	1,316,313	0	1,316,313	1,308,112
Investments	231,793	0	231,793	243,199
Accounts Receivable:				
Client Fees (Net of Allowance for Uncollectible Accounts of \$811,362 in 2012 and \$774,058 in 2011)	1,705,135	6,114	1,711,249	1,252,945
Other	147,368	0	147,368	0
Contracts and Grants Receivable	2,898,970	0	2,898,970	3,052,604
Due from HUD	0	10,119	10,119	5,237
Prepaid Expenses	211,203	0	211,203	228,405
Inventories	66,106	0	66,106	50,505
Total Current Assets	<u>9,479,769</u>	<u>39,891</u>	<u>9,519,660</u>	<u>10,067,425</u>
Restricted Assets				
Funded Reserves	0	1,101,504	1,101,504	1,090,346
Endowed Investments	372,047	0	372,047	372,047
Total Restricted Assets	<u>372,047</u>	<u>1,101,504</u>	<u>1,473,551</u>	<u>1,462,393</u>
Property, Plant and Equipment - Cost Less Depreciation	<u>6,421,018</u>	<u>863,256</u>	<u>7,284,274</u>	<u>7,169,843</u>
Other Assets				
Security Deposits	25,331	18,393	43,724	44,159
Unamortized Issue Costs	34,358	0	34,358	85,894
Due from Affiliates	101,124	0	101,124	101,124
Deferred Outflow of Resources - Interest Rate Swaps	76,117	0	76,117	177,807
Total Other Assets	<u>236,930</u>	<u>18,393</u>	<u>255,323</u>	<u>408,984</u>
Total Assets	<u>\$ 16,509,764</u>	<u>\$ 2,023,044</u>	<u>\$ 18,532,808</u>	<u>\$ 19,108,645</u>

See accompanying notes.

COMBINING BALANCE SHEET
JUNE 30, 2012,
WITH COMBINED TOTALS FOR JUNE 30, 2011
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA
(Concluded)

LIABILITIES AND NET ASSETS

	Meridian	New	Totals	
	Behavioral Healthcare, Inc.	Horizons Properties	2012 Combined	2011 Combined
Current Liabilities				
Accounts Payable	\$ 488,755	\$ 207,335	\$ 696,090	\$ 722,076
Accrued Salaries and Payroll Taxes	828,289	0	828,289	1,006,121
Accrued Vacation and Sick Leave	810,904	0	810,904	792,899
HUD Payable	0	13,102	13,102	19,102
Restricted Deferred Revenues	13,784	0	13,784	123,445
Current Portion of Long-term Liabilities	4,712,695	29,084	4,741,779	509,663
Interest Payable	0	6,752	6,752	8,555
Other	115,693	18,393	134,086	83,935
Total Current Liabilities	<u>6,970,120</u>	<u>274,666</u>	<u>7,244,786</u>	<u>3,265,796</u>
Long-term Liabilities				
Notes, Mortgages, and Bonds Payable	201,273	1,788,016	1,989,289	6,408,972
Derivative Instruments - Interest Rate Swaps	76,117	0	76,117	177,807
Due to Affiliate	0	101,124	101,124	101,124
Total Long-term Liabilities	<u>277,390</u>	<u>1,889,140</u>	<u>2,166,530</u>	<u>6,687,903</u>
Total Liabilities	<u>7,247,510</u>	<u>2,163,806</u>	<u>9,411,316</u>	<u>9,953,699</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,465,291	0	1,465,291	337,102
Endowed Investments	372,047	0	372,047	372,047
Unrestricted	7,424,916	(140,762)	7,284,154	8,445,797
Total Net Assets	<u>9,262,254</u>	<u>(140,762)</u>	<u>9,121,492</u>	<u>9,154,946</u>
Total Liabilities and Net Assets	<u>\$ 16,509,764</u>	<u>\$ 2,023,044</u>	<u>\$ 18,532,808</u>	<u>\$ 19,108,645</u>

See accompanying notes.

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012,
WITH COMBINED TOTALS FOR JUNE 30, 2011
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA

	Meridian Behavioral Healthcare, Inc.	New Horizons Properties	Totals	
			2012 Combined	2011 Combined
Operating Revenues				
State and Federal				
Mental Health:				
Adult	\$ 6,253,543	\$ 0	\$ 6,253,543	\$ 6,223,424
Children	1,455,276	0	1,455,276	1,507,283
Substance Abuse:				
Adult	2,744,886	0	2,744,886	2,770,005
Children	1,204,642	0	1,204,642	1,229,348
Healthy Kids Contract	36,000	0	36,000	45,000
Other Federal and State Contracts	107,108	0	107,108	33,267
H.U.D. Hope Grant	85,367	0	85,367	193,561
Section 8 Housing Grant	0	230,571	230,571	237,939
Medicaid Fees (Net of Provision for Bad Debts of \$388,820 in 2012 and \$329,293 in 2011)	5,148,130	0	5,148,130	4,924,848
Medicaid Prepaid Mental Health Plan	8,086,962	0	8,086,962	7,889,461
Total State and Federal	25,350,317	230,571	25,580,888	25,406,478
County				
Alachua County	695,556	0	695,556	719,224
Bradford County	88,807	0	88,807	88,807
Columbia County	195,000	0	195,000	195,000
Dixie County	42,000	0	42,000	42,000
Gilchrist County	38,000	0	38,000	38,000
Hamilton County	12,596	0	12,596	12,596
Lafayette County	9,687	0	9,687	8,748
Levy County	62,715	0	62,715	68,692
Putnam County	35,399	0	35,399	24,297
Suwannee County	26,000	0	26,000	26,000
Union County	44,852	0	44,852	44,666
Total County	1,250,612	0	1,250,612	1,268,030
Other Revenues				
Client Fees (Net of Provision for Bad Debts of \$(183,456) in 2012 and \$225,629 in 2011)	816,130	0	816,130	672,938
Insurance Fees (Net of Provision for Bad Debts of \$134,772 in 2012 and \$100,504 in 2011)	372,843	0	372,843	379,426
In-kind Services and Materials	1,473,105	0	1,473,105	1,226,128
Local Contracts	1,837,472	0	1,837,472	2,012,692
Food Stamps	46,111	0	46,111	53,534
Contributions	78,229	0	78,229	104,169
Rental Income	0	112,642	112,642	119,554
Other	241,399	875	242,274	286,836
Total Other	4,865,289	113,517	4,978,806	4,855,277
Total Operating Revenues	31,466,218	344,088	31,810,306	31,529,785

See accompanying notes.

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012,
WITH COMBINED TOTALS FOR JUNE 30, 2011
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA
(Continued)

	Meridian Behavioral Healthcare, Inc.	New Horizons Properties	Totals	
			2012 Combined	2011 Combined
Operating Expenses				
Personnel				
Salaries	\$ 18,662,725	\$ 47,000	\$ 18,709,725	\$ 17,555,084
Benefits and Taxes	3,407,517	0	3,407,517	2,853,261
Total Personnel	22,070,242	47,000	22,117,242	20,408,345
Contractual Services				
Professional Fees	1,239,853	23,731	1,263,584	2,131,425
Travel and Professional Development				
Travel	494,607	0	494,607	434,299
Training and Professional Development	129,260	0	129,260	198,985
Total Travel and Professional Development	623,867	0	623,867	633,284
Facilities				
Depreciation	474,951	64,165	539,116	568,992
Building Rental	87,607	0	87,607	91,156
Repairs and Maintenance	286,909	99,816	386,725	605,514
Utilities	554,070	51,734	605,804	584,661
Total Facilities	1,403,537	215,715	1,619,252	1,850,323
Equipment				
Depreciation	531,616	10,331	541,947	515,339
Equipment Purchases	91,336	0	91,336	122,387
Repairs and Maintenance	38,191	0	38,191	65,148
Total Equipment	661,143	10,331	671,474	702,874
Medical and Pharmacy				
Medical Supplies	202,043	0	202,043	203,839
Indigent Drugs	127,579	0	127,579	132,359
Medicine and Drugs - Regular	216,448	0	216,448	212,635
Total Medical and Pharmacy	546,070	0	546,070	548,833
Supplies				
Food/Household Supplies	624,734	0	624,734	649,957
Operating Supplies	564,652	0	564,652	604,932
Total Supplies	1,189,386	0	1,189,386	1,254,889
Subcontracted Services				
Children's Services	0	0	0	134,078
Pharmacy	0	0	0	1,444
Other Subcontracted Services	111,859	0	111,859	133,219
Total Subcontracted Services	111,859	0	111,859	268,741

See accompanying notes.

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012,
WITH COMBINED TOTALS FOR JUNE 30, 2011
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA
(Concluded)

	Meridian	New	Totals	
	Behavioral Healthcare, Inc.	Horizons Properties	2012 Combined	2011 Combined
Operating Expenses (Concluded)				
Other				
In-kind Services and Materials	\$ 1,473,105	\$ 0	\$ 1,473,105	\$ 1,226,128
Insurance and Taxes	766,936	38,562	805,498	672,903
Telephone	482,164	0	482,164	506,338
Other	571,582	9,856	581,438	620,828
Total Other	<u>3,293,787</u>	<u>48,418</u>	<u>3,342,205</u>	<u>3,026,197</u>
(Total Operating Expenses)	<u>(31,139,744)</u>	<u>(345,195)</u>	<u>(31,484,939)</u>	<u>(30,824,911)</u>
Income from Operations	<u>326,474</u>	<u>(1,107)</u>	<u>325,367</u>	<u>704,874</u>
Nonoperating Revenues (Expenses)				
Investment and Interest Income	43,164	1,334	44,498	135,268
Interest and Amortization	(321,176)	(82,143)	(403,319)	(340,754)
Gain (Loss) on Disposals	0	0	0	1,708
Total Nonoperating Revenues (Expenses)	<u>(278,012)</u>	<u>(80,809)</u>	<u>(358,821)</u>	<u>(203,778)</u>
Capital Grants and Contributions	0	0	0	0
Increase in Net Assets	48,462	(81,916)	(33,454)	501,096
Net Assets, Beginning of Year	<u>9,213,792</u>	<u>(58,846)</u>	<u>9,154,946</u>	<u>8,653,850</u>
Net Assets, End of Year	<u>\$ 9,262,254</u>	<u>\$ (140,762)</u>	<u>\$ 9,121,492</u>	<u>\$ 9,154,946</u>

See accompanying notes.

**COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012,
WITH COMBINED TOTALS FOR JUNE 30, 2011
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA**

	Meridian Behavioral Healthcare, Inc.	New Horizons Properties	Totals	
			2012 Combined	2011 Combined
Cash Flows from Operating Activities				
Cash Received from State, Federal, County and Local Contracts, Clients and Third Party Billings	\$ 29,265,140	\$ 0	\$ 29,265,140	\$ 27,463,729
Rent and Rent Subsidy Received	0	341,405	341,405	358,676
Other Income Received	172,260	875	173,135	498,168
Cash Paid to Employees	(21,881,673)	(47,000)	(21,928,673)	(20,004,026)
Cash Paid to Suppliers	(6,632,187)	(165,018)	(6,797,205)	(8,271,728)
Payroll Taxes Paid	(348,396)	0	(348,396)	(379,304)
Net Cash Provided by (Used in) Operating Activities	575,144	130,262	705,406	(334,485)
Cash Flows from Investing Activities				
Property, Plant and Equipment Purchases	(1,177,891)	(41,121)	(1,219,012)	(1,378,147)
Proceeds from Property Dispositions	23,535	0	23,535	9,748
Cash Paid for Purchase of Investments	7,141	(11,181)	(4,040)	(498,965)
Proceeds from Sale of Investments	0	0	0	0
Interest and Dividends on Investments	56,849	1,334	58,183	60,402
Net Cash Provided by (Used in) Investing Activities	(1,090,366)	(50,968)	(1,141,334)	(1,806,962)
Cash Flows from Capital and Related Financing Activities				
Repayment of Long-term Debt	(484,961)	(26,172)	(511,133)	(501,041)
Long-term Debt Proceeds Received	249,000	0	249,000	0
Interest Paid on Long-term Debt	(217,982)	(83,838)	(301,820)	(285,296)
Net Cash Provided by (Used in) Financing Activities	(453,943)	(110,010)	(563,953)	(786,337)
Net Increase (Decrease) in Cash and Cash Equivalents	(969,165)	(30,716)	(999,881)	(2,927,784)
Cash and Cash Equivalents, Beginning of Year	3,872,046	54,372	3,926,418	6,854,202
Cash and Cash Equivalents, End of Year	\$ 2,902,881	\$ 23,656	\$ 2,926,537	\$ 3,926,418
<u>Presented in the Accompanying Combining Balance Sheet As:</u>				
Cash and Cash Equivalents				
Current Assets	\$ 2,902,881	\$ 23,658	\$ 2,926,539	\$ 3,926,418
Total Cash and Cash Equivalents	\$ 2,902,881	\$ 23,658	\$ 2,926,539	\$ 3,926,418

See accompanying notes.

**COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012,
WITH COMBINED TOTALS FOR JUNE 30, 2011
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA
(Concluded)**

	Meridian Behavioral Healthcare, Inc.	New Horizons Properties	Totals	
			2012 Combined	2011 Combined
<u>Reconciliation of Excess (Deficiency) of Revenues Over (Under) Expenses to Net Cash Provided by (Used in) Operating Activities</u>				
Excess (Deficiency) of Revenues Over (Under) Expenses	\$ 326,474	\$ (1,107)	\$ 325,367	\$ 704,874
Reconciling Adjustments:				
Depreciation	1,006,567	74,496	1,081,063	1,084,331
Bad Debt Expense	943,571	0	943,571	917,522
(Decrease) in Gross Receivables	(335,955)	(6,169)	(342,124)	(2,079,008)
Write-off of Accounts Receivable	(906,267)	0	(906,267)	(997,556)
(Increase) in Prepaid Expenses	17,202	0	17,202	(80,551)
(Increase) in Inventory	(15,601)	0	(15,601)	(4,219)
Security Deposits	(34)	0	(34)	0
Increase in Other Receivables	(147,368)	0	(147,368)	107,163
Other Assets	0	0	0	0
(Decrease) in Accounts Payable and Accrued Expenses	(254,935)	63,042	(191,893)	(64,001)
Increase in Other Current Liabilities	50,620	0	50,620	10,007
Increase in Deferred Revenue	(109,661)	0	(109,661)	66,953
Net Cash Provided by (Used in) Operating Activities	\$ 574,613	\$ 130,262	\$ 704,875	\$ (334,485)
<u>Noncash Activity</u>				
Noncash In-kind Service and Materials Revenues	\$ 1,473,105	\$ 0	\$ 1,473,105	\$ 1,226,128
Noncash In-kind Service and Materials Expenses	\$ 1,473,105	\$ 0	\$ 1,473,105	\$ 1,226,128

See accompanying notes.

NOTES TO COMBINING FINANCIAL STATEMENTS

**NOTES TO COMBINING FINANCIAL STATEMENTS
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA**

Note 1 - Summary of Significant Accounting Policies

Reporting Entity and Basis of Accounting

The accompanying financial statements include the combining assets, liabilities, revenues, and expenses as determined by use of the accrual basis of accounting of Meridian Behavioral Healthcare, Inc. (the Corporation) and the New Horizons Properties described in Note 2.

The Corporation is a not-for-profit Florida corporation which provides comprehensive mental health, substance abuse, and children's services to the general public of Alachua, Bradford, Columbia, Dixie, Gilchrist, Hamilton, Lafayette, Levy, Suwannee, and Union Counties. Because these counties have approval of the majority of the members elected to the Board of Directors, the Corporation is considered a governmental nonprofit. For financial statement purposes, the Corporation is considered a special purpose government engaged only in business-type activities and uses enterprise fund accounting. Accordingly, the accompanying financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has occurred. The combining financial statements of the Corporation have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting.

Cash and Cash Equivalents

Cash and cash equivalents are stated at fair market value, and consist of interest-bearing checking and savings accounts, and petty cash. Although most deposits were fully insured by FDIC at year-end, certain accounts of the Corporation exceeded insured limits. The total amount of all uninsured deposits of the Corporation totaled \$14,198. The Corporation does not have a formal investment policy that addresses credit risk.

Concentration of Credit Risk

The Corporation maintains deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance limits and receivables are generally unsecured.

Investments

Investments are recorded at fair market value and consist of money market accounts, external pooled investments, and stocks.

Accounting 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The primary management estimates included in the accompanying statements relate to the collectability of service fee receivables including amounts due from Medicare, Medicaid, third party insurers, and clients and amounts due to these parties as a result of subsequent audits, if any, as discussed in Note 10, and the fair value of the derivative instruments as discussed in Note 6.

Inventories

Inventory consists of indigent drugs and other materials, and is valued at cost using the first-in, first-out (FIFO) method.

NOTES TO COMBINING FINANCIAL STATEMENTS
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets

Restricted assets are segregated from other current assets due to mortgage agreements and endowment restrictions. These assets are legally restricted for specific purposes such as debt service and other donor restrictions and are generally not available for other uses. The Haynie Trust Endowment is invested in the Gainesville Community Foundation.

Capital Assets

Property, plant and equipment are recorded at cost with estimated lives of three to ten years for transportation and other equipment, and five to thirty years for various buildings and leasehold improvements. The straight-line method of depreciation is used. Maintenance and repairs are expensed as incurred. The Corporation's policy is to capitalize all property, plant and equipment purchases greater than \$1,000.

Accounts Receivable

Accounts receivable are shown at the anticipated realizable value, net of an allowance for uncollectible accounts. The allowance for uncollectible accounts is based on historical data of collectability of revenue types. Accounts older than one year with no activity are written off. Accounts receivable consist primarily of contract and fee amounts due from state and county governments, clients, and third party payers.

Unamortized Debt Issuance Costs and Refunding Loss

Debt issuance costs are amortized over the term of the related debt using the straight-line method. Unamortized refunding loss is amortized over the term of the refunded debt using the effective interest method.

Income Taxes

The reporting entity is currently exempt from state and federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision has been made for income tax liabilities or expenses. Contributions to the Corporation may qualify for the charitable contribution deduction for federal tax purposes.

Operating Revenues and Expenses

The Corporation's combining statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing comprehensive mental health, substance abuse, and children's services to the general public. Nonexchange revenues, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide the Corporation's primary activities, other than financing costs.

Revenue Recognition

Revenues from general sources are recognized as services are provided or as contract and grant funds are earned. Restricted revenues are recognized only to the extent that they are expended in accordance with donor or grantor restrictions. Any restricted revenues which have been received, but not expended, are shown as deferred revenue in the liability section of the accompanying combining balance sheet. Tenant rents and H.U.D. Section 8 - Housing Assistance payments are recognized as revenue when earned.

NOTES TO COMBINING FINANCIAL STATEMENTS
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 1 - Summary of Significant Accounting Policies (Concluded)

Capitation Revenue Agreements

The Corporation has an agreement with North Florida Behavioral Health Partners, Inc. to provide certain medical services to patients in the Florida Prepaid Mental Health Plan. Under the agreement, the Corporation receives monthly capitation payments based on the number of patients in the Florida Prepaid Mental Health Plan area. In addition, North Florida Behavioral Health Partners, Inc. makes fee for service payments to the Corporation for certain covered services based upon a contracted fee schedule. North Florida Behavioral Health Partners, Inc. is a related party as further described in Note 12.

In-kind Revenues and Expenses

Revenues and expenses from in-kind contributions are recognized when received based upon the estimated fair market value of the contribution, provided that there is a clearly measurable basis to value such contributions.

Matching Requirements

The Corporation receives grants through the State of Florida Department of Children and Families (DCF) which require local matching funds. All local matching requirements have been met.

Compensated Absences

The Corporation pays certain amounts of unused personal time off and short-term disability to employees upon termination in accordance with its compensated absences policy. The accrual presented in the accompanying financial statements is computed using the gross salary at the end of the reporting period.

Prior Period Information

The financial statements include certain prior year summarized comparative information in total but not by combining entity. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Reclassification

Certain prior year amounts have been reclassified to conform with current year financial reporting and to facilitate comparison of financial data.

Note 2 - New Horizons Properties

The Corporation, acting as sponsor, established four not-for-profit, single-asset H.U.D. corporations titled New Horizons Properties, Inc. (NHP), New Horizons Properties II, Inc. (NHP II), New Horizons Properties III, Inc. (NHP III), and New Horizons Properties IV, Inc. (NHP IV). The purpose of these organizations is to construct and operate living facilities for the mentally ill who are undergoing treatment by the Corporation, from the proceeds of H.U.D. Section 202 mortgages and Section 8 Housing Assistance. The four single-asset corporations have no employees. Administrative support is provided by the Corporation's employees.

NOTES TO COMBINING FINANCIAL STATEMENTS
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 2 - New Horizons Properties (Concluded)

The New Horizons Properties are entities for which the Corporation is considered to be financially accountable and, accordingly, the data from the New Horizons Properties are combined with the data from the Corporation. However, for further understandability, the entities' operations are presented in separate columns in the accompanying combining financial statements. Separate financial statements for the New Horizons Properties can be obtained from the Corporation's fiscal department.

The following is a condensed summary of the affiliated groups' financial position as of June 30, 2012, and the results of their operations for the year then ended:

Financial Position					
2012					
	<u>NHP</u>	<u>NHP II</u>	<u>NHP III</u>	<u>NHP IV</u>	<u>Total</u>
Current Assets	\$ 3,744	\$ 9,284	\$ 5,250	\$ 21,613	\$ 39,891
Property, Plant and Equipment	426,422	739,155	431,196	923,478	2,520,251
(Accumulated Depreciation)	(345,301)	(593,378)	(312,488)	(405,828)	(1,656,995)
Restricted Assets	126,806	782,241	63,464	128,993	1,101,504
Other Assets	<u>2,020</u>	<u>5,020</u>	<u>3,831</u>	<u>7,522</u>	<u>18,393</u>
Total Assets	<u>213,691</u>	<u>942,322</u>	<u>191,253</u>	<u>675,778</u>	<u>2,023,044</u>
Current Liabilities	43,663	33,172	74,722	123,109	274,666
Long-term Liabilities	<u>243,474</u>	<u>470,127</u>	<u>245,598</u>	<u>929,941</u>	<u>1,889,140</u>
Total Liabilities	287,137	503,299	320,320	1,053,050	2,163,806
Fund (Deficit) Balances	<u>(73,446)</u>	<u>439,023</u>	<u>(129,067)</u>	<u>(377,272)</u>	<u>(140,762)</u>
Total Liabilities and Fund Balances	<u>\$ 213,691</u>	<u>\$ 942,322</u>	<u>\$ 191,253</u>	<u>\$ 675,778</u>	<u>\$ 2,023,044</u>
Results of Operations					
2012					
	<u>NHP</u>	<u>NHP II</u>	<u>NHP III</u>	<u>NHP IV</u>	<u>Total</u>
Grant Revenue	\$ 41,991	\$ 134,607	\$ 38,604	\$ 15,369	\$ 230,571
Rental Income	17,337	27,052	41,943	30,136	116,468
Interest and Miscellaneous Income	301	1,150	144	614	2,209
(Expenses)	<u>(68,441)</u>	<u>(164,754)</u>	<u>(104,311)</u>	<u>(93,658)</u>	<u>(431,164)</u>
(Deficiency) Excess of Revenues	<u>(26,149)</u>	<u>(22,945)</u>	<u>(65,664)</u>	<u>(67,665)</u>	<u>(162,423)</u>
(Under) Over Expenses	<u>\$ (8,812)</u>	<u>\$ (1,945)</u>	<u>\$ (23,620)</u>	<u>\$ (47,539)</u>	<u>\$ (81,916)</u>

Affiliate advances from the Corporation to the four New Horizons Properties represent uncollateralized, noninterest-bearing intercompany accounts totaling \$101,124, of which nothing is expected to be paid during the 2012-2013 year. For the year ended June 30, 2012, no payments to the Corporation for affiliate advances were made from the New Horizons Properties.

Note 3 - Deposits and Investments

Deposits

At year-end, the carrying amount of the Corporation's deposits was \$2,902,881 and the bank balances were \$2,795,509.

NOTES TO COMBINING FINANCIAL STATEMENTS
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 3 - Deposits and Investments (Concluded)

Deposits (Concluded)

The carrying amount of the New Horizons Properties' deposits was \$23,658 and the bank balances were \$25,079. Deposits of the New Horizons Properties are maintained in public depositories and are insured by FDIC up to \$250,000 per financial institution for interest bearing accounts and fully insured for all non-interest bearing accounts.

Money Market Accounts, Certificates of Deposit, and Other Investments

Investments are recorded at fair market value. The carrying amount and fair market value at June 30, 2012, are as follows:

	<u>Meridian Behavioral Healthcare, Inc.</u>	<u>New Horizons Properties</u>
Cash Equivalents, Certificates of Deposit, and Other Investments:		
Ameris Bank, 0.50%	\$ 104,089	\$ 0
Bank of America, 0.05% Interest	136,105	0
Bank of America, 0.25% Interest	103,519	0
Capital City, 0.60% Interest	251,504	0
Columbia Bank, 0.99% Interest	252,487	0
M&S Bank, 0.35% Interest	259,960	0
Mercantile Bank, 0.25% Interest	208,649	0
New Horizons, 0.05% Interest	0	2,020
New Horizons II, 0.05% Interest	0	5,020
New Horizons II, 0.00% Interest	0	653,631
New Horizons III, 0.05% Interest	0	3,831
New Horizons III, 0.01% Interest	0	6,093
New Horizons III, 0.16% Interest	0	57,371
New Horizon IV, 0.05% Interest	0	7,522
New Horizon IV, 0.00% Interest	0	64,003
John Hancock Money Market	317	0
New Horizons, 0.24% Interest MMA	0	119,684
New Horizons, 0.00% Interest MMA	0	7,122
New Horizons II, 0.50% Interest MMA	0	128,610
New Horizons IV, 0.015% Interest MMA	0	64,990
Gainesville Community Foundation	491,948	0
Prestige Health Choice, LLC	20,000	0
Florida Premier Health Plan	15,000	0
MHRRG - Class C Stock (150 Shares)	75,000	0
MHRRG - Class D Stock (3 Shares)	1,575	0
Total Cash Equivalents, Certificates of Deposit, and Other Investments	1,920,153	1,119,897
(Endowed Investments)	(372,047)	0
(Funded Reserves)	0	(1,101,504)
(Tenant Security Deposit Portion)	0	(18,393)
Total Current Cash Equivalents, Certificates of Deposit, and Other Investments	\$ 1,548,106	\$ 0

For the year ended June 30, 2012, investment and interest income includes \$59,510 of interest and an unrealized gain of \$4,675 on investments.

NOTES TO COMBINING FINANCIAL STATEMENTS
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

Meridian Behavioral Healthcare, Inc.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 626,535	\$ 0	\$ 0	\$ 626,535
Work in Progress	152,001	244,108	(95,606)	300,503
Total Capital Assets Not Being Depreciated	<u>778,536</u>	<u>244,108</u>	<u>(95,606)</u>	<u>927,038</u>
Capital Assets Being Depreciated				
Land Improvements	32,720	51,448	0	84,168
Buildings and Improvements	11,266,312	730,139	(24,352)	11,972,099
Computer Software	1,188,385	134,818	(28,794)	1,294,409
Furniture and Equipment	2,387,550	112,983	0	2,500,533
Total Capital Assets Being Depreciated	<u>14,874,967</u>	<u>1,029,388</u>	<u>(53,146)</u>	<u>15,851,209</u>
Less Accumulated Depreciation				
Land Improvements	(21,786)	(2,319)	0	(24,105)
Buildings and Improvements	(7,916,305)	(472,632)	10,196	(8,378,741)
Furniture and Equipment	(1,442,183)	(531,616)	19,416	(1,954,383)
Total Accumulated Depreciation	<u>(9,380,274)</u>	<u>(1,006,567)</u>	<u>29,612</u>	<u>(10,357,229)</u>
Total Capital Assets Being Depreciated, Net	<u>5,494,693</u>	<u>22,821</u>	<u>(23,534)</u>	<u>5,493,980</u>
Total Capital Assets, Net	<u>\$ 6,273,229</u>	<u>\$ 266,929</u>	<u>\$ (119,140)</u>	<u>\$ 6,421,018</u>
New Horizons Properties				
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 279,636	\$ 0	\$ 0	\$ 279,636
Capital Assets Being Depreciated				
Buildings and Improvements	2,100,322	21,330	0	2,121,652
Furniture and Equipment	99,155	19,808	0	118,963
Total Capital Assets Being Depreciated	<u>2,199,477</u>	<u>41,138</u>	<u>0</u>	<u>2,240,615</u>
Less Accumulated Depreciation				
Buildings and Improvements	(1,517,394)	(64,165)	0	(1,581,559)
Furniture and Equipment	(65,105)	(10,331)	0	(75,436)
Total Accumulated Depreciation	<u>(1,582,499)</u>	<u>(74,496)</u>	<u>0</u>	<u>(1,656,995)</u>
Total Capital Assets Being Depreciated, Net	<u>616,978</u>	<u>(33,358)</u>	<u>0</u>	<u>583,620</u>
Total Capital Assets, Net	<u>\$ 896,614</u>	<u>\$ (33,358)</u>	<u>\$ 0</u>	<u>\$ 863,256</u>

NOTES TO COMBINING FINANCIAL STATEMENTS
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 4 - Capital Assets (Concluded)

Depreciation expense for the year ended June 30, 2012, for the Corporation totaled \$1,006,567 and for the New Horizons Properties totaled \$74,496.

Substantially all property and equipment has been pledged as collateral on long-term debt of the Corporation. See Note 5 for further long-term debt information.

Note 5 - Long-term Debt

A summary of mortgages, bonds, capital leases payable and compensated absences at June 30, 2012, follows:

	<u>Meridian Behavioral Healthcare, Inc.</u>				
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Bonds and Mortgages Payable - Collateralized by Real Estate					
Regions Bank Draw, 2008A, Variable Interest Rate of 63.7% of LIBOR Plus 117 Basis Points	\$ 3,215,011	\$ 0	\$ (139,693)	\$ 3,075,318	\$ 3,075,318
Unamortized Refunding Loss	(124,275)	0	74,564	(49,711)	0
Regions Bank Draw, 2008B, Variable Interest Rate of 63.7% of LIBOR Plus 117 Basis Points	1,950,001	0	(334,286)	1,615,715	1,615,715
M&S Bank Note Payable Interest Rate of 5.35%	0	249,000	(1,812)	247,188	11,245
Capital Leases Payable - Collateralized by Equipment					
U.S. Bank, Payable \$1,090 Per Month Including Interest at 12.813%	34,628	0	(9,170)	25,458	10,417
Total Long-term Debt - Meridian Behavioral Healthcare, Inc.	<u>\$ 5,075,365</u>	<u>\$ 249,000</u>	<u>\$ (410,397)</u>	<u>\$ 4,913,968</u>	<u>\$ 4,712,695</u>
	<u>New Horizons Properties</u>				
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Mortgages Payable - Collateralized by Real Estate					
U.S. Department of H.U.D., Payable \$2,068 Per Month Including Interest at 9.25% for Forty Years	\$ 195,192	\$ 0	\$ (6,621)	\$ 188,571	\$ 7,699
U.S. Department of H.U.D., Payable \$4,766 Per Month Including Interest at 9.25% for Forty Years After Closing	473,457	0	(13,980)	459,477	15,331
U.S. Department of H.U.D., Payable \$2,242 Per Month Including Interest at 8.38% for Forty Years	257,221	0	(5,569)	251,652	6,054
U.S. Department of H.U.D., Capital Advance, Not Payable if Facility is Used for Very Low-income Residents	917,400	0	0	917,400	0
Total Long-term Debt - New Horizons Properties	<u>\$ 1,843,270</u>	<u>0</u>	<u>(26,170)</u>	<u>1,817,100</u>	<u>29,084</u>
Total Long-term Debt - Meridian Behavioral Healthcare, Inc. and New Horizons Properties	<u>\$ 6,918,635</u>	<u>\$ 249,000</u>	<u>\$ (493,378)</u>	<u>\$ 6,674,257</u>	<u>\$ 4,741,779</u>

NOTES TO COMBINING FINANCIAL STATEMENTS
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 5 - Long-term Debt (Continued)

The capital advance from the U.S. Department of H.U.D. in the amount of \$917,400 bears no interest and is not required to be repaid as long as the facility is used for low-income residents over a forty-year period. The facility is currently being used in this capacity and it is anticipated it will continue to be over the forty-year period.

Interest costs incurred for the year ended June 30, 2012, on the long-term debt previously described totaled \$192,464 for the Corporation and \$82,143 for the New Horizons Properties (none of which was capitalized).

The Corporation's property under capital leases, which is included in capital assets, consists of the following at June 30, 2012:

Furniture and Equipment	\$ 455,795
(Accumulated Depreciation)	<u>(356,328)</u>
Total	<u>\$ 99,467</u>

Current year amortization of equipment under capital lease is included in depreciation expense.

The Corporation leases equipment under a capital lease expiring in fiscal year 2015. Future minimum rental payments required for all noncancellable leases that have remaining lease terms in excess of one year for leases in effect on June 30, 2012, are included below.

The following is a summary of principal and interest payments due on the long-term debt previously described (note that the future maturities excluded the \$917,400 capital advance which it is not anticipated to require future cash outflows):

Meridian Behavioral Healthcare, Inc. Debt

Fiscal Year Ending	Principal	Interest	Swap Interest	Total
2013	\$ 4,712,695	\$ 127,940	\$ (36,171)	\$ 4,804,464
2014	23,692	13,522	0	37,214
2015	15,715	11,697	0	27,412
2016	13,158	10,976	0	24,134
2017	13,158	10,228	0	23,386
2018-2019	<u>185,261</u>	<u>16,748</u>	<u>0</u>	<u>202,009</u>
Total	<u>\$ 4,963,679</u>	<u>\$ 191,111</u>	<u>\$ (36,171)</u>	<u>\$ 5,118,619</u>

New Horizons Properties

Fiscal Year Ending	Principal
2013	\$ 29,084
2014	31,903
2015	34,844
2016	38,138
2017	51,746
2018-2033	<u>714,055</u>
Total	<u>\$ 899,770</u>

NOTES TO COMBINING FINANCIAL STATEMENTS
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 5 - Long-term Debt (Concluded)

Regions Bank Note, 2008A

In February 2008, the Corporation obtained a \$3,600,000 note payable to Regions Bank for the refunding of the Health Facility Revenue Bonds, Series 2003. The refunding resulted in an accounting loss of \$177,534, which is being amortized over the remaining term of the refunded bonds. The note is secured by real estate of the Corporation.

Regions Bank Note, 2008B

In February 2008, the Corporation obtained a \$2,400,000 note payable to Regions Bank to fund capital acquisitions and improvements. The note is secured by real estate of the Corporation.

Debt Covenants

Under the Regions Bank notes, the Corporation has agreed to maintain a debt service coverage ratio equal to or greater than 1.25 and a net funded debt to EBITDA ratio equal to or greater than 2.5 for the preceding twelve-month period, measured annually, as defined in the covenants. The Corporation is currently in compliance with the covenant requiring a net funded debt to EBITDA ratio equal to or greater than 2.5 for the preceding twelve-month period, measured annually, but has not met the covenant requiring a debt service coverage ratio equal to or greater than 1.25.

Note 6 - Derivative Instruments

During the year, the Corporation was party to two interest rate swap agreements.

At June 30, 2012, the Corporation has the following derivative instruments outstanding:

	<u>Notional Amount</u>	<u>Fair Value</u>		<u>Changes in Fair Value</u>	
		<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>
Cash Flow Hedges					
Pay-fixed Interest Rate Swap	\$ 3,600,000	Debt	\$ (51,171)	Deferred Outflow	\$ 64,504
Pay-fixed Interest Rate Swap	\$ 2,000,000	Debt	\$ (24,946)	Deferred Outflow	\$ 37,186

Derivative Instrument Types

As of June 30, 2012, the interest rate swaps are considered to be hedging derivative instruments and are identified as a cash flow hedge. The Corporation used the synthetic instrument method to evaluate hedge effectiveness. This method evaluates effectiveness by combining the hedgeable item and the potential hedging derivative instrument to simulate a third synthetic instrument. A potential hedging derivative instrument is effective if its total variable cash flows substantially offset the variable cash flows of the hedgeable item, substantially fixing the actual synthetic rate.

Fair Values

Fair values of the interest rate swaps were estimated using the zero-coupon method.

NOTES TO COMBINING FINANCIAL STATEMENTS
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 6 - Derivative Instruments (Concluded)

Hedging Derivative Instruments - Objectives and Terms

The objectives and terms of the Corporation's hedging derivative instruments outstanding at June 30, 2012, and counterparty credit ratings are as follows:

<u>Instrument</u>	<u>Derivative Type</u>	<u>Counterparty Credit Rating</u>	<u>Objective</u>	<u>Notional Amount</u>	<u>Effective Date</u>	<u>Maturity Date</u>	<u>Terms</u>
1	Pay-fixed Interest Rate Swap	Ba1	Hedge Changes in Cash Flows on the 2008A Note	\$ 3,600,000	3/19/2008	3/1/2013	Pay Synthetic Fixed Rate of 3.58% Receive 63.7% of LIBOR
2	Pay-fixed Interest Rate Swap	Ba1	Hedge Changes in Cash Flows on the 2008B Note	\$ 2,000,000	3/19/2008	3/1/2013	Pay Synthetic Fixed Rate of 3.96% Receive 63.7% of LIBOR

Derivative Instruments Risks

Interest Rate Risk—The Corporation is exposed to interest rate risk on its swap agreements. On pay-fixed, receive variable interest rate swaps, the Corporation's net payment increases as LIBOR decreases.

Termination Risk—The swaps may be terminated at any time if certain events occur that result in one party not performing in accordance with the agreement. If a swap is terminated, the variable rate notes would no longer carry a synthetic fixed interest rate. Also, if, at the time of termination, the swap has a negative fair value, the Corporation would be liable to the Counterparty for a payment equal to the swap's fair value at that time.

Note 7 - Changes in Restricted Deferred Amounts

Balance, Beginning of Year	\$ 123,445
Additions:	
Restricted Funds Received or Accrued During the Year	209,930
Deductions:	
Restricted Funds Expended or Earned During the Year	<u>(319,591)</u>
Balance, End of Year	<u>\$ 13,784</u>

Components of Restricted Deferred Amounts

Fees for Services	\$ 0
LC Donation	2,082
Eli Lilly	3,467
Other	<u>8,235</u>
Total	<u>\$ 13,784</u>

Substantially all state, county, and local contract revenues are restricted in use to mental health and substance abuse programs.

NOTES TO COMBINING FINANCIAL STATEMENTS
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA
(Continued)

Note 8 - Fees

Fees represent charges for client services. The charges are made to first party payers (the client) and third party payers (insurance companies, state, and local agencies). The Corporation operates as an agent for the client in pursuing the collection of third party payments. A sliding fee schedule is used which discounts the fee based on the client's financial ability to pay.

Note 9 - Pension Plan

The Corporation has adopted a defined contribution pension plan covering all employees. The employer contributes a variable amount of each employee's gross salary based on participation in Social Security taxes. The employer contributes 7.5% of each employee's gross salaries that opt out of Social Security taxes and 1.3% for employees that continue to pay Social Security taxes. Employees vest immediately. Pension expense for 2012 was \$1,186,311.

The Corporation also provides a tax-deferred annuity plan to which employees may contribute. All employees are eligible to participate and vest immediately.

Note 10 - Grants and Service Fees

The Corporation and the New Horizons Properties receive federal and state grants, Medicare, Medicaid, Medicaid capitation, and service fees funds. These funds are subject to compliance audits by the providers or their representatives. The audits of these programs have not yet been accepted/approved by the providers and their representatives. Accordingly, the final determination of compliance with applicable grant requirements and other federal and state programs will be established at a future date. The amount, if any, of billings and expenditures which may be disallowed cannot be determined and, accordingly, no provision for these amounts have been made in the accompanying financial statements.

Note 11 - Risk Management

The Corporation is exposed to various risk of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Corporation carries insurance. Insurance against losses are provided through various commercial insurers for the following types of risk:

- Workers' Compensation and Employer's Liability
- General and Professional Liability
- Real and Personal Property Damage
- Automobile Physical Damage and Liability
- Directors' and Officers' Liability

The Corporation's coverage for workers' compensation is under a retrospectively rated policy. Premiums are accrued based on the ultimate cost to-date of the Corporation's experience for this type of risk.

As of June 30, 2012, the Corporation was the defendant to various ongoing litigations. The outcomes and a reasonable estimation of any losses were not determinable.

NOTES TO COMBINING FINANCIAL STATEMENTS
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA
(Concluded)

Note 12 - Related Parties

During 2006, the Corporation became a member in the North Florida Behavioral Health Network, Inc. for the purpose of bidding on one or more contracts for the provision behavioral health care services pursuant to the State of Florida in connection with the Florida Medicaid Prepaid Mental Health Plan. North Florida Behavioral Health Network is a 50% shareholder in North Florida Behavioral Health Partners, Inc. which in turn executed the bids and was ultimately awarded the contract under the Florida Medicaid Prepaid Mental Health Plan during the year ended June 30, 2007. The contracts the Agency for Health Care Administration (AHCA) has signed with North Florida Behavioral Health Partners, Inc. provide the rates paid, which are determined by the appropriate AHCA actuaries, and those rates include all costs incurred in administering and delivering the services required. The Corporation as a member of the North Florida Behavioral Health Network, Inc. provided services under the contracts for the prepaid mental health services and fee for services during the years ended June 30, 2012 and 2011, recognizing revenue of \$8,086,962 and \$7,889,461 respectively.

ADDITIONAL INFORMATION

SCHEDULE OF FUNCTIONAL REVENUES

SCHEDULE OF FUNCTIONAL REVENUES (Concluded)

	Case	Case	Crisis	Crisis	Crisis Support	Day	Family Crisis	Intervention	Intervention	Intervention	Intervention	Outpatient	Outpatient	Outpatient	Outpatient
	Management	Management	Stabilization	Stabilization	Emergency	Treatment / Day Care	Intervention	AMH	ASA	CMH	CSA	AMH	ASA	CMH	CSA
	AMH	CMH	AMH	CMH		ASA	CMH	AMH	ASA	CMH	CSA	AMH	ASA	CMH	CSA
C. OTHER															
Choices												33,513			
No Wrong Door- Residential															
No Wrong Door- Psychiatric															
WellFlorida EAP												1,500			
LIP Grants															
SCHOOL BOARD														13,110	
SCHOOL BOARD - RECOVERY CENTER															
DRUG COURT						22,995							5,250		
DRUG COURT DAY REPORTING						8,385									
GOVT - DEPARTMENT OF CORRECTIONS													16,765		
GOVT - PARTNERSHIP FFS														79,187	
GOVT - PARTNERSHIP TFC															
GOVT - VETERANS HOSPITAL															
GOVT - Dept of Juvenile Justice													86	86	
GOVT - US Probation Office															
GRANTS - CDBG															
GRANTS - CMHSAG															
GRANTS - GRACE MKT PLACE															
GRANTS - MIWG								155,568							
ELDER FOOD PROGRAM															
GENOA HEALTHCARE															
M V TRANSPORTATION															
NHP I															
NHP II															
NHP III															
NHP IV															
PUTNAM BEHAVIORAL HEALTHCARE															
MEDICAL RECORDS															
FOOD STAMP INCOME															
GROUP HOME FEES															
CAFETERIA REVENUE															
INTEREST INCOME															
MISCELLANEOUS INCOME								500				1,841	3,755	290	
GAIN(LOSS) ON DISPOSAL															
BACKGROUND REVENUE															
EMPLOYEE WELLNESS															
DIVIDEND INTEREST INCOME ON INVESTMENTS															
REALIZED GAIN (LOSS) ON INVESTMENTS															
UNREALIZED GAIN (LOSS) ON INVESTMENTS															
Total C. OTHER	-	-	-	-	-	31,380	-	156,068	-	-	-	36,854	25,856	92,673	-
D. IN-KIND															
DONATIONS - GOODS/EQUIPMENT															
DONATIONS - SERVICES															
Total D. IN-KIND	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total SECTION III - ALL OTHER FUNDING AND REVENUES	(5,715)	55	119,831	(2,297)	(1,281)	72,053	620	167,182	(2,896)	-	86	158,418	91,324	198,043	3,065
Total COST CENTER REVENUE REPORT-ACTUAL	752,292	718,110	4,342,423	999,360	1,396,851	290,382	539,396	372,131	(31,796)	10	1,289	1,612,806	642,927	1,958,381	13,343

Outpatient Medical AMH	Outpatient Medical ASA	Outpatient Medical CMH	Outpatient Medical CSA	Outreach AMH	Outreach ASA	Outreach CMH	Outreach CSA	Prevention ASA	Prevention CSA	R&B w/Supv Residential Level 2 AMH	Residential Detox ASA/CSA	Residential Level 2 ASA	Residential Level 2 CSA	Supported Employment AMH	TANF	Non-DCF	Non-ADM NHP	Other Support General	Administration	TOTAL
66,484												317,093								99,997
7,415																				317,093
																	14,386			7,415
																				1,500
													81,578							14,386
																				13,110
																				81,578
																				28,245
																				8,385
																				16,765
																				79,187
																				-
												253,000								253,000
													61,433							61,605
															4,888					-
																				4,888
																	376,798			376,798
				155,568																311,136
																				40,616
																				40,616
																				5,733
																				5,733
																				36,975
																				36,975
										15,148										4,339
																				60,804
										19,025										13,890
																				6,942
																				25,067
																				25,234
																				4,065
																				22,950
																				22,950
																				32,627
										2,753										46,111
													43,358							227,778
										227,778										15,851
																				15,851
																				8,643
																				8,643
																				6,300
																				6,300
																				10,826
																				10,826
																				20,094
																				20,094
																				59,540
																				59,540
																				(5,007)
																				(5,007)
																				(13,685)
																				(13,685)
88,474				155,568						264,704		613,451	143,011	4,888		462,102		345,002	95,690	2,515,721
1,310,099																			95,028	1,405,127
1,310,099																			15,047	15,047
1,716,491	454	37,473		161,655	50	3	37			264,724	68,458	610,301	147,583	5,043		555,090		345,122	110,075	1,420,174
3,266,405	10,447	942,014		594,525	151,201	54,036	64,062	234,101	36,371	1,026,629	1,107,366	2,224,141	1,169,356	120,469	441,975	5,842,086		345,122	284,874	31,523,085

SCHEDULE OF FUNCTIONAL EXPENSES

**SCHEDULE OF STATE EARNINGS FOR ALCOHOL, DRUG ABUSE,
AND MENTAL HEALTH SERVICES - DISTRICT 3**

**SCHEDULE OF STATE EARNINGS FOR ALCOHOL, DRUG ABUSE, AND
MENTAL HEALTH SERVICES - DISTRICT 3
FOR THE YEAR ENDED JUNE 30, 2012
MERIDIAN BEHAVIORAL HEALTHCARE, INC. - GAINESVILLE, FLORIDA**

A		B		C		D	
Cost Center	Program	Total Units	State Rate	State Rate	Earnings	Earnings	Earnings
1	Aftercare	ASA	0.00	\$ 52.91	\$ 0		
2	Aftercare	CSA	0.00	52.91	0		
3	Assessment	AMH	0.00	82.11	0		
4	Assessment	ASA	0.00	82.11	0		
5	Assessment	CMH	0.00	82.11	0		
6	Case Management	AMH	5,020.88	54.27	272,483		
7	Case Management	ASA	0.00	54.27	0		
8	Case Management	CMH	3,176.62	54.27	172,395		
9	Case Management	CSA	0.00	54.27	0		
10	Crisis Stabilization	AMH *	6,896.69	342.43	2,361,632		
11	Crisis Stabilization	CMH *	1,069.28	342.43	366,152		
12	Crisis Support Emergency	AMH *	27,622.30	30.18	833,641		
13	Crisis Support Emergency	ASA *	781.41	30.18	23,583		
14	Crisis Support Emergency	CMH *	25,325.58	30.18	764,326		
15	Crisis Support Emergency	CSA *	909.05	30.18	27,435		
16	Day Care	AMH	636.00	30.30	19,271		
17	Day Care	ASA	228.00	30.30	6,908		
18	Day-Night	AMH	0.00	71.48	0		
19	Day-Night	ASA	6,985.00	71.48	499,288		
20	Day-Night	CMH	0.00	71.48	0		
21	Day-Night	CSA	0.00	71.48	0		
22	In-Home/On-Site	CMH	0.00	71.48	0		
23	In-Home/On-Site	CSA	0.00	71.48	0		
24	Intervention	AMH	6,269.62	49.81	312,290		
25	Intervention	ASA	748.75	49.81	37,295		
26	Intervention	CMH	0.00	49.81	0		
27	Intervention	CSA	821.88	49.81	40,938		
28	OTP Outpatient	ASA	4,665.97	51.66	241,044		
29	Outpatient	AMH	29,798.12	74.19	2,210,723		
30	Outpatient	ASA	13,641.59	74.19	1,012,070		
31	Outpatient	CMH	7,594.38	74.19	563,427		
32	Outpatient	CSA	1,049.52	74.19	77,864		
33	Outpatient Medical	AMH	4,743.37	406.50	1,928,180		
34	Outpatient Medical	ASA	50.00	406.50	20,325		
35	Outpatient Medical	CMH	920.15	406.50	374,041		
36	Outpatient Medical	CSA	0.00	406.50	0		
37	Outreach	AMH	7,865.78	43.20	339,802		
38	Outreach	ASA	2,656.98	43.20	114,782		
39	Outreach	CMH	1,313.03	43.20	56,723		
40	Outreach	CSA	186.75	43.20	8,068		
41	Peer Counseling	AMH	0.00	0.00	0		
42	Prevention	ASA	0.00	43.20	0		
43	Prevention	CSA	0.00	43.20	0		
44	Rehab Services	AMH	0.00	60.60	0		
45	Rehab Services	ASA	0.00	60.60	0		

**SCHEDULE OF STATE EARNINGS FOR ALCOHOL, DRUG ABUSE, AND
MENTAL HEALTH SERVICES - DISTRICT 3
FOR THE YEAR ENDED JUNE 30, 2012
MERIDIAN BEHAVIORAL HEALTHCARE, INC. - GAINESVILLE, FLORIDA
(Concluded)**

A		B		C		D	
Cost Center	Program	Total Units	State Rate			Earnings	
46	Rehab Services	CMH	0.00	\$	60.60	\$	0
47	Respite Services	CMH	0.00		12.76		0
48	Residential Detox	ASA *	2,237.61		302.95		677,884
49	Residential Detox	CSA *	65.46		302.95		19,831
50	Residential Level 2 w/sup	AMH	10,015.00		102.81		1,029,642
51	Residential Level 2	ASA	8,225.00		224.49		1,846,430
52	Residential Level 2 w/sup	CMH	0.00		102.81		0
53	Residential Level 2	CSA	4,469.00		224.49		1,003,246
54	Residential Level 2-Dual Diag	AMH	3,840.00		224.49		862,042
55	Residential Level 3	CMH	0.00		94.21		0
56	Residential Level 4	AMH	15,614.00		6.09		95,089
57	Supported Employment	AMH	2,218.77		51.99		115,354
58	TASC	ASA	0.00		59.52		0
					Subtotal		18,334,202
					Unallowable Costs		0
							18,334,202
							(2,377,081)
							(36,000)
							<u>\$ 15,921,121</u>
					\$ 11,565,137		
					2,286,350		
					16.51%		
					<u>\$ 13,293,154</u>		
							\$ 11,565,137
							(13,293,154)
							<u>\$ (1,728,017)</u>

**ADDITIONAL ELEMENTS OF REPORT PREPARED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*,
OMB CIRCULAR A-133, *SINGLE AUDIT REQUIREMENTS*
AND CHAPTER 10.650, *RULES OF THE AUDITOR GENERAL***

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2012
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA**

	<u>CFDA/ CFSA Number</u>	<u>Grant/ Contract Number</u>	<u>Expenditures</u>
Federal Awards			
U.S. Department of Health and Human Services			
Indirect Programs:			
Passed Through Florida Department of Children and Families:			
Projects for Assistance in Transition from Homelessness (PATH)	93.150 *	CH800	\$ 156,663
Temporary Assistance for Needy Families (TANF)	93.558 *	CH800	468,413
Block Grants for Prevention and Treatment of Substance Abuse	93.959 *	CH800	739,798
Children's Health Insurance Program (CHIP)	93.767	CH808	<u>36,000</u>
Total U.S. Department of Health and Human Services			<u>1,400,874</u>
U.S. Department of Housing and Urban Development			
Indirect Programs:			
Passed Through City of Gainesville, Florida:			
Community Development Block Grant (CDBG)	14.218	B-06-MC12-0007	4,888
Supportive Housing	14.235	FL29B60-8002	<u>85,367</u>
Total U.S. Department of Housing and Urban Development			<u>90,255</u>
U.S. Department of Agriculture Food and Nutrition Service			
Indirect Programs:			
Passed Through Florida Department of Elder Affairs:			
Child and Adult Care Food Program	10.558	Y2109	<u>40,616</u>
Total U.S. Department of Agriculture Food and Nutrition Service			<u>40,616</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,531,745</u></u>

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2012
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA
(Concluded)**

	<u>CFDA/ CFSA Number</u>		<u>Grant/ Contract Number</u>	<u>Expenditures</u>
State Financial Assistance				
Florida Department of Children and Families				
Children's Baker Act Services	60.001	*	CH800	\$ 579,394
Baker Act	60.006	*	CH800	2,120,701
Substance Abuse Detoxification Services for Children	60.028	*	CH800	19,831
Substance Abuse Prevention Services for Children	60.029	*	CH800	36,731
Substance Abuse Treatment and Aftercare Services for Children	60.030	*	CH800	1,115,665
Substance Abuse Detoxification Services for Adults	60.031	*	CH800	677,884
Substance Abuse Prevention Services for Adults	60.032	*	CH800	197,595
Substance Abuse Treatment and Aftercare Services for Adults	60.033	*	CH800	922,738
Indigent Psychiatric Outpatient Services	60.039	*	CH800	25,812
Children's Mental Health SIPP RTC Non-Medicaid Eligible	60.048	*	CH800	324,798
Adult Community Mental Health Community Support Services	60.053	*	CH800	2,483,818
Adult Community Mental Health Emergency Stabilization	60.054	*	CH800	769,472
Children's Mental Health Emergency Stabilization	60.057	*	CH800	551,084
Adult Mental Health Special Projects Emergency Stabilization	60.061	*	CH800	305,100
Community Forensic Beds	60.114	*	CH800	70,000
				<u>10,200,623</u>
Florida Department of Juvenile Justice				
Children's Residential Treatment Program				61,604
Florida Department of Corrections				
Columbia County Drug Court	70.016			16,765
Total Expenditures of State Financial Assistance				<u>\$ 10,278,992</u>

* These programs are part of Meridian Behavior Healthcare, Inc.'s primary funding contract.

The above schedule of federal awards and state financial assistance was prepared using the accrual basis of accounting. The above schedule does not include state matching funds provided for federal programs. Also, the above schedule does not include state funds not identified by a CSFA number.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
 FEDERAL PROGRAMS AND STATE PROJECTS
 FOR THE YEAR ENDED JUNE 30, 2012
 MERIDIAN BEHAVIORAL HEALTHCARE, INC.
 GAINESVILLE, FLORIDA**

I. Summary of Audit Results

Financial Statements

A. Type of Audit Report Issued on Financial Statements

Unqualified Opinion

B. Significant Deficiencies in Internal Control

Audit disclosed no significant deficiencies in internal control over financial reporting.

C. Noncompliance Material to Auditee Financial Statements

Audit disclosed no material instances of noncompliance.

Federal Awards and State Financial Assistance

A. Significant Deficiencies and/or Material Weaknesses in Internal Control Over Major Federal Programs and State Projects

Audit disclosed no instances of significant deficiencies in internal control over major Federal programs and State projects or significant deficiencies which were material weaknesses in internal control over major Federal programs and State projects that are required to be reported in the schedule of findings and questioned costs.

B. Type of Audit Report Issued on Compliance with Requirements Applicable to Major Federal Programs and State Projects

Unqualified Opinion

C. Audit Findings Relative to Section .510(a) of OMB Circular A-133 and Chapter 10.656, *Rules of the Auditor General*

The audit disclosed no findings required to be reported under Section .510(a) of OMB Circular A-133 and Chapter 10.656, *Rules of the Auditor General*.

D. The Programs/Projects Tested as Major Programs/Projects Include the Following:

Federal Program	Federal CFDA No.
Temporary Assistance for Needy Families	93.558
Block Grants for Prevention and Treatment of Substance Abuse	93.959

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL PROGRAMS AND STATE PROJECTS
FOR THE YEAR ENDED JUNE 30, 2012
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA**

(Continued)

I. Summary of Audit Results (Concluded)

**D. The Programs/Projects Tested as Major Programs/Projects Include the Following:
(Concluded)**

State Project	State CSFA No.
Children’s Baker Act Services	60.001
Substance Abuse Treatment and Aftercare Services for Children	60.030
Substance Abuse Detoxification Services for Adults	60.031
Children’s Mental Health SIPP RTC Non Medicaid Eligible	60.048
Adult Community Mental Health Community Support Services	60.053
Children’s Mental Health Emergency Stabilization	60.057

E. The Threshold for Distinguishing Type A and Type B Programs/Projects was \$300,000 for Major Federal Programs and \$308,359 for Major State Projects.

F. The Auditee was Determined to be a Low-risk Auditee Pursuant to OMB Circular A-133. This Does Not Apply to State Projects.

II. Findings Related to the Financial Statements Required to be Reported Under Generally Accepted Government Auditing Standards (GAGAS)

The Audit disclosed no findings which are required to be reported under GAGAS.

III. Findings and Questioned Costs for Major Federal Programs Required to be Reported Under Section .510(a) of OMB Circular A-133

The audit disclosed no findings which are required to be reported under Section .510(a) of OMB Circular A-133.

IV. Findings and Questioned Costs for Major State Projects Under Chapter 10.656, Rules of the Auditor General

The audit disclosed no findings which are required to be reported under Chapter 10.656, Rules of the Auditor General.

V. Management Letter

No management letter was issued because there were no items related to major State projects required to be reported in the management letter.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL PROGRAMS AND STATE PROJECTS
FOR THE YEAR ENDED JUNE 30, 2012
MERIDIAN BEHAVIORAL HEALTHCARE, INC.
GAINESVILLE, FLORIDA
(Concluded)**

VI. Status of Prior Audit Findings

There were no prior year findings included in the schedule of findings and questioned costs required to be reported under Section .510 (a) of OMB Circular A-133 or Chapter 10.650, *Rules of the Auditor General*.

VII. Corrective Action Plan for Current Year Audit Findings

No Corrective Plan is required because there were no findings required to be reported under the *Federal or Florida Single Audit Acts*.

**INDEPENDENT AUDITORS' 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
Meridian Behavioral Healthcare, Inc.
Gainesville, Florida

Compliance

We have audited the compliance of Meridian Behavioral Healthcare, Inc. (the Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*, and the compliance requirements described in the Department of Financial Services' State Projects, *Compliance Supplement*, that could have a direct and material effect on each of the Corporation's major Federal programs and State projects for the year ended June 30, 2012. The Corporation's major Federal programs and State projects are identified in the Summary of Auditors' 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 Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit. The Corporation's basic financial statements include the operations of the New Horizons Properties which received Federal awards which is not included in the schedule during the year June 30, 2011. Our audit, described below, did not include the operations of the New Horizons because those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the New Horizons Properties, is based solely on the reports of the other auditors.

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; 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 Corporation'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 Corporation's compliance with those requirements.

In our opinion, the Corporation complied, in all material respects, with the 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.

Certified Public Accountants

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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

Board of Directors
Meridian Behavioral Healthcare, Inc.
Gainesville, Florida

**INDEPENDENT AUDITORS' 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
(Concluded)**

Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs and State projects. In planning and performing our audit, we considered the Corporation's internal control over compliance with the 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 and 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 Corporation'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 a material noncompliance with a type of compliance requirement of a Federal program or State project that will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be 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 the audit committee, management, Board of Directors, Federal and State awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

October 19, 2012
Gainesville, Florida

**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
Meridian Behavioral Healthcare, Inc.
Gainesville, Florida

We have audited the combining financial statements of Meridian Behavioral Healthcare, Inc. (the Corporation), as of and for the year ended June 30, 2012, and have issued our report thereon dated October 19, 2012. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the New Horizons Properties, as described in our report on the Corporation's combining financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation'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 on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 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 the 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 that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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*.

Certified Public Accountants

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Board of Directors
Meridian Behavioral Healthcare, Inc.
Gainesville, Florida

**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*
(*Concluded*)**

Compliance and Other Matters (*Concluded*)

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

Purvis, Gray and Company, LLP

October 19, 2012
Gainesville, Florida